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INSTITUTIONAL RESEARCH
Healthcare & Biotechnology
INITIATION REPORT

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Home Diagnostics (Nasdaq/HDIX)

BUY **Out-stripping the competition**

Home Diagnostics manufactures and markets diabetes testing supplies

Investment Highlights

1) Home Diagnostics (HDIX) is proceeding steadily with its test **strip manufacturing expansion** at its Fort Lauderdale headquarters, adding new equipment this summer on both ends of its manufacturing line to add throughput, reduce costs, and improve flexibility and reliability. What's more, the first, state-of-the art unit of a second manufacturing line has arrived at the plant, and will be the cornerstone of second line with twice the capacity of the first line, eventually tripling total capacity when completely installed and validated sometime next year. This added capacity will come on line just as customers at new accounts including Liberty Medical and Wal-Mart (and maybe more) re-order strips for their new TRUEresult and TRUE2go meters.

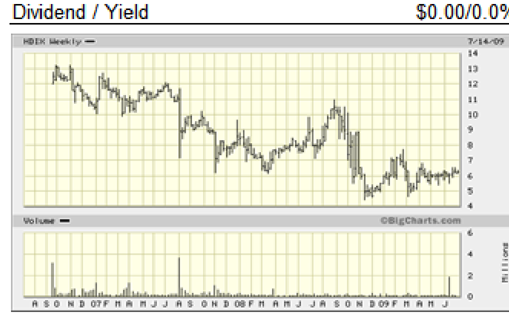
2) Even with the capital outlay this year for manufacturing expansion, the Company maintains a **very solid balance sheet**, with over $20 million in cash (over $1 per share) and no long-term debt. Anticipated operating cash flow in the second half of this year and next will also **add to financial resources** (the untapped line of credit was recently increased as well), **setting the stage perhaps for a more active acquisition or in-license program,** as new CEO Joe Capper applies his industry experience to leverage the Company's manufacturing muscle and sales savvy into new product lines for the diabetes care or home health market.

3) Despite successful growth and new product approvals, Home Diagnostic shares have fallen almost 50% since the IPO three years ago, and **continue to trade at a discount** to peers and at an even greater discount to recent buy-outs in the diabetes area. The Company has maintained much of its cash from the IPO, and has been able to buy its shares back at depressed levels. **Demographics in the diabetes market continue to be very favorable**, regardless of the state of the economy, and Home Diagnostics has set itself up nicely for long-term growth and profitability.

Current Price	**$6.48**
Price Target	**$10.00**

Estimates	F2007A	F2008A	F2009E
Sales($mil)	**$115.6**	**$123.6**	**$131.5**
1Q	28.1	25.1	24.6 A
2Q	28.1	33.4	34.0 E
3Q	31.7	35.6	39.8 E
4Q	27.8	29.5	33.1 E
Prev. Rev. Estimate ($ mil.)			
EPS	**$0.49**	**$0.43**	**$0.36**
1Q	0.13	0.01	(0.10) A
2Q	0.09	0.14	0.07 E
3Q	0.27	0.22	0.24 E
4Q	0.01	0.06	0.15 E
Previous EPS Estimate			
P/E (x)	13.2	14.9	17.8
EBITDA/Share	$0.92	$0.88	$0.87
EV/EBITDA (x)	5.7	6.0	6.0

Stock Data	
52-Week Range	$4.41-$10.99
Shares Outstanding (mil.)	17.9
Market Capitalization (mil.)	$116.0
Enterprise Value (mil.)	$94.4
Debt to Capital (3/09)	0.0%
Book Value/Share (3/09)	$6.01
Price/Book	1.1 x
Average Trading Volume (3-Month)	55,000
Insider Ownership	42.1%
Institutional Ownership	44.7%
Short interest	98,500
Dividend / Yield	$0.00/0.0%



Price target and ratings changes over the past 3 yrs:
Initiated - July 15, 2009 - Price Target $10.00

