



Value Line®  
Publishing, Inc.

*Complete Overview*

The Value Line  
Investment  
Survey

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# CHAPTER

# 1

# GETTING STARTED

## HOW TO USE THE VALUE LINE INVESTMENT SURVEY

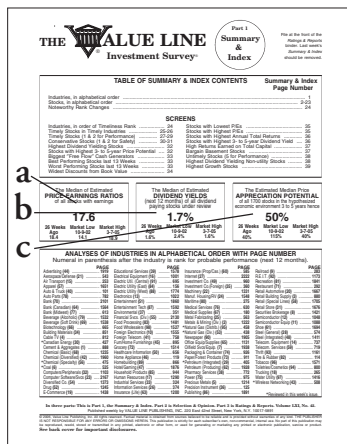
*The Value Line Investment Survey* is a unique source of financial information designed to help investors make informed investment decisions that fit their individual goals and levels of risk. It is: (1) a proven forecaster of stock price performance over the next six to 12 months; (2) a source of interpretative analysis of approximately 1,700 individual stocks and approximately 100 industries; and (3) a source of historical information that helps investors spot trends.

If you come across any unfamiliar terms as you read through this guide, please refer to the *Glossary* which is available on our website, [www.valueline.com](http://www.valueline.com).

order with the relative industry rank to the right of the industry name and the page number of the industry analysis in *Ratings & Reports* listed under PAGE. The market statistics are found in three boxes. The first box (a) has the median of estimated price/earnings ratios of all stocks with earnings in *The Value Line Investment Survey*. The second box (b) shows the median of estimated dividend yields (total dividends expected to be paid in the next 12 months divided by the recent price) of all dividend-paying stocks in *The Survey*. The third box (c) contains the estimated median price appreciation potential 3 to 5 years into the future for the approximately 1,700 stocks in *The Survey*. By studying these statistics, a fairly good picture emerges of how the universe of Value Line stocks is currently being evaluated. *The Value Line universe of approximately 1,700 stocks comprises approximately 95% of the market capitalization of all stocks traded in U.S. markets.*

Beginning on page 2, the *Summary & Index* also includes an alphabetical listing of all stocks in the publication with references to their location in Part 3, *Ratings & Reports*. If you are looking for a particular stock, look inside the *Summary & Index* section, which is updated each week to provide the most current data on all companies included in *The Value Line Investment Survey*.

To locate a report on an individual company, look for the page number just to the left of the company name. Then turn to that page in Part 3, *Ratings & Reports*, where the number appears in the upper right corner.



Summary & Index

## PART I - SUMMARY & INDEX

Please start with the *Summary & Index*. The front cover contains a Table of Contents, three important market statistics, and a list of all the industries we follow in alphabetical

In the far left column of *Summary & Index* is a number that refers to recent Supplementary Reports, if any, which are included on the back pages of *Ratings & Reports*. If two asterisks (\*\*) appear in this column, it means that there is a Supplementary Report in the current Issue.

There are many columns in the *Summary & Index* with more information on each of the approximately 1,700 stocks we cover, including from left to right:

- page numbers for the latest company report and any recent Supplementary Report (Supplementary Reports are published at the back of *Ratings & Reports*)
- the name of each stock and the exchange on which it is traded (the New York Stock Exchange, unless otherwise indicated).
- each company's stock exchange (ticker) symbol
- the recent stock price (see the top of page 2 in *Summary & Index* under *Index to Stocks* for the specific date)
- Value Line's proprietary *Timeliness*<sup>TM</sup>, *Safety*<sup>TM</sup> and *Technical*<sup>TM</sup> ranks (See Chapter 3 and the online Glossary for definitions. For a more detailed review, read *The Definitive Guide To the Value Line Ranking System.*)
- Beta (a measure of volatility)
- each stock's 3- to 5-year Target Price Range and the percent appreciation potential
- each stock's current P/E ratio
- each stock's estimated dividend yield
- each stock's estimated earnings (approximately 6 months historical, 6 months estimated)
- each stock's estimated dividends for the next 12 months
- each stock's Value Line *Industry*<sup>TM</sup> rank (see Chapter 6)
- latest earnings and dividend declarations

- options trade indicator

There is also a wealth of information in the form of stock screens toward the back of the *Summary & Index*. The stock screens are a good place to start for anyone looking for investment ideas or help in forming a strategy. They are also useful for investors who want a list of stocks relevant to specific strategies they may have in mind.

Some examples of our useful screens are:

- Industries in Order of *Timeliness*
- Stocks Moving Up or Down in *Timeliness* Rank
- Timely Stocks in Timely Industries
- Conservative Stocks
- Highest Dividend Yielding Stocks
- Stocks with the Highest Estimated 3- To 5-Year Price Appreciation Potential
- Best/Worst Performing Stocks in the Past 13 Weeks
- Stocks With the Lowest and Highest P/E Ratios
- Stocks with the Highest Estimated Annual Total Returns (Next 3 To 5 Years)
- Stocks with the Highest Projected 3- To 5-year Dividend Yield
- Highest Growth Stocks (Definition Under The Title)

## PART 2 - SELECTION & OPINION

*Selection & Opinion* (S&O) contains Value Line's latest economic and stock market commentary, along with one or more pages of



Selection & Opinion



# 2

## PLANNING AN INVESTMENT STRATEGY

Creating an investment strategy is not an easy task. It encompasses many facets of your life, from your personality traits to your current life situation. Value Line recommends that most investors diversify their assets so that one's eggs are spread evenly among many baskets. This will help to ensure that dropping one basket will result in as minimal an impact as possible on your overall financial well being.

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

In the end, you should diversify both by asset class (i.e., stocks and bonds) and within asset classes (i.e., owning multiple stocks). So, using a simple example that follows a Wall Street "rule of thumb", you might own both stocks and bonds so that the equity portion of your portfolio is equal to 100% minus your age. If you were 60 years old, that would leave you with a portfolio made up of 40% stocks and 60% bonds.

While this might be too conservative, as you could easily expect to live another 20 to 30 years, or more, from age 60, it is a convenient example of asset allocation. This 40% stock/60% bond portfolio has two broad asset classes—stocks and bonds. If one were performing poorly,

the other would be expected to perform better. Note that Value Line suggests you include at least four asset classes in your portfolio, including some foreign stock exposure, to provide for more diversification, but the goal remains the same.

