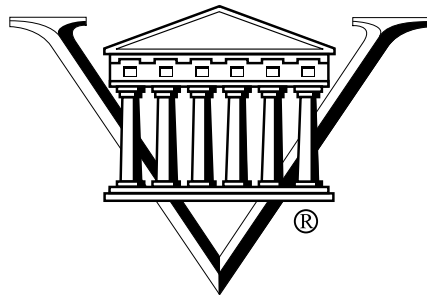


# HOW TO INVEST IN COMMON STOCKS



*The Guide to Using*  
**THE VALUE LINE  
INVESTMENT SURVEY<sup>®</sup>**  
—Small and Mid-Cap Edition

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# THE VALUE LINE INVESTMENT SURVEY —SMALL AND MID-CAP EDITION

## ITS PURPOSE

In response to requests from subscribers, Value Line has more than doubled the universe of 1700 companies it follows in *The Value Line Investment Survey* by introducing *The Value Line Investment Survey—Small and Mid-Cap Edition*, which covers 1800 additional stocks. The *Small and Mid-Cap Edition* provides more avenues in your quest for superior returns on capital. It is backed by a disciplined, objective, quantitative approach similar to the analytical methodologies that have proven themselves for decades in *The Value Line Investment Survey*. There are, however, a few differences. There are no estimates of earnings and dividends. And a more detailed description of the companies replaces the analysts' commentaries. These differences between the coverage of the 1700 companies in *The Value Line Investment Survey* and the 1800 additional companies in the *Small and Mid-Cap Edition* constitute a tradeoff that enables us to provide coverage of many more companies at little incremental cost to you, our subscribers. We are proud to continue to assist you in making your investment decisions.

## THE SMALL AND MID-CAP EDITION'S MANY FEATURES

*The Value Line Investment Survey—Small and Mid-Cap Edition* has a number of features that distinguish it from other investment advisory services.

**First—Broader Coverage**—Reports cover approximately 1800 stocks. Many small- and medium-cap equities are included in the *Small and Mid-Cap Edition*. These reports are organized by industry, corresponding to most of the industry groups in *The Value Line Investment Survey*.

**Second—Performance,<sup>TM</sup> Technical and Safety<sup>TM</sup> Ranks for all 1800 Stocks**—The Performance<sup>TM</sup> Rank incorporates most of the elements of the Value Line Timeliness<sup>TM</sup> Rank and is designed to forecast relative

performance during the next six to 12 months. The Technical Rank, which is also used in *The Value Line Investment Survey*, projects stock price performance relative to the overall market during the next three to six months. It is also a component of the Performance<sup>TM</sup> Rank—albeit a minor factor. The Safety<sup>TM</sup> Rank measures the total risk of a stock using the Price Stability index for that stock and the company's Financial Strength rating.

**Third—Consensus Earnings Estimates**—Consensus mean quarterly earnings estimates (going out three quarters), mean annual earnings estimates for the next two years, and consensus 5-year earnings growth estimates are provided for many companies, *as available*. These consensus estimates are based on a diverse group of Wall Street sources and are not made by Value Line analysts.

**Fourth—An Expanded Business Section**—This commentary explains what the company is all about. It focuses on the company's business lines and strategy.

**Fifth—A New Assets and Liabilities Section**—A complete balance sheet replaces the Current Position and Capital Structure information in the *Value Line Investment Survey* of 1700 stocks in order to give you a more comprehensive numerical picture.

**Sixth—New Total Return Section**—Provides the stock's total return—dividends plus appreciation—over the past three months through the last five years.

**Seventh—Important Investment Screens**—The *Summary & Index* shows weekly alphabetical listings of all 1800 stocks with important statistical information about each at a glance. It also provides five weekly screens of stocks grouped according to various criteria, such as stocks ranked 1 for Performance,<sup>TM</sup> another table with rank 2 stocks, stocks to avoid (ranked 5), the best performing stocks during the last 13 weeks and the worst performing stocks during the last 13 weeks.

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**Eighth—Continual, Current Follow-up**—Important company developments appear in *Supplementary Reports in Ratings & Reports*. Rank changes are listed in each week's *Summary & Index*.

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

The *Value Line Performance™ Rank* incorporates most of the elements of the Value Line Timeliness™ Ranking System. The basic components of the Ranking System are earnings and prices, i.e., objective data. A computer program combines these elements into a forecast of price behavior of each stock for the next six to 12 months relative to the universe of 1800 stocks in the *Small and Mid-Cap Edition*. The results are ranked as follows:

**Rank 1 (Highest):** Expect this stock to be one of the best relative price performers during the next six to 12 months (100 stocks).

**Rank 2 (Above Average):** Expect better-than-average price performance (300 stocks).

**Rank 3 (Average):** Expect price performance in line with the market (1,000 stocks).

**Rank 4 (Below Average):** Expect below-average price performance (300 stocks).

**Rank 5 (Lowest):** Expect the poorest relative price performance (100 stocks).

\* Rank suspended.

- Rank omitted due to short history.

Changes in the Performance™ ranks can be caused by:

1. New earnings reports.
2. Changes in the price movement of the stock relative to the market.
3. Shifts in the relative positions of the 1800 stocks.

The *Value Line Safety™ Rank* measures the total risk of a stock. It is derived from a combination of the stock's Index of Price Stability and from the Company's Financial Strength rating. Safety™ ranks are also given on a scale from 1 (safest) to 5 (riskiest) as follows:

**Rank 1 (Highest):** This stock is probably one of the least risky stock market investments.

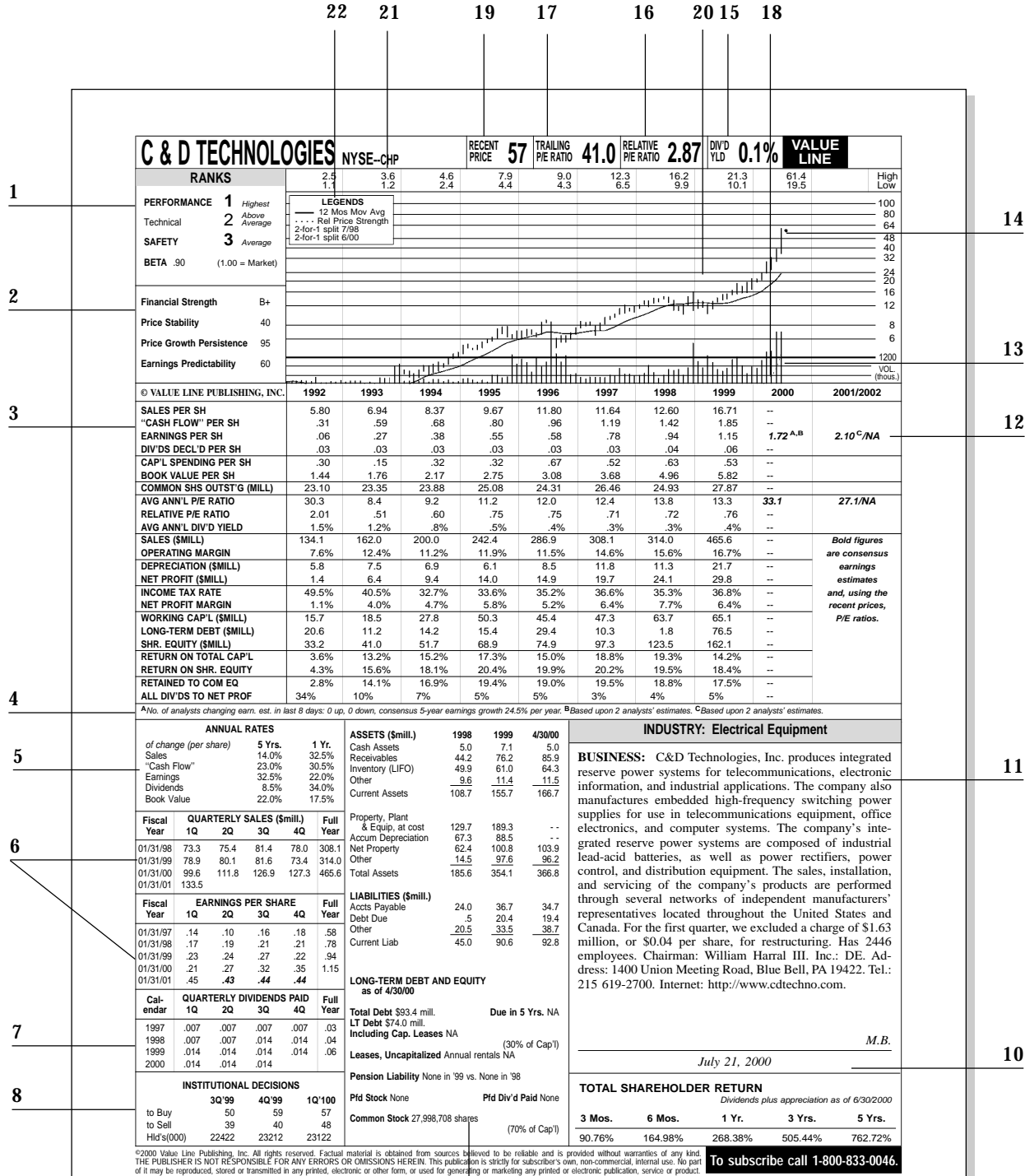
**Rank 2 (Above Average):** This stock is less risky than most.