Conclusion

Home Diagnostics has established itself as a well-rounded, innovative, and profitable participant in the high-growth diabetes testing market, despite going toe-to-toe with industry heavyweights. Shares have held steady this year as the Company continues its investment in new programs and new capacity, even while earnings suffer a bit in the short term. Still, even with overall economic and government reimbursement uncertainty, the incidence and acuity of diabetes is growing in the US, and HDIX's innovative and cost-saving product line should fare extremely well in 2010 and beyond, once this year's investments are complete. Combined with a strong balance sheet and weak stock market, Home Diagnostics has been able to complete its share re-purchase program, which will boost earnings per share, particularly in 2010. Therefore, we are maintaining our BUY rating on this under-valued stock with a 12-18 month price target of $10, still below the IPO price and at reasonable multiples of 1.7X book value per share and 15X estimated earnings for next year of $0.65 per share.

History/Capitalization

Home Diagnostics was founded over twenty years ago to manufacture and market diabetes testing monitors and supplies. The Company funded its growth through positive operating cash flow, founders' capital, and a line of credit until September 2006, when Home Diagnostics completed its Initial Public Offering. The Company raised approximately $35.1 million in the offering, issuing 3.3 million shares at $12 per share. With the proceeds, Home Diagnostics re-paid its outstanding debt. Home Diagnostics has been profitable and cash flow positive since its IPO and has authorized several buy-backs programs since 2007.

Primary Business/Competition

Home Diagnostics manufactures and markets co-branded glucose meters and related test strips to retailers, wholesalers, and mail order customers throughout the US and overseas. The Company's major brands include Sidekick, TRUEread, Prestige, TRUETrack, TRUEresult and TRUE2go. The worldwide market for diabetes monitors and test strips is estimated at $7 billion (Frost & Sullivan 2007) and is growing at an estimated 6% annually in the US and 17% internationally. Major competitors include Bayer, Johnson & Johnson through its Lifescan division, Abbott Labs through its MediSense and TheraSense subsidiaries, Roche, and more recently a number of low-cost monitors manufactured in Asia. Home Diagnostics maintains its headquarters in Ft. Lauderdale, Florida, a manufacturing facility in the US to develop glucose monitors and manufacture test strips, and a facility in Taiwan to manufacture and assemble meters.

Recent Results

Home Diagnostics' most recent financial results for Q1/2009 reported in early May were as anticipated, and included a loss of ($0.10) per share versus a gain of $0.01 in Q1/2008 on revenues of $24.6 million, a decline of 2% over the prior year period. Revenues for the quarter were led by strong increases in retail (up 25.2%) and mail service shipments (+21.8%) offset by declines in distribution (-19.0%) and international (-32.0%) revenues. Sales to new big new accounts, Wal-Mart in the retail segment with new products TRUEresult and TRUE2go and Liberty Medical in the mail service area led revenue growth, while reduced sales to a distributor in Brazil and inventory reductions in the wholesale distribution market were a negative factor in the quarter. Gross profit margin declined to 47.1% from 58.1% in the prior year due to promotions and lower pricing as well as the ramp-up of the TRUEtest strip manufacturing process. However, the Company was able to tighten other overhead expenses (R&D, S, and G&A) to below last year's levels at $14.0 million, down from $14.2 million in Q1/08.

Balance Sheet and Operating Cash Flow

Home Diagnostics maintains a strong balance sheet, with $21.5 million in cash on hand at March 31, 2009 with no outstanding balances on the Company's recently renewed and expanded $15 million line of credit. Operating cash flow was a negative ($1.2 million) during the quarter, primarily due to the loss for the quarter caused by the investment in the new product lines. In addition, the Company spent approximately $3 million in the quarter for manufacturing expansions and $2.9 million (for 470,000 shares) for share re-purchases as part of a buyback program authorized in late 2008. The share repurchase program (approximately $2 million remaining of the $5 million authorized) has recently been completed, while the Company expects to spend between $17-$19 million this year (including $12 million for the test strip expansion) for capital expenditures. We forecast that the Company will be profitable for the remainder of the year, and return to positive cash flow in subsequent quarters.

