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Chapter 1

The Value Line 600

Its Purpose

Although many of our subscribers enjoy the wide range of information available in The Value Line Investment Survey, customer feedback has shown that some prefer a service focused on the most established companies. With this in mind, we created The Value Line 600 to serve the needs of customers who just prefer in-depth, independent research on larger and more prominent investment names. The Value Line 600 is a monthly publication that completed its 19th year in calendar 2013. The product details a select group of about 600 of the approximately 1,700 companies that comprise The Value Line Investment Survey.

The 600 company reports included in this Service are the same full-page reports that are published in The Value Line Investment Survey. Our principal goal is to provide our subscribers with a full spectrum of companies, while scaling back the total number to a more manageable level. We highlight all industries with at least two of the most significant names in each group, helping investors to concentrate on those companies that tend to drive their respective sectors. In addition to the most distinguished U.S. companies, including all of the Dow-30 members, 75–100 international entities are tracked in The Value Line 600. A Summary & Index section is also included with each issue that contains updated company statistics, screens, and Supplementary Reports.

Its Many Unique Features

The Value Line 600 has a number of unique features that distinguish it from other investment services. These features are provided to make it easier for you to have accurate, timely information and to keep you up to date on all developments affecting your investments.

Specifically, we point to the following features:

- **Our Unique, Easy-to-Use Format** – All the information you need to make investment decisions or to compare companies is contained on a single page. Value Line’s easy filing system enables you to keep current information at your fingertips.

- **Broad Coverage** – Reports are available on approximately 600 stocks including most of the largest and most actively traded in the U.S.

- **Timeliness™ and Safety™ Ranks** – Value Line’s time-honored Timeliness and Safety stock ranks compare stocks relative to each other for price performance during the next six to 12 months, and for risk.

The Value Line Timeliness Rank measures probable price performance during the next six to 12 months, relative to other stocks in the Value Line universe.

The Value Line Safety Rank measures the total risk of a stock. This rank is derived from a stock’s Price Stability Index and the company’s Financial Strength rating.
The two ranks guide the investor through the universe of stocks to those that are most apt to be top performers over the next six to 12 months relative to the remaining equities, and to those that conform to the individual's risk tolerance. Stock ranks are updated in the monthly Summary & Index.

**Record of Performance** — The Value Line record of performance is unmatched. We publish the results twice a year. You can see the performance by reading The Definitive Guide to The Value Line Ranking System. To our knowledge, no other disciplined, quantitative approach has proven so successful over the last 50 years.

**Quarterly Earnings Estimates** — Value Line's estimates of earnings for the current year and the following 12-month period for each of the more than 600 companies are continually monitored, quarter by quarter, in Ratings & Reports. Furthermore, they are presented in a format that makes it easy to make comparisons with preceding years' records (item 22 on the sample page).

**Dividend Estimates** — Since the dividend income you may receive from a company over the next ten years can change, Value Line gives an estimate of dividends it expects the company will declare during the coming three to five years (item 15 on the sample page).

**Continual, Current Follow-up** — An analysis of how each company's business is progressing, and of how the stock compares to others, is provided for every stock once each quarter in Ratings & Reports. Supplementary Reports are also provided as needed at the back of each month's issue to reflect interim developments.

**ITS TWO MAIN CRITERIA—TIMELINESS™ AND SAFETY™**

**Timeliness Ranks** — The Value Line Timeliness Rank measures probable relative price performance of the approximately 1,700 stocks in The Value Line Investment Survey during the next six to 12 months on an easy-to-understand scale from 1 (Highest) to 5 (Lowest). Components of the Timeliness Rank include such items as the 10-year trend of relative earnings and prices, and earnings surprises. All data are actual and known. A computer program combines these elements into a forecast of the price change of each stock, relative to all of the approximately 1,700 stocks for the six to 12 months ahead. The Value Line universe of 1,700 stocks accounts for approximately 90% of the market capitalization of all stocks traded on the U.S. exchanges.

**Rank 1 (Highest):** These stocks, as a group, are expected to be the best performers relative to the Value Line universe during the next six to 12 months (100 stocks).

**Rank 2 (Above Average):** These stocks, as a group, are expected to have better-than-average relative price performance (300 stocks).

**Rank 3 (Average):** These stocks, as a group, are expected to have relative price performance in line with the Value Line universe (approximately 900 stocks).

**Rank 4 (Below Average):** These stocks, as a group, are expected to have below-average relative price performance (approximately 300 stocks).

