

HOW TO INVEST IN SPECIAL SITUATIONS

A Guide to Using

THE VALUE LINE
SPECIAL SITUATIONS SERVICE

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THE VALUE LINE SPECIAL SITUATIONS SERVICE



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CHAPTER

1

THE VALUE LINE SPECIAL SITUATIONS SERVICE

ITS PURPOSE

The Value Line Special Situations Service is tailored to fit the needs of the aggressive investor—the individual who is interested in fresh new ideas and is capable of assuming a somewhat higher level of risk in quest of extraordinary capital appreciation.

For nearly 50 years, *The Value Line Special Situations Service* has been seeking out small fast-growing companies possessing exceptional long-term capital gains potential. Value Line's special situations analysts maintain a constant search for the very best of these “emerging growth companies,” sifting through hundreds of annual and interim reports, prospectuses, SEC filings, and press releases each week in their quest. At least once each month—no matter what the general market climate—an entirely new “Special Situation” is recommended for purchase.

Emphasis is on companies possessing the ability to generate exceptionally strong earnings growth during the coming three to five years, irrespective of economic conditions. Particular attention is paid to firms operating in high-growth, high-technology markets (the data communications, computer equipment and software, electronics, and health care industries are well represented). Most New Recommendations are traded on the NASDAQ National Market—the spawning ground of innovation. Promising New York and American Stock Exchange issues are recommended occasionally as well.

As one might expect, there is a high risk to “Special Situation” investing. Not all of our recommendations have worked out as we originally projected. In some cases, losses have resulted. But the potential rewards from this type of investing outweigh the risks, in our opinion, and we think past experience bears this judgment out. So that subscribers can judge for themselves, however, we include our complete current performance record in every issue.

ITS MANY FEATURES

The Value Line Special Situations Service is published twice a month, 24 times a year. The service is provided in three sections:

First—A four-page “New Recommendation” report—At least once a month, subscribers are presented with an all-new “Special Situation” for purchase. The New Recommendation report introduces this company to subscribers, including historical operating statistics, a description of the company's business, estimates of near-term results, and Value Line's projections of earnings and potential stock value three to five years into the future.

Second—A four-page “Summary-Index”—The Summary-Index section includes Value Line's current rec-

ommendation (“Especially Recommended,” “Buy/ Hold,” “Hold,” or “Switch”) on all companies followed by the service, along with pertinent statistical data on each (recent price and P/E ratio, estimated yield, price and date of original recommendation, and performance since original recommendation). The Summary-Index also includes a convenient compilation of all stocks currently “Especially Recommended” for purchase, a brief commentary on the economic and stock market outlook, and the near-term (two-year) and longer-term (over 20-year) performance records of the service.

Third—An 8-page “Supervisory Reviews” section— Each New Recommendation made by *The Value Line Special Situations Service* is reviewed at least quarterly from time of original recommendation until sale is advised. Each issue’s Supervisory Reviews section contains follow-up reviews of previously recommended “Special Situations.”

HOW IT RATES SPECIAL SITUATIONS

The Value Line Special Situations Service assigns each covered stock one of four recommendations (based on analyst judgment):

Especially Recommended—The service’s highest recommendation; an enthusiastic “buy.” All New Recommendations enter the service as “Especially Recommended” stocks and remain so until their recommendations are downgraded.

Buy/Hold—If one owns the stock already, one should maintain his or her existing position. Although it is deemed not to merit “Especially Recommended” status—due to a higher level of uncertainty, a lower level of projected three- to five-year appreciation potential, or other fundamental factors—the company might be of interest for purchase by some subscribers.

Hold—If one owns the stock already, one should maintain his or her existing position. Additional purchases are not recommended at this time, however.

Switch—A sell recommendation; “switch” into one of our Especially Recommended special situations. The switch recommendation represents the company’s final review by the *Special Situations Service*.

CHAPTER

2

INVESTING IN SPECIAL SITUATIONS

WHAT IS A SPECIAL SITUATION?

A special situation, as we define it, is a security whose market price stands to rise sharply as a result of a major prospective gain in underlying earning power. This increased earning potential may result from the introduction of new products or processes, from the particularly rapid expansion of a market in which the company has a strong position, from a change in management, or from other unusual—and frequently nonrecurring—developments.

Since June 1951, *The Value Line Special Situations Service* has recommended over 1,100 special situations, at least one each month regardless of the general movement of the stock market.

WHAT ARE THE REQUIREMENTS FOR SUCCESSFUL SPECIAL SITUATION INVESTING?

The aim of *The Value Line Special Situations Service* is to reduce the high risk associated with special situation investing via careful evaluation and analysis. It must be recognized, however, that if high risk were not present, wide appreciation potential would not be present either.

Successful special situation investing requires continuing supervision and wide diversification. Constant supervision of each special situation is provided in the semimonthly Supervisory Reviews section. The latest Summary-Index always gives the current up-to-date appraisal of each.

It is better over a period of time to distribute the portion of one's portfolio devoted to special situations among a selection of securities rather than to focus on a single security. It also should be recognized that special situations are recommended for long-term appreciation, rather than for short-term capital gain. Special situations, being a form of speculation, should claim only a limited portion of the total portfolio unless the investor is in a position to assume extraordinary risk in exchange for the potential of substantial appreciation over a period of time.

Subscribers are advised to consider fully the complete New Recommendation report before making a commitment. By their very nature, special situations vary widely in degree of risk and potential for gain. Thus the subscriber may 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.

WHY DO SPECIAL SITUATIONS FREQUENTLY EXPERIENCE A TEMPORARY "PRICE BULGE" IMMEDIATELY UPON RECOMMENDATION?

During strong markets, special situation recommendations frequently experience a price bulge for a few days following the recommendation, after which the price normally recedes. It is rarely possible for a number of subscribers to buy the same stock at the same time without having some positive effect on the price. It should be recognized, however, that the initial bulge is of minor significance from a long-term standpoint.

WHAT IS THE RECOMMENDED PROCEDURE IN PURCHASING SPECIAL SITUATIONS?