Channel Review

A recent review of five major distribution channels for diabetes monitors and test strips, including several of the Company's largest customers, revealed:

CVS is now the largest retail pharmacy chain in the US, with over 6,900 stores coast-to-coast, after a series of acquisitions over the past several years. CVS targets space in strip malls, and has spent the last several years in restructuring and refurbishing a large number of pharmacies acquired through acquisitions, including the former Eckerd store that I visited in South Florida. CVS had the most comprehensive diabetes care section that I saw, headed by a top shelf listing coupons for a number of SKUs of test strips, to be bought behind the pharmacy counter, including TRUEtest ($89.99 for 100 and $39.99 for 50) and TRUETrack ($52.99 for 100). The second shelf featured meters, lead by TRUE2Go ($9.99 includes 10 test strips) and TRUETrack ($14.99 including 10 test strips after a $5 off discount). Also for sale was TRUEresult ($14.99 after $5 off) as well as other name brands, including Bayer's Contour, J&J's One Touch, and others, although notably there were no store brand Asian-based meters or strips on the shelf.

Walgreen's Pharmacy (2nd largest account) – Walgreen's is the second largest retail pharmacy in the US (with a little over 6,850 stores) and has expanded significantly this decade, primarily through the construction of large, stand alone stores. While Walgreen's generally has larger stores than CVS (I visited a new, stand-alone store in Florida) with more general merchandise, their pharmacy sections in general and diabetes care section in specific were smaller than that of CVS. Walgreen's offerings were led by their store brands, Home Diagnostics' TrueTrack and True2Go, at prices the same as at CVS. Also stocked were a number of brand meters and test strips, including Abbott's FreeStyle Lite and Precision Xtra, Roche's Accu-chek, J&J's Lifescan OneTouch and Bayer's Contour, although less prominently displayed than the Walgreen's HDIX store brands. Walgreen's also had a number of lancets displayed, but not test strips.

Super Target – I also visited a brand new Super Target in Florida (built on the former site of a K-Mart, interestingly). Target does not carry Home Diagnostics' brands, but their well-laid out (if somewhat smaller) diabetes section does prominently feature EasyPro meters and strips (manufactured in Malaysia) at the low end, selling for $9.04 for a meter and 10 test strips (these are not no-code products, however). Also stocked were Accu-chek, FreeStyle, Contour and OneTouch Mini meters and strips.

Wal-Mart Supercenter – Wal-Mart's new SuperCenter included a number of smaller brands of monitors and strips, including ReliOn (China) and WaveSense (manufactured in China). On the third shelf, below the offerings from ReliOn, WaveSense, Contour, Accu-Check, OneTouch and FreeStyle was TRUEtrack (perhaps because it was the newest item) priced at $14.92 for a meter and 10 test strips. While the ReliOn ($9.00 for a meter and 10 test strips) was less expensive than the TRUETrack, the WaveSense ($15.88 for a no-code meter and 10 test strips) was more expensive, and the ReliOn no-code meter ($12.00) did not include strips. Wal-Mart also a boasted a large assortment of test strips, tucked away behind a glass shelf, although no TRUEtrack strips were stocked as yet.

While **Liberty Medical's** web site does not list prices, they do have some innovative promotions, including a "Win a Free Meter" contest showing the Liberty TRUEresult meter prominently on the first page of the Liberty website. The Diabetes Supplies tab of the website includes a number of monitors and test strips, headed up by the Liberty-branded TRUEresult, as well as another store brand (from WaveSense) next, followed by several branded products, including J&J's OneTouch Ultra2, Abbott's FreeStyle, Roche's Accu-Chek, Bayer's Contour, and the Prodigy meter for visually impaired patients. Liberty also stocks insulin supplies, insulin pumps, continuous monitoring systems (MiniMed and Dexcom) and A1c test kits.