**Rank 5 (Lowest):** These stocks, as a group, are expected to have the poorest relative price performance (100 stocks).

Changes in the Timeliness ranks can be caused by:

1. New earnings reports or company announcements
2. Changes in the price movement of one stock relative to the approximately 1,700 other stocks in our universe
3. Shifts in the relative positions of other stocks

The Ranks in The Value Line 600 are the Ranks these stocks are assigned in The Value Line Investment Survey of 1,700 stocks.

**Safety Ranks** — The Value Line Safety Rank (item 1 on the sample page) measures the total risk of a stock relative to the approximately 1,700 other stocks. It is derived from a stock's Price Stability rank and from the Financial Strength rating of a company, both shown in the lower right hand corner of each page (item 19 on the sample page). Safety ranks are also given on a scale from 1 (Safest) to 5 (Riskiest) as follows. However, unlike for Timeliness, the number of stocks in each Safety category is not fixed in advance.

**Rank 1 (Highest):** These stocks, as a group, are the safest, most stable, and least risky investments relative to the Value Line universe, which accounts for about 90% of the market capitalization of all stocks in the U.S.
Rank 2 (Above Average): These stocks, as a group, are safer and less risky than most.

Rank 3 (Average): These stocks, as a group, are of average risk and safety.

Rank 4 (Below Average): These stocks, as a group, are riskier and less safe than most.

Rank 5 (Lowest): These stocks, as a group, are the riskiest and least safe.

Stocks with high Safety ranks are often associated with large, financially sound companies; these same companies also often have somewhat less-than-average growth prospects because their primary markets tend to be growing slowly or not at all. Stocks with low Safety ranks are often associated with companies that are smaller and/or have weaker-than-average finances; on the other hand, these smaller companies sometimes have above-average growth prospects because they start with a lower revenue and earnings base.

**ADDITIONAL CRITERIA—TECHNICAL AND INDUSTRY**

**Technical**

The Value Line Technical Rank uses a proprietary formula to predict short-term (three- to six-month) future price returns relative to the Value Line universe. It is the result of an analysis that relates 10 price trends of different duration for a stock during the past year to the relative price changes of the same stock expected over the succeeding three to six months. The Technical rank is best used as a secondary investment criterion. We do not recommend that it replace the Timeliness rank. As with the other ranks, the Technical rank goes from 1 (Highest) to 5 (Lowest.)

**Industry**

Value Line also publishes Industry ranks which show the Timeliness of each industry. These ranks are published on the first page of the *Summary & Index*. The Industry Rank is calculated by averaging the Timeliness ranks of each of the 1,700 stocks in our universe that have been assigned a Timeliness rank in a particular industry.

You can find out more about the Value Line Ranking Systems and their performance by reading The Definitive Guide to The Value Line Ranking System.
Creating an investment strategy encompasses many facets of your life, from your personality traits to your current life situation. Value Line recommends that most investors diversify their assets so that one’s eggs are spread among many baskets. This will help to ensure that dropping one basket will result in as minimal an impact as possible on your overall financial well being.

To that end, we have created an entire workbook that will help you to create an individualized portfolio. You should take a few minutes to go through that document, titled Value Line’s Guide To Planning An Investment Strategy.

In the end, you should diversify both by asset class (such as stocks, bonds, real estate, and others) and within asset classes (i.e., owning multiple stocks). So, using a simple example that follows a Wall Street “rule of thumb”, you might own both stocks and bonds so that you have a portfolio made up of about 60% stocks and 40% bonds.

While this might be too conservative, it is a convenient example of asset allocation. This 60% stock/40% bond portfolio has two broad asset classes—stocks and bonds. If one were performing poorly, the other might perform better. For example, bonds tend to fluctuate less during volatile times in the equity market. Note that Value Line suggests you include at least four asset classes in your portfolio, including some foreign stock exposure, to provide for more diversification, but the goal remains the same.

You could, of course, have a 60% stock/40% bond portfolio and still have only two securities: one stock and one bond. While the asset classes would provide you with some diversification, holding just two securities would limit the benefits diversification offers. It is entirely possible that you could select a stock that happens to be performing poorly at the same time as the bond you chose is performing poorly. At an extreme, you could purchase both types of securities from just one company, which would be even worse from a diversification point of view. As such, it is recommended that you diversify within the asset classes as well.