**Rank 3 (Average):** This stock is of average risk.

**Rank 4 (Below Average):** This stock is riskier than most.

**Rank 5 (Lowest):** This stock is probably one of the riskiest.

# GETTING THE MOST FROM THE SMALL AND MID-CAP EDITION PAGE



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1. Here is the core of Value Line's advice: the rank for Performance,<sup>TM</sup> the technical rank; the rank for Safety;<sup>TM</sup> Beta—the stock's sensitivity to fluctuations of the market as a whole.
  2. Value Line's Indexes of Financial Strength, Price Stability, Price Growth Persistence, and Earnings Predictability.
  3. Statistical milestones that reveal significant long-term trends. The statistics are presented in two ways: 1) the upper series records results on a per-share basis; 2) the lower records results on a company basis.
  4. **Footnote A-** This footnote will identify the number of analysts who have increased or decreased their earnings estimates for the company in the last 30 days. This footnote will also identify the consensus 5-year earnings growth estimate, which is expressed on an average annual percentage basis.  
**Footnote B-** This footnote identifies how many analysts contributed to this year's (2000) annual earnings estimate, which is printed in the annual column labeled 2000. If no analyst contributed a 2000 annual estimate, this footnote is eliminated and N/A is printed in the annual column.  
**Footnote C-** This footnote identifies how many analysts contributed to the following year's (2001) annual earnings estimate, which is printed on the left side of the annual column labeled 2001/2002. If no analyst contributed to a 2001 annual estimate, this footnote is eliminated and N/A is printed in the annual column.
  5. Annual rates of change (on a per-share basis) based on past actuals.
  6. Quarterly earnings are shown on a per-share basis, quarterly sales on a gross basis. *In most cases, non-recurring or extraordinary gains or losses have been omitted.* Also included are consensus mean quarterly earnings (going out three quarters), *as available.*
  7. Quarterly dividends paid are actual payments. The total of dividends paid in four quarters may not equal the figure shown in the annual series on dividends declared. (Sometimes a dividend declared at the end of the year will be paid in the first quarter of the following year.)
  8. A record of the decisions taken by the biggest institutions (over \$28 billion in equity holdings), including banks, insurance companies, mutual funds, investment advisers, internally managed endowments, and pension funds—to buy or sell during the past three quarters and the total number of shares they hold.
  9. Financial position—current and long-term assets and liabilities.
  10. The date of delivery to *Small and Mid-Cap Edition* subscribers.
  11. A summary of the business, and the company's address, telephone number, and web address.
  12. Consensus mean annual earnings estimates for the next two years, *as available.* All annual earnings estimates represent earnings from continuing operations before extraordinary, non-recurring, and special items and are consistent with current reported results. Annual earnings estimates will be accompanied by several footnotes to provide more information. (See item 4 for details).
  13. The number of shares traded monthly.
  14. 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 move the same distance on a ratio grid.
  15. Dividend yield—current annualized cash dividends divided by the recent price.
  16. Relative P/E ratio—the stock's current trailing P/E divided by the median P/E for all 3500 stocks under review.
  17. Trailing P/E ratio—the most recent price divided by the past 12 months earnings.
  18. Relative price strength describes the stock's price performance relative to the Value Line Arithmetic Average of 1700 stocks.
  19. Recent price—nine days prior to date appearing on each report.
  20. Twelve month moving average—shows average stock price over the entire prior twelve months.
  21. The stock's highest and lowest prices of the year.
  22. Legend/stock split table.
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# HOW TO USE THE INFORMATION IN THE VALUE LINE INVESTMENT SURVEY—SMALL AND MID-CAP EDITION

*The Value Line Investment Survey—Small and Mid-Cap Edition* shares the traditional goal of *The Value Line Investment Survey*: to provide you with as much relevant information as necessary, in an easy-to-read format, on a timely basis. The information coming to you is divided into two sections: *Ratings & Reports* and *Summary & Index*.

## RATINGS & REPORTS

The *Small and Mid-Cap Edition* page provides you with all the relevant statistical and analytical information for one company on a single-page report. Each reader may have different investment objectives from maximum income to maximum growth, as well as different risk tolerance from maximum safety to high risk. However, all readers can utilize the same *Value Line Investment Survey—Small and Mid-Cap Edition* page to make informed investment decisions based upon their specific needs and objectives.

## WORKING WITH THE SMALL AND MID-CAP EDITION PAGE

Experience, diligence, and acumen will help a reader to interpret the information on the *Small and Mid-Cap Edition* page. If you start with the list of stocks that are highly ranked for Performance,<sup>TM</sup> you are off to a good start.

Let's look at an actual *Small and Mid-Cap Edition* page, with the objective of weighing the data presented against your actual needs. We have chosen a report on C&D Technologies Inc. for examination.

We selected this particular stock for several reasons. First, its Performance<sup>TM</sup> Rank is 1 (Highest) at the time of this writing, which makes C&D Technologies' stock a very suitable holding for relative price performance over the next six to 12 months. The Safety<sup>TM</sup> rank is 3 (Average), indicating that the stock is an appropriate selection for the majority of accounts. But is it right for you, relative to other highly ranked stocks? Let's look at the statistical information in the middle of the page, item by item, to help us find out.

## PER-SHARE BASIS

*Sales per share* is an important number. When earnings per share are depressed due to poor margins, a high level of sales per share can provide the potential for an earnings recovery. When sales per share decline along with earnings per share, it may indicate a more serious business problem.

C&D Technologies' sales per share have been growing since 1992, increasing almost threefold through 1999.

*"Cash flow" per share*, as commonly used by analysts, is the sum of reported earnings plus depreciation less preferred dividends, calculated on a per-share basis. It is an indication of a company's internal cash-generating ability—the amount of cash it earns to expand or replace plant and equipment, to provide working capital and to pay dividends.

C&D Technologies' "cash flow" per share has expanded almost sixfold since 1992. For all of the period, the company's "cash flow" was in excess of the sum of its capital spending per share. This excess "cash flow" has helped finance C&D's acquisitions.

*Earnings per share* are displayed by Value Line as they were reported to stockholders, *excluding nonrecurring items* and adjusted for any subsequent stock splits or stock dividends.

For C&D Technologies, earnings per share have expanded more than nineteenfold since 1992. Earnings per share are based on average shares outstanding, or average fully diluted shares if there are convertibles or other potentially dilutive instruments outstanding. C&D did have a nonrecurring charge related to a restructuring of 4¢ per share, which was excluded from this year's first-quarter earnings per share.

*Dividends declared per share* are usually highest, relative to earnings, at mature companies. Managements of growth-oriented companies more often than not prefer to pay just token dividends, or none at all, so they can reinvest earnings in the business.



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As you can see, C&D Technologies' decision to pay a small dividend allows management to maximize the reinvestment of available funds in the business.

*Capital spending per share* is a measure of how much a company is investing in new plant and equipment in anticipation of future growth. Over the long pull, steady capital investment is necessary to support sales growth.

Note that in C&D Technologies case, capital spending per share has increased almost twofold since 1992 and has paid off in the form of significant sales and profit growth.

*Book value per share* is theoretically what the investor owns of the company. It includes both tangible assets such as plant and receivables and inventories as well as intangibles, like the value of patents or brand names, known as goodwill. If all assets could be sold at the value stated on the company's books and all liabilities and long-term debt paid and all (if any) preferred stockholders compensated, the book value is what would be left for the stockholders.

C&D Technologies' book value per share has grown more than fourfold since 1992, providing shareholders with a very significant increase in value.

The number of *common shares outstanding* is also listed in the statistical array. Sometimes net income rises, but per-share profits do not, because the number of shares has increased. The reasons for this increase may be the issuance of stock to pay for acquisitions or to fund internal growth. Some cash-rich companies may buy back their own shares. This can result in their per-share earnings rising even when net income remains the same.

C&D Technologies' shares outstanding have only increased about twenty percent over the years. As a result, earnings per share have grown dramatically.

The *average annual P/E ratio* shows what multiple of earnings investors have paid for a stock in the past.

C&D Technologies' average annual P/E has remained almost constant through 1999, and has gone up well beyond historic norms in 2000, reflecting the higher multiple of earnings investors have recently been willing to pay for this stock.

The *relative P/E ratio* shows how the stock's price-earnings ratio relates to the market as a whole.

C&D Technologies' relative P/E has recently moved well above that of the market, after many years of being below the average P/E.

The *average annual dividend yield* is of special interest to conservative investors. For many mature companies, the dividend is the primary determinant of the stock price. However, younger growth companies cannot—and presumably *should* not—pay dividends when their capital spending is rapidly growing. Many of the newer companies in the *Small and Mid-Cap Edition* will not pay a cash dividend for the foreseeable future.

C&D Technologies pays a very small dividend. These payouts are very small relative to net profit, about five percent, and should not impact the company as it continues to move forward with expansion plans.