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

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

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

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

Once you have decided on a broad portfolio structure, be it two asset classes or 20, you will need to start filling in the asset class buckets. How you decide to go about this will depend both on the buckets that you need to fill (for example, the Large Cap Growth category will require a different approach than the Large Cap Value category) and on your personal preferences (for example, a desire for current income would require a different approach than a quest for only capital appreciation). Where do you begin?

With approximately 1,700 stocks in our coverage universe, simply opening the first issue and starting to examine each stock report in search of the 10 to 20 stocks you want to own would be a daunting, if not impossible, task. This is why we have included a number of stock

screens in the back of each *Summary & Index* that we believe will provide a good starting point for any investor.

The screens are updated weekly and cover a broad range of investment options, including Timely Stocks in Timely Industries, Conservative Stocks, Highest Yielding Stocks, and Stocks with High 3- to 5-Year Appreciation Potential. A description of the screens presented is provided if the title of a screen is not self-explanatory. There are, of course, many more screens than the ones listed here, so you should take a look at the pages in the back of the *Summary & Index* to get a feel for which ones will best fit your specific needs. Regardless of which screens you choose to use, this approach will provide you with a short list of companies to research.

However, for those who want more advice than a static screen, we have also created three model portfolios: Portfolio I (Stocks with Above-Average Year-Ahead Price Potential), Portfolio II (Stocks for Income and Potential Price Appreciation) and Portfolio III (Stocks with Long-Term Price Growth Potential). These portfolios are overseen by Value Line analysts and are updated weekly in the *Selection & Opinion* section. On a quarterly basis, a more in-depth review is provided detailing the most recent performance of each portfolio. These portfolios offer another convenient starting point for selecting stocks for inclusion in your own portfolio.

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

# 3

## VALUE LINE'S RANKING SYSTEMS

*The Value Line Investment Survey* has a number of unique features that distinguish it from other publications and make it easier for you to have accurate, timely information so that you may keep up to date on all developments affecting your investments.

Probably the most famous are Value Line's time-honored ranking systems for *Timeliness* and *Safety*, which rank approximately 1,700 stocks relative to each other for price performance during the next six to 12 months. The newer Value Line *Technical Ranking System* is designed to predict short-term stock price movements. In each case, stocks are ranked from 1 to 5, with 1 being the highest ranking.

For a more in-depth look at the Value Line Ranking systems, including a review of the systems' historical performance, please read *The Definitive Guide To The Value Line Ranking System*.

### **TIMELINESS**

The *Value Line Timeliness* rank measures relative probable price performance of the approximately 1,700 stocks during the next six to 12 months on an easy-to-understand scale from 1 (Highest) to 5 (Lowest). The components of the *Timeliness Ranking System* are the 10-year trend of relative earnings and prices, recent earnings and price changes, and earnings surprises. All data are actual and known. A computer program combines these elements into a forecast of the price change of each stock, relative to all other approximately 1,700 stocks for the six to 12 months ahead.

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

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

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

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

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

Changes in the *Timeliness* ranks can be caused by:

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

<b>TIMELINESS</b>	<b>3</b>	Lowered 8/12/05
<b>SAFETY</b>	<b>1</b>	New 7/27/90
<b>TECHNICAL</b>	<b>3</b>	Raised 1/13/06
<b>BETA</b>	.70	(1.00 = Market)

Sample Ranks Box

## SAFETY

A second investment criterion is the *Safety* rank assigned by Value Line to each of the approximately 1,700 stocks. The *Value Line Safety* rank measures the total risk of a stock relative to the approximately 1,700 other stocks. It is derived from a stock's Price Stability rank and from the Financial Strength rating of a company, both shown in the lower right hand corner of each page in *Ratings & Reports*. Safety ranks are also given on a scale from 1 (safest) to 5 (riskiest) as follows:

**Rank 1 (Highest):** These stocks, as a group, are the safest, most stable, and least risky investments relative to the Value Line universe, which accounts for about 95% of the market capitalization of all stocks in the U.S.

**Rank 2 (Above Average):** These stocks, as a group, are safer and less risky than most.

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

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

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

Stocks with high *Safety* ranks are often associated with large, financially sound companies; these same companies also often have somewhat less than average growth prospects because their primary markets tend to be growing

slowly or not at all. Stocks with low *Safety* ranks are often associated with companies which are smaller and/or have weaker-than-average finances; on the other hand, these smaller companies sometimes have above-average growth prospects because they start with a lower revenue and earnings base.

## The Penalty and Reward of Risk

A risky stock is one which has low Price Stability and whose price fluctuates widely around its own long-term trend. It may also be a stock of a company with a low Financial Strength rating. One may reasonably assume that the price of a risky stock will go up more than that of a safe stock in a generally strong market. Yet, if in the interim it went down more sharply and you had to sell at an inopportune time, you could suffer a heavier penalty for having bought the high-risk stock instead of the safer one.

High Value Line *Timeliness* ranks give some protection against a general market decline, but only over a period of six to 12 months. They cannot be relied upon to help protect against a sharp drop in the stock market in every week or month, as a high *Safety* rank may do.

## TECHNICAL

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

## INDUSTRY

Value Line also publishes *Industry* ranks which show the *Timeliness* of each industry. These ranks are updated weekly and published on the front and inside pages of the *Summary & Index*. They also appear at the top of each Industry Report. The *Industry* Rank is calculated by averaging the *Timeliness* ranks of each of the stocks which have been assigned a *Timeliness* rank in a particular industry. For more information, see page 12.

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## CHAPTER

# 4

## UNDERSTANDING THE VALUE LINE PAGE

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

### VALUE LINE RANKS

(See 1 on the sample page)

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

#### Timeliness

The *Timeliness* rank is Value Line's measure of the expected price performance of a stock for the coming six to 12 months relative to our approximately 1,700 stock universe. Stocks ranked 1 (Highest) and 2 (Above Aver-

<b>TIMELINESS</b>	<b>3</b>	Lowered 8/12/05
<b>SAFETY</b>	<b>1</b>	New 7/27/90
<b>TECHNICAL</b>	<b>3</b>	Raised 1/13/06
<b>BETA</b>	.70	(1.00 = Market)

Sample Ranks Box  
(Also see *item 1, on the sample page*)

age) are likely to perform best relative to the others. Stocks ranked 3 are likely to be average performers relative to the Value Line universe. Stocks ranked 4 (Below Average) and 5 (Lowest) are likely to underperform stocks ranked 1 through 3 in Value Line's stock universe.

