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## INDUSTRY UPDATE

### Building Materials – “Mortal Panic” and the Growing Jobs Bill Debate

#### RELEVANT COMPANIES:

<u>Ticker</u>	<u>Price</u>	<u>Rating</u>	<u>Market Cap</u>	<u>Short Interest (% of float)</u>
ASTE	\$25.20	Buy	\$572.9M	16.1%
BECN	\$16.54	Hold	\$754.9M	12.7%
CAT	\$58.30	Hold	\$37.0B	5.5%
EXP	\$27.53	Hold	\$1.21B	12.2%
GVA	\$30.86	Buy	\$1.16B	11.6%
HEES	\$10.85	Hold	\$375.4M	5.8%
MLM	\$84.80	Hold	\$3.82B	20.1%
MTW	\$9.65	Buy	\$1.25B	7.6%
POOL	\$18.08	Hold	\$882.3	15.5%
RBA	\$24.52	Hold	\$2.60B	19.8%
RRR	\$6.85	Hold	\$708.5M	15.6%
STRL	\$17.80	Buy	\$252.4M	8.5%
TEX	\$19.13	Hold	\$1.90B	10.5%
TXI	\$34.55	Hold	\$957.2M	25.0%
URI	\$9.49	Hold	\$567.0M	4.2%
USG	\$14.43	Hold	\$1.43B	20.0%
VMC	\$49.03	Buy	\$5.42B	16.3%

Please see Appendix 1 for a complete comp table.

**FOR DISCLOSURES, PLEASE REFER TO THE IMPORTANT DISCLOSURES SECTION ON PAGE 7.**

#### TRG SNAPSHOT:

Last week we ventured to Washington, D.C. to better understand the current transportation bill debate and a potential “jobs bill”. As one contact noted, Congress is in “mortal panic over employment levels”, and as such, the political will quickly to address jobs is high because so many re-elections hinge upon a solution. Today’s note seeks to clarify the political motivations underlying the transportation bill debate and a jobs bill. Decision making in D.C. is always mercurial, and our trip confirmed this verity.

#### KEY POINTS:

- Infrastructure a key focus in D.C.
- Leadership is driving the jobs bill, transportation bill extension.
- Jobs bill and transportation bill extension are two different debates.
- Funding remains a thorn in the side for both debates.
- **TRG Opinion.** Senate leadership is pushing to conclude the healthcare bill floor debate before the end of 2009. We believe the order of importance after healthcare is 1) appropriations (i.e., minibus), 2) jobs bill, 3) FAA reauthorization, and 4) transportation bill extension. We do not think a transportation bill extension will be addressed prior to the CR expiration 12/18/09 and expect another 30-60 day CR that will be attached to the appropriations minibus. There remains a push for a 6-month transportation bill extension, but the jobs bill has pushed the extension debate to late February/early March, in our opinion. Infrastructure will be an important part of a jobs bill, and its passage is targeted for January. As has consistently been the case, D.C. has further complicated the infrastructure debate. That said, there appears to be an additional piece of legislation that supports our building materials coverage, including VMC, MLM, GVA, STRL, EXP, and TXI.

## **KEY DETAILS:**

**Last week we ventured to Washington, D.C. to better understand the current transportation bill debate and a potential jobs bill.** As one contact noted, Congress is in “mortal panic over employment levels”, and as such, the political will to quickly address jobs is high because so many re-elections hinge upon a solution. Today’s note seeks to clarify the political motivations underlying the transportation bill debate and a jobs bill. Decision making in D.C. is always mercurial, and our trip confirmed this verity.

We met with contacts in both chambers on the majority and GOP leadership side. Our meetings included representatives from key committees responsible for drafting jobs and transportation legislation along, in addition to key dissenters to learn their positions. More notable of our more than dozen meetings include offices of the Senate Majority Leader, Senate Environment and Public Works (EPW) chair, Senate Majority Whip, Senate Finance chair, House Majority Leader, House Minority Whip, House Financial Services chair, House Ways and Means chair, House Transportation & Infrastructure committee.

### **Infrastructure a key focus in D.C.**

**Infrastructure a key focus in majority of meetings.** As we noted in our late October D.C. note *Building Materials – Transportation Bill & the Mounting Debate* (published 10/23/09), transportation has become a political issue in D.C. We continue to believe the transportation/infrastructure debate is being used as a pawn for mid-term elections. With unemployment finally piercing 10% (although admittedly pulled back modestly last week), infrastructure represents a potential solution for the jobs quandary. Democrats view transportation as a great opportunity to create jobs in the short-term to help with re-elections. Certain key Republicans appear to have backed off from their view that infrastructure legislation is a typical Democratic piece of legislation – one that requires higher taxes and rampant earmarks.