In order to minimize the effect of the initial price bulge, we suggest that subscribers who wish to make a practice of buying special situations systematically consider buying only one-half of their eventual commitments immediately upon receipt of the recommendation and the other half after the initial effects of the

recommendation have worn off. Because it is not possible to measure in advance the effect of the recommendation on the price, unlimited open market orders should be avoided. If we find that the market for the special situation is thin, we include a warning in the New Recommendation report to the effect that limits close to the recommendation price should be set when placing orders.

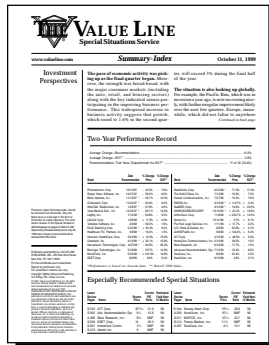
WHEN AND WHERE DO WE RECOMMEND SELLING SPECIAL SITUATIONS?

Following recommendation, each special situation is continually supervised until sale is advised. We advise the sale of a special situation when our analysis concludes that the long-term appreciation potential is limited because either: (1) the price advance since recommendation has fulfilled our expectation, or (2) recent developments indicate that a further significant price rise is not probable. A recommendation to sell concludes our coverage of the special situation. Like previous reviews, the sale (or "Switch") recommendation is included in the Supervisory Reviews section and is fully indexed in the Summary-Index.

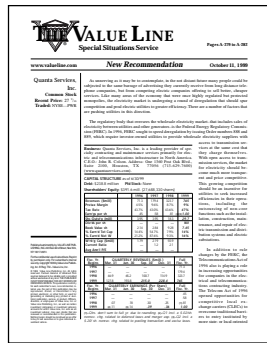
CHAPTER

3

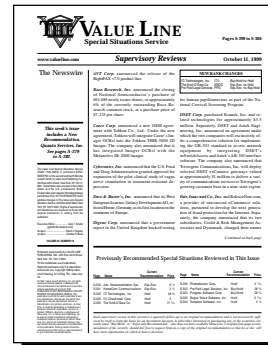
HOW TO GET THE MOST FROM THE PAGES OF THE SPECIAL SITUATIONS SERVICE



Summary-Index



New Recommendation



Supervisory Reviews

The Value Line Special Situations Service is published in three sections (pictured above)—the “Summary-Index,” the “New Recommendation,” and the “Supervisory Reviews” section.

The pages of each section are of a different format, and it is recommended that subscribers review the sample pages provided in this chapter as a means of gaining

familiarity with the various formats. Readers will note that the New Recommendation section is not represented among the samples provided. Those portions of the New Recommendation page that might require explanation are also featured on the Supervisory Reviews page and are thus explained (and indicated as being a component of the New Recommendation) on the sample page of the latter.

SUMMARY-INDEX (Front Page)



Special Situations Service

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Summary-Index

October 11, 1999

Investment Perspectives

The pace of economic activity was picking up as the final quarter began. Moreover, the strength was broad-based, with the major consumer markets (including the auto, retail, and housing sectors) along with the key industrial arenas participating in the improving business performance. This widespread increase in business activity suggests that growth, which eased to 1.6% in the second quar-

ter, will exceed 3% during the final half of the year.

The situation is also looking up globally. For example, the Pacific Rim, which was in recession a year ago, is now recovering nicely, with further irregular improvement likely over the next few quarters. Europe, meanwhile, which did not falter to anywhere

Continued on back page

Two-Year Performance Record

Average Change—Recommendations	+3.4%
Average Change—RUT**	-3.9%
Recommendations That Have Outperformed the RUT**	11 of 34 (32.4%)

Stock	Date Recommended	% Change Price	% Change RUT**	Stock	Date Recommended	% Change Price	% Change RUT**
Photoelectron Corp.	10/13/97	- 42.3%	- 7.6%	DataWorks Corp.	6/22/98 *	- 71.3%	- 17.4%
Rogue Wave Software, Inc.	10/27/97	- 59.0%	- 6.0%	The Kroll-O'Gara Co.	7/13/98	- 15.9%	- 7.3%
Bionx Implants, Inc.	11/10/97 *	- 56.7%	- 10.3%	Corsair Communications, Inc.	7/27/98	- 10.3%	- 7.6%
Cholestech Corp.	11/24/97 *	- 83.2%	- 8.3%	ENZON, Inc.	8/10/98 *	+ 114.7%	+ 2.2%
SmarTalk TeleServices, Inc.	12/8/97 *	- 61.9%	- 4.9%	SeaMED Corp.	9/14/98 *	- 19.6%	+ 20.5%
Vista Medical Tech., Inc	12/22/97 *	- 85.1%	- 14.9%	CN BIOSCIENCES CORP.	10/12/98 *	+ 22.2%	+ 19.9%
Logility, Inc.	1/12/98 *	- 63.6%	- 5.0%	ArthroCare Corp	11/9/98	+ 200.7%	+ 10.3%
LifeCell Corp.	1/26/98	+ 11.5%	+ 0.0%	Identix Inc.	12/14/98	- 0.7%	+ 6.1%
Template Software, Inc.	2/9/98	- 68.3%	- 1.8%	Pre-Paid Legal Services, Inc.	1/11/99	+ 17.7%	- 0.2%
Excel Switching Corp.	2/23/98 *	+ 63.3%	- 9.4%	U.S. Home & Garden, Inc.	2/8/99	- 52.8%	+ 0.1%
Healthcare Fin. Partners, Inc.	3/9/98 *	- 16.2%	- 1.3%	JAKKS Pacific, Inc.	3/8/99	+ 144.4%	+ 8.2%
Intensiva HealthCare Corp.	3/23/98 *	+ 14.0%	- 15.8%	AVT Corp.	4/12/99	+ 48.5%	+ 6.0%
Osteotech, Inc.	4/13/98 *	+ 62.1%	- 15.8%	HomeCom Communications, Inc.	5/10/99	- 38.5%	- 1.5%
Nanophase Technologies Corp.	4/27/98 *	- 64.5%	- 26.3%	Boca Research, Inc.	6/14/99	- 17.7%	- 1.5%
Barringer Technologies, Inc.	5/18/98	- 55.7%	- 10.5%	Advanced Neuromodulation Sys.	7/12/99	- 15.4%	- 6.9%
MovieFone, Inc.	5/25/98 *	+ 347.9%	- 14.8%	SeraCare, Inc.	8/9/99	- 22.4%	- 2.2%
DSET Corp.	6/8/98	- 8.6%	- 5.4%	KeraVision, Inc.	9/13/99	- 2.8%	- 2.1%

*Performance is based on closeout data. ** Russell 2000 Index.

