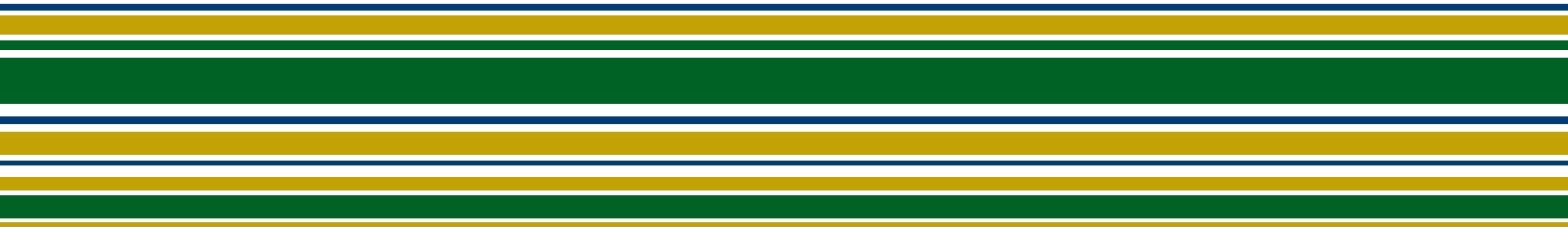




Value Line®
Publishing LLC

How To { Invest in
Special
Situations



© 2011, Value Line, Inc. Officers, directors, employees and affiliates of Value Line, Inc. ("VLI"), the parent company of Value Line Publishing LLC ("VLP"), and EULAV Asset Management ("EULAV"), may hold stocks that are reviewed or recommended in this publication. EULAV also manages investment companies and other accounts that use the rankings and recommendations in this publication as part of their investment strategies. These accounts, as well as the officers, directors, employees and affiliates of VLI, may dispose of a security notwithstanding the fact that *The Value Line Investment Survey* (the "Survey") ranks the issuer favorably; conversely, such accounts or persons may purchase or hold a security that is poorly ranked by the Survey. Some of the investment companies managed by EULAV only hold securities with a specified minimum Timeliness Rank by the Survey and dispose of those positions when the Timeliness Rank declines or is suspended. Subscribers to the Survey and its related publications as well as some institutional customers of VLP will have access to the entire *Value Line Investment Survey* at 8:00 AM each Monday (or the next business day after a Monday when the New York Stock Exchange is closed). At the same time, portfolio managers for EULAV will receive reports providing Timeliness Ranking information. EULAV's portfolio managers also may have access to publicly available information that may ultimately result in or influence a change in rankings or recommendations, such as earnings releases, changes in market value or disclosure of corporate transactions. The investment companies or accounts may trade upon such information prior to a change in ranking. While the rankings in the Survey are intended to be predictive of future relative performance of an issuer's securities, the Survey is not intended to constitute a recommendation of any specific security. Any investment decision with respect to any issuer covered by the Survey should be made as part of a diversified portfolio of equity securities and in light of an investor's particular investment objectives and circumstances. Value Line Arithmetic & Geometric Indices calculated by Thomson Reuters. Information supplied by Thomson Reuters.

The Value Line Special Situations Service

The Value Line Special Situations Service is published monthly. It is designed to help investors build a portfolio of small company stocks. Smaller companies can offer tremendous growth potential, but investing in them can carry a lot of downside risk. Start-up companies in fledgling industries that are not turning a profit certainly fit this profile, but profitable companies that operate in established industries can also be vulnerable, especially if growth depends on expansion, acquisitions, or the development of new products or services. Still others may be restructuring their businesses in an effort to improve profitability, or may stand to benefit from certain regulatory changes. The goal of the service is to help investors create a diversified small-cap portfolio that includes “Aggressive” companies like these that are balanced with “Conservative” companies that operate in relatively stable industries. Each issue of *The Value Line Special Situations Service* includes a new Aggressive recommendation as well as a new Conservative recommendation. For Aggressive selections, the service seeks companies that have the potential to generate strong earnings growth over the next three to five years. Conservative selections might not have as much growth potential, but their share prices are typically not as volatile, and they may pay dividends. *The Value Line Investment Survey-Small and Mid-Cap Edition* serves as the basis for all selections.

How Special Situations Are Ranked

The Value Line Special Situations Service assigns each of its stocks one of four rankings:

Especially Recommended—The service’s highest recommendation; a strong buy. All new recommendations enter the service with this ranking and remain at this level until they are downgraded.

Buy/Hold—A stock may be downgraded to Buy/Hold as it appreciates in value and approaches the target price. Other reasons may include increased uncertainty regarding the potential of a new product the company is developing, fundamental economic changes that may impact the company's earnings, or regulatory changes that may have a material impact on the company's business. Investors that already own the stock should maintain their positions. Although stocks with this ranking do not, in the service's opinion, have the potential that stocks ranked Especially Recommended do, the company may still be of interest to some subscribers.