This can be achieved in multiple ways, from directly purchasing the securities yourself to hiring someone else to purchase them for you (an example of this would be the purchase of a mutual fund or ETF). If you intend to purchase securities yourself, Value Line suggests owning at least 10 to 20 securities spread among 10 or more industries to help ensure proper diversification. In the 60% stock/40% bond portfolio, this would result in between 20 and 40 holdings across the entire portfolio.

At the higher end, keeping track of the portfolio might get difficult. If you decided, instead, to hire someone to invest a portion of your assets (or “outsource”) you could bring that number back down to 11 to 21 securities. For example, because of the high costs and trading barriers (i.e., large size of the “standard lot”, often $100,000) in many bond markets, you might choose to purchase a bond fund
instead of buying bonds directly. This would result in a much more manageable portfolio consisting of 10 to 20 stocks you select and one bond fund. Moreover, the bond component would remain diversified because, by their very nature, mutual funds and most ETFs are usually diversified. (Note that this is not always the case, so that care must be taken in understanding the funds you select.)

Again, we have constructed a workbook to help you with the asset allocation portion of your decision process that we strongly suggest you read. The keys are to be diversified across asset classes, within asset classes, and to keep the investing processes manageable and, hopefully, both profitable and enjoyable.

Once you have decided on a broad portfolio structure, be it two asset classes or three or four, you will need to start filling in the asset class buckets. How you decide to go about this will depend both on the buckets that you need to fill (for example, the Large Cap Growth category will require a different approach than the Large Cap Value category) and on your personal preferences (for example, a desire for current income would require a different approach than a quest for only capital appreciation). Where do you begin?

With thousands of stocks in our total coverage universe, simply browsing our website or opening the first issue and starting to examine each stock report in search of the 10 to 20 stocks you want to own would be a daunting, if not impossible, task. This is why we have included a number of stock screens in the back of each Summary & Index that we believe will provide a simple starting point for any investor.

The screens are updated regularly and cover a broad range of investment options, including Timely Stocks and Growth Stocks. A description of the screens presented is provided if the title of a screen is not self-explanatory. Regardless of which screens you choose to use, this approach will provide you with a short list of companies to research.

However, for those who want more advice than a static screen, we have also created four model portfolios overseen by Value Line analysts which are updated weekly in our Selection & Opinion service. This succinct, every-week companion to The Value Line 600 service is a great guide to the state of the market. Call 1-800-VALUELINE to order it — or ask to see a sample issue.

On an ongoing basis, we also provide stock screens and stock highlights in the Selection & Opinion section of The Value Line Investment Survey. The screens go beyond those included on a weekly basis in the Summary & Index and often provide a different and unique view of an investment approach. The stock highlights are a more in-depth review of a company that we believe merits a second look. Although these two options may not be the best starting point for you, they can play an important role in providing new and interesting investment ideas down the road.
CHAPTER

3

Understanding the Value Line Page

To start studying a stock, we suggest that you concentrate on four features found on every Ratings & Reports page. We have included a sample page with the welcome package. First, we recommend that you look at the Timeliness and Safety ranks (see item 1 of the sample page) shown in the upper left corner of each page. Then, read the Analyst’s Commentary (item 17) in the bottom half of each report. Next, we suggest you look at our forecasts for various financial data as well as the stock price (items 11, 15, 22, 23, and 29). These forecasts are explained in more detail later in this Chapter. Finally, we think you should study the historical financial data appearing in the Statistical Array in the center of the report (item 26). Illustrations and more detail follow. There is also a lot of other useful information on each page, but the four features mentioned above provide the best place to begin.

VALUE LINE RANKS

(Item 1 on the sample page)

A synopsis of the Value Line Ranking System follows. For a more detailed description, please refer to The Definitive Guide To The Value Line Ranking System.

Timeliness

The Timeliness rank is Value Line’s measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,700 stock universe. Stocks ranked 1 (Highest) and 2 (Above Average) are likely to perform best relative to the others. Stocks ranked 3 are likely to be average performers relative to the Value Line universe of 1,700 stocks. Stocks ranked 4 (Below Average) and 5 (Lowest) are likely to underperform stocks ranked 1 through 3 in Value Line’s stock universe.

Just one word of caution. Stocks ranked 1 are often volatile and often tend to have smaller market capitalizations (the total value of a company’s outstanding shares, calculated by multiplying the number of shares outstanding by the stock’s market price per share). Most investors will want to blend them with Rank 2 stocks; conservative investors may want to select stocks that also have high Safety ranks because they are usually more stable issues.