## COMPANY BASIS

*Depreciation* is the amount by which the company's depreciable assets are written down each year. Depreciation for C&D Technologies has grown at a rate about equal to the rate of growth of sales, indicating that the company has steadily built up capacity to match its business needs. Please note that depreciation is a noncash charge against earnings.

*Net profits* is the amount the company earned in the year for all its stockholders, preferred and common (excluding nonrecurring gains and losses and the results of discontinued operations). Usually the higher the net, the higher the per-share earnings. Sometimes a company that makes acquisitions will dilute its share earnings by issuing stock for a company whose P/E is higher than that of the acquiring company's stock. In such a case, net income increases, but share earnings do not.

Since C&D Technologies' shares outstanding have remained fairly constant over time, its share earnings have grown at an above-average rate. This is one reason why this equity is referred to as a growth stock.

C&D Technologies' *income tax rate* has fluctuated between 34% and 37% during the last five years, indicating varying levels of investment tax credits and a lower tax rate because of tax reform.

*Net profit margin* should be compared with the operating margin. Usually the two series move together, though not always. Depreciation charges, interest expense, income taxes and other costs are deducted from (and other income added to) operating income in the

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determination of net profit. When there is a disparity in the trends of the net and operating margins, it may be worth taking a second look.

C&D Technologies' net profit margin and operating margin have both trended higher since 1992.

**Working capital** (the company's current assets less current liabilities) indicates the liquid assets available for running the business on a day-to-day basis. The higher a company's sales, the more working capital it typically needs.

C&D Technologies' working capital has grown more than fourfold since 1992 and appears to have met the company's expansion needs during that time.

**Shareholders' equity**, also known as net worth, is the total stockholders' interest (preferred and common) in the company after all liabilities have been deducted from the company's total assets. All intangible assets such as goodwill, patents and, sometimes, deferred charges are included in net worth.

C&D Technologies' shareholders' equity has grown appreciably over the years, and the majority of it is composed of retained earnings.

**Return on total capital** measures a company's return on its stockholders' equity and long-term debt obligations. When a company's return on total capital

goes up, there should be a greater increase in the return on shareholders' equity. If not, it simply means that the company is borrowing more but is failing to earn more for the stockholders on their equity in the company's assets. Unless a company can earn more than the interest cost of its debt, the borrowing to expand is not worthwhile. C&D Technologies has usually earned more on its net worth than on its total capital, which shows profitable use of debt.

**Percent earned on shareholders' equity** reveals how much is being earned every year for the stockholders (common and preferred). The higher the figure, the better. C&D Technologies' percent earned on shareholders' equity has varied from year to year, although it remained in a small range for the last six years.

**Percent retained to common equity**, also known as the "plowback ratio," is net income less all dividends (common and preferred), divided by common stockholders' equity (net worth less the liquidating value of the preferred stock outstanding) and is expressed as a percentage. It is a measure of the extent to which a company is reinvesting in itself in anticipation of future growth. A growing company is expected to retain a greater proportion of income relative to its equity than a mature one. A high plowback ratio and rapidly growing book value are considered positive investment characteristics. C&D Technologies has both of these attributes.

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# GLOSSARY

**Aaa Corporate Bond Rate**—the average yield on corporate bonds rated Aaa by Moody's Investors Service. Bonds that are rated Aaa are judged to be of the best quality compared to all other corporate bonds.

**After-Tax Corporate Profits**—*see Corporate Profits*.

**AFUDC**—*see Allowance for Funds Used During Construction*.

**Allowance for Funds Used During Construction** (Electric Utility Industries)—a non cash credit to income consisting of equity and debt components. This non cash income results from construction work in progress and is expected to be converted into cash income at a future date.

**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 Depository 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).

**American Stock Exchange Composite**—a market-capitalization weighted index of the prices of the stocks traded on the American Stock Exchange.

**Amortization**—an accounting method that reduces the value of an asset on a regular basis over time.

**Annual Change D-J Industrials (Investment Companies)**—the yearly change from year end to year end in the Dow Jones Industrial Average, expressed as a percentage.

**Annual Change in Net Asset Value (Investment Companies)**—the change in percentage terms of the net asset value per share at the end of any given year from what it was at the end of the preceding year, adjusted for any capital gains distributions made during the year.

**Annual Rates of Change (Per Share)**—compound yearly rates of change of per-share sales, cash flow, earnings, dividends, and book value, or other industry-specific, per-share figures, over the past 10 years and five years and estimated for the coming three to five years. Historical rates of change are computed from the average figures for a past three-year period to the most recent actual three-year period. Forecasted rates of change are computed from the average figure for the most recent three-year period to an average for a future three-year period. If data for a three-year period are not available, a two- or one-year base may be used.

**Annual Total Return**—a compound yearly return to shareholders that includes both stock price appreciation and dividend returns.

**Annuity**—a form of contract sold by life insurance companies that guarantees a fixed or variable payment at some future time.

**Arithmetic Average**—a simple mean. Items to be averaged are added and their sum is divided by the number of items. The result is an arithmetic, or simple, average (or mean).

**Asset Quality** (Bank and Thrift Industries)—an indicator of problem loans and other assets relative to total assets. A bank with good asset quality, for example, has a lower percentage of problem loans than the average bank.

**Asset Value Per Share Year End** (Investment Companies)—total common equity at year end, with securities valued at market rather than cost, divided by the number of shares outstanding at year end.

**Assets**—for a corporation, the total of current assets (normally cash and short-term investments, inventories, and receivables) and long-term assets (normally including property and equipment and good will).

**Assets Year End** (Investment Companies)—total investment company assets at market value, including stocks, bonds, government securities, and cash, at year end.

**Available Seat Miles (ASM)** (Air Transport Industry)—a measure of the airline seating capacity available for

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sale. Each ASM is one seat flown one mile.

**Average Annual Dividend Yield**—dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage.

**Average Annual P/E ratio**— is calculated by dividing the average price for a year with the actual reported earnings for that year and is shown in the Statistical Array.

**Average Annual Price Earnings (P/E) Ratio**—the average price of the stock for the year divided by earnings per share (excluding nonrecurring items, as determined by Value Line) reported by the company for the year. In the case of fiscal-year companies, all data are for the fiscal year. (*See also Price/Earnings ratio.*)

**Average Interest Rate Paid** (Financial Services Industries)—the interest paid during the year divided by the average debt outstanding.

**Average Price for the Year**—the sum of the 52 Wednesday closing prices for a stock for the year divided by 52.

**Backlog**—orders for goods and services that have been received but not yet delivered or rendered.

**Balance Sheet**—financial statement that lists the assets, debts, and owner's investment as of a specific date.

**Basic Earnings Per Share**—net income divided by the weighted average number of common shares outstanding during a period. (This calculation is required by the Financial Accounting Standards Board for all years ending after December 15, 1997.)

**Basis Point**—in the context of discussions on interest rates, one basis point equals one-hundredth of one percentage point.

**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 smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

**Bond**—a long-term debt instrument, characterized typically by fixed, semiannual interest payments and a specified maturity date.

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

**Capacity at Peak** (Electric Utility Industry)—a utility's generating capability plus purchases from other utilities less sales to other utilities.

**Capacity Utilization**—the ratio of actual production levels to maximum possible production levels, expressed as a percentage. The Federal Reserve Board publishes capacity utilization figures monthly for both the overall economy and individual industries.

**Capital Funds** (REIT Industry)—stockholders' equity (net worth) plus subordinated debt.

**Capital Gains Per Share After Tax** (Real Estate Industry)—profits derived net of income taxes on the sale of property (either land or buildings) during the year, expressed in terms of the number of common shares outstanding at yearend.

**Capital Spending Per Share**—the outlays for plant and equipment for the year expressed on a per-share basis. Excludes funds spent for acquisitions.

**Capital Structure**—a balance sheet item defined by Value Line as the total of a company's long-term debt, preferred stock at liquidation or redemption value, and its shareholders' equity.

**Capitalization** — see **Market Capitalization**.

**Cash Assets**—the sum of cash on hand plus short-term securities, such as Treasury bills, that can readily be converted into cash.

**"Cash Flow"**—the total of net income plus non-cash

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charges (depreciation, amortization, and depletion) minus preferred dividends (if any). See Free Cash Flow.

**"Cash Flow" Line**—also known as the “Value Line.” See page 17 for more information.

**"Cash Flow" Per Share**—net profit plus non cash charges (depreciation, depletion, and amortization), less preferred dividends (if any), divided by common shares outstanding at year end.

**CD**—abbreviation for Certificate of Deposit. See also Time Deposits.

**Certificate of Deposit**—see *Time Deposits*

**Closed-End Investment Company (or Fund)**—a company or fund that has a relatively fixed number of shares (hence the term “closed-end”) that are bought or sold through broker/dealers on the stock exchange. In contrast, an open-end (or mutual) fund stands ready (continually) to redeem shares for cash or issue new shares for cash and, hence, deals directly with its investors.

**Combined Ratio** (Insurance [Property/Casualty] Industry)—the percentage of losses to premiums earned plus the percentage of expenses to premiums written. The break-even point is 100%; in other words, a combined ratio of less than 100% represents an underwriting profit and a combined ratio of more than 100% represents an underwriting loss.