Hold—Stocks may be downgraded to Hold for similar reasons. Investors that already own the stock should maintain their positions, but additional purchases are not recommended. Occasionally, it may be suggested that investors who have owned the stock since it was initially recommended and have profited from their positions consider selling some of their shares at this time in order to lock in some of their gains and use the proceeds to invest in one or more of the service's Especially Recommended stocks.

Switch—A sell recommendation; Switch into one of the service's Especially Recommended stocks. A stock may be downgraded to Switch if it meets or exceeds the price target, a new product or service the company is developing fails to meet expectations, or because of other material changes with respect to the company or the overall market which has caused the share price to fall below our stop loss. The Switch recommendation represents the company's final review by *The Value Line Special Situations Service*.

In addition to downgrades, stocks rated Hold or Buy/Hold may be upgraded from time to time, as circumstances warrant.

Features of the Value Line Special Situations Service

Included with each new recommendation is a report that provides an overview of the company, an examination of its finances, and a discussion of the stock's potential over the next three to five years. The most-recent report from *The Value Line Investment Survey—Small and Mid-Cap Edition*, which offers a wealth of historical financial data, is also provided. Note that the rankings shown in the top-left corner of the page from *The Small and Mid-Cap Edition* were current as of the date shown below the business description, and may have changed. All new recommendations have a current Performance Ranking of three or better.

The Projected Valuation box that is provided with each new recommendation includes the service's forecast for revenues, pre-tax margin, earnings per share, and number of shares outstanding five years hence. The projected earnings per share growth rate is an annualized rate over a five-year period, starting with the most recently completed fiscal year. The five-year price target is determined by multiplying the estimated earnings per share with the price-earnings multiple. The price-earnings multiple itself is determined by several factors, including historical multiples for the company and multiples that are typical for its industry.

Every issue includes detailed updates on approximately six or seven companies that were previously recommended by the service. Companies are updated on a periodic basis, until a sale or "Switch" of the stock is advised. Each update provides the current ranking of the stock, the recent share price, the estimated dividend yield over the next 12 months, the estimated share price within the next three to five years, and the date and price when the stock was initially recommended. In addition, each update contains the stock's performance record since it was initially recommended, the recommended stop-loss price, the company's website, the high and low share price for the current year and previous four years, a graph charting the share price over the past 24 months, and quarterly revenues and earnings for the past three years with projections for the current year. A detailed synopsis of recent company developments and the service's current opinion of the stock's potential is also provided.

Other features include an "Index to Stocks" page that lists all the stocks followed by the service, which is broken down into Aggressive and Conservative portfolios. The Index references the issue when the company was most recently reviewed (Latest Review Issue), the ticker symbol, and the current recommendation. The Index also includes the recent share price, the price/earnings ratio, the estimated dividend yield over the next 12 months, and the date and price when the stock was initially recommended. On the front page is an economic overview called "Investment Perspectives." The "Portfolio Update" features stocks in the service that had notable developments since the previous month's issue that may have had a material effect on the share price or ranking. Make sure to check this section each month, as it has rank changes—including Switches—for stocks that are not otherwise updated in the issue. For stocks covered in the Portfolio Update section that have a rank change, the Latest Review Issue on the Index to Stocks page is updated as well. The service does not change the Latest Review Issue for stocks in the Portfolio Update section that do not have rank changes.

Stop Loss

Since many small-cap stocks operate in niche industries or rely on a single product or small group of products or services, they can be highly volatile, especially during economic downturns. As such, a stop loss for each stock in the service is set, in order to provide investors with a measure of protection for their invested capital. Stop losses may be adjusted upward as the share price increases. If a stock in the service breaches the stop loss, a Switch is generally placed on the security, and investors are advised to apply the remaining proceeds to one or more of the service's Especially Recommended stocks.

How to Get the Most Out of What Our Product Has To Offer

The goal of The Special Situations Service is to help investors build a balanced, diversified portfolio of small-cap stocks. A balanced portfolio may help offset some of the risk associated in investing in small, speculative, start-up companies.

Subscribers are advised to fully consider the information contained in the New Recommendation report before committing capital. There is a great deal of variation in the degree of risk and the potential for gain that comes with investing in small companies. Thus a subscriber should select—from the new recommendations made each year, as well as from the list of previously recommended special situations that are currently Especially Recommended for purchase—those that best meet the requirements of his or her own portfolio.

We strongly recommend investors distribute the portion of their portfolio devoted to special situations among several securities rather than focus on a single company. Investors should keep in mind that more-aggressive selections are recommended for their long-term appreciation potential, rather than for short-term capital gains. Since these aggressive selections can be highly speculative, they should represent only a limited portion of one's total portfolio. Investors must understand that, although our aggressive investment ideas may offer the potential for substantial capital appreciation, they may carry an extraordinary amount of risk. We strongly recommend the use of stop losses when investing in these companies, as the potential for sudden, significant losses is great. ◇

Notes



Value Line Publishing LLC

220 East 42nd Street, New York, NY 10017-5891

email: vlcr@valueline.com

800.634.3583

www.valueline.com