### **Leadership Driving the Debate**

**As was the case with the stimulus bill, leadership is driving the bus.** Based on our meetings with key congressional members, it became very clear that leadership is shaping the jobs bill debate, and the leadership message hasn’t necessarily been clearly relayed to Senate and House members. It is our understanding that key leadership includes Senate Majority Leader Reid, Chairman Boxer (EPW), Chairman Oberstar (T&I), Senator Durbin (IL), Senator Dorgan (ND), House Majority Leader Hoyer, and the White House.

## **Jobs bill and transportation extension two different debates**

**Confusion about jobs bill and transportation bill extension debates.** There was a great deal of confusion about whether a proposed “jobs bill” or transportation bill extension is one debate or two discrete debates. Keep in mind that the jobs bill idea only came to fruition Thanksgiving week, and the first Jobs Now Caucus meetings (designed to gather ideas) only met for the first time last Tuesday. President Obama held his quickly publicized “jobs summit” last Thursday. As noted above, however, leadership is defining the debate, and the message hasn’t been clearly conveyed to the majority party (in part because the debate is still in the early stages). In the Senate, Durbin and Dorgan have been charged with collecting jobs ideas from all the committees and putting together a Senate jobs bill. On the House side, Larsen has been charged with collecting jobs ideas from all the committees and putting together a House jobs bill. It was clear that Oberstar is driving the transportation portion of the House jobs bill.

**While we were in D.C., both Boxer and Oberstar held press conferences outlining a jobs bill.** We attended Boxer’s press conference, and she was insistent upon maintaining that the jobs bill and transportation bill were two discrete debates (i.e., the jobs bill would not be considered a solution for the transportation bill extension). Boxer stated she remains convinced a 6-month extension and restoration of funds to pre-rescission levels is the most likely near-term outcome for the transportation bill debate. She stressed this is a leadership initiative, so the jobs bill “will get done”. We understand Senators Durbin and Dorgan are putting together ideas for the jobs bill on the Senate side, and there are four proposed components: infrastructure, small business, aid to states, and tax cuts. Senators Boxer, Rockefeller, and Dodd are in charge of the infrastructure component. When we asked Senator Boxer the potential dollar amount of a jobs bill, she pointed to the recent AASHTO’s recent survey that outlined \$69.55B of infrastructure projects (\$47.26B for highways) that could be started in 120 days. Pointing to the AASHTO survey display at the press conference she noted, “it should be at least this much.”

**From a party leadership standpoint, keep in mind that Nevada Senator Reid is a strong proponent of infrastructure.** The state of Nevada is heavily reliant upon tourism, and as such, a solid and reliable transportation and infrastructure network is vital to the overall economic health of his state. Reid determines the order of debates on the Senate floor, and we walked away from our meeting with his office with the message that while the healthcare bill is dictating Senate time, jobs are dictating future legislation. We believe infrastructure will be an important part of the jobs bill, but note there will be greater focus on longer-term projects, which would be an incremental positive for our aggregate and cement coverage.

### **Funding remains a thorn in the side**

**What hasn't changed is financing remains a thorn in the side, and Democrats and Republicans differ on how to fund a potential Jobs Bill and transportation extension.** Both generally agree a funding solution must be deficit neutral. For the jobs bill, it appears Democrats favor tapping into TARP funds, several Republicans with whom we met focused on utilizing unutilized ARRA funds.

**For SAFETEA-LU reauthorization, we get the sense there is wider support for a gas tax hike (including from Republicans).** The catch, however, is support for gas tax increases hinges upon knowledge of what the bill will consist and the likelihood of passage (and allows members to go back to home districts to explain what they are getting for their money). This of course leaves us with the proverbial "chicken and egg" situation. We believe there is more progress with Senate version of the bill than we previously had anticipated, and the Senate is taking a different approach to revealing their version of the bill versus Oberstar. The House drafted a transportation bill and made public early for everyone to blow holes in it. The Senate has chosen to be more strategic in the release of the details of its version of a transportation bill (which we believe is fairly different for key components vs. Oberstar's bill). It is our understanding the Senate will reveal its version when leadership finally gives the nod to start debates on SAFETEA-LU reauthorization.