Safety

The Safety rank is a measure of the total risk of a stock compared to others in our approximately 1,700 stock universe. As with Timeliness, Value Line ranks stocks from 1 (Highest) to 5 (Lowest). However, unlike Timeliness, the

| TIMELINESS | 4 | Lowered 10/25/13 |
| SAFETY     | 1 | New 7/27/90     |
| TECHNICAL  | 3 | Lowered 10/18/13|
| BETA       | .70 | (1.00 = Market) |

Sample Ranks Box (Also see item 1, on the sample page)
number of stocks in each category from 1 to 5 is not fixed. The Safety rank is derived from two measurements (weighted equally) found in the lower right hand corner of each page: a company’s Financial Strength and a Stock’s Price Stability. Financial Strength is a measure of the company’s financial condition, and is reported on a scale of A++ (Highest) to C (Lowest) in nine increments. Larger companies with strong balance sheets get the higher scores. A Stock’s Price Stability score is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a stock over the last five years, and is reported on a scale of 100 (Highest) to 5 (Lowest) in increments of 5.

Technical

The Technical rank is primarily a predictor of short-term (three to six months) relative price change.

Beta

A relative measure of the historical sensitivity of the stock’s price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The “Beta coefficient” is derived from a regression analysis of the relationship between weekly percentage changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a shorter time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

ANALYST’S COMMENTARY

(Item 17 on the sample page)

Next, look at the analyst's written commentary in the lower half of the page. Many readers think this is the most important section of the page. In the commentary, the analyst discusses his/her expectations for the future. There are times when the raw numbers don’t tell the full story. The analyst uses the commentary to explain why the forecast is what it is. The commentary is also particularly useful when a change in trend is occurring or about to occur. As an example, a stock may have a low (i.e., 4 or 5) Timeliness rank but the analyst thinks earnings could turn around in the future. In this case, the analyst may use the commentary to explain why he/she thinks conditions are likely to get better, thus giving the subscriber insight into what is happening, what the analyst thinks will happen and why.

FINANCIAL AND STOCK PRICE PROJECTIONS

Value Line’s securities analysts make a variety of financial and stock price projections in most reports we publish. They make Estimates for 23 different numbers and ratios going out 3 to 5 years into the future in the Statistical Array (item 15 on the sample page). They also forecast a Target Price Range (item 11) for each stock, going out 3 to 5 years. And finally they show the 3-to-5-year Projections (item 29) for the price of the stock, along with the expected percentage appreciation (or depreciation) and the expected annual total return (including dividends). These projections are discussed below.

Financial Estimates

(Item 15 on the sample page)

In the Statistical Array in the center of the report (where most of the numbers are), Value Line provides both historical data and financial projections. All projections are printed in bold italics.

The estimates of sales, earnings, net profit margins, income tax rates, and so forth are all derived from spread sheets maintained on every company. After studying, then the analysts make whatever adjustments they believe are war-
ranted by unusual developments that may not be revealed in the numbers, i.e., the outcome of pending lawsuits affecting the company’s finances, the success of new products, etc.

**Target Price Range**

In the upper right-hand section of each report is a Target Price Range. The Target Price Range represents the band in which the expected average price of the stock is likely to fall. This is the projected annual stock price range for the period out 3 to 5 years. The prices are based on the analyst’s projections in the period out 3 to 5 years for earnings multiplied by the average annual price/earnings ratio in the Statistical Array for the same period. The width of the high-low range depends on the stock’s Safety rank. (A stock with a high Safety rank has a narrower range, one with a low rank, a wider band.)

**3- to 5-Year Projections**

*Item 29 on the sample page*

In the left hand column of each report, there is also a box which contains Value Line’s high and low stock price projections for a period 3 to 5 years in the future. There you can see the potential average high and low prices we forecast, the % price changes we project, and the expected compound annual total returns (price appreciation plus dividends). To make these calculations, analysts compare the expected prices out 3 to 5 years into the future (as shown in the Target Price Range and Projections box) with the recent price (shown on the top of the report).

Investors whose primary goal is long-term price appreciation should study the 3- to 5-year Projections carefully and choose stocks with above-average price appreciation potential. For comparative purposes, you can find the weekly Estimated Median Price Appreciation Potential for all approximately 1,700 stocks on the front page of the Summary & Index.