Especially Recommended Special Situations

Latest Review Pages	Name	Recent Price	Current P/E Ratio	Estimated Yield Next 12 Months	Latest Review Pages	Name	Recent Price	Current P/E Ratio	Estimated Yield Next 12 Months
S-316	AVT Corp.	32 ¹⁵ / ₁₆	31.4	Nil	S-344	Kensley Nash Corp.	15 ³ / ₁₆	26.6	Nil
S-300	Adv. Neuromodulation Sys.	8 ¹ / ₄	10.6	Nil	A-283	KeraVision, Inc.	15 ¹ / ₄	NMF	Nil
A-295	Boca Research, Inc.	6 ³ / ₈	NMF	Nil	S-311	MAPICS, Inc.	12 ⁷ / ₁₆	20.7	Nil
S-309	DSET Corp.	14	28.0	Nil	S-312	Possis Medical, Inc.	11 ³ / ₈	NMF	Nil
S-301	HomeCom Comm.	3 ¹ / ₂	NMF	Nil	A-287	SeraCare, Inc.	4 ⁷ / ₈	10.1	Nil
S-318	Identix Inc.	9	NMF	Nil					

1
Previously dated Summary-Index should be removed from the binder. Only the latest issue is to be kept in the front of the binder for ready reference. The most recent reviews of the Special Situations still held appear on pages S-299 to S-346. Supervisory Reviews dated prior to July 26, 1999 are no longer current and should be removed from the binder.

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1. Filing instructions for the issue. General filing instructions for each section of the service appear on the three tab sheets included in the binder provided to new subscribers.
 2. A brief commentary on the economic and stock market outlook. (For Value Line Investment Survey subscribers: This represents, in most cases, a reprint of the previous Friday's "Value Line View," which appears in the Selection & Opinion section of that service.)
 3. The average of the percent price changes for the recommendations included in the two-year performance listing; the average of the corresponding percent changes in the Russell 2000 Index for these recommendations; and the number of (and percentage of) recommendations that have outperformed the Russell 2000 Index since their original recommendation.
 4. A chronological listing of the New Recommendations made by the *Special Situations Service* during the preceding two years. This is provided in addition to our longer-term performance record so that subscribers can see how the service has performed during the recent past. For each stock, the list includes the date on which the stock was originally recommended (the date of its "New Recommendation" report); the percent change in the price of the stock from the time of its original recommendation to the date on which the prices for the issue were gathered—usually the Monday preceding the issue date (the actual date for each issue is shown on page 2 of the Summary-Index); and the percent change in the Russell 2000 Index from the date corresponding to the original recommendation price to the day on which
 5. A listing of all special situations currently followed by the service that carry its highest recommendation—"Especially Recommended." The recommendations of the service are defined on page 8 of this booklet.

SUMMARY-INDEX (Page 2)