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

#### Safety

The *Safety* rank is a measure of the total risk of a stock compared to others in our approximately 1,700 stock universe. As with *Timeliness*, Value Line ranks stocks from 1 (Highest) to 5 (Lowest). However, unlike *Timeliness*, the number of stocks in each category from 1 to 5 is not fixed. The *Safety* rank is derived from two measurements (weighted

equally) found in the lower right hand corner of each page: a company's Financial Strength and a Stock's Price Stability. Financial Strength is a measure of the company's financial condition, and is reported on a scale of A++ (Highest) to C (Lowest). Larger companies with the strong balance sheets get the higher scores. A Stock's Price Stability score is based on a ranking of the standard deviation (a measure of volatility) of weekly percent changes in the price of a stock over the last five years, and is reported on a scale of 100 (Highest) to 5 (Lowest) in increments of 5.

### Technical

The *Technical* rank is primarily a predictor of short-term (three to six months) relative price change. It is based on a proprietary model which examines 10 short-term price trends for a particular stock over different periods in the past year. The *Technical* ranks also range from 1 (Highest) to 5 (Lowest). At any one time, approximately 100 stocks are ranked 1; 300 ranked 2; 900 ranked 3; 300 ranked 4; and 100 ranked 5.

### Beta

This is a measure of volatility, as calculated by Value Line. While it is not a rank, we do consider it important. See the online *Glossary* for more detail.

## ANALYST'S COMMENTARY

(17 on the sample page)

Next, look at the analyst's written commentary in the lower half of the page. Many readers think this is the most

**Ceradyne will likely sustain an 11% share-net decline this year.** For the first six months of the year, its Advanced Ceramic Operations, which manufactures body armor, posted sales of almost \$250 million (67% of total), 17% lower than the year-earlier period. Although the company experienced strong revenue growth at its other segments, profit margins for its body armor are significantly higher than most of its other offerings. We expect that this trend will continue for the remainder of the year, since the U.S. government has not allocated a great deal of funds to the purchase of new body armor. In addition, **The company recently completed the purchase of SemEquip, Inc.,** a Massachusetts-based manufacturer of sub-systems and materials used in the production of logic and memory chips. Although we believe that this addition has helped CRDN bolster its product portfolio, management recently stated that as a result of the deal, the company will incur a \$9 million - \$11 million pre-tax charge during the current quarter. That, along with weak sales prospects of body armor, has caused us to lower our September-

period share-net estimate to \$1.00, down from \$1.20. All told, we now expect share earnings of \$4.65 this year, well below last year's tally of \$5.20. **The company continues to focus on expanding its product offerings.** Along with the recent SemEquip purchase, Ceradyne acquired certain patents and intellectual properties that will help it enter the petroleum drilling industry. Furthermore, the company now manufactures nuclear material containers and has begun construction of a new facility in China that will produce ceramic crucibles that are used in solar cells and panels. These new operations will help the company diversify its product portfolio and decrease its dependence on the U.S. military. New offerings, coupled with share repurchases, should help profits reach \$6.00 a share within the next 3 to 5 years. **Investors need not rush into this stock.** Weak body armor sales will likely lead to a share-net decline this year. Also, although CRDN's growth prospects appear good, this stock's 3- to 5-year appreciation potential is below average. *Ian Gendler*

Sample Analyst's Commentary  
(Also see item 17 on the sample page)

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

## FINANCIAL AND STOCK PRICE PROJECTIONS

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

### Financial Estimates

(15 on the sample page)

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

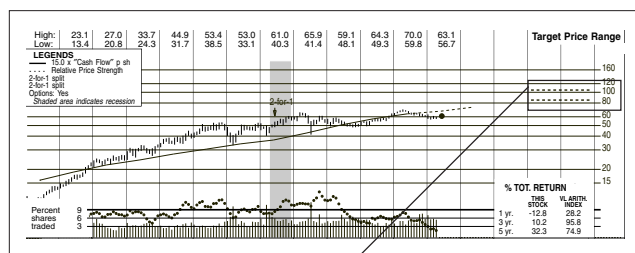
The estimates of sales, earnings, net profit margins,