**Common Equity Ratio**—shareholder’s equity divided by total capital (i.e., long-term debt, preferred equity, and common equity).

**Common 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.

**Common Stock to Surplus** (Insurance Industries)—the market value of the common stock held in the insurance company’s investment portfolio divided by statutory net worth.

**Compound Growth**—the annual rate of growth of an investment when dividends or interest are reinvested.

**Consumer Price Index**—a Labor Department index, published monthly, designed to reflect changes in the cost of living. Housing, food, beverage, and transportation costs account for about 80% of the value of the index, which is a measure of inflation at the consumer level.

**Conversion Price**—the effective price paid for common stock when the stock is obtained by converting either convertible preferred stock or convertible bonds or debentures. For example, if a \$1,000 bond is convertible into 20 shares of stock, the conversion price is \$50, that is, \$1,000 divided by 20.

**Convertible Debentures**—long-term debt instruments, not secured with collateral, that may be converted into a specified number of shares of common stock.

**Convertible Preferred Stock**—preferred stock that may be converted into a specified number of shares of common stock.

**Corporate Profits**—the aggregate of all profits for U.S. corporations reported by the Commerce Department as part of the domestic income and product (GDP) accounts. Reported both on a pretax and aftertax basis. They are somewhat different from profits reported to shareholders and profits reported for tax purposes.

**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 will have to be satisfied within the next 12 months. Current liabilities include accounts payable, taxes, wage accruals, and total short-term debt, or Debt Due (the sum of notes payable and the portion of long-term debt maturing in the operating year).

**Current Position**—the components of a company’s working capital are presented in this table in Value Line reports on industrial companies. The difference between current assets and current liabilities is known as Working Capital.

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

**Cyclical Stock**—stocks of companies whose earnings tend to fluctuate with the economy (the opposite of a growth stock, which is defined below).

**d**—a deficit, or a loss.

**Debenture**—a long-term debt instrument that is usually not secured by collateral.

**Debt**—see Total Debt, Long-Term Debt, Debt Due, and Total Debt Due in 5 Years.

**Debt Due**—the sum of bank notes and other notes payable in 12 months (or less) and that portion of long-term debt due within 12 months. See also Total Debt Due in 5 Years.

**Demand Deposits** (Bank Industries)—deposits that a depositor may withdraw from his account at any time.

**Depletion**—an accounting method that allows companies extracting oil, gas, coal, or other minerals to gradually reduce the value of these natural resources.

**Deposits** (Bank Industries)—total savings (time and demand deposits) entrusted to a bank.

**Deposits** (Thrift Industry)—funds that have been entrusted to a thrift.

**Depreciation**—an amount charged against operating profits to reflect the aging of plant and equipment owned by a company.

**Diluted Earnings Per Share**—net income (with certain possible adjustments) divided by the weighted average number of shares outstanding during a period, assuming any securities or other contracts to issue common stock (including options and warrants) were exercised or converted into common stock. (This calculation is required by the Financial Accounting Standards Board for all years ending after December 15, 1997.)

**Dilution**—the reduction in earnings associated with the hypothetical conversion of convertible securities into common stock. Also, in the context of a discussion of a merger or acquisition, the reduction in share earnings

estimated to occur as a result of the merger or acquisition.

**Discount From or Premium Over Net Asset Value** (Investment Companies)—the difference between the net asset value and market price, expressed as a percentage of net asset value. If the price exceeds the net asset value, the percentage of the excess or premium is shown with a plus sign.

**Disposable Income**—a Commerce Department figure published monthly that reflects personal income less income taxes and other taxes. Conceptually, the statistic is designed to reflect funds available for consumers to spend or save.

**Dividend**—a payout to shareholders determined by a Board of Directors.

**Dividend Yield**—the year-ahead estimated dividend yield (shown in the top right-hand corner of the Value Line page) is the estimated total of cash dividends to be declared over the next 12 months, divided by the recent price of the stock.

**Dividends Declared Per Share**—the common dividends per share declared (but not necessarily paid) during the company's operating, fiscal year (displayed within the Statistical Array of the Value Line page). See also Dividends Paid Per Share.

**Dividends Paid Per Share**—the common dividends per share paid (but not necessarily declared) during the calendar year (indicated in the quarterly dividend box in the bottom left corner of the Value Line page). See also Dividends Declared Per Share.

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

**Dow Jones Transportation Average**—a price-weighted average of 20 of the largest U.S. transportation companies, published by Dow Jones & Co.

**Dow Jones Utility Average**—a price-weighted average of 15 of the largest U.S. utility companies, published by Dow Jones & Co.

**Downstream** (Petroleum [Integrated] Industry)—the re-

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fining and marketing operations of an integrated oil company, as opposed to exploration and production activities (which are referred to as upstream operations).

**Durable Goods**—products used by consumers or businesses that are expected to last three or more years. These goods tend to be big-ticket items (for example, automobiles and washing machines). Durable goods sales are generally interest rate sensitive and correlate with the overall level of economic activity.

**Earned Surplus**—see *Retained Earnings*

**Earnings**—see also Net Profit. A company's total profit before nonrecurring gains or losses, but after all other expenses.

**Earnings Per Share**—net profits 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 weighted average shares outstanding (Basic EPS) or weighted average shares including all shares reserved for conversion of convertible securities (Diluted EPS). Annual and quarterly earnings per share figures on the Value Line Expanded page exclude nonrecurring or one-time gains and losses.

**Earnings Per Share (Bank Industries)**—net profit after taxes, expressed on a per-share basis as reported by the company. Includes investment securities gains and losses after 1982.

**Earnings Per Share Sensitivity to Change in Loss Ratio (Insurance [Property/Casualty] Industry)**—the degree to which earnings per share will be affected by a one percentage point change in the insurance company's loss ratio.

**Earnings Predictability**—a measure of the reliability of an earnings forecast. 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.

**Earnings Surprise**—company earnings reports that are significantly better or worse than were expected.

**Equally Weighted Average**—a stock price index that gives equal weight to each stock regardless of its price or market capitalization. The Value Line indexes are equally weighted averages.

**Equity**—ownership interest held by shareholders in a corporation (essentially the same as stock).

**Equity Offering**—the selling of stock by a corporation.

**Ex-Dividend Date**—the date by which an investor must have purchased a stock in order to receive announced dividends or stock distributions.

**Expense Ratio (Insurance [Property/Casualty] Industry)**—see Percent Expense to Premiums Written.

**Expense Ratio (REIT Industry)**—expenses other than interest, expressed as a percentage of the average assets.

**Expenses/Assets (Investment Companies)**—operating expenses expressed as a percentage of the investment company's total assets at yearend.

**Exports**—the sale of goods and services from one country to another. U.S. exports of goods and services are reported by the Commerce Department in its Gross Domestic Product (GDP) reports.

**Federal Funds**—a market among commercial banks in which banks that need a short-term loan in order to meet regulatory reserve requirements are able to borrow from banks with excess funds. The Federal Funds rate is the interest rate charged on such loans.

**Federal Reserve Board**—the governing body of the Federal Reserve System, which regulates certain banks and is charged with setting national monetary policy.

**FHLB Advances (Thrift Industry)**—funds borrowed from the regional Federal Home Loan Bank.

**Financial Strength Rating**—a relative measure of financial strength of the companies reviewed by Value Line. The relative ratings range from A++ (strongest) down to C (weakest), in nine steps.