### **TRG Opinion**

**Predicting what will happen next, of course, is the most challenging part – predicting what will happen next in D.C.** We did get the clear message from Senator Reid's office that he will do everything in his power to conclude the floor debate for the healthcare bill before the end of 2009. This includes working weekends and up through Christmas Eve and between Christmas and New Years. Given most of D.C. shuts down after December 18<sup>th</sup>, this is a clear signal that the Senate needs to get its act together and finish the healthcare bill debate.

**We believe the order of importance after healthcare is 1) appropriations (i.e., minibus), 2) jobs bill, 3) FAA reauthorization, and 4) transportation bill extension.** With the current transportation bill CR set to expire December 18<sup>th</sup>, we deem it highly unlikely that the bill extension will be addressed prior to then. That said, we believe there will be another transportation bill CR attached to the minibus in mid-December that will at least be 30 days in length and potentially could be as long as 60 days. Either way, we think a transportation bill extension now will be addressed by late February/early March, the timeline pushed out because of the recently raised jobs bill. Overall, it is our sense that D.C. (finally) understands the importance of the construction cycle and is attempting to fast track timelines to address this.



**In order for jobs bill to get passed in a timely manner, we believe this will require rarely used procedure.** House leadership insists their version of the jobs bill will be ready prior to the end of 2009, and Senate leadership has vowed to pass a jobs bill by the end of January. Given the “mortal panic” over jobs, we think there is a greater than 50%/50% chance of passing the House version of the bill before the holiday recess.

We came away from our D.C. trip believing the possibility exists for yet another opportunity for increased infrastructure spending for 2010. Congressional members with whom we spoke were all but unanimous in their opinion that a jobs bill would provide additional funding infrastructure spending to complement traditional Federal state funding for state DOTs and the original ARRA funding passed in February 2009. We believe the jobs situation will force Congress to act and infrastructure spending is still seen as one of the few ways government can have a direct impact on jobs.

## APPENDIX 1 – BUILDING MATERIALS COMP TABLE:

Company Name	Ticker	Rating	Price Target	Price 12/4/09	52-Week High	52-Week Low	Shares Outstanding	Market Cap	Enterprise Value	Cash per Share	Book/Share	Price/Book	Debt to Capital
Beacon Roofing Supply	BECN	Hold	NA	\$16.54	18.12	9.81	45.6	\$754.9	\$1,025.5	\$1.81	\$9.28	1.6x	45.5%
Eagle Materials	EXP	Hold	NA	\$27.53	30.09	16.22	43.9	\$1,207.2	\$1,601.6	\$0.10	\$10.18	2.7x	47.2%
Granite Construction	GVA	Buy	\$47.00	\$30.80	50.00	27.14	37.7	\$1,163.7	\$1,066.5	\$10.58	\$21.68	1.4x	27.0%
Martin Marietta Materials	MLM	Hold	NA	\$84.80	108.49	67.25	45.1	\$3,820.2	\$4,968.7	\$2.96	\$28.89	2.9x	49.6%
Pool Corp	POOL	Hold	NA	\$18.08	24.99	11.18	48.8	\$882.3	\$1,125.3	\$0.62	\$5.53	3.3x	50.3%
Sterling Construction	STRL	Buy	\$24.00	\$17.80	20.02	12.52	13.7	\$244.6	\$181.6	\$7.53	\$13.32	1.3x	18.1%
Texas Industries	TXI	Hold	NA	\$34.55	47.33	12.58	27.7	\$957.2	\$1,467.4	\$1.16	\$28.70	1.2x	40.5%
USG Corporation	USG	Hold	NA	\$14.43	19.88	4.16	99.2	\$1,431.5	\$2,773.5	\$6.26	\$14.89	1.0x	57.1%
Vulcan Materials	VMC	Buy	\$77.00	\$49.03	77.95	34.30	110.6	\$5,422.6	\$8,388.1	\$0.48	\$36.20	1.4x	42.8%
<b>Average</b>								\$1,764.9	\$2,508.5	\$3.50	18.7x	1.6x	42.0%
<b>Median</b>								\$1,163.7	\$1,467.4	\$1.81	\$14.89	1.4x	45.6%