OCTOBER 11, 1999

THE VALUE LINE SPECIAL SITUATIONS SERVICE/SUPERVISORY REVIEWS

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INDEX TO STOCKS

Prices quoted are those at the close of the market, October 4, 1999

Latest Review Pages	Name	Ticker	Current Advice	Recent Price	Current P/E Ratio	Estimated Yield Next 12 Months	Originally Recommended		Performance Since Recommendation	
							Price	Date	%Change Stock	%Change RUT*
1	AVT Corp.	AVTC	Esp.Rec.	32 15/16	31.4	Nil	22 3/16	4-99	+ 48.5%	+ 6.0%
	Advanced Neuromodulation Sys.	ANSI	Esp.Rec.	8 1/4	10.6	Nil	9 3/4	7-99	- 15.4%	- 6.9%
	Avado Brands, Inc.(b)	AVDO	Hold	5 5/8	10.4	1.1%	7 1/2	3-93	- 25.0%	+ 90.4%
	# ArthroCare Corp	ARTC								
	Barringer Technologies, Inc.	BARR	Hold	5 1/16	20.3	Nil	11 7/16	5-98	- 55.7%	- 10.5%
	Boca Research, Inc.	BOCI	Esp.Rec.	6 3/8	NMF	Nil	7 3/4	6-99	- 17.7%	- 10.5%
	Caere Corp.	CAER	Hold	7 9/16	8.9	Nil	9 3/4	(a) 1-90	- 22.4%	+ 159.5%
	Celgene Corp.	CELG	Hold	27 7/8	NMF	Nil	9 3/4	7-92	+ 185.9%	+ 124.8%
	Corsair Communications, Inc.	CAIR	Hold	7 1/16	NMF	Nil	7 7/8	7-98	- 10.3%	- 7.6%
	Cyberonics, Inc.	CYBX	Buy/Hold	13 11/16	NMF	Nil	13 1/8	9-97	+ 4.3%	+ 0.8%
	Dave & Buster's, Inc.	DAB	Buy/Hold	11 3/8	10.3	Nil	14 1/16	(a) 4-96	- 19.2%	+ 27.1%
	Deltek Systems, Inc.	DLTK	Hold	16 3/8	16.7	Nil	10 3/4	5-97	+ 52.3%	+ 17.7%
	Digene Corp.	DIGE	Buy/Hold	12 1/4	NMF	Nil	9 3/4	6-97	+ 25.6%	+ 11.2%
	Digi International, Inc.	DGII	Hold	11 1/4	29.6	Nil	16 15/16	(a) 10-91	- 33.5%	+ 133.1%
	DSET Corp.	DSET	Esp.Rec.	14	28.0	Nil	15 5/16	6-98	- 8.6%	- 5.4%
	Fair, Isaac & Company, Inc.	FIC	Hold	28 1/2	14.0	0.3%	20 3/16	11-94	+ 40.5%	+ 69.2%
	# Healthcare Fin. Partners, Inc.	HF								
	HomeCom Communications, Inc.	HCOM	Esp.Rec.	3 1/2	NMF	Nil	5 11/16	5-99	- 38.5%	- 1.5%
	ITI Technologies, Inc.	ITII	** Hold	28 3/8	14.6	Nil	24 3/4	8-95	+ 14.6%	+ 40.2%
	IVI Checkmate Corp.	CMIV	Hold	3	NMF	Nil	14 1/8	8-95	- 78.5%	+ 42.6%
	Identix Inc.	IDX	Esp.Rec.	9	NMF	Nil	9 1/8	12-98	- 0.7%	+ 6.1%
	Immucor, Inc.	BLUD	Buy/Hold	13 5/8	23.5	Nil	16 11/16	(a) 6-91	- 18.3%	+ 138.9%
	IMPSCO Technologies, Inc.(c)	IMCO	Hold	13	25.5	Nil	9 3/8	7-97	+ 38.7%	+ 5.7%
	Integrated Health Serv., Inc.	IHS	Hold	1 5/16	NMF	1.5%	23 1/4	9-93	- 94.4%	+ 75.1%
	JAKKS Pacific, Inc.	JAKK	Buy/Hold	40 5/8	27.1	Nil	16 5/8	3-99	+ 144.4%	+ 8.2%
	Kensley Nash Corp.	KNSY	Esp.Rec.	15 3/16	26.6	Nil	11	6-97	+ 38.1%	+ 8.8%
	KeraVision, Inc.	KERA	Esp.Rec.	15 1/4	NMF	Nil	15 11/16	9-99	- 2.1%	- 2.1%
	The Kroll-O'Gara Co.	KROG	** Hold	17 3/16	19.1	Nil	20 7/16	7-98	- 15.5%	- 7.3%
	LifeCell Corp.	LIFC	Buy/Hold	5 7/16	NMF	Nil	4 7/8	1-98	+ 11.5%	+ 0.1%
	MAPICS, Inc.(d)	MAPX	Esp.Rec.	12 7/16	20.7	Nil	19 3/4	5-91	- 37.0%	+ 145.2%
	MicroTouch Systems, Inc.	MTSI	Hold	16 7/8	18.3	Nil	29 7/16	5-95	- 43.5%	+ 56.7%
	NCO Group, Inc.	NCOG	Hold	48 3/4	40.6	Nil	18 15/16	(a) 2-97	+ 157.7%	+ 15.4%
	O'Charley's Inc.	CHUX	Hold	14 9/16	16.2	Nil	12	(a) 7-94	+ 21.4%	+ 73.9%
	Photoelectron Corp.	PECX	Hold	4 11/16	NMF	Nil	8 1/8	10-97	- 42.3%	- 7.6%
	Possis Medical, Inc.	POSS	Esp.Rec.	11 3/8	NMF	Nil	17 1/2	11-96	- 35.0%	+ 23.0%
	Pre-Paid Legal Services, Inc.	PPD	** Buy/Hold	38 5/8	23.1	Nil	32 13/16	1-99	+ 17.7%	- 0.2%
	Progress Software Corp.	PRGS	Buy/Hold	28 5/8	15.9	Nil	22 5/16	(a) 7-93	+ 28.3%	+ 82.4%
	RF Monolithics, Inc.	RFMI	Hold	10 3/8	17.6	Nil	12 1/2	12-94	- 17.0%	+ 76.1%
	Rainbow Technologies, Inc.	RNBO	Hold	14 1/4	20.4	Nil	14	9-91	+ 1.8%	+ 142.0%
	Rogue Wave Software, Inc.	RWAV	Hold	5 11/16	17.2	Nil	13 7/8	10-97	- 59.0%	- 6.0%
	Sabratek Corp.	SBTK	Hold	2 1/4	9.0	Nil	14 1/8	9-96	- 84.1%	+ 24.6%
	# SeaMED Corp.	SEMD								
	SeraCare, Inc.	SRK	Esp.Rec.	4 1/8	10.1	Nil	5 5/16	8-99	- 22.4%	- 2.2%
	Template Software, Inc.	TMPL	Hold	4 1/8	NMF	Nil	13	2-98	- 68.3%	- 1.8%
	U.S. Home & Garden, Inc.	USHG	Buy/Hold	2 5/8	NMF	Nil	5 9/16	2-99	- 52.8%	+ 0.1%
	Ventana Medical Systems, Inc.	VMSI	Hold	16 7/8	28.1	Nil	14 3/4	10-96	+ 14.4%	+ 23.3%

* This column gives the percentage change in the Russell 2000 Index from the date of recommendation of the Special Situation to the recent Russell 2000 Index price.

** Current advice change.

Stock has been closed out of the Special Situations Service; will no longer be covered.

(a) Adjusted for stock splits and/or stock dividends.

(b) Formerly Apple South Corp.

(c) Formerly AirSensors, Inc.

(d) Formerly Marcam Corp. The company restructured on 7/30/97, changed its name to MAPICS, Inc., and distributed one half share of Marcam Solutions, Inc. for each share of MAPICS. Marcam Solutions was closed out on 8/11/97, at a price of \$7.50 a share. Recent price represents the price of one share of MAPICS, Inc. plus the price of one half share of Marcam Solutions, Inc. upon closeout (\$3.75).