The Target Price Range and 3- to 5-year Projections are necessarily based upon an estimate of future earnings. They are, therefore, very subjective. These should not be confused with the Timeliness rank for 12-month performance, which is independent of estimates and based solely on historical data.
ANNUAL RATES OF CHANGE

(Item 23 on the sample page)

At this point, it may be helpful to look at the Annual Rates box in the left-hand column. This box shows the compound annual per share growth percentages for sales, “cash flow,” earnings, dividends and book value for the past 5 and 10 years and also Value Line’s projections of growth for each item for the coming 3 to 5 years. All estimated rates of change are computed from the average number for a past 3-year period to an average number for a future period. For details, see below.

Trends are important here. Check whether growth has been increasing or slowing and see if Value Line’s analyst thinks it will pick up or fall off in the future. Specific estimates for various data items for 3 to 5 years out can be found in bold italics print in the far right hand column of the Statistical Array (item 15 on the sample page).

CALCULATING ANNUAL RATES OF CHANGE (GROWTH RATES)

In an attempt to eliminate short-term fluctuations that may distort results, Value Line uses a three-year base period and a three-year ending period when calculating growth rates. Investors often try to calculate a growth rate from one starting year to one ending year, and then can’t understand why the number they get is not the same as the one published by Value Line. If they used a three-year base period and three-year ending period, they would get the same results we do. Naturally, these are still estimates — no analyst can anticipate every pitfall.

HISTORICAL FINANCIAL DATA

(Item 26 on the sample page)

Many investors like to use the Statistical Array to do their own analysis. They, in particular, use the historical data in the center of each report to see how a company has been doing over a long time frame. It is worth pointing out that while all of the data are important, different readers find different data items to be most useful.

The numbers are probably most helpful in identifying trends. For example, look at sales per share to see if they have been rising for an extended period of time. Look at operating margins and net profit margins to see if they have been expanding, narrowing or staying flat. And examine some of the percentages near the bottom, such as the Return on Shareholders’ Equity, to see if they have been rising, falling, or remaining about the same.
Long-term subscribers to the Value Line services are often well aware of the basic tenets of investing and the many ways information can be used in the Value Line 600. However, they and many newer readers often have questions about material in the publication. Below are answers to those questions we receive most frequently.

**TIMELINESS RANKS**

How do you determine the Timeliness rank, and what makes it change?

Value Line’s Timeliness Ranking System ranks the approximately 1,700 stocks in our universe for relative price performance in the coming six to 12 months. At any one time, 100 stocks are ranked 1; 300 are ranked 2; approximately 900 are ranked 3; 300 are ranked 4; and 100 are ranked 5. In simple terms, Timeliness ranks [which go from 1 (Highest) to 5 (Lowest)] are determined by a company’s earnings growth and its stock’s price performance over a 10-year period. A rank may change under three circumstances. The first is the release of a company’s earnings report. A company that reports earnings that are good relative to those of other companies and good relative to the numbers we had expected may have its stock move up in rank, while a company reporting poor earnings could see its stock’s rank drop.

A change in the price of a stock can also cause a stock’s rank to change. A change in price carries less weight than a change in earnings, but it is still an important determinant. Generally speaking, strong relative price performance is a plus, while negative relative price performance (relative to all other approximately 1,700 stocks) is a minus.

And finally, there is the “Dynamism of the Ranking System.” This phrase means that a stock’s rank can change even if a company’s earnings and stock price remain the same. That’s because a fixed number of stocks are always ranked 1, 2, etc. Every time one stock’s Timeliness rank moves up or down, another’s must also change. As an example, let’s suppose one company reports unusually good earnings, causing its stock’s Timeliness rank to rise from 2 to 1. Since there can be only 100 stocks ranked 1, some other stock must fall to a rank of 2, even though there may have been no change in its earnings or price.

I think that Value Line should change a certain stock’s rank. Will you do it?

We appreciate your interest, but our Timeliness ranks are generated by computer-driven criteria and historical data, modified for special situations, such as events after the end of a fiscal quarter, by our senior statisticians. Value Line methodology keeps our System objective and unbiased, because the same criteria apply to all stocks.
Would you tell me the formula you use to calculate ranks?
The details of the formula are proprietary. The components of the Timeliness Ranking System, as mentioned earlier, include the long-term trends of earnings and stock prices, recent company earnings and stock price performance, and a comparison of the latest quarterly earnings with those that had been expected. (Better-than-expected earnings are normally positive, less-than-expected earnings, negative.) We cannot be more specific than that.