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- Financial Times-Stock Exchange 100 (FT-SE 100)**—a stock price index made up of 100 of the largest stocks traded on the London Stock Exchange. The index is published by The Financial Times, a London-based financial newspaper.
- Finding Cost** (Natural Gas [Diversified] and Petroleum Industries)—the amount of money spent per barrel to increase proved reserves through acquisitions, discovery, or enhanced recovery.
- Fixed-charge Coverage** (Electric Utility Industry)—pretax operating income after depreciation but before other income, interest charges, and Allowance for Funds Used During Construction (AFUDC), divided by long-term plus short-term interest plus twice the preferred dividend. Used as a measure of financial strength for an electric utility. A fixed charge coverage of 100 means that the operating income equals fixed expenses. A figure above 100 means that operating income exceeds fixed expenses, and vice versa.
- Free Cash Flow**—net income plus depreciation minus the total of dividends, capital expenditures, required debt repayments, and any other scheduled cash outlays.
- Full Cost Accounting** (Canadian Energy, Natural Gas Diversified, and Petroleum Industries)—a method of accounting under which all costs related to the exploration and development of oil and gas reserves are immediately expensed (a less conservative method than Successful Efforts Accounting).
- Fully Diluted Earnings Per Share**—earnings per share assuming conversion of all convertible securities plus the exercise of all warrants and options. Similar to Diluted Earnings, which replaced Fully Diluted EPS for all years after December 15, 1997.
- Funds Borrowed** (Bank Industries)—Federal Funds (free reserves borrowed from other banks), securities sold under Repurchase Agreements (“repos”), commercial paper sold by bank holding companies and non bank subsidiaries, and any other non deposit sources of short-term funds.
- GAAP**—abbreviation for the Generally Accepted Accounting Principles used by U.S. companies and determined by the Financial Accounting Standards Board (FASB), a private, industry-sponsored organization.
- General and Administrative Expenses**—expenses such as salaries, rents, advertising, and public relations.
- Geometric Average**—a geometric average is the  $n$ th root of the product of  $n$  terms. If  $n = 3$ , the geometric average of the three numbers would be the cube (or third) root of the product of the three numbers.
- Goodwill**—see intangibles.
- Government Securities** (Bank Industries)—fixed-income debt obligations of the U.S. Government and federal agencies.
- Gross Billings** (Advertising Industry)—the aggregate outlays for advertising paid by clients to the media. Billings generally serve as a basis for agency commissions.
- Gross Dividend Declared per ADR** (American Depositary Receipts)—dividends per ADR declared (but not necessarily paid) during the company’s fiscal year before any withholding taxes. For companies based in the United Kingdom, dividends declared are net of the Advance Corporation Tax.
- Gross Equipment** (Air Transport Industry)—the total of all flight equipment, ground stations, and other property, and all equipment (including property under capital lease) at original cost as reported by the airline company. Does not include advance payments for new equipment.
- Gross Income** (Financial Services Industry)—the total of interest on receivables, discounts, commissions, service charges, and other revenues.
- Gross Income** (REIT and Thrift Industries)—all income earned in normal operations excluding nonrecurring items such as gains from property sales.
- Gross Income to Interest Ratio** (Financial Services Industry)—gross income divided by total interest paid.
- Gross Loans** (Bank Industries)—total loans outstanding before deductions for loan-loss reserves and unearned income.
- Gross Portfolio Yield** (Investment Companies)—gross annual income (before any expenses) divided by total assets at yearend, expressed as a percentage.
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**Growth Stock**—stocks of companies whose earnings grow consistently over time reflecting the fact that such companies have limited sensitivity to the country's economy as it moves up and down (the opposite of a cyclical stock, which is defined above).

**Holding Company**—a business that confines its activities to owning stock in and supervising the management of other companies.

**Housing Starts**—the number of single- and multi-family units for which construction has begun. Published by the Commerce Department.

**Imports**—a country's purchases of goods or services from other countries. U.S. imports of goods and services are reported by the Commerce Department when it releases the Gross Domestic Product (GDP) report.

**Income Dividends Per Share (Investment Companies)**—dividends declared from net investment income on a per-share basis.

**Income Statement**—a financial report that lists revenues, expenses, and net income throughout a given period.

**Income Stocks**—stocks with higher-than-average dividend yields. (Often, but not always, stocks with dividends that are considered likely to be maintained or raised.)

**Income Taxes**—the total of all foreign and domestic (federal, state and city) taxes charged against income.

**Income Tax Rate**—total income taxes as a % of pretax income.

**Industrial Production**—a Federal Reserve index, published monthly, of the output of the nation's factories, mines, and utilities.

**Industry Timeliness Rank**—the relative *Timeliness* rank of an industry, updated weekly in the *Summary & Index* and calculated by averaging the *Timeliness* ranks of each of the stocks assigned a *Timeliness* rank in the industry. Industries with high *Timeliness* ranks are those with large percentages of stocks that also have high *Timeliness* ranks.

**Initial Public Offering**—a corporation's first equity offering to the public.

**Initial Unemployment Insurance Claims**—a weekly Labor Department compilation of new unemployment claims based on data from each of the States in the Union and Washington, D.C.

**Insider Decisions**—the number of decisions to buy or sell a company's shares made by officers and directors and shown by month for a nine-month period. This table is shown on the left side of the price chart on the *Ratings & Reports* page. (The source of this information is Vickers Stock Research Corp.)

**Institutional Decisions**—the number of decisions reported by investment managers having equity assets under management of \$100 million or more to buy or sell a company's shares. This table appears on the left side of the price chart on the Value Line page. (The source of this information is Vickers Stock Research Corp.)

**Insurance in Force (Insurance Industries)**—the aggregate face amount of all life insurance policies outstanding.

**Intangibles**—assets such as goodwill (the excess of cost over net assets of companies acquired by purchase), patents, trademarks, unamortized debt discounts, and deferred charges. This figure, if it is material, is footnoted on the Value Line page.

**Intangibles Per Share**—intangible assets divided by the number of common shares at year end.

**Interest**—payment for the use of borrowed money. Many companies have both interest charges (for long- and short-term funds they have borrowed) and interest income (for money they have invested, usually in short-term, interest-bearing investments).

**Interest Cost to Gross Income (Thrift Industry)**—interest expenses for the year, expressed as a percentage of gross income.

**Inventories**—raw materials, work in progress, and finished products. LIFO (last-in, first-out) accounting minimizes illusory, but taxable, inventory profits in periods of rising prices because high-cost materials are expensed against income first. Under FIFO (first-in, first-out) accounting, the reverse is true. Average cost (middle-in, middle-out) is a compromise between LIFO and FIFO.

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**Inventory Investment**—the change in inventories valued at average prices for the period, as published by the Commerce Department in its periodic Gross Domestic Product reports.

**Inventory-to-Sales-Ratio**—a ratio of inventories to sales, expressed as a percentage. An excessively high ratio may indicate that businesses have too much inventory on hand and are about to cut back production in order to reduce inventories. A decline in production would slow economic growth.

**Inventory Turnover**—sales divided by year-end inventory. A measure of the efficiency of inventory management.

**Investment Company (or Fund)**—a company or fund that invests in other companies (usually through the purchase of equity or debt securities) or invests in commodities or real property, etc., or any combination of the above.

**Investment Income (Insurance Industry)**—dividends, interest, and rents received on investments and any other investment income less the expenses of the investment department.

**Investment Income Per Share (Insurance Industry)**—dividends, interest, and rents received on investments less the expenses of the investment department, divided by the number of common shares outstanding at year end.

**Large Cap** — a market capitalization (stock price times shares outstanding) of more than \$5 billion.

**Leading Economic Indicators**—a monthly Commerce Department index designed to gauge future economic activity.

**Leases**—contractual rentals of plant and equipment. Must be “capitalized” when most of the benefits and obligations of ownership are transferred to the lessee. Capitalizing leases increases long-term debt and gross plant, and depreciation and interest are charged to profits. Uncapitalized-lease accounting enhances the balance sheet, since the financial obligation is not shown.

**Legends Box**—the box at the top of the Price Chart in each full-page report in *The Value Line Investment Survey—Small and Mid-Cap Edition*. This box is la-

beled LEGENDS and includes a list of stock splits. It also identifies the 12 month moving average and Relative Price Strength lines that are plotted on the Price Chart.

**Leveraged Buyout**—a corporate takeover, often led by members of management, in which funds are borrowed against company assets in order to pay off existing shareholders. As a result, a publicly held company becomes a highly leveraged, privately held company.

**Life Premium Income (Insurance Industries)**—funds received from policyholders in exchange for promises to make future payments upon (1) death or at a specific date or dates under various forms of life insurance and annuity contracts and/or (2) disability under accident and health contracts.

**Load Factor (Air Transport Industry)**—the percentage of total airline seating capacity that is actually sold and utilized. It is computed by dividing revenue passenger miles flown by available seat miles flown in scheduled service.

**Load Factor (Electric Utility Industry)**—the ratio of the average output in kilowatts supplied during a designated period to the maximum output occurring in that period.

**Loan Loss Experience (Bank and Thrift Industries)**—net loan charge-offs divided by average loans outstanding in a given period.

**Loan Loss Provision (Bank and Thrift Industries)**—funds set aside each quarter in order to cover future possible losses on loans that are not repaid. This figure appears on the bank’s income statement.

**Loan Loss Reserve (Bank Industries)**—reserves set aside at a point in time in order to cover future possible loan losses. This figure appears on the bank’s balance sheet.

**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.

**Long-Term Interest Earned**—pretax income plus long-term interest expense (including capitalized interest) divided by long-term interest. *See Total Interest Coverage.*

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**Market Capitalization (Market Cap)**—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 of 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.)

**Market-Capitalization Weighted Average**—a stock price index weighted by the value of all shares outstanding for each stock. In such an index, large market capitalization stocks get proportionately more weight than small stocks.

**Median**—the middle value in an ordered series of numbers. As an example, if you ranked a number of stocks in order based on stock price from high to low, the stock price in the middle would be the median.

**Median Price Earnings (P/E) Ratio** (as shown on the top of a Value Line company report)—is the average annual P/E ratio of a stock over the past 10 years, with certain statistical adjustments made for unusually low or high ratios.

**Merchandise Trade Balance**—the difference between U.S. exports of goods and U.S. imports of goods. Published monthly by the Commerce Department.

**Mid Cap** — a market capitalization (stock price times shares outstanding) of from \$1 billion to \$5 billion.

**Money Supply**—Federal Reserve measures of money outstanding. The Federal Reserve is able to influence increases or decreases in the size of the money supply. If money supply grows significantly faster than overall economic growth for an extended period of time, higher rates of inflation often follow. If money supply grows too slowly, economic growth is inhibited.