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1. The page on which the latest report on the company appears. Page numbers that begin with the letter “S” appear in the Supervisory Reviews section of the service. Page numbers that begin with the letter “A” appear in the New Recommendations section.
 2. An alphabetical listing of all companies currently followed by the *Special Situations Service*, followed by the stock’s ticker symbol.
 3. The current recommendation for each company—Especially Recommended, Buy/Hold, Hold, or Switch. The recommendations are defined on page 8 of this booklet.
 4. The price of each stock as of the date on which the prices for the issue were gathered. See number 10 below.
 5. The current price-earnings ratio (or multiple) for each company, which is computed by dividing the recent price by an earnings figure composed of the latest two quarters of reported earnings and Value Line’s estimate of earnings for the next two quarters.
 6. Value Line’s estimate of cash dividends to be paid over the next 12 months divided by the recent price. (In most cases the companies recommended by *The Value Line Special Situations Service* will choose to reinvest their earnings rather than to pay cash dividends.)
 7. The price at which the stock was originally recommended (the price published in its New Recommendation report), adjusted for all subsequent stock splits and stock dividends, followed by the month and year of the special situation’s original recommendation (the date of its New Recommendation report).
 8. The percent change in the price of the special situation from the time of its original recommendation to the date on which the prices for the issue were gathered—usually the Monday preceding the issue date, although the actual date for each issue is shown at the top of page 2 of the Summary-Index (see number 10 below).
 9. The percent change in the Russell 2000 Index from the day corresponding to the special situation’s original recommendation price to the day on which the prices for the issue were gathered.
 10. The date of the closing prices reflected in the issue. Generally, this will be the Monday prior to the publication date (unless that day is a holiday, in which case we use the preceding Friday’s closing prices).
 11. Footnotes.

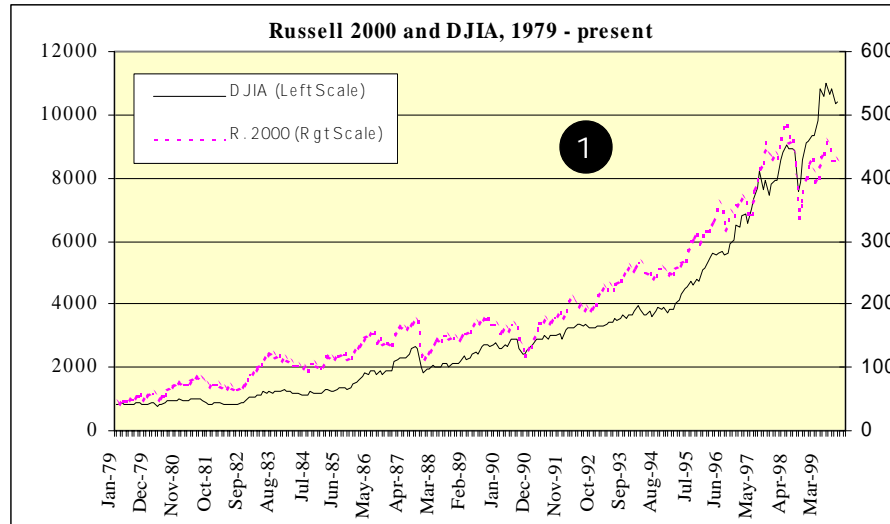
SUMMARY-INDEX (Page 3)

OCTOBER 11, 1999

THE VALUE LINE SPECIAL SITUATIONS SERVICE/SUPERVISORY REVIEWS

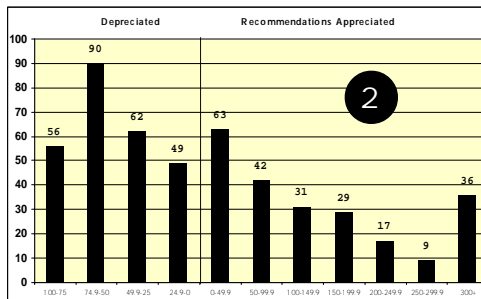
3

Comparison Graph of the Dow Jones Industrial Average and the Russell 2000 Index

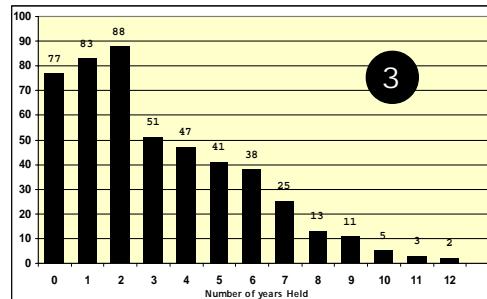


The Performance Record of All Special Situations

Frequency Distribution of Percentage Appreciation and Depreciation of All Special Situations Since 1979.



Frequency Distribution of Length of Time All Special Situations Have Been Held.



484 Special Situations have been recommended in this service since January 1st, 1979. **225** Special Situations Appreciated an average of **209.4%**. **254** Special Situations Depreciated an average of **52.3%**. The average percent appreciation of all **484** recommendations has been **69.4%**. The concurrent percentage increase in the Russell 2000 Index has been **47.3%**. The average holding period for all **484** recommendations has been **3** years, **7** months.

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-
1. A graph comparing the performance of the Dow Jones Industrial Average and the Russell 2000 Index, updated each issue. It is important to remember that special situation stocks, in general, do not necessarily track the Dow Jones Index (made up of some of the largest corporations). Consequently, the Russell 2000 Index is a better barometer of the market conditions for these stocks.
 2. Frequency distribution of percentage appreciation and depreciation of all special situations since 1979. A chart showing the number of recommendations whose percent appreciation or decline—from time of original recommendation to close out in the case of closed out special situations and from the time of original recommendation to the present in the case of companies still followed—falls within various percentage ranges. For example, the number of recommendations that have appreciated between zero and 49.9%, 50.0% and 99.9%, 100.0% and 149.9%, etc., and the number of recommendations that have declined between zero and 24.9%, 25.0% and 49.9%, etc.
 - 3 . Frequency distribution of length of time all special situations have been held. A chart showing the number of special situations that have been held —from time of original recommendation to close out in the case of closed out special situations and from time of original recommendation to the present in the case of companies still followed—for various intervals of time. For example, the number of special situations that have been held for one year from the time of original recommendation to close out or, in the case of companies still followed, from the time of original recommendation to the present; the number held for two years; the number held for three years; and so on.
 4. A summary of the performance record of *The Value Line Special Situations Services* since January, 1979 (when the Russell 2000 Index also began), compared to the Index. The summary details both the number and overall performance of the recommendations that have both outperformed and underperformed. The overall average performance is also given.