Building Materials																	
Company Name	Ticker	FY EBITDA				Enterprise Value/EBITDA			EPS				Price/EPS				
		2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Beacon Roofing Supply	BECN	\$129.0	\$133.9	\$123.1	NE	8.0x	7.7x	8.3x	NE	\$0.90	\$1.11	\$1.02	NE	18.4x	14.9x	16.2x	NE
Eagle Materials - FY'09-FY'12	EXP	\$142.3	\$126.5	\$161.7	\$215.3	11.3x	12.7x	9.9x	7.4x	\$0.95	\$0.78	\$1.50	\$2.48	29.0x	35.3x	18.4x	12.1x
Granite Construction	GVA	\$304.0	\$210.7	\$229.1	\$297.7	3.5x	5.1x	4.7x	3.6x	\$3.22	\$1.79	\$2.10	\$3.15	9.6x	17.2x	14.7x	15.9x
Martin Marietta Materials	MLM	\$494.5	\$389.5	\$501.2	\$571.4	10.0x	12.8x	9.9x	8.7x	\$4.20	\$2.25	\$4.00	\$5.18	20.2x	37.7x	21.2x	20.9x
Pool Corp	POOL	\$128.9	\$110.9	\$113.9	NE	8.7x	10.1x	9.9x	NE	\$1.18	\$0.45	\$1.10	NE	15.3x	40.2x	16.4x	NE
Sterling Construction	STRL	\$41.3	\$54.4	\$45.5	\$52.1	4.4x	3.3x	4.0x	3.5x	\$1.32	\$1.89	\$1.50	\$1.80	13.5x	9.4x	11.9x	11.1x
Texas Industries - FY'09-FY'12	TXI	\$129.5	\$127.7	\$163.3	\$201.2	11.3x	11.5x	9.0x	7.3x	\$0.65	\$0.19	\$1.25	\$2.80	63.2x	181.8x	27.6x	16.9x
USG Corporation	USG	(\$6.0)	\$65.1	\$106.2	NE	NM	42.6x	26.1x	NE	(\$2.89)	(\$2.37)	(\$1.48)	(\$0.57)	NA	NA	NA	-34.9x
Vulcan Materials	VMC	\$890.8	\$595.3	\$786.6	\$1,144.9	9.4x	14.1x	10.8x	7.3x	\$2.06	\$0.38	\$1.29	\$3.37	23.8x	129.0x	38.0x	23.1x
<b>Average</b>		\$250.5	\$201.6	\$247.8	\$413.8	8.3x	13.3x	10.3x	6.3x	\$1.29	\$0.72	\$1.36	\$2.60	22.9x	58.2x	20.6x	9.3x
<b>Median</b>		\$129.5	\$127.7	\$161.7	\$256.5	9.1x	11.5x	9.9x	7.3x	\$1.18	\$0.78	\$1.29	\$2.80	19.3x	36.5x	17.4x	15.9x

Sources: Company Reports; TRG Research

## APPENDIX 2 – CONSTRUCTION EQUIPMENT COMP TABLE:

Construction Equipment													
Company Name	Ticker	Rating	Price Target	Price 12/4/09	52-Week High	52-Week Low	Shares Outstanding	Market Cap	Enterprise Value	Cash per Share	Book/Share	Price/Book	Debt to Capital
<b>Equipment Manufacturers</b>													
Astec Industries	ASTE	Buy	\$34.00	\$25.20	\$33.99	\$18.39	22.7	\$572.9	\$536.8	\$1.6	\$20.49	1.2x	0.0%
Caterpillar	CAT	Hold	NA	\$58.30	\$58.20	\$21.71	635.5	\$37,049.7	\$65,027.7	\$6.59	\$12.72	4.6x	79.9%
Manitowoc	MTW	Buy	\$16.00	\$9.65	\$12.50	\$2.34	130.3	\$1,257.2	\$3,306.6	\$1.29	\$4.93	2.0x	77.6%
Terex	TEX	Hold	NA	\$19.13	\$24.48	\$7.34	99.1	\$1,895.8	\$2,885.8	\$10.42	\$18.59	1.0x	52.1%
<b>Rental/Auction</b>													
H&E Equipment Services	HEES	Hold	NA	\$10.85	\$12.53	\$4.65	34.6	\$375.4	\$681.5	\$0.26	\$8.47	1.3x	50.2%
Ritchie Bros	RBA	Hold	NA	\$24.52	\$26.81	\$13.99	106.0	\$2,600.0	\$2,471.5	\$1.98	\$4.86	5.0x	13.7%
RSC Holdings	RRR	Hold	NA	\$6.85	\$9.55	\$4.00	103.4	\$708.5	\$2,937.6	\$0.18	\$0.28	24.2x	96.7%
United Rentals	URI	Hold	NA	\$9.49	\$11.32	\$2.52	60.7	\$576.0	\$3,396.0	\$2.45	NA	NA	100.6%
<b>Average</b>								\$5,629.4	\$10,150.4	\$3.10	10.0x	5.6x	59.1%
<b>Median</b>								\$982.9	\$2,901.7	\$1.78	\$8.47	2.0x	64.8%