4.22	4.67	5.25	5.50	6.12	7.07	8.11	8.41	8.80	9.86	10.47	10.82	12.23	14.10	15.98	16.98	18.15	19.28	20.46	21.68	22.94	24.24	25.58	26.96	28.38	29.84	31.34	32.88	34.46	36.08	37.74	39.44	41.18	42.96	44.78	46.64	48.54	50.48	52.46	54.48	56.54	58.64	60.78	62.96	65.18	67.44	69.74	72.08	74.46	76.88	79.34	81.84	84.38	86.96	89.58	92.24	94.94	97.68	100.46	103.28	106.14	109.04	111.98	114.96	117.98	121.04	124.14	127.28	130.46	133.68	136.94	140.24	143.58	146.96	150.38	153.84	157.34	160.88	164.46	168.08	171.74	175.44	179.18	182.96	186.78	190.64	194.54	198.48	202.46	206.48	210.54	214.64	218.78	222.96	227.18	231.44	235.74	240.08	244.46	248.88	253.34	257.84	262.38	266.96	271.58	276.24	280.94	285.68	290.46	295.28	300.14	305.04	310.00	315.00	320.00	325.00	330.00	335.00	340.00	345.00	350.00	355.00	360.00	365.00	370.00	375.00	380.00	385.00	390.00	395.00	400.00	405.00	410.00	415.00	420.00	425.00	430.00	435.00	440.00	445.00	450.00	455.00	460.00	465.00	470.00	475.00	480.00	485.00	490.00	495.00	500.00	505.00	510.00	515.00	520.00	525.00	530.00	535.00	540.00	545.00	550.00	555.00	560.00	565.00	570.00	575.00	580.00	585.00	590.00	595.00	600.00	605.00	610.00	615.00	620.00	625.00	630.00	635.00	640.00	645.00	650.00	655.00	660.00	665.00	670.00	675.00	680.00	685.00	690.00	695.00	700.00	705.00	710.00	715.00	720.00	725.00	730.00	735.00	740.00	745.00	750.00	755.00	760.00	765.00	770.00	775.00	780.00	785.00	790.00	795.00	800.00	805.00	810.00	815.00	820.00	825.00	830.00	835.00	840.00	845.00	850.00	855.00	860.00	865.00	870.00	875.00	880.00	885.00	890.00	895.00	900.00	905.00	910.00	915.00	920.00	925.00	930.00	935.00	940.00	945.00	950.00	955.00	960.00	965.00	970.00	975.00	980.00	985.00	990.00	995.00	1000.00	1005.00	1010.00	1015.00	1020.00	1025.00	1030.00	1035.00	1040.00	1045.00	1050.00	1055.00	1060.00	1065.00	1070.00	1075.00	1080.00	1085.00	1090.00	1095.00	1100.00	1105.00	1110.00	1115.00	1120.00	1125.00	1130.00	1135.00	1140.00	1145.00	1150.00	1155.00	1160.00	1165.00	1170.00	1175.00	1180.00	1185.00	1190.00	1195.00	1200.00	1205.00	1210.00	1215.00	1220.00	1225.00	1230.00	1235.00	1240.00	1245.00	1250.00	1255.00	1260.00	1265.00	1270.00	1275.00	1280.00	1285.00	1290.00	1295.00	1300.00	1305.00	1310.00	1315.00	1320.00	1325.00	1330.00	1335.00	1340.00	1345.00	1350.00	1355.00	1360.00	1365.00	1370.00	1375.00	1380.00	1385.00	1390.00	1395.00	1400.00	1405.00	1410.00	1415.00	1420.00	1425.00	1430.00	1435.00	1440.00	1445.00	1450.00	1455.00	1460.00	1465.00	1470.00	1475.00	1480.00	1485.00	1490.00	1495.00	1500.00	1505.00	1510.00	1515.00	1520.00	1525.00	1530.00	1535.00	1540.00	1545.00	1550.00	1555.00	1560.00	1565.00	1570.00	1575.00	1580.00	1585.00	1590.00	1595.00	1600.00	1605.00	1610.00	1615.00	1620.00	1625.00	1630.00	1635.00	1640.00	1645.00	1650.00	1655.00	1660.00	1665.00	1670.00	1675.00	1680.00	1685.00	1690.00	1695.00	1700.00	1705.00	1710.00	1715.00	1720.00	1725.00	1730.00	1735.00	1740.00	1745.00	1750.00	1755.00	1760.00	1765.00	1770.00	1775.00	1780.00	1785.00	1790.00	1795.00	1800.00	1805.00	1810.00	1815.00	1820.00	1825.00	1830.00	1835.00	1840.00	1845.00	1850.00	1855.00	1860.00	1865.00	1870.00	1875.00	1880.00	1885.00	1890.00	1895.00	1900.00	1905.00	1910.00	1915.00	1920.00	1925.00	1930.00	1935.00	1940.00	1945.00	1950.00	1955.00	1960.00	1965.00	1970.00	1975.00	1980.00	1985.00	1990.00	1995.00	2000.00	2005.00	2010.00	2015.00	2020.00	2025.00	2030.00	2035.00	2040.00	2045.00	2050.00	2055.00	2060.00	2065.00	2070.00	2075.00	2080.00	2085.00	2090.00	2095.00	2100.00	2105.00	2110.00	2115.00	2120.00	2125.00	2130.00	2135.00	2140.00	2145.00	2150.00	2155.00	2160.00	2165.00	2170.00	2175.00	2180.00	2185.00	2190.00	2195.00	2200.00	2205.00	2210.00	2215.00	2220.00	2225.00	2230.00	2235.00	2240.00	2245.00	2250.00	2255.00	2260.00	2265.00	2270.00	2275.00	2280.00	2285.00	2290.00	2295.00	2300.00	2305.00	2310.00	2315.00	2320.00	2325.00	2330.00	2335.00	2340.00	2345.00	2350.00	2355.00	2360.00	2365.00	2370.00	2375.00	2380.00	2385.00	2390.00	2395.00	2400.00	2405.00	2410.00	2415.00	2420.00	2425.00	2430.00	2435.00	2440.00	2445.00	2450.00	2455.00	2460.00	2465.00	2470.00	2475.00	2480.00	2485.00	2490.00	2495.00	2500.00	2505.00	2510.00	2515.00	2520.00	2525.00	2530.00	2535.00	2540.00	2545.00	2550.00	2555.00	2560.00	2565.00	2570.00	2575.00	2580.00	2585.00	2590.00	2595.00	2600.00	2605.00	2610.00	2615.00	2620.00	2625.00	2630.00	2635.00	2640.00	2645.00	2650.00	2655.00	2660.00	2665.00	2670.00	2675.00	2680.00	2685.00	2690.00	2695.00	2700.00	2705.00	2710.00	2715.00	2720.00	2725.00	2730.00	2735.00	2740.00	2745.00	2750.00	2755.00	2760.00	2765.00	2770.00	2775.00	2780.00	2785.00	2790.00	2795.00	2800.00	2805.00	2810.00	2815.00	2820.00	2825.00	2830.00	2835.00	2840.00	2845.00	2850.00	2855.00	2860.00	2865.00	2870.00	2875.00	2880.00	2885.00	2890.00	2895.00	2900.00	2905.00	2910.00	2915.00	2920.00	2925.00	2930.00	2935.00	2940.00	2945.00	2950.00	2955.00	2960.00	2965.00	2970.00	2975.00	2980.00	2985.00	2990.00	2995.00	3000.00	3005.00	3010.00	3015.00	3020.00	3025.00	3030.00	3035.00	3040.00	3045.00	3050.00	3055.00	3060.00	3065.00	3070.00	3075.00	3080.00	3085.00	3090.00	3095.00	3100.00	3105.00	3110.00	3115.00	3120.00	3125.00	3130.00	3135.00	3140.00	3145.00	3150.00	3155.00	3160.00	3165.00	3170.00	3175.00	3180.00	3185.00	3190.00	3195.00	3200.00	3205.00	3210.00	3215.00	3220.00	3225.00	3230.00	3235.00	3240.00	3245.00	3250.00	3255.00	3260.00	3265.00	3270.00	3275.00	3280.00	3285.00	3290.00	3295.00	3300.00	3305.00	3310.00	3315.00	3320.00	3325.00	3330.00	3335.00	3340.00	3345.00	3350.00	3355.00	3360.00	3365.00	3370.00	3375.00	3380.00	3385.00	3390.00	3395.00	3400.00	3405.00	3410.00	3415.00	3420.00	3425.00	3430.00	3435.00	3440.00	3445.00	3450.00	3455.00	3460.00	3465.00	3470.00	3475.00	3480.00	3485.00	3490.00	3495.00	3500.00	3505.00	3510.00	3515.00	3520.00	3525.00	3530.00	3535.00	3540.00	3545.00	3550.00	3555.00	3560.00	3565.00	3570.00	3575.00	3580.00	3585.00	3590.00	3595.00	3600.00	3605.00	3610.00	3615.00	3620.00	3625.00	3630.00	3635.00	3640.00	3645.00	3650.00	3655.00	3660.00	3665.00	3670.00	3675.00	3680.00	3685.00	3690.00	3695.00	3700.00	3705.00	3710.00	3715.00	3720.00	3725.00	3730.00	3735.00	3740.00	3745.00	3750.00	3755.00	3760.00	3765.00	3770.00	3775.00	3780.00	3785.00	3790.00	3795.00	3800.00	3805.00	3810.00	3815.00	3820.00	3825.00	3830.00	3835.00	3840.00	3845.00	3850.00	3855.00	3860.00	3865.00	3870.00	3875.00	3880.00	3885.00	3890.00	3895.00	3900.00	3905.00	3910.00	3915.00	3920.00	3925.00	3930.00	3935.00	3940.00	3945.00	3950.00	3955.00	3960.00	3965.00	3970.00	3975.00	3980.00	3985.00	3990.00	3995.00	4000.00	4005.00	4010.00	4015.00	4020.00	4025.00	4030.00	4035.00	4040.00	4045.00	4050.00	4055.00	4060.00	4065.00	4070.00	4075.00	4080.00	4085.00	4090.00	4095.00	4100.00	4105.00	4110.00	4115.00	4120.00	4125.00	4130.00	4135.00	4140.00	4145.00	4150.00	4155.00	4160.00	4165.00	4170.00	4175.00	4180.00	4185.00	4190.00	4195.00	4200.00	4205.00	4210.00	4215.00	4220.00	4225.00	4230.00	4235.00	42
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income tax rates, and so forth are all derived from spread sheets maintained on every company. Our analysts try to review their projections with a company's management whenever they think they should, but at least once a quarter. Afterward, they make whatever adjustments they believe are warranted by unusual developments that may not be revealed in the numbers, i.e., the outcome of pending lawsuits affecting the company's finances, the success of new products, etc.