Why do stocks with Timeliness ranks of 1 or 2 sometimes have below-average, long-term appreciation potential, and vice versa?
Probably the most important thing for all readers to know is that the time horizons for Timeliness ranks and for 3- to 5-year Projections are very different. Our Timeliness ranks are for the relative performance of stocks over the coming six to 12 months. Our forecast for long-term price potential is for 3 to 5 years. Because of the very different time periods, our forecasts for the two periods can be very different.

To provide a more specific answer, stocks ranked 1 or 2 for Timeliness often have been moving higher and often sell at high price/earnings ratios. While we think these stocks will continue to outperform other stocks in the Value Line universe during the next six to 12 months, it is unrealistic to think a stock’s price will keep moving up forever. At some point, earnings growth is likely to slow, at least somewhat, and our analysts do their best to be as realistic as possible in calculating the 3- to 5-year projections. If earnings growth slows in the future, a stock’s price/earnings ratio is likely to narrow, limiting the potential for appreciation in the stock’s price.

Why do some stocks not have a Timeliness rank?
Our computer-generated Timeliness ranks require at least two years of income statement and stock price history. If a stock has been trading for less than two years, possibly because a company is relatively new or because there was a major spinoff or acquisition, we are unable to assign a rank to it. We also suspend Timeliness ranks for unusual developments such as a merger offer or a bankruptcy filing.

TECHNICAL RANK

What exactly is the Technical rank?
The Technical rank uses a stock’s price performance over the past year to attempt to predict short-term (three to six month) future returns. The stocks in our approximately 1,700-company universe are ranked in relation to all others on a scale of 1 (Highest) to 5 (Lowest). There are no other factors incorporated into the model. While our Technical rank does contribute to investment decisions, we would like to stress that our primary investment advice is based on our successful time-proven Timeliness Ranking System. The Technical rank is best used as a secondary investment criterion.

EARNINGS

Why does Value Line sometimes show different share earnings than those in a company’s annual report, or in The Wall Street Journal, or in a brokerage house report?
We each calculate earnings differently. In particular, Value Line typically excludes what we consider to be unusual or one-time gains or charges in order to show what we consider to be “normal” earnings.

Company earnings often contain one-time nonrecurring or unusual items, such as expenses related to the early retirement of debt, a change in accounting principles, restructuring charges, or a gain or loss on the sale of assets. In order to make a reasonable comparison of core operating results from one year to the next—or from one company to another—it is often necessary to exclude these items from reported earnings. Some items are relatively easy to exclude because they are explicitly shown in the company’s income statement and footnotes. Others, however, must be estimated by our analysts. Any unusual adjustments to reported earnings will be disclosed in the footnotes of each Value Line report.

OPERATING MARGIN

What is an operating margin?
The operating margin shows operating income (earnings before the deduction of depreciation, amortization, interest,
and income taxes) as a percentage of sales or revenues. Operating income is sometimes referred to as EBITDA — Earnings Before Income Tax, Depreciation and Amortization.

**PRICE/EARNINGS RATIO**

*Why does the Value Line price/earnings ratio often differ from that in The Wall Street Journal or brokerage reports?*

All price/earnings ratios are calculated by dividing the recent stock price by 12 months of earnings. The different ratios occur because we each use different 12-months earnings figures. Newspapers use 12-months trailing (i.e., reported) earnings. Value Line uses a total of the past six months of trailing earnings and the next six months of estimated earnings. (In our view, this is the best method since it incorporates both recent history and a near-term forecast.) Your broker is likely to use a calendar year’s earnings. While we think our method is best, none is wrong. Just be sure that when you are comparing two companies’ P/E ratios, you are using the same methods.

**ABBREVIATIONS**

*I have trouble understanding some of your abbreviations. Can you help me?*

Yes. Most of the frequently used abbreviations are included in the online Glossary which is available at www.valueline.com.

**GLOSSARY OF POPULAR TERMS**

**Stock’s Price Stability**

A relative ranking of the standard deviation of weekly percent changes in the price of a stock over the past five years. The ranks go from 100 for the most stable to 5 for the least stable, in increments of 5.

**Price Growth Persistence**

A measurement of the historic tendency of a stock to show persistent price growth compared to the average stock in the Value Line universe. Value line’s persistence ratings range from 100 (highest) to 5 (lowest).