Construction Equipment																	
Company Name	Ticker	FY EBITDA				Enterprise Value/EBITDA			EPS				Price/EPS				
		2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
<b>Equipment Manufacturers</b>																	
Astec Industries	ASTE	\$109.0	\$60.2	\$51.3	\$92.6	4.9x	10.7x	10.5x	NE	\$2.80	\$0.95	\$0.96	\$2.13	9.0x	26.5x	26.3x	11.8x
Caterpillar	CAT	\$6,102.0	\$2,731.4	\$4,410.6	\$5,882.8	10.7x	23.8x	14.7x	11.1x	\$5.66	\$1.97	\$2.41	\$3.83	10.3x	29.6x	24.2x	15.2x
Manitowoc	MTW	\$617.3	\$333.9	\$295.9	\$380.5	5.4x	9.9x	11.2x	8.7x	(\$0.08)	\$0.40	\$0.26	\$0.69	-120.6x	21.0x	37.1x	14.0x
Terex	TEX	\$960.2	(\$205.0)	\$145.0	\$447.9	3.0x	-14.0x	19.8x	6.4x	\$0.72	(\$3.11)	(\$0.62)	\$1.27	26.6x	-6.2x	-30.9x	15.1x
<b>Rental/Auction</b>																	
H&E Equipment Services	HEES	\$225.8	\$124.9	\$120.5	\$164.2	2.9x	5.3x	5.5x	4.0x	\$1.22	(\$0.11)	(\$0.40)	\$0.36	8.9x	-96.6x	-27.1x	30.1x
Ritchie Bros	RBA	\$140.5	\$161.3	\$177.5	NE	17.6x	15.3x	13.9x	NA	\$0.07	\$0.80	\$0.97	NE	25.3x	27.9x	25.3x	NE
RSC Holdings	RRR	\$765.0	\$417.5	\$479.2	NE	3.8x	7.0x	6.1x	NA	\$1.18	(\$0.54)	(\$0.39)	NE	5.8x	-12.7x	-17.6x	NA
United Rentals	URI	\$1,030.0	\$686.0	\$743.4	NE	3.3x	5.6x	4.6x	NA	\$2.68	(\$0.69)	\$0.13	NE	3.6x	-13.8x	73.0x	NA
<b>Average</b>		\$1,243.7	\$627.5	\$802.9	\$1,393.6	6.4x	8.0x	10.8x	7.5x	\$1.89	(\$0.02)	\$0.42	\$1.66	-3.9x	-3.3x	13.8x	17.2x
<b>Median</b>		\$691.2	\$247.6	\$236.7	\$380.5	4.4x	8.5x	10.8x	7.5x	\$1.20	\$0.18	\$0.20	\$1.27	8.9x	7.4x	24.7x	15.1x

Sources: Company Reports; TRG Research



## **IMPORTANT DISCLOSURES:**

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The appropriate rating is based off the estimated total return of the stock over a forward 12 month period, including both share appreciation and anticipated dividends.