### Target Price Range

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



Sample Target Price Range (3 to 5 years)  
(Also see item 11 on the sample page)

range, one with a low rank, a wider band.)

### 3- to 5- Year Projections

(Item 29 on the sample page)

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

PROJECTIONS			
	Price	Gain	Ann'l Total Return
High	105	(+75%)	16%
Low	85	(+40%)	11%

Sample 3 to 5 year Projections  
(Also see item 29 on the sample page)

and *Projections* box) with the recent price (shown on the top of the report).

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

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

### ANNUAL RATES OF CHANGE

(Item 23 on the sample page)

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

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd
Sales	9.5%	10.0%	6.5%
"Cash Flow"	13.5%	13.5%	8.5%
Earnings	14.5%	15.5%	8.5%
Dividends	14.5%	15.0%	10.0%
Book Value	14.5%	13.0%	13.0%

Sample Annual Rates Box  
(Also see item 23 on the sample page)

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past 3-year period to an average number for a future period. For details, see below.

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

### **CALCULATING ANNUAL RATES OF CHANGE (GROWTH RATES)**

In an attempt to eliminate short-term fluctuations that may distort results, Value Line uses a three-year base period and a three-year ending period when calculating growth rates. Investors often try to calculate a growth rate from one starting year to one ending year, and then can't understand why the number they get is not the same as the one published by Value Line. If they used a three-year base period and three-year ending period, they would get the same results we do.

### **HISTORICAL FINANCIAL DATA**

*(26 on the sample page)*

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

The numbers are probably most helpful in identifying trends. For example, look at sales per share to see if they have been rising for an extended period of time. Look at operating margins and net profit margins to see if they have been expanding, narrowing or staying flat. And examine some of the percentages near the bottom, such as the Return on Shareholders' Equity, to see if they have been rising, falling, or remaining about the same.

CHAPTER

5

THE VALUE LINE  
INDUSTRY REPORT

All the company reports in *The Value Line Investment Survey* are grouped by industry, and at the front of each industry group is a one- or two-page Industry Report.

The information contained in each Industry Report may differ considerably from one industry to another, but there is a general format we follow.

The number of industries followed in *The Value Line Investment Survey* is constantly changing. As companies

drop out, usually because of mergers or acquisitions, we may discontinue an industry. On the other hand, as new industries develop, we add them.

ANALYTICAL COMMENTARY

Much of each page contains analytical commentary. The text in each report is written by a Value Line securities analyst, who normally also follows a number (sometimes as many as 10 or 12) of the companies in the industry.

The text normally includes comments about important developments in the industry and the impact those developments have been having on the companies. It also usually includes the analyst's projections about the immediate and longer-term prospects for the industry. We always recommend that you read this report to get an idea of just what an analyst thinks about an industry.

COMPOSITE STATISTICS

In the lower left corner of most reports is a table of Composite Statistics for an industry. The statistics are compiled from the data on the individual companies; the individual data headings are the same as those on the company pages.

June 2, 2006 MEDICAL SUPPLIES INDUSTRY 180

The Medical Supplies Industry hasn't generated much interest on Wall Street in the past few years as indicated by the fairly flat Relative Strength chart below. The group's major fluctuations track points to more of the same in the next six to 12 months.