**NA**—not available; information that was not available when the report went to press.

**NASDAQ Composite**—a market-capitalization weighted average of approximately 5,000 stocks traded electronically in the NASDAQ market.

**Net Asset Value (Investment Companies)**—the market value of a company's assets less any liabilities divided by the number of shares outstanding.

**Net Income**—see Net Profit.

**Net Interest Income (Bank and Thrift Industries)**—the dollar amount of interest received on loans and other investments, less the dollar amount of interest paid on deposits and other borrowings.

**Net Interest Margin (Bank Industries)**—the difference between interest rates earned (on loans and other earning assets) and interest rates paid (on deposits and other sources of funds) divided by total value of earning assets.

**Net Loan Losses (Bank Industries)**—loans written off during a period net of recoveries on loans previously written off. Also referred to as net loan charge-offs and net loan write-offs.

**Net Profit (or Income)**—a company's total profit before nonrecurring gains or losses, but after all other expenses.

**Net Profit Margin**—net income before nonrecurring gains and losses as a percentage of sales or revenues.

**Net Revenues (Advertising Industry)**—total commissions and fees received by the agency.

**Net Sales**—gross volume less returns, discounts, and allowances.

**Net Working Capital**—working capital less long-term debt, preferred stock at liquidating value, deferred taxes, minority interests, other long-term liabilities, and intangible assets. Occasionally the phrase is used in a less strict sense to mean working capital less long-term debt. See Working Capital.

**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. Generally referred to as shareholders' equity.

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**New Loan Volume** (Thrift Industry)—the total of loans originated plus loans purchased in a given period by a thrift.

**New York Stock Exchange Composite**—a market-capitalization weighted average of all the common stocks traded on the New York Stock Exchange.

**Nikkei Stock Average**—an index of 225 Japanese stocks. A barometer of the Japanese stock market.

**NMF**—not meaningful. Used when a number or ratio is so large or small that it is not meaningful. For example, a price/earnings ratio of 100 would probably not be meaningful because earnings in a particular period were unusually depressed.

**Non-Financial Domestic Debt**—the sum of U.S. consumer, business, and government borrowings outstanding.

**Non-interest Expense** (Bank Industries)—expenses other than interest and loan loss provisions, such as wages and overhead.

**Non-interest Income** (Bank Industries)—income other than interest income, such as trust fees, other fee income, and gains on securities transactions.

**Non-performing Assets** (Bank and Thrift Industries)—generally includes loans that are not providing, or are not expected to provide, interest income at the contractual rate. Also includes foreclosed properties.

**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.

**\$100 DJI Grew To** (Investment Companies)—the amount to which a \$100 investment (divided equally) in each of the 30 Dow Jones Industrial Stocks would have grown from year end 1960 (or year in which the company began operations).

**\$100 Net Assets Grew To** (Investment Companies)—the amount to which \$100 invested in the net assets of a closed-end fund would have grown from year-end 1960 (or after the first year of the company's opera-

tion), assuming all capital gains distributions had been reinvested in additional shares.

**Operating Earnings**—earnings (profits) left after subtracting the cost of goods sold and marketing, general, and administrative costs from sales. Sometimes referred to as EBITDA (earnings before interest, taxes, depreciation, and amortization).

**Operating Income**—see Operating Earnings.

**Operating Margin**—operating earnings as a percentage of sales.

**Operating Profit**—see Operating Earnings.

**Option**—a contract that gives a buyer the right to buy or sell 100 shares of stock within a certain period of time and at a pre-established price. A call option gives an investor the right to buy 100 shares of stock at a specified price, while a put option allows him to sell 100 shares.

**Output Per Hour** (Nonfarm)—a Labor Department index of what U.S. non-agricultural workers produce, on average, in an hour. An increase in this index over time is an indicator of productivity gains.

**Par Value**—the nominal or face value of a stock or bond.

**Passenger Yield** (Air Transport Industry)—the average revenue per mile paid by each passenger, computed by dividing passenger revenues by revenue passenger miles.

**Payout Ratio**—see Percent All Dividends to Net-Profit.

**P/E Ratio**—the price of the stock divided by earnings for a 12-month period. See Average Annual Price-Earnings (P/E) Ratio, Current Price-Earnings (P/E) Ratio, Trailing Price-Earnings (P/E) Ratio, and Median Price-Earnings (P/E) Ratio.

**Peak Load** (Electric Utility Industries)—the greatest demand for power during a specified period of time.

**Pension Liability**—the total of all unfunded, vested pension benefits that have been accrued.

**Percent All Dividends to Net Profit**—the sum of all cash dividends (common and preferred) declared,

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but not necessarily yet paid, for a company's operating or fiscal year, divided by net profit for that year, expressed as a percentage. Also known as the payout ratio.

**Percent Commissions** (Securities Brokerage Industry)—income received for execution of trades in commodities, listed securities, NASDAQ transactions, and sales for mutual fund shares as a percentage of total revenues.

**Percent Common Stocks** (Investment Companies)—the value of common stocks held as a percentage of total assets at year end.

**Percent Earned Common Equity**—net profit less preferred dividends divided by common equity (i.e., net worth less preferred equity at liquidation or redemption value), expressed as a percentage. See Percent Earned Total Capital.

**Percent Earned Shareholders' Equity**—net profit divided by net worth, expressed as a percentage. See Percent Earned Total Capital.

**Percent Earned Net Worth** (REIT Industry)—net profit divided by average net worth for the year, expressed as a percentage.

**Percent Earned Total Assets** (Bank and Thrift Industries)—net profit divided by total reported assets, expressed as a percentage.

**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.

**Percent Earned Total Capital** (REIT Industry)—net profit plus total interest expense (i.e., the sum of short- and long-term interest outlays) divided by the average total capital (i.e., average total debt plus average net worth), expressed as a percentage. 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.

**Percent Expense to Premiums Written** (Insurance [Property/Casualty] Industry)—underwriting expense (commissions and general and administrative costs) divided by net premiums written less dividends to policyholders, expressed as a percentage. Also called

the Expense Ratio.

**Percent General & Administrative Expense to Gross Income** (Thrift Industry)—expenses such as salaries, rents, and advertising and public relations costs divided by gross income for the year, expressed as a percentage.

**Percent Interest Cost to Gross Income** (Thrift Industry)—interest expenses for the year divided by gross income for the year expressed as a percentage.

**Percent Interest Income** (Securities Brokerage)—interest derived from funds loaned to customers' margin accounts plus interest on government and corporate securities held in the company's account, expressed as a percentage of total revenues.

**Percent Investment Banking** (Securities Brokerage Industry)—fees received for private placements, venture capital financing, real estate activity, mergers and acquisitions, exchange and tender offers, consulting, underwriting, and syndication participation, expressed as a percentage of total revenues.

**Percent Investment Income to Total Investments** (Insurance [Property/Casualty] Industry)—investment income less associated expense divided by total investments, expressed as a percentage.

**Percent Losses to Premiums Earned** (Insurance [Property/Casualty] Industry)—losses and loss expenses divided by premiums earned, expressed as a percentage. Also called the Loss Ratio.

**Percent Price to Book Value** (Insurance Industries)—the average price for the year divided by book value per share, expressed as a percentage.

**Percent Principal Transactions** (Securities Brokerage Industry)—trading and securities transactions for the firm's own account (e.g., block positioning, market making, and government, municipal, and corporate bond trading out of the company's inventory), expressed as a percentage of total revenues.

**Percent Problem Assets to Mortgage Loans**—total assets at year end that are problems.

**Percent Short-Term Debt to Total Debt** (Financial Services Industry)—all debt due in the next 12 months

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divided by total short-and long-term debt at year-end, expressed as a percentage.

**Performance Rank**—the rank of a stock's probable relative market performance in the year ahead. It is derived via a computer program using as input the long-term price and earnings history, recent price and earnings momentum, and earnings surprise. All data are known and actual. Stocks ranked 1 (Highest) and 2 (Above Average) are likely to outpace the year-ahead market. Those ranked 4 (Below Average) and 5 (Lowest) are expected to underperform most stocks over the next 12 months. Stocks ranked 3 (Average) will probably advance or decline with the market in the year ahead. Investors should try to limit purchases to stocks ranked 1 (Highest) and 2 (Above Average) for Performance .

**Per Share Basis**—total Sales, "Cash Flow," Earnings, or Dividends, and other data divided by the number of shares outstanding. Earnings and dividends are almost always described on a per share basis for ease of understanding.

**Personal Consumption Expenditures**—consumer spending reported monthly by the Commerce Department. Also included in the Gross Domestic Product (GDP) reports.

**Personal Income**—consumer income reported monthly by the Commerce Department. Also included in the Gross Domestic Product (GDP) reports.

**Plant Age**—an estimate derived by dividing accumulated depreciation at the most recent year end by the depreciation allowance in the most recent year.

**Plowback Ratio**—see *Retained to Common Equity*.

**Policyholders' Dividends** (Life Insurance Industries)—refunds to the policyholder of part of the premium paid on participation life insurance policies, reflecting the difference between the premium charged and actual mortality experience.