**Earnings Predictability**

A measure of the reliability of earnings forecasts. Predictability is based upon the stability of year-to-year comparisons, with recent years being weighted more heavily than earlier ones. The most reliable forecasts tend to be those with the highest rating (100); the least reliable, the lowest (5). The earnings stability is derived from the standard deviation of percentage changes in quarterly earnings over an eight-year period. Special adjustments are made for comparisons around zero and from plus to minus.

**Nonrecurring Items**

Various unusual gains or losses excluded from reported earnings by Value Line analysts in order to reflect income from ongoing operations. Nonrecurring items are footnoted by year on the Value Line page.

**Preferred Stock**

A security that represents an ownership interest in a corporation and gives its owner a prior claim over common stockholders with regard to dividend payments and any distribution of assets should the firm be liquidated. Preferred stock normally is entitled to dividend payments at a specified rate. These dividends must be paid in full before the payment of a common stock dividend. May or may not have seniority over preference stock (which is akin to preferred stock), depending on state regulations.

**Market Capitalization**

The market value of all common shares outstanding for a company, calculated by multiplying the recent price of a stock by the number of common shares outstanding. Large cap stocks have market values of more than $5 billion. Mid cap stocks have market values from $1 billion to $5 billion. Small cap stocks have market values of less than $1 billion. (when there are multiple classes of common stock, which often sell at different prices, the number of shares of each class is multiplied by the applicable price.)

**American Depository Receipts (ADRs)**

Since most other nations do not allow stock certificates to leave the country, a foreign company will arrange for a trustee (typically a large bank) to issue ADRs (sometimes called American Depositary Shares, or ADSS) representing the actual, or underlying, shares. Each ADR is equivalent to a specified number of shares (the ratio is shown in a footnote on the Value Line page). The Value Line 600 includes coverage on dozens of ADRs.
EBITDA – A popular indicator of a company’s financial performance. It is calculated by adding net income, taxes paid, interest on long-term debt, and depreciation & amortization. It is useful when comparing companies and industries since it removes the effects of accounting decisions and financing actions.

**Float**

Is the money that an insurance company gets to hold onto between the time customers pay premiums and the time they make claims on their policies. In fact, this collect-now, pay-later model is central to the way the insurance industry operates. No matter if a company generates an underwriting profit or loss from its core business, it can still earn investment income from the float.

**Allowance for Funds Used During Construction (AFUDC)**

A noncash credit to income consisting of equity and debt components. This noncash income results from construction work in progress and is expected to be converted into cash income at a future date.

**FINANCIAL STRENGTH**

What goes into the Financial Strength rating for each individual company?

<table>
<thead>
<tr>
<th>Company’s Financial Strength</th>
<th>A++</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock’s Price Stability</td>
<td>100</td>
</tr>
<tr>
<td>Price Growth Persistence</td>
<td>40</td>
</tr>
<tr>
<td>Earnings Predictability</td>
<td>100</td>
</tr>
</tbody>
</table>

Sample Financial/Stock Price Data
(Also see item 19 on the sample page)

Our Financial Strength ratings take into account a lot of the same information used by the major credit rating agencies. Our analysis focuses on net income, cash flow, the amount of debt outstanding the outlook for profits, and the stability of the industry and the individual company returns. Other factors also enter into the equation. For example, a company that faces the loss of patent protection on a key product might face a downgrade. The ratings range from A++ (Highest) to C (Lowest), in nine steps, based on the judgment of our senior staff members (see the complete list on page 8).

**A STOCK’S 3- TO 5-YEAR PRICE PROJECTIONS**

How are a stock’s 3- to 5-year share-price projections derived?

Our analysts have developed comprehensive spreadsheet models that take into account the current economic climate and a company’s operating fundamentals, including recent management initiatives, the actions of the competition, and many other relevant factors for each company. These models are used to develop our earnings and other financial projections for the coming 3 to 5 years.

The *Target Price Range* is calculated by multiplying a company’s estimated earnings per share for the period out 3 to 5 years (in the far right-hand column of the statistical array) by the stock’s projected average annual price/earnings ratio for the same period and then developing a range showing the likely high and low price. The width of the band of the share-price projections varies, depending on the *Safety rank* of the company. Riskier stocks have a wider band, safer stocks a narrower band.

**STOCK DECLINES**

I bought a stock based on your advice, but it went down. What happened?