The recent medical supply industry consolidation activity is forcing low-cost alternative providers who are generally, and the Medicare program is providing the competitive bidding for medical supplies, as discussed below. The picture isn't entirely bleak, though, thanks to new technology and emerging markets.

**Medicare's Competitive Bidding Program**  
The government intends to initiate competitive bidding as a means to lower the cost of durable medical equipment, prosthetics, orthotics, and supplies, which comprise the largest portion of Medicare's out-of-pocket costs. The program will begin later this fall on two-year contracts that will commence a year later, the start of the program is scheduled to begin in the year 2009 through 2012. The results will be a 20% savings at each of the first year of the program tested.

Medicare will open bidding initially on 50 of the top 25 product groups based on charges reported during 2005. 90% of Medicare's allowed medical supply charges that year. The final selection will be determined by also taking into consideration the annual growth in expenditures, the number of suppliers, the average geographic area, the distribution program, the data collection sources. The top five product groups (and their percentage of allowed charges) are:

Orthotic/splint/limbcast (22%)  
Wheelchair and accessories (17%)  
Durable supplies and equipment (16%)  
External nutrition (9%)  
Hospital beds/inverters (4%)

Each of the remaining categories accounted for between less than 1% and 2% of the allowed charges. Still, any of these might find themselves on the final list for the

**INDUSTRY TIMELINESS: 68 of 983**  
The competitive bidding process will be gradually rolled out, with implementation first to affect the 10 largest metropolitan areas (San Jose, San Francisco, and Los Angeles). The next round of bidding, scheduled for 2010 coverage, will extend the geographic reach of the program to the next 50 largest metropolitan areas. Subsequent rounds will likely be added.

The program that Medicare will pay (including) will reflect the median bid on each item, and suppliers will be able to handle products and items up to existing bids. The government aims to accept as many bids as it needs to ensure an adequate supply.

**Investment Considerations**  
Given the gradual implementation on the product and geographic market bases, the proposed bidding process for Medicare business doesn't pose an immediate threat to the industry's average prospects. The program's impact may vary by submarket. It is, however, clear that the long-term picture for many companies here, particularly those in the early part of the new decade. Manufacturers of commodity items probably will be the most affected. Broad competition with increasing price and volume may prompt larger corporations to make more acquisitions as a means of broadening their product lines and managing their response to Medicare business.

The gradual implementation over other programs. It will give the industry time to make adjustments to their product lines, manufacturing bases, distribution networks, and employment levels. Such changes should progress as the program is rolled out. However, the industry's business associated with aging for elderly baby boomers. For the time being, the industry has a number of new technologies in the R&D pipeline, including many for the elderly. Also, ongoing, decades of living on each continent as a new market and creating new opportunities. We think there will be the industry to maintain a decent level of profit growth to 2010-2012.

In sum, investors should weigh the prospects of new products especially, though, to meet the changing health care demands and price rewording. A. Merck, Ph.D.

Composite Statistics: Medical Supplies Industry

2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
308171	355681	393000	430000	469000	506000	543000	580000	617000	654000	691000	728000	765000	802000	839000	876000
14.6%	13.4%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
6562.3	7509.9	8436.0	9300	10350	11250	12200	13150	14100	15050	16000	16950	17900	18850	19800	20750
20334	23599	27821	31000	34125	37500	40875	44250	47625	51000	54375	57750	61125	64500	67875	71250
29.5%	28.9%	27.8%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
8.1%	7.7%	7.8%	7.9%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
37964	45258	54849	59000	64500	70500	76500	82500	88500	94500	100500	106500	112500	118500	124500	130500
29516	30854	33867	35000	34500	36000	37500	39000	40500	42000	43500	45000	46500	48000	49500	51000
88113	108022	129490	141000	155000	170500	185000	200000	215000	230000	245000	260000	275000	290000	305000	320000
17.9%	17.6%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
23.1%	21.8%	21.5%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
16.1%	16.7%	16.5%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%	17.0%
30%	24%	23%	23%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%
24.3	21.0	21.1	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8
1.33	1.20	1.12	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

**Bold figures are Value Line estimates**

Composite Statistics: Medical Supplies Industry

250638	308171	355681	393000	430000	469000	Sales (\$mill)	606000
14.6%	13.4%	13.5%	13.5%	13.5%	13.5%	Operating Margin	14.0%
6562.3	7509.9	8436.0	9300	10350	11250	Depreciation (\$mill)	14250
20334	23599	27821	31000	34125	37500	Net Profit (\$mill)	49750
29.5%	28.9%	27.8%	28.0%	28.0%	28.0%	Income Tax Rate	29.0%
8.1%	7.7%	7.8%	7.9%	7.9%	8.0%	Net Profit Margin	8.2%
37964	45258	54849	59000	64500	70500	Working Cap'l (\$mill)	81000
29516	30854	33867	35000	34500	36000	Long-Term Debt (\$mill)	47500
88113	108022	129490	141000	155000	170500	Shr. Equity (\$mill)	216000
17.9%	17.6%	17.5%	17.5%	17.5%	17.5%	Return on Total Cap'l	19.5%
23.1%	21.8%	21.5%	22.0%	22.0%	22.0%	Return on Shr. Equity	23.0%
16.1%	16.7%	16.5%	17.0%	17.0%	17.0%	Retained to Com Eq	16.5%
30%	24%	23%	23%	22%	22%	All Div'ds to Net Prof	28%
24.3	21.0	21.1	20.8	20.8	20.8	Avg Ann'l P/E Ratio	19.0
1.33	1.20	1.12	1.10	1.10	1.10	Relative P/E Ratio	1.25
1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	Avg Ann'l Div'd Yield	1.5%

Sample Composite Statistics Table

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These statistics have two primary uses. First, they help an investor to examine trends in an industry. Second, they provide a benchmark for comparisons. An investor can look at the statistics on an individual company page and compare them with those of the industry to see how a company stacks up with its industry. He/she can also compare one industry with another.

## **INDUSTRY TRENDS**

When purchasing a stock in a company, an investor should also know something about the industry in which a company is operating. Some important questions are:

- Is the industry growing?
- Are the industry's operating and profit margins increasing or at least remaining steady?
- Are the industry's returns on total capital and shareholders' equity rising or at least remaining steady?