**Policyholders' Surplus** (Life Insurance Industries)—book value as determined using statutory accounting techniques. Statutory accounting, unlike generally accepted accounting principles (GAAP), does not permit deferral of policy acquisition costs.

**Preference Stock**—see Preferred Stock.

**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.

**Preferred Stock Ratio**—preferred stock at liquidation or redemption value divided by total capital (i.e., the sum of long-term debt, preferred equity, and common equity), expressed as a percentage.

**Premium Income Per Share** (Insurance Industries)—income to the insurance company consisting of payments made by life, accident and health, disability, and property/casualty insurance policyholders as provided for under the terms of their insurance contracts, divided by the number of common shares outstanding.

**Premium Over Book** (REIT Industry)—the percentage by which the average annual stock price exceeds the average annual book value per share. If the stock sells at a discount from book value, the percentage of that year is preceded by a minus sign.

**Premium Over Net Asset Value** (Investment Companies)—see *Discount From Net Asset Value*.

**Premium Written to Surplus** (Insurance [Property Casualty] Industry)—the total premium received for policies sold during the year divided by legally defined net worth.

**Premiums Earned** (Insurance Industry)—premiums received in advance for insurance protection that will remain in force for a year or more. Premiums accrue to revenues (i.e., are earned) only in proportion to the actual time elapsed under the policy relative to the entire policy term.

**Premiums Written Per Share** (Insurance [Property/Casualty] Industry)—the total premiums received from property/casualty insurance policyholders for policies sold during the year divided by the number of common shares outstanding.

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**Present Value**—the amount that, if paid today, would be the equivalent of a future payment, or series of future payments, under specified investment assumptions. If, for example, funds can be invested today to yield 10% annually, a payment of \$100 to be made one year hence has a present value of \$90.91; that is, \$100 divided by 1.10.

**Pretax Corporate Profits**—*see Corporate Profits*.

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

**Price Chart**—a graphic historical presentation of the movement of a stock and, often, additional information. The price chart that appears on each Value Line page includes monthly stock price ranges (small vertical lines), a cash flow line (a solid line with projections shown as dashes), and a relative-strength price line (a series of dots).

**Price Earnings Ratio**—Probably the most widely used measure of stock valuation. Value Line shows a variety of P/E ratios on every company page, as discussed below:

The *Relative P/E ratio*. This compares the P/E of one stock with the median of estimated P/E ratios of all stocks under Value Line review. A relative P/E of more than 1 indicates that a stock's P/E ratio is currently higher than that of the Value Line universe; a P/E of less than 1 indicates that this stock's P/E is less than the Value Line average.

A *Trailing P/E ratio*. This is calculated by dividing the recent price of the stock by the past 12 months of actual (reported) earnings. This is the figure shown in most newspapers.

The *Average Annual P/E ratio*. This is calculated by dividing the average price for a year with the actual reported earnings for that year and is shown in the Statistical Array.

The *Average Relative Annual P/E ratio*. This is calculated by dividing the average annual P/E of a stock with the average annual P/E of all stocks under Value Line review.

**Price Growth Persistence**—a measurement of the historic tendency of a stock to show persistent price growth compared to the average stock. Value Line Persistence ratings range from 100 (highest) to 5 (lowest).

**Price-Weighted Average**—a stock price average that gives proportionately more weight to stocks with high share prices than it does to stocks with low prices. The Dow Jones Averages are price-weighted.

**Primary Earnings Per Share**—earnings per share calculated on the assumption of the conversion of certain senior securities (those of the company deemed, according to an accounting formula, to be common stock equivalents—that is, likely to trade like common shares) into common stock. This calculation has not been used since 1997.

**Prime Rate**—the base lending rate reported by the largest commercial banks in the nation.

**Problem Assets (Thrift Industry)**—delinquent loans, loans past due 90 days or more, and foreclosed real estate.

**Producer Price Index (PPI)**—Labor Department price indexes of goods categorized by industry and by stage of processing. Widely watched among them are the raw materials, intermediate goods, and finished goods indexes. A measure of inflation.

**Projections Box**—a box appearing in the upper left corner of a Value Line stock page. It includes the absolute price gain expected for the next 3 to 5 years as well as the compound annual return (appreciation plus dividends) during the same period.

**Proved Reserves (Petroleum and Natural Gas /Diversified Industries)**—quantities of natural resources that engineering estimates indicate with reasonable certainty are economically recoverable using present technology.

**Quarterly Earnings**—box appearing at the lower left hand corner of *The Small and Mid-Cap Edition* page (directly below the quarterly sales box) in which five years of actual and estimated earnings are listed for each of the four quarters of each listed year.

**Quarterly Sales**—box appearing at the lower left hand corner of *The Small and Mid-Cap Edition* page in

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which five years of actual and estimated sales are listed for each of the four quarters of each listed year.

**Rate Base** (Electric Utility Industry)—usually the net original cost of plant and equipment; in some instances including an allowance for cash, working capital, materials, and supplies.

**Real**—in the context of economic activity, a measure that excludes the effects of inflation. Real Gross National Product, for example, is a measure of the nation's output of goods and services, adjusted for inflation.

**Real Estate Investment Trust (REIT)**—a financial intermediary that invests its equity capital and debt in income-producing real estate and mortgages. Under legislation passed in 1961, REITs were granted conduit tax treatment (the same as that permitted mutual funds) under which the part of earnings which flows through to shareholders in the form of dividends is exempt from Federal income taxes at the trust (or corporate) level, provided several conditions are met. Among the conditions for qualification as a REIT under the Internal Revenue Code: At least 95% of otherwise taxable income must be distributed to shareholders in the calendar year earned, and specified percentages of both investments and gross income must be related to real estate.

**Realized Gain or Loss**—profit or loss on the sale of an asset.

**Receivables**—the value of goods and services sold and shipped to customers, for which the company has yet to be paid.

**Receivables** (Financial Services Industry)—the amount of money owed to finance companies by customers at year-end, net of unearned discount (the charges to the borrower) and loss reserves.

**Relative Price-Earnings (P/E) Ratio**—the stock's current P/E divided by the median P/E for all stocks under Value Line review. (*See also Price Earnings Ratio.*)

**Relative Strength Price Line**—a representation shown in the price chart on each Value Line page as a series of dots. The line compares the price of a stock with the price of an index (in this case the Value Line Arithmetic Composite) over time. When the line is rising, the stock is acting better than the broad index. When it is falling, the stock is acting worse

than the index.

**Reserve Life** (Natural Gas [Diversified] and Petroleum Industries)—a company's reserves of oil, gas, or other natural resources divided by annual production.

**Reserve Replacement Ratio** (Natural Gas and Petroleum Industries)—the ratio of reserve additions to production. Reserve replacement is calculated by summing the total reserves added over a five-year period. The ratio is calculated by dividing replacement by production over the same period.

**Retail Sales**—a monthly measure of all U.S. retail activity, published by the Commerce Department.

**Retained Earnings**—net profit for the year, less all common and preferred dividends, when relating to the income account. With respect to the balance sheet or common equity, it is the sum of net profit in all years of the company's existence less all dividends (common and preferred) ever paid. In this case, also known as earnings retained or earned surplus.

**Retained to Common Equity**—net profit less all common and preferred dividends divided by common equity including intangible assets, expressed as a percentage. Also known as the Plowback Ratio.

**Return on Shareholders' Equity**—annual net profit divided by year-end shareholders' equity

**Return on Total Capital**—annual net profit plus 1/2 of annual long-term interest divided by the total of shareholders' equity and long-term debt

**Revenue**—see Sales.

**Revenue Passenger Miles** (Air Transport Industry)—a measure of airline traffic. Each revenue passenger mile represents one revenue-paying passenger flown one mile.

**Revenues** (Banks)—this figure has not been used by most banks in the past. However, the combination of net interest income and non-interest income will provide investors with a close approximation.

**Revenues** (Electric Utility, Natural Gas [Distribution], Telecommunications Industries)—the amounts billed for services rendered.