SUPERVISORY REVIEWS

SEPTEMBER 27, 1999

THE VALUE LINE SPECIAL SITUATIONS SERVICE/SUPERVISORY REVIEWS

S-312

Possis Medical, Inc.

(NDQ—POSS)

1

BASIS FOR SPECIAL RECOMMENDATION

Possis Medical recently completed its strongest fiscal year. With 19 sales specialists and 19 clinical specialists behind the marketing efforts for U.S. penetration of AngioJet, the company finished off the fiscal year with 300 units in operation. While this is certainly impressive, it only represents 5% of the estimated 6000 combined coronary and radiology labs in the U.S. alone—leaving ample room for expansion. Usage per unit continues to increase and as more and more AngioJet units are placed the company will begin to establish a solid base of recurring catheter sales (these carry a higher profit margin). Clinical trials for the product's use in the prevention of stroke are going well, which, given future approval, would auger extremely well for the company. There are many real life-saving analogies from patients treated with AngioJet and we are confident that this unique piece of technology will soon become standard. Especially Recommended.

2002-04 PROJECTED VALUATION

Sales: \$160 mill. **2** Shs outstanding: 13,500,000 (13% increase)
 Pretax Margin: 25% Projected growth rate: NMF (1998 to 2002-04)
 Earnings per share: \$1.60 Price-earnings multiple: 30.0
 Normal Average 3- to 5-Year Price: 48

ANALYSIS

Possis Medical reported fiscal fourth (July) quarter sales of \$4.8 million, an increase of 171% compared to the same period a year ago. This increase represents additional sales of AngioJet System drive units as well as catheters and pumps. Furthermore, this is the first full quarter including the recent FDA approval for coronary use as well as the continued growing physician acceptance. Full fiscal year sales increased 115%, compared to fiscal 1998. Sixty drive units were sold in the July quarter, bringing the total number installed in the United States to 300 (356 worldwide). The number of catheters sold for the fiscal fourth quarter increased 32% sequentially to 2,988, and increased 121% from the same period a year ago. Even more encouraging, however, is that the usage rate of catheters to drive units has increased to an average 11:1 in the fiscal fourth quarter. We believe that the usage rate of catheters to drive units will steadily increase in the periods ahead as the procedure becomes more commonplace and physicians begin to realize the life-saving capabilities of using AngioJet. The fiscal fourth quarter loss a share of \$.16 improved significantly over the loss of \$.28 a share in the same period a year ago. The share loss for the full fiscal year was \$.90, compared to a loss of \$.98 a share in fiscal 1998. **3**

The bottom-line improvement was mainly a result of a significant gross margin expansion. Fiscal fourth quarter gross margins jumped over 20 percentage points sequentially, to 56.4%. Gross margins for the full fiscal year were 39.9%, compared with only 5.3% in fiscal 1998. We believe that gross margins will continue to improve as product sales and related production volumes continue to grow.

We estimate sales for fiscal 2000 call of \$27.5 million and a loss of \$.40 a share. **C.H.B.**

Business: Possis Medical, Inc. has three medical devices in various stages of clinical trials, the FDA review process, and marketing: the **4** Rapid Thrombectomy System, the Perma-Flow Coronary Graft, and the Perma-Seal Dialysis Graft. These products are also currently in the initial stages of marketing internationally. President and C.E.O.: Robert G. Dutcher. Address: 9055 Evergreen Blvd. N.W., Minneapolis, MN 55433 (612-780-4555) (www.possis.com).

Especially Recommended

Recent Price: 11 1/4 **5**

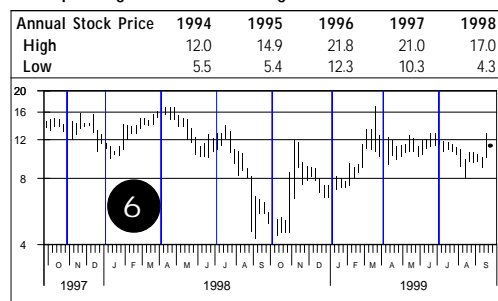
Estimated Dividend Yield: Nil

2002-04 Potential Value: 48 (+325%)

Originally Recommended at 17 1/2 on November 25, 1996

Performance Record: -35.7%

Corresponding Russell 2000 Change: +24.9%



CAPITAL STRUCTURE as of 4/30/99 **7**

Debt: \$0.1 mill. Pfd Stock: None

Shareholders' Equity: \$11.9 mill. (14,163,740 shares)

(1)	1996	1997	1998	1999	2000
Sales (\$mill)	1.61	4.83	6.12	13.1	27.5
Pretax Margin	—	—	—	Nil	Nil
Tax Rate	—	—	—	—	Nil
Earn'gs per sh	d.70	d.70	d.98	d.90	d.40
Shs Outst'g (mill)	12.1	12.1	12.2	14.2	14.3
Div'ds per sh	—	—	—	—	Nil
Book Value sh	2.29	1.63	.72	.80	.45
% Earn'd Tot Cap	—	—	—	—	Nil
% Earn'd Net W	—	—	—	—	Nil
W'rk'g Cap (\$mill)	24.8	16.8	16.6	8	
Current Ratio	15.7	7.5	5.8		
Avg Ann'l P/E	—	—	—		

Fisc. Yr. Ends	QUARTERLY SALES (\$mill.)				Full Fisc. Yr.
	Oct. 31	Jan. 31	Apr. 30	Jul. 31	
1997	.39	1.91	1.32	1.21	4.83
1998	1.37	1.21	1.78	1.76	6.12
1999	1.86	2.76	3.74	4.76	13.1
2000	5.50	6.50	7.30	8.20	27.5

Fisc. Yr. Ends	QUARTERLY EARNINGS (Per Share)				Full Fisc. Yr.
	Oct. 31	Jan. 31	Apr. 30	Jul. 31	
1997	d.20	d.08	d.19	d.23	d.70
1998	d.23	d.25	d.23	d.27	d.98
1999	d.26	d.25	d.23	d.16	d.90
2000	d.16	d.12	d.07	d.05	d.40

(1)-Fiscal year ends July 31st.