The answer to these questions can be found in the Composite Statistics table. In most cases, if an industry's trends are favorable, the operating conditions for the companies in that industry will also be favorable. If the industry trends are negative, the opposite may be true.

## **COMPANY/INDUSTRY COMPARISONS**

When you are investing in a company, you should also know how that company is performing relative to its industry. A company's size and operating performance are both very important, and you should study them by looking at our individual company pages. However, you should also know if a company is well run. Some questions an investor should ask are:

- How does a company's operating margin compare with the industry's operating margins?
- How does a company's net profit margin compare with the industry's margins?
- Are a company's returns on total capital and on shareholders' equity greater or less than those of the industry?

If a company's margins and returns are above average, the company is probably efficiently run. If the margins and returns are lower than most firms in the industry, the company is probably not being run as well as it could be.

**WARNING!** Many industries are dominated by one or two companies. When that is the case, company/industry comparisons may not be very useful. *Be careful when making company/industry comparisons to make certain the comparisons are meaningful.*

## **INDUSTRY TIMELINESS**

At the top right of each report, we publish an INDUSTRY TIMELINESS rank on each of the approximately 100 industries we rank. These go in descending order from 1, which is the highest possible rank.

The Industry Timeliness ranks are calculated by averaging the Timeliness ranks of each of the stocks in a particular industry. If an industry has a large number of stocks ranked 1, the Industry Timeliness rank is likely to be high. If an industry has a large number of stocks ranked 5, the Industry rank is likely to be low.

The Industry ranks are updated weekly and published on the front cover and a subsequent inside page of the *Summary & Index*. You should always look in the *Summary & Index* to make certain you have the most recent numbers.

## **RELATIVE STRENGTH CHART**

In the lower right corner of most reports is a relative strength chart going back for as many as seven years. Relative strength compares the price of a stock over time with the price of the stock market over the same time. (In this case, we use the Value Line Composite Index of approximately 1,700 stocks to represent the market.) When the relative strength line is rising, it means that the stocks in an industry are stronger than the broad market. When the line is falling, the stocks in an industry are weaker than the broad market.

## 6

ANSWERS TO FREQUENTLY  
ASKED QUESTIONS

*Long-term subscribers to The Value Line Investment Survey are often well aware of the basic tenets of investing and the many ways information can be used in The Value Line Investment Survey. However, they and many newer readers often have questions about material in the publication. Below are answers to those questions we receive most frequently.*

**TIMELINESS RANKS**

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

Value Line's *Timeliness Ranking System* ranks the approximately 1,700 stocks in our universe for relative price performance in the coming six to 12 months. At any one time, 100 stocks are ranked 1; 300 are ranked 2; approximately 900 are ranked 3; 300 are ranked 4; and 100 are ranked 5. In simple terms, *Timeliness* ranks [which go from 1 (Highest) to 5 (Lowest)] are determined by a company's earnings growth and its stock's price performance over a 10-year period. A rank may change under

<b>TIMELINESS</b>	<b>3</b>	Lowered 8/12/05
<b>SAFETY</b>	<b>1</b>	New 7/27/90
<b>TECHNICAL</b>	<b>3</b>	Raised 1/13/06
<b>BETA</b>	.70	(1.00 = Market)

Sample Ranks Box  
(Also see item 1, on the sample page)

three circumstances. The first is the release of a company's earnings report. A company that reports earnings that are good relative to those of other companies and good relative to the numbers we had expected may have its stock move up in rank, while a company reporting poor earnings could see its stock's rank drop.

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

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

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

We appreciate your interest, but our *Timeliness* ranks are generated by computer-driven criteria and historical data, modified for special situations by our senior statisti-

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cians. Value Line methodology keeps our System objective and unbiased, because the same criteria apply to all stocks.

**Would you tell me the formula you use to calculate ranks?**

The details of the formula are proprietary. The components of the *Timeliness Ranking System*, as mentioned earlier, include the long-term trend of earnings and stock prices, recent company earnings and stock price performance, and a comparison of the latest quarterly earnings with those that had been expected. (Better-than-expected earnings are normally positive, less-than-expected earnings, negative.) We cannot be more specific than that.

**Why do stocks with *Timeliness* ranks of 1 or 2 sometimes have below-average, long-term appreciation potential, and vice versa?**

Probably the most important thing for all readers to know is that **the time horizons for *Timeliness* ranks and for 3- to 5-year *Projections* are very different.** Our *Timeliness* ranks are for the relative performance of stocks over the coming six to 12 months. Our forecast for long-term price potential is for 3 to 5 years. Because of the very different time periods, our forecasts for the two periods can be very different.

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

**Why do some stocks not have a *Timeliness* rank?**

Our computer-generated *Timeliness* ranks require at least two years of income statement and stock price history. If a stock has been trading for less than two years, possibly because a company is relatively new or because there was a major spinoff or acquisition, we are unable to assign a rank to it. We also suspend *Timeliness* ranks for unusual developments such as a merger offer or a bankruptcy filing.

## **TECHNICAL RANK**

**What exactly is the Technical rank?**

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

## **EARNINGS**

**Why does *Value Line* sometimes show different share earnings than those in a company's annual report, or in *The Wall Street Journal*, or in a brokerage house report?**

We each calculate earnings differently. In particular, Value Line typically excludes what we consider to be unusual or one-time gains or charges in order to show what we consider to be "normal" earnings.

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

## **OPERATING MARGIN**

**What is an operating margin?**

The operating margin shows operating income (earnings before the deduction of depreciation, amortization, interest, and income taxes) as a percentage of sales or revenues. Operating income is sometimes referred to as EBITDA.

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## PRICE/EARNINGS RATIO

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

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

## ABBREVIATIONS

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

Yes. Most of the frequently used abbreviations are included in the online Glossary which is available at [www.valueline.com](http://www.valueline.com).

## SELECTION & OPINION MODEL PORTFOLIOS

How are stocks chosen for the Model Portfolios I, II and III in *Selection & Opinion*?

Each portfolio is dedicated to a different investment objective. To guard against near-term underperformance, none of the portfolios can hold a stock that is ranked below 3 (Average) for *Timeliness*. *Timeliness* ranks range from 1 (Highest) to 5 (Lowest). To make it more attractive and useful to conservative investors, Portfolio II must hold stocks that are ranked at least 3 (Average) for *Safety*.