As you undoubtedly know, our *Timeliness Ranking System* has worked extremely well over time. Not all stocks do as we forecast, though, and we have never suggested that they will. What we have strongly recommended is that you diversify your portfolio by purchasing at least 10 to 20 stocks in at least 10 industries. That way, you will protect yourself from unexpected changes in the price of any one stock or any one industry. Also keep in mind that the *Value Line Ranking System* is relative. In declining markets, group 1 and 2 stocks have historically declined less than the general market. On the other hand, stocks ranked 1 and 2 have outperformed the market during periods when stock prices were rising.

**SPEAKING TO ANALYSTS**

I would like to speak to the Analyst who wrote a report.

Unfortunately, this isn’t practical. Our staff of analysts has been hired and trained to analyze stocks and write commentaries for *The Value Line Investment Survey* and, to be
fair to all subscribers, they do not have time to speak with individual investors.

**PRETAX INCOME**

Where can I find pretax income on a Value Line page?

This figure is not displayed on our reports. We do, however, show net profit after taxes (usually line 14 in the Statistical Array) and the effective tax rate (usually line 15). You can calculate pretax income by dividing net profit by: 1 minus the tax rate. Example: If net profit was $100 million and the tax rate was 36%, pretax profit would be $156.25 million.

\[
\frac{100,000,000}{1.00 - .36} = 156,250,000
\]

**ERRORS IN REPORTS**

What should I do if I find an error in a report?

If you think you have found an error in any of our publications, we would very much like to hear from you so that we can correct the mistake. Please write or call us. If you call, let the operator know that you want to report an apparent error, and he/she will connect you with an administrative assistant in the Research Department. Please address your written comments to the office of the Research Director, or e-mail us at VLIS@valueline.com.

If you believe you have found an error in an historical price or per-share data item, please read on:

We actually receive very few complaints about our data. Most of those that we do get relate to historical prices and per-share data, and the fact is that our stock prices, earnings, and other data are usually correct. When there appears to be a difference in stock prices or earnings per share, it is usually because of a stock split or a stock dividend. Value Line (and everyone else) retroactively adjusts historical stock prices and share data for stock splits and dividends. Splits and dividends of 10% or more are shown in the *Legends* box (item 2 on the sample page) in the upper left hand corner of the price chart. Splits of less than 10% are shown in the footnotes.

**INTERNET (WEB) SITE**

Does Value Line have a Web site?

Our address is www.valueline.com. The Web site includes useful features for today’s informed investor.

The Web site is designed to help keep you informed about the stock market and the stocks you are interested in. There is a section where you can get recent stock prices and news on companies, and another where you can set up your own portfolios. At least three times each day we provide written commentary from our Chief Economist, senior analysts, and senior portfolio managers. Throughout the day we provide the latest analysis from our securities analysts about selective stocks in the news that day.

**COMPANY COVERAGE**

Does a company pay to be included in *The Value Line 600*?

No. Value Line is not compensated by the companies under our review. This allows us to be totally objective when we analyze companies.

Does the roster of stocks covered by *Value Line* change?

Yes. Vacancies constantly occur within our approximately 1,700 stock universe. Sometimes a company’s earnings will deteriorate to such a degree that we believe investors have lost interest. If that happens, we will discontinue coverage. More frequently, companies leave our universe when they are acquired by or merged with another firm. Acquired or merged companies will be replaced by others. In choosing replacements, we try to select actively traded stocks with broad investor interest.

Why isn’t ABC, Inc., a large well-known company, included?

We do try to include companies with actively traded stocks, which have broad public interest. If ABC fits in this category, we will, in all likelihood, provide coverage in the future.
The "Cash Flow" line—reported earnings plus depreciation ("cash flow") multiplied by a number selected to correlate the stock's 3- to 5-year projected target price, with "cash flow" projected out over the same period.

**Recent Price** (see page 2 of the Summary & Index for the date, just under "Index to Stocks").

**P/E ratio** — the recent price divided by the latest six months' earnings per share plus earnings estimated for the next six months.

**Monthly price ranges of the stock** — plotted on a ratio (logarithmic) grid to show percentage changes in true proportion. For example, a ratio chart equalizes the move of a $10 stock that rises to $11 with that of a $100 stock that rises to $110. Both have advanced 10% and over the same space on a ratio grid.

**Trailing and Median P/E** — the first is the recent price divided by the sum of reported earnings for the past 4 quarters; the second is an average of the price/earnings ratios over the past 10 years.