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-
1. Basis for recommendation. A discussion of factors influencing the decision to assign the stock its current recommendation—Especially Recommended, Buy/Hold, Hold, or Switch.
 2. The three- to five-year projected valuation. Value Line's projections of sales (or revenues), pretax profit margin, shares outstanding, earnings per share, and potential stock value three to five years into the future. The potential stock value is arrived at by applying to the earnings projection an appropriate, in Value Line's opinion, price-earnings multiple. The "Projected growth rate" reflects the estimated compounded annual rate of share earnings growth from the most recent year of reported full-year earnings to the midpoint of the three- to five-year period. The percentage increase in shares outstanding represents the increase in shares outstanding from the end of the most recent year of reported earnings to the projected shares outstanding figure.
 3. Analysis section. Analysis of the company's most recent operating results and discussion of Value Line's expectations for the near-term future.
 4. A brief description of the company's business, including its address, phone number, and, where available, website address. (Also a component of the New Recommendation.)
 5.
 - The current recommendation for the company—Especially Recommended, Buy/Hold, Hold, or Switch. The recommendations are defined on page 8 of this booklet.
 - The price of the stock as of the date on which the prices for the issue were gathered—usually the Monday preceding the issue date; the actual date for each issue is shown on page 2 of the Summary-Index.
 - Value Line's estimate of cash dividends to be paid over the next 12 months divided by the recent price. (In most cases the companies recommended by *The Value Line Special Situations Service* will choose to reinvest their earnings rather than to pay cash dividends.)
 - Potential stock value three to five years into the future, based on Value Line's projection of earnings for that period of time.
 - Date and price of the special situation's original recommendation.
 - Percent change in the price of the special situation from the time of its original recommendation to the day on which the prices for the issue were gathered, followed by the corresponding percent change in the Russell 2000 Index.
 6. Price chart showing the last two years of historical price data (where available) plotted on a logarithmic scale. Historical highs and lows are shown for the past five years, where applicable.
 7. The capital structure of the company as of the date indicated. (Also a component of the New Recommendation.)
 8. Annual statistical array. Five years (when available) of annual income statement and balance sheet statistics, consisting of a combination of reported and estimated results. (Also a component of the New Recommendation.)
 9. Quarterly statistical array. Four years of quarterly sales (or revenues) and earnings, consisting of a combination of reported and estimated results. When three quarters of reported results are available for a fiscal year, estimates are presented for the following fiscal year as well. (Also a component of the New Recommendation.)
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SUPERVISORY REVIEWS (Front Page)

THE VALUE LINE Special Situations Service

Pages S-299 to S-306

www.valueline.com

Supervisory Reviews

October 11, 1999

The Newswire

This week's issue includes a New Recommendation, **3** pages A-279 to A-282.

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Analyst: David J. Hogarty
Analyst: Charles H. Bees

VOLUME 49, NUMBER 19

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AVT Corp. announced the release of the RightFAX v7.0 product line.

Boca Research, Inc. announced the closing of National Semiconductor's purchase of 691,085 newly issued shares, or approximately 6% of the currently outstanding Boca Research common stock, at a purchase price of \$7.235 per share.

Caere Corp. announced a new OEM agreement with Tohken Co., Ltd. Under the new agreement, Tohken will integrate Caere's Imager OCRsl into the Tohken THIR-3000 2D Imager. The company also announced that it has integrated Imager OCRsl with the Metanetics IR-2000 imager.

Cyberonics, Inc. announced that the U.S. Food and Drug Administration granted approval for expansion of the pilot clinical study of vagus nerve stimulation in treatment-resistant depression.

Dave & Buster's, Inc. announced that its West European licensee, Galaxy Development AG, selected Herne, Germany as its first location on the continent of Europe.

Digene Corp. announced that a government report in the United Kingdom backed testing

NEW RANK CHANGES		
ITI Technologies, Inc.	ITII	Buy/Hold to Hold
The Kroll-O'Gara Co.	KROG	Esp. Rec. to Hold
Pre-Paid Legal Services	PPD	Esp. Rec. to Buy/Hold

for human papillomavirus as part of the National Cervical Screening Program.

DSET Corp. purchased Konark, Inc. and related technologies for approximately \$3.5 million. Separately, DSET and Aztek Engineering, Inc. announced an agreement under which the two companies will exclusively offer a comprehensive solution for implementing the GR-303 standard in access network equipment by integrating DSET's ezSwitchAccess and Aztek's AR-303 interface software. The company also announced that Trivergent Communications, Inc. will deploy selected DSET ezConnect gateways valued at approximately \$1 million to deliver a variety of communications services to Trivergent's growing customer base in a nine-state region.

Fair, Isaac and Co., Inc. and ReleaseNow.com, a provider of outsourced eCommerce solutions, partnered to develop the next generation of fraud protection for the Internet. Separately, the company announced that its two subsidiaries, Credit & Risk Management Associates and Dynamark, changed their names

Continued on back page

Previously Recommended Special Situations Reviewed in This Issue

Page	Name	Current Recommendation	Price	Page	Name	Current Recommendation	Price
S-300	Adv. Neuromodulation Sys.	Esp. Rec.	8 1/4	S-305	Photoelectron Corp.	Hold	4 1/16
S-301	HomeCom Communications	Esp. Rec.	3 1/2	S-302	Pre-Paid Legal Services, Inc.	Buy/Hold	38 5/8
S-305	ITI Technologies, Inc.	Hold	28 3/4	S-303	Progress Software Corp.	Buy/Hold	28 5/8
S-305	IVI Checkmate Corp.	Hold	3	S-305	Rogue Wave Software, Inc.	Hold	5 1/16
S-305	The Kroll-O'Gara Co.	Hold	17 3/16	S-304	Template Software, Inc.	Hold	4 1/8

Each supervisory review in this section is a quarterly follow-up to an original recommendation and is not necessarily sufficient by itself to form the basis for an investment decision. A subscriber interested in purchasing any of the securities currently rated "Buy/Hold" or "Especially Recommended," who does not have available Value Line's original four-page recommendation of the security, should feel free to request from us a copy of the original recommendation so that he or she will have more information on which to base a decision.