Portfolio I, Stocks with Above-Average Year-Ahead Price Potential, is built on Value Line's well-respected *Timeliness* Ranking System. It is primarily suitable for investors who wish to take more risk in hopes of greater returns than might be afforded in Portfolios II or III. To qualify for purchase, stocks have to be ranked 1 (Highest) for *Timeliness*. To reduce portfolio turnover (and recognizing the fact that many good growth stocks go up and down in price along the way), a stock that drops a rank in

*Timeliness* to 2 (Above Average) may remain in the portfolio, assuming that the company's longer-term fundamentals remain sound. A stock that drops to 3 (Average) for *Timeliness* must be sold. We attempt to diversify the holdings as much as possible, but note that the *Timeliness Ranking System* tends to favor high earnings growth and more volatile issues that may cluster in a few industries.

Portfolio II, Stocks for Income and Potential Price Appreciation, attempts to combine our *Timeliness Ranking System* with an investment objective for above-average income. This portfolio is primarily suitable for more-conservative investors. To qualify for purchase, a stock's yield (the estimated annual dividend for the next 12 months divided by the recent stock price) must be higher than the median yield for all approximately 1,700 stocks Value Line follows. The median is shown on the cover of the *Summary & Index* each week. The stock must also have a *Timeliness* rank of at least 3. The higher-than-average yields provide support to the shares in down markets. This portfolio tends to be less volatile because the companies, as a whole, are more likely to be mature and predictable.

Portfolio III, Stocks with Long-Term Price Growth Potential, is based on the fundamental research of our staff of research analysts. This portfolio is suitable for investors with a 3- to 5-year horizon; in terms of risk, it falls somewhere between Portfolios I and II. This portfolio tends to be the most flexible, allowing purchases of a broader array of companies. It is constructed under the principles of modern portfolio theory, which state that the risk of a portfolio should be viewed within the context of a portfolio as a whole, rather than judging the portfolio according to the average rankings of individual securities it holds. To that end, this portfolio is generally well diversified, comprising stocks in a variety of different non related industries.

**The Selected Investments section of *Selection & Opinion* has three portfolios. Why isn't there a "Conservative" portfolio?**

Portfolio II, Stocks for Income and Potential Price Appreciation, is the one we would recommend for "conservative" investors. A key criterion for this portfolio is that the stocks have above-average dividend yields. These attractive yields lend support to stock prices when the market is declining. This portfolio usually also has slightly

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lower-than-market risk (volatility) as measured by the average Beta of the portfolios.

### How have the Model Portfolios done?

We publish the record quarterly in *Selection & Opinion*, usually three or four weeks after the end of a quarter. We also publish them on our Web site in the section called "About Value Line."

## FINANCIAL STRENGTH

<b>Company's Financial Strength</b>	A++
<b>Stock's Price Stability</b>	100
<b>Price Growth Persistence</b>	80
<b>Earnings Predictability</b>	100

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

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

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

## A STOCK'S 3- TO 5-YEAR PRICE PROJECTIONS

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

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

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

## STOCK DECLINES

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

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

## SPEAKING TO ANALYSTS

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

Unfortunately, this isn't practical. Our staff of analysts has been hired and trained to analyze stocks and write commentaries for *The Value Line Investment Survey* and, to be fair to all subscribers, they do not have time to provide personalized advice or information.

## PRETAX INCOME

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

You can't. We do, however, show net profit after taxes (usually line 14 in the Statistical Array) and the effective tax rate (usually line 15). You can calculate pretax income

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by dividing net profit by: 1 minus the tax rate. Example: If net profit was \$100 million and the tax rate was 36%, pretax profit would be \$156.25 million.

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

## **ERRORS IN REPORTS**

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

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

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

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

## **INTERNET (WEB) SITE**

### **Does Value Line have a Web site?**

Yes, we do, and access to the site is available to all *Investment Survey* print subscribers at no extra cost. Our address is [www.valueline.com](http://www.valueline.com). The Web site includes useful features for today's informed investor.

The Web site is designed to help keep you informed about the stock market and the stocks you are interested in. There is a section where you can get recent stock prices

and news on companies, and another where you can set up your own portfolios. Three times each day we provide written commentary from our Chief Economist, senior analysts, and senior portfolio managers. Each afternoon we provide the latest analysis from our securities analysts about selective stocks in the news that day. We also archive all issues of *The Value Line Investment Survey* published in the past three months.

To access some of this data, you must be a subscriber. To enter the "subscriber-only" section, you must enter your user code (your subscriber number on the label of your weekly envelopes) and password.

## **COMPANY COVERAGE**

### **Does a company pay to be included in *The Value Line Investment Survey*?**

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

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

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

### **Why isn't ABC, Inc., a large well-known company, included?**

We do try to include companies with actively traded stocks, which have broad public interest. If ABC fits in this category, we will, in all likelihood, provide coverage in the future.

## **GROWTH RATES**

### **How are the growth rates calculated in the Annual Rates of change box?**

We use a compound annual rate that reflects the annual

<b>ANNUAL RATES</b> of change (per sh)	<b>Past</b> <b>10 Yrs.</b>	<b>Past</b> <b>5 Yrs.</b>	<b>Est'd</b>
Sales	9.5%	10.0%	6.5%
"Cash Flow"	13.5%	13.5%	8.5%
Earnings	14.5%	15.5%	8.5%
Dividends	14.5%	15.0%	10.0%
Book Value	14.5%	13.0%	13.0%

Sample Annual Rates Box  
(Also see item 23 on the sample page)

change for various items over the entire period being computed. All rates of change are computed from the average figure for a past 3-year period to an average for a future 3-year period.

## **TIMELINESS OF INFORMATION**

### **When can I expect to receive updates of your information?**

Our intention is for every subscriber to receive *The Value Line Investment Survey* in print on Friday. Unfortunately, however, there are occasionally circumstances beyond our control that may cause later delivery.

To guarantee timely dissemination of our information, we now make all the information in *The Investment Survey* available on the Value Line Web site at 8:00 A.M. Eastern time each Monday. (Other arrangements are made for days when the stock market is closed on Monday.) All subscribers to any version of *The Investment Survey* (print, CD, or Internet) have access to the latest data.

## Notes

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