Site Visit

We had a chance to visit with Home Diagnostics' management recently and tour their rapidly expanding manufacturing facilities. The Company has added new, automated machines on both the front and back end of the test strip manufacturing process, increasing throughput and flexibility, while reducing costs and downtime for this process. Many of the pieces of equipment are prototypes (manufactured both in the US and overseas) developed by Home Diagnostics' engineers in conjunction with the manufacturers. The Company has also just recently received its first machine for what will be a whole new, second manufacturing line. This first unit is a high-throughput, low maintenance (fewer moving parts) test strip handler and will be the core of a new line which will have twice the capacity of the first line (tripling capacity altogether) in less space. We also spoke to management regarding the status of CCS Medical (Mr. Capper's former firm) and how this might relate to the Company's mail order business; Mr. Capper seemed to feel that CCS would survive its current debt-related dilemma, but if not, other mail-order firms, especially Liberty Medical, could pick up the slack.

Outlook/Growth Drivers

Home Diagnostics' management gave financial guidance for the remainder of the 2009 year in May at the time of the Q1/2009 earnings release, including revenues of $130-$133 million for the year (an increase of 5%-8% over 2008) and earnings of $0.36-$.40 per share. In addition, management stated that revenues for Q2/2009 were going to be level with those of Q2/2008 with net income in the $1-$2 million range. We are estimating that the Company will earn $0.07 per share in Q2/2009 (seasonally a good quarter but not the strongest of the year) with revenues of $34.0 million, or up 2% from the prior year period. For the full year, we are estimating that Home Diagnostics will earn $0.36 per share on revenues of $131.5 million, up 6.4% from 2008. Revenue growth is anticipated to be led by shipments to new accounts Liberty Medical and Wal-Mart, while earnings are forecast to bounce-back thanks to improved margins as new test strip manufacturing systems come on line and R&D expenses are lowered due to the completion last year of much of the next generation product line development. For 2010E, we are estimating that annual revenue growth will be 7.5%, similar to the rate of the past two years, with improved margins helping increase earnings per share to $0.65.

Management

Joe Capper has been President, CEO and director of the Company since February 2009. Mr. Capper's prior experience includes posts with Bayer Healthcare and privately-held CCS Medical, a diabetes supply mail-order distributor. **Ron Rubin** has served as CFO since November 2005, after holding financial posts with Waste Services, Paxson Communications and AutoNation. **George Holley**, a co-founder of the firm, has been Chairman of the Board since 1985.

Stock Valuation/Comparables

Home Diagnostics' shares currently trade at a discount to our list of comparable medical supply and distribution stocks based on last year's actual earnings, although the shares now trade at a premium to comparables based on this year's earnings estimates. (See Table 1 below) All current valuation metrics still pale when compared with those of recent buy-outs, such as 2007's purchase of PolyMedica (Liberty Medical's parent) by Medco Health, at a time of more favorable market conditions. Longer-term, however, we retain faith in the strength of the diabetes market and Home Diagnostics' strategic position within this market, and thus we believe that the inherent value of Home Diagnostics is much higher than current trading levels, up to 15X 2010E estimated earnings of $0.65, or $10 per share.

Risk Factors

The diabetes market, like many healthcare areas, is heavily dependent on **Federal Medicare reimbursement** for Senior Citizens, which could be subject to a competitive bidding process as early as 2010. This market is also subject to **FDA approvals**, as well as recent low-cost Asian entrants and a number of larger, well-heeled competitors which could put pressure on prices, if desired. Finally, the FDA has been meeting with a number of manufacturers of blood glucose meters, including the Company, to discuss safety concerns related to the use of the **GDH-PQQ enzyme** by certain patients undergoing other treatments containing maltose or its derivatives. The Company is meeting with the FDA to develop a mitigation plan related to the use of the new TRUEtest strips, which contain the enzyme, in the small population of patients receiving maltose-based therapies.