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- Revenues** (Real Estate Industry)—the total of rental, construction, and interest income and property sales.
- Revenues Per Share**—gross revenues for the year divided by the number of common shares outstanding at year end.
- Safety Rank**—a measurement of potential risk associated with individual common stocks. The Safety Rank is computed by averaging two other Value Line indexes—the Price Stability Index and the Financial Strength Rating. Safety Ranks range from 1 (Highest) to 5 (Lowest). Conservative investors should try to limit their purchases to equities ranked 1 (Highest) and 2 (Above Average) for Safety.
- Sales**—gross volume less returns, discounts, and allowances; net sales.
- Sales Per Share**—net sales divided by the number of common shares outstanding at year-end.
- Savings Deposits Per Share** (Thrift Industry)—total savings deposits at year-end divided by the number of common shares outstanding at yearend.
- Savings Rate**—the personal savings rate, expressed as a percentage of consumer income, published monthly by the Commerce Department.
- Seasonally Adjusted**—a statistical method of adjusting economic data for seasonal differences in economic activity. For example, monthly retail sales are adjusted for the surge of buying that takes place during the end-of-year holiday season.
- Shareholders' Equity**—a balance sheet item showing net worth less the liquidating or redemption value of any preferred issues outstanding. Represents the sum of the value of common stock at par, the surplus of capital received (over par value), and retained earnings (i.e., earned surplus). Retained earnings are the sum of net profits earned in all years less dividends paid in all years.
- Short-Term Debt**—all debt due in the next 12 months and, therefore, considered a current liability. Same as Debt Due. See Total Debt.
- Small Cap**—a market capitalization (stock price times shares outstanding) of less than \$1 billion.
- Spot Market**—a market in which commodities are purchased or sold and delivered quickly, that is, on the spot.
- Standard Deviation**—a statistical measure of volatility.
- Standard & Poor's 500**—a market-capitalization weighted index of 500 large U.S. common stocks.
- Statistical Array**—the large statistical section in the center of each Value Line company report in *Ratings & Reports*. The section contains up to 17 columns of historical information and three columns of estimates on 23 different data items.
- Statutory Insurance Accounting** (Insurance Industries)—the accounting method required for insurance companies reporting to state insurance regulatory authorities. It is a cash bookkeeping technique, rather than the usual method used in business.
- Stock (Common)**—units of ownership of a public corporation.
- 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 (Preferred)**—a class of stock that generally has preference over common stock in the payment of dividends and the liquidation of assets and normally pays dividends at a specified rate.
- 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.
- 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 account-
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ing standpoint, the mix of retained earnings, capital surplus, and common stock remains unchanged. See Stock Dividend. When there is a stock split or dividend, **all historical per-share numbers (including past share prices) are adjusted to reflect the new shares outstanding.** If, for example, a company's stock traded in a range of 40 to 60 last year and it reported earnings of \$2.00 per share, after adjustment for a 2-for-1 stock split, the price range for last year would be 20 to 30 and earnings would be \$1.00 a share.

**Successful Efforts Accounting** (Canadian Energy, Natural Gas [Diversified], and Petroleum Industries)—a method of accounting under which exploratory wells found to be dry are expensed as incurred. See Full Cost Accounting.

**Supplementary Report**—an update of a regular full-page Value Line company report published in the back of the *Ratings & Reports* section when there is a significant development relating to a company. Among the most likely reasons for a Supplementary Report are a major corporate development, such as a merger or acquisition, an unexpectedly good or poor earnings announcement, a change in the sales or earnings outlook, an increase or decrease in the *Performance* rank.

**Surplus** (Insurance Industries)—the amount by which assets exceed liabilities on a legally defined accounting basis.

**Technical Rank**—Value Line's proprietary ranking of estimated stock price performance relative to the overall market in the next three to six months, based on a complex analysis of the stock's relative price performance during the previous 52 weeks. Unlike the Performance Rank, earnings are not a factor in the Technical Rank. Stocks ranked 1 (Highest) and 2 (Above Average) are likely to outpace the market during the next quarter or two. Those ranked 4 (Below Average) and 5 (Lowest) are expected to underperform most stocks. Stocks ranked 3 (Average) will probably advance or decline with the market. The Performance Rank is purely a function of relative price action and is primarily a predictor of relative short-term price movements. (It may thus be particularly useful in trading short-term instruments such as stock options.) Investors should try to limit purchases to stocks with Performance

Ranks of 1 (Highest) and 2 (Average). Under no circumstances, however, should the Technical Rank replace the Performance Rank as the primary tool in making an investment decision. Over the years, the Performance Rank has had a superior record.

**Tender Offer**—a way of taking over a company by offering shareholders a fixed (or variable) price for all outstanding stock. If enough shareholders decide to sell, the company can be taken over.

**Thrift**—a financial institution deriving its funds primarily from consumer savings accounts.

**Ticker Symbol**—the abbreviation of the company's name by which a security is identified for purposes of trading. Also called *Stock Symbol*.

**Time Deposits**—interest-bearing deposits that a financial institution may require to remain on deposit for a specified period of time. Also called certificates of deposit.

**Timely Industries**—see *Industry Timeliness*.

**Timely Stocks**—those ranked 1 or 2 for *Performance* in the *Value Line Investment Survey—Small and Mid-Cap Edition*. These are the stocks Value Line thinks will perform better than the Value Line universe as a whole in the coming six to 12 months.

**Top Line**—a reference to sales, 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.

**Total Debt**—the sum of long-term debt shown in the Capital Structure box and debt due displayed in the Current Position box.

**Total Debt Due in 5 Years**—the sum of bank notes due in 12 months (or less) and all long-term debt maturing within the next five years (including that portion of long-term debt due in the current operating year). See also Debt Due.

**Total Distributions** (Investment Companies)—total payments (capital gains plus dividends) made to shareholders of a fund.

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**Total Interest Coverage**—pretax income plus total interest expense (including capitalized interest) divided by total interest expense.

**Total Return (%)**—the sum of the total appreciation (or depreciation) of a stock over a given period plus any cash dividends received during the same period divided by the price of the stock at the beginning of the period. Each Value Line page shows the total cumulative returns (if available) for the past 1, 3, and 5 years. Each page also denotes the total returns for the Value Line Arithmetic Index for the same periods for comparative purposes. (For more, see Value Line Arithmetic Composite Index)

**Total Revenues** (Securities Brokerage Industry)—gross revenue from all sources, including commissions, investment banking fees, principal transactions, and interest income (generally without deduction for interest expense) derived from funds loaned to customers' margin accounts plus interest on securities held in the company's account.

**Trailing Price Earnings (P/E) Ratio**—the recent price of the stock divided by the sum of earnings per share reported during the last 12 months.

**Translation Rate** (Foreign Stocks)—the exchange rate at which financial data are converted into dollars. Historical data are translated at the exchange rate on the last day of the fiscal year. In the case of quarterly data for the current fiscal year and all estimates, the translation rate is the estimated exchange rate at fiscal year end.

**Treasury Stock**—common stock issued and then reacquired by the issuing firm. Such reacquisitions result in a reduction of stockholders' equity.

**Unconsolidated Income**—aftertax earnings of partially or wholly owned subsidiaries whose financial results are not included in the pretax financial results or income taxes reported.

**Underwriting Income Per Share** (Insurance [Property/Casualty] Industry)—underwriting profit divided by the number of common shares outstanding at year-end.

**Underwriting Margin** (Insurance Industries)—the difference between 100% and the sum of the loss and

expense ratios in property/casualty underwriting. It may be either positive (indicating an underwriting profit) or negative (indicating an underwriting loss).

**Unemployment Rate**—a Labor Department measure of the ratio of the number of unemployed in the labor force, expressed as a percentage. The Civilian Unemployment Rate is based on a work force that excludes U.S.-stationed members of the armed forces. The National (or Total) Unemployment Rate is based on a work force that includes U.S.-stationed members of the armed forces.

**Unit Labor Costs** (Nonfarm)—a Labor Department index based on the ratio of the Compensation Per Hour Index (Nonfarm) and the Output Per Hour Index (Nonfarm). Unit labor costs are useful because they illustrate how productivity gains offset rising wages, or how wage increases outstrip productivity gains.

**Unrealized Appreciation** (or Depreciation)—the dollar amount by which the market value of a holding exceeds (or falls below) its cost.

**Untimely Stocks**—those ranked 4 or 5 for *Performance*. These are stocks Value Line thinks will perform less well than the market in the coming six to 12 months.

**Upstream**—see Downstream.

**Value Line Arithmetic Composite Index**—an equally weighted price index of all stocks covered in *The Value Line Investment Survey*. Arithmetic refers to the averaging technique used to compute the average. See Arithmetic Average.

**Value Line Geometric Composite Index**—an equally weighted price index of all stocks covered in *The Value Line Investment Survey*. Geometric refers to the averaging technique used to compute the average. See Geometric Average.

**Value Line Geometric Industrial Index**—an equally weighted price index of all stocks in *The Value Line Investment Survey*, except for utilities and rails. Geometric refers to the averaging technique used to compute the average. See Geometric Average.

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**Value Line Geometric Rails Index**—an equally weighted price index of railroad stocks reviewed in *The Value Line Investment Survey*. Geometric refers to the averaging technique used to compute the average. See Geometric Average.

**Value Line Geometric Utilities Index**—an equally weighted price index of utility stocks reviewed in *The Value Line Investment Survey*. Geometric refers to the averaging technique used to compute the average. See Geometric Average.

**Warrant**—an option to buy a security, usually a common stock, at a set price (exercise price) over an established number of years. A warrant has no claim on either the equity or the profits of a company.

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

**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.

**Yield (for stocks)**—the estimated dividends for the next 12 months divided by the current price, expressed as a percentage.

**Yield-Cost Margin (Thrift Industry)**—the difference between interest rates earned (on loans and other earning assets) and interest rates paid (on deposits and other sources of funds).

**Yield Curve**—a measure of the relationship between short-and long-term interest rates. Often the yields on three-month Treasury bills and 30-year Treasury bonds are compared. The yield curve is said to be positive when long-term rates are higher than short-term rates. When short-term and long-term rates are about equal, the yield curve is said to be flat. The yield curve is said to be inverted when short-term rates are higher than long-term rates.

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