- Each week the 'Newswire' section brings you any news developments on each of the companies followed by the Special Situations Service, unless the company is one featured in that particular issue.
- Any change in our analysts' recommendations are listed here each issue, alerting you immediately to any change in your investment.
- At least once each month, our analysts present a New Recommendation, and this box will signal that the current issue contains such a recommendation.

- All stocks covered included in the current issue (other than in the Newswire) are listed here, with the page number, current recommendation, and recent price.

Back Page (not shown) If any company currently under review has reported quarterly earnings since our last issue, you will find the results in a convenient table on the back page of the Supervisory Reviews. The table lists sales (or revenues) and earnings, with comparisons to the year-ago quarter, along with the percentage changes.

GLOSSARY

Average Annual Price-Earnings (P/E) Ratio (or Multiple)—the average price of the stock for the year divided by earnings per share reported by the company for the year. In the case of fiscal-year companies, all data are for the fiscal year.

Book Value Per Share—net worth (including intangible assets), less preferred stock at liquidating or redemption value, divided by common shares outstanding.

Bottom Line—a reference to net income or net loss, which is usually shown on the bottom line of an income statement.

Capital Structure—a statement of the components of long-term capital (i.e., long-term debt and preferred equity) plus the number of common shares currently outstanding.

Current Assets—assets that may reasonably be expected to be converted into cash, sold, or consumed during the normal operating cycle of a business, usually 12 months or less. Current assets usually include cash, receivables, and inventories.

Current Liabilities—financial obligations that have to be satisfied within the next 12 months. Current liabilities include accounts payable, taxes, wage accruals, and total short-term debt.

Current Ratio—the sum of current assets divided by the sum of current liabilities.

Debt—In the Capital Structure of the New Recommendation and Supervisory Review reports, refers only to long-term debt. See Long-Term Debt.

Dow Jones Industrial Average—a price-weighted average of 30 of the largest U.S. industrial companies, published by Dow Jones & Co.

Earnings Per Share—earnings attributable to each common share as originally reported by the company but adjusted for all subsequent stock splits and stock dividends; may be based on average shares outstanding during the year (basic earnings per share) or on

average shares outstanding plus all shares reserved for conversion of convertible senior securities, and exercise of all warrants and options (fully diluted earnings per share). Unless otherwise indicated, the earnings per share shown in *The Value Line Special Situations Service* are fully diluted. See Share Earnings.

Long-Term Debt—the portion of borrowings (including bank notes, debentures, and capitalized leases) that will be due not in the current 12 months, but in future operating years.

Net Worth—all the assets shown on the balance sheet, including any intangible assets (i.e., goodwill, debt discount, deferred charges) less current liabilities, long-term debt, and all other noncurrent liabilities. In other words, the sum of common plus preferred stockholders' equity.

P/E Ratio (Multiple)—the price of the stock divided by earnings for a 12-month period. In the Summary-Index, computed by dividing the stock's recent price by an earnings figure composed of the last two quarters of reported earnings and Value Line's estimate of earnings for the next two quarters. In the three- to five-year Projected Valuation, Value Line's assessment of a reasonable price-earnings multiple to be applied to projected three- to five-year earnings to arrive at a three- to five-year potential value for the stock. See Average Annual Price-Earnings (P/E) Ratio.

Percent Earned Net Worth—net profit divided by net worth, expressed as a percentage. See Percent Earned Total Capital.

Percent Earned Total Capital—net profit plus one half the interest charges on long-term debt divided by total capital (i.e., long-term debt plus net worth), expressed as a percentage. Measures the earning power of the company assuming all capital is equity. Should be compared to Percent Earned Net Worth to determine the impact of leverage (i.e., use of borrowed capital) to enhance the return to stockholders.

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.

Pretax Margin—profits before federal, state, and foreign income taxes as a percentage of sales or revenues.

Price-Earnings (P/E) Multiple (Ratio)—see P/E Ratio and Average Annual Price-Earnings (P/E) Ratio.

Russell 2000 Index—a price-weighted average of 2000 small capitalization companies, published by the Frank Russell Companies.

Sales—gross volume less returns, discounts, and allowances; net sales.

Share Earnings—earnings per share. See Earnings Per Share.

Shares Outstanding—the number of shares of common stock actually outstanding at the end of a company's accounting year. This total excludes any shares held in the company's treasury. The figures for common shares outstanding in previous years are fully adjusted for all subsequent stock splits and stock dividends.

Stock Dividend—the issuance of additional common shares to common stockholders, with no change in total common equity. From an accounting standpoint, retained earnings (i.e., the earned surplus) are reduced and the value of the reported common

stock component of common equity (usually called the "par value" account) is increased. (The reduced level of retained earnings is important since bond indentures limit dividend payouts by stipulating minimum levels of retained earnings.) See Stock Split.

Stock Split—an increase in the number of common shares outstanding by a fixed ratio, say 2-to-1 or 3-to-1, with proportionate allocation of underlying common equity (i.e., the sum of common stock, capital surplus, and retained earnings) and earnings to the increased number of shares outstanding. Total common equity remains the same. From an accounting standpoint, the mix of retained earnings, capital surplus, and common stock remains unchanged. See Stock Dividend.

Tax Rate—federal, foreign, and state income taxes (including deferred taxes) reported to stockholders, divided by pretax income reported to stockholders. This is not the true tax rate shown in IRS tax filings; it is the "book tax rate" and measures earnings quality. As a rule of thumb, the lower the figure, the poorer the reported earnings quality.

Top Line—a reference to sales or revenues, which are usually shown on the top line of an income statement.

Total Capital—the sum of long-term debt, preferred stock at liquidation or redemption value, and common equity including intangibles.

Working Capital—current assets less current liabilities. See also Current Assets and Current Liabilities.

Writedown—a company's recognition of a reduction in value of an asset. The decline in value is charged against income in the period that the writedown is taken.



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