Catalysts/Investor Timeline

1) Progress of capacity expansion of US plant –ongoing in 2009; completed validation by mid-2010
2) Follow-up meetings with FDA regarding GDH-PQQ enzyme mitigation plan – H2/2009
3) Launch of new TRUEbalance low-cost, no-coding meter – Q2/2009
4) New US retail partners; international distribution JVs; potential acquisitions – 2009-10

Home Diagnostics, Inc.
Consolidated Statements of Operations
(in $000, except EPS)

FYE December	2002	2003	2004	2005	2006	2007	1Q08 (March)	2Q08 (June)	3Q08 (Sept)	4Q08 (Dec)	2008	1Q09 (March)	2Q09E (June)	3Q09E (Sept)	4Q09E (Dec)	2009E	2010E
Net sales	72,399	73,709	85,082	100,165	112,628	115,601	25,120	33,356	35,565	29,542	123,582	24,602	34,000	39,800	33,100	131,502	141,400
Cost of Sales	29,464	29,400	35,570	41,149	44,287	45,556	10,532	13,470	13,935	14,409	52,346	13,018	17,000	17,500	13,900	61,418	62,200
Gross profit	42,935	44,309	49,512	59,017	68,341	70,046	14,588	19,886	21,629	15,133	71,237	11,583	17,000	22,300	19,200	70,083	79,200
Operating expenses:																	
Sell, gen. & admin.	24,048	22,581	29,022	37,259	42,603	46,826	11,871	13,699	13,399	12,480	51,448	12,109	13,300	13,900	13,100	52,409	53,700
Research & dev.	6,366	5,990	5,713	6,526	8,230	8,928	2,357	2,427	2,036	1,816	8,635	1,884	1,900	2,000	2,200	7,984	8,500
Total	30,414	28,571	34,734	43,785	50,833	55,754	14,228	16,125	15,435	14,295	60,083	13,992	15,200	15,900	15,300	60,392	62,200
Income before taxes	12,521	15,738	14,778	15,232	17,508	14,291	361	3,761	6,194	838	11,153	(2,409)	1,800	6,400	3,900	9,691	17,000
Other income (expense)	(3,578)	(3,482)	(11,119)	(3,318)	(2,818)	(1,275)	(199)	320	149	285	555	170	270	370	470	1,280	1,700
Pre-tax income	8,943	12,256	3,659	11,914	14,690	13,016	162	4,080	6,343	1,123	11,708	(2,239)	2,070	6,770	4,370	10,971	18,700
Income taxes	4,067	4,323	1,692	5,982	4,380	3,388	(559)	1,397	1,809	(582)	2,064	(540)	800	2,500	1,600	4,360	6,900
Net income	4,876	7,933	1,966	5,932	10,309	9,628	721	2,683	4,534	1,704	9,644	(1,699)	1,270	4,270	2,770	6,611	11,800
EPS - basic	$0.35	$0.57	$0.14	$0.43	$0.70	$0.54	$0.04	$0.15	$0.26	$0.10	$0.54	($0.10)	$0.08	$0.25	$0.16	$0.39	$0.69
EPS - diluted	$0.35	$0.56	$0.14	$0.39	$0.59	$0.49	$0.04	$0.14	$0.24	$0.09	$0.51	($0.10)	$0.07	$0.24	$0.15	$0.36	$0.65
EPS - before tax benefit							$0.01	$0.14	$0.22	$0.06	$0.43	($0.10)	$0.07	$0.24	$0.15	$0.36	$0.65
Shares out - basic	13,783	13,815	13,815	13,740	14,811	17,952	17,899	17,841	17,610	17,483	17,708	17,326	16,900	17,000	17,100	17,082	17,200
Shares out - diluted	13,989	14,068	14,061	15,078	17,373	19,573	18,997	18,918	18,792	18,303	18,752	17,326	17,900	18,000	18,100	17,832	18,200
Key Ratios:																	
Sales growth		1.8%	15.4%	17.7%	12.4%	2.6%	-10.6%	18.9%	12.2%	6.4%	6.9%	-2.1%	2.0%	12.0%	12.0%	6.4%	7.5%
Gross margin	59.3%	60.1%	58.2%	58.9%	60.7%	60.6%	58.1%	59.6%	60.8%	51.2%	57.6%	47.1%	50.0%	56.0%	58.0%	53.3%	56.0%
S,G & A/Sales	33.2%	30.6%	34.1%	37.2%	37.8%	40.5%	47.3%	41.1%	37.7%	42.2%	41.6%	49.2%	39.0%	35.0%	39.5%	39.9%	38.0%
R & D/Sales	8.8%	8.1%	6.7%	6.5%	7.3%	7.7%	9.4%	7.3%	5.7%	6.1%	7.0%	7.7%	5.5%	5.0%	6.5%	6.1%	6.0%
Tax Rate	45.5%	35.3%	46.3%	50.2%	29.8%	26.0%	N/A	34.2%	28.5%	-51.8%	17.6%	N/A	37.0%	37.0%	37.0%	39.7%	37.0%
Cash Flow/Share	$0.70	$0.91	$0.49	$0.82	$0.90	$0.75	$0.10	$0.21	$0.31	$0.16	$0.77	-$0.03	$0.14	$0.30	$0.22	$0.63	$0.92
EBITDA/Share	$0.99	$1.22	$0.61	$1.22	$1.17	$0.92	$0.07	$0.28	$0.40	$0.13	$0.88	-$0.06	$0.18	$0.44	$0.31	$0.87	$1.30

Balance Sheets
(in $millions)

Assets:	12/31/08	3/31/09
Cash and equivalents	$30.4	$21.5
Accounts receivable	18.7	18.2
Inventory	17.1	18.1
Other current	7.1	8.2
Total current	73.3	66.0
Property & equip, net	31.5	34.5
Goodwill & other	36.5	36.1
TOTAL ASSETS	$141.3	$136.7
Liabilities:		
Accounts payable	7.7	7.8
Accrued expenses	21.5	21.3
Other	0.0	0.0
Total current	29.3	29.2
Other long-term	0.0	0.0
Stockholders' equity	112.1	107.5
TOTAL LIAB. & EQ	$141.3	$136.7

Quarterly Comparisons

	(March)	(June)	(Sept)	(Dec)	Total
Revenues (in $millions)					
2005	20.2	26.7	29.5	23.7	100.2
2006	27.2	28.5	30.1	26.9	112.6
2007	28.1	28.1	31.7	27.8	115.6
2008	25.1	33.4	35.6	29.5	123.6
2009E	24.6	34.0	39.8	33.1	131.5
Earnings per Share					
2005	0.05	0.10	0.18	0.10	0.43
2006	0.10	0.13	0.45	0.04	0.70
2007	0.14	0.10	0.29	0.01	0.54
2008	0.04	0.14	0.24	0.09	0.51
2009E	(0.10)	0.07	0.24	0.15	0.36

Operating Statistics (In $millions, except EPS)	December 2004	December 2005	December 2006	December 2007	December 2008	December 2009E
Revenues by Segment						
Retail	$18,929.0	$20,502.0	$25,118.5	$25,959.0	$29,072.8	$33,000.0
Domestic Distribution	42,481.0	53,340.0	63,092.1	61,068.6	60,433.1	60,400.0
Mail Service	15,697.0	16,159.0	13,095.1	14,048.0	19,274.0	22,000.0
International	7,975.0	10,164.0	11,322.7	14,525.7	14,802.5	16,100.0
Total	$85,082.0	$100,165.0	$112,628.4	$115,601.3	$123,582.4	$131,500.0

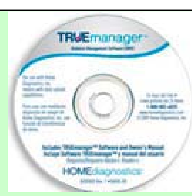
Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Medical Supply Distribution and Mail Order Comparable Company Analysis

Company	Symbol	Price	Shares (millions)	Market Cap ($Millions)	Calendar Year EPS '08A	Calendar Year EPS '09E	Revenues 2009E	Calendar Year P/E '08A	Calendar Year P/E '09E	Price/Revs 2009E	Earnings Growth	Notes
Medco Health	MHS	$47.94	482.4	23,126.3	2.32	2.74	58,680	20.7	17.5	0.39	18.1%	Purchased PolyMedica in late 2007
Henry Schein	HSIC	$47.60	90.2	4,293.5	2.98	3.20	6,350	16.0	14.9	0.68	7.4%	
McKesson	MCK	$44.37	271.4	12,042.0	3.87	3.95	10,700	11.5	11.2	1.13	2.1%	
Owens & Minor	OMI	$43.65	41.6	1,815.8	2.44	2.63	8,000	17.9	16.6	0.23	7.8%	Sold Diabetes business to Medco Liberty in '09
Express Scripts	ESRX	$66.15	247.8	16,392.0	3.08	3.71	22,350	21.5	17.8	0.73	20.5%	Buying WellPoint's PBM
PSS Worldwide	PSSI	$18.24	59.4	1,083.5	0.92	1.10	2,030	19.8	16.6	0.53	19.6%	
Average								17.9	15.8	0.61	12.6%	
Home Diagnostics	HDIX	$6.48	17.9	116.0	0.43	0.36	132	14.9	17.8	0.88	-16.4%	Also manufacturer
Discount/(Premium)								16.6%	-13.2%	-43.4%		
Recent Private Transactions												
PolyMedica	PLMD	$53.00	23.4	1,240.2	2.15	2.35	800	24.7	22.6	1.55	9.3%	Reflects Medco Buy-out in late 2007

Source: Dawson James Securities; Thomson Analytics

Table 2. Product TimeLine

Product	Graphic Representation	Date Introduced	Target Market
Prestige IQ		**June 2001**	**Users with limited dexterity or visual acuity**
TRUEtrack		**September 2003**	**Frequent testers with active lifestyle**
Sidekick		**August 2005**	**Baby Boomers with an active lifestyle**
TRUEread		**March 2007**	**Frequent testers requiring basic data management**
TRUEresult	 	**Q4/2008**	**No coding systems for faster, easier testing at home**
TRUE2go	 	**Q4/2008**	**No coding systems for faster, easier testing on the go**
TRUEmanager		**Q2/2009**	**Diabetes management software**
TRUEbalance		**Q2/2009**	**Low-cost no-coding meter**

Source: Company documents

Important Disclosures:

Price Chart:

Price target and ratings changes over the past 3 years:
Initiated - July 15, 2009 – Target $10.00

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Ratings definitions: 1) Speculative Buy: the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Strong Buy" recommendation; **2) Strong Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months; **3) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **4) Neutral:** the stock is fairly valued for the next 12-18 months; **5) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold; **6) Sell Short:** the stock is expected to decline at least 30% over next 12-18 months and should be sold short, however **the volatility and investment risk is substantially higher** than our "Sell" recommendation; **7) Under Review:** the previous rating and/or price target is suspended due to a significant event which now requires additional analysis and the previous rating and/or price target cannot be relied upon; and **8) Restricted:** coverage cannot be initiated or has been temporarily suspended to comply with applicable regulations and/or firm policies in certain circumstances such as investment banking or an advisory capacity involving the company.

	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	55%	5	83%
Strong Buy	1	9%	0	0%
Buy	2	18%	0	0%
Neutral	2	18%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	11	100%	7	64%

Information about valuation methods and risks can be found in the "STOCK VALUATION" and "RISKS" sections of this report.