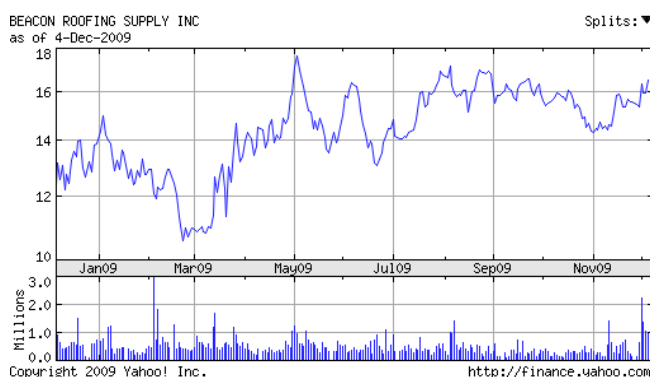
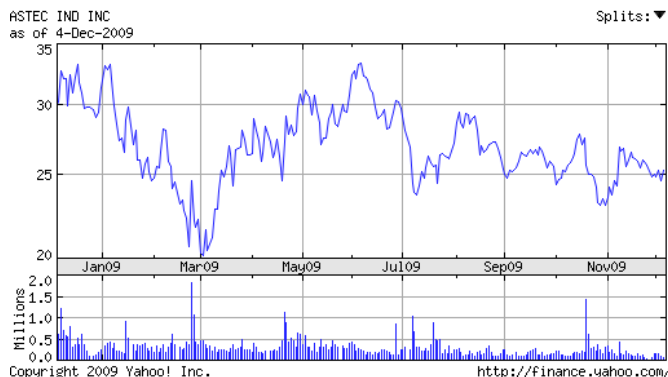
Buy rated stocks included a published 12-month price target. The price target represents the analyst's best estimate of the market price in a 12 month period. Thompson Research Group cautions that price targets are based on assumptions related to the company, industry and investor climate. As such, price targets remain highly subjective.

The definition of each rating is as follows:

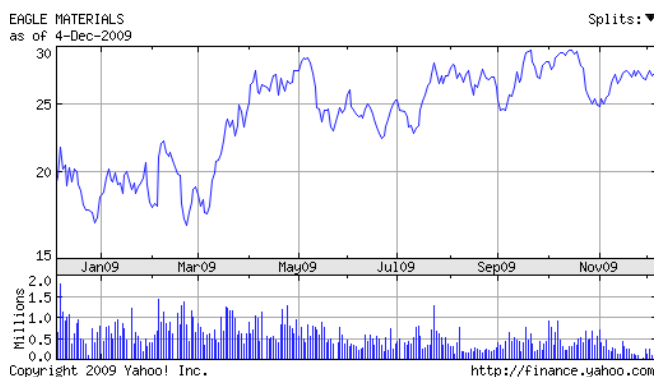
- Buy: estimated total return potential greater than or equal to 10%
- Hold: estimated total return potential greater than or equal to 0% and less than 10%
- Sell: estimated total return potential less than 0%
- NR: Not Rated
- SP: Suspended

Stocks rated Buy are required to have a published 12-month price target, while it is not required on stocks rated Hold and Sell.

Ratings Distribution	
Buy Rated	40%
Hold Rated	60%
Sell Rated	0%



Date	Action	Price
10/14/09	Buy	\$26.35





Date	Action	Price
9/01/09	Buy	\$32.10



Date	Action	Price
10/14/09	Hold	\$10.02



RSC HOLDINGS INC  
as of 4-Dec-2009



STERLING CONSTRUCTION  
as of 4-Dec-2009



Date	Action	Price
9/01/09	Buy	\$16.10

TEREX CP  
as of 4-Dec-2009



Splits: ▼ TEXAS INDUSTRIES INC  
as of 4-Dec-2009



UNITED RENTALS INC  
as of 4-Dec-2009



USG CP  
as of 4-Dec-2009





Date	Action	Price
9/01/09	Buy	\$50.04

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1. Past Performance is not indicative of future results.
2. Market Risk: Securities may decline in value due to factors affecting securities markets generally or particular industries. The value of a security may be worth less than the original investment.
3. Concentration risk: Investing a substantial portion of assets in securities within a single industry or sector of the economy may be subject to greater price volatility or adversely affected by the performance of securities in that particular sector or industry.
4. Leverage Risk: Fluctuations in interest rates on borrowings or the dividend rates on preferred shares as a result of changes in short-term interest rates may reduce the return to common shareholders or result in fluctuations in the dividends paid on the common shares. There is no assurance that a leverage strategy will be successful.
5. Foreign Investment Risk: Investment in foreign securities (both governmental and corporate) may involve a high degree of risk. In regards to debt securities, such risks may impair the timely payment of principal and/or interest.
6. Short selling involves an inordinate amount of risk including the theoretical potential for unlimited losses and losses that can greatly exceed the principal amount invested. In contrast, the potential gain from short selling is generally limited to the principal amount invested. Short sellers can have their stock called away by the lender of the shares shorted, subjecting the short seller to incremental risk. Short sellers by definition must borrow shares, subjecting short sellers to margin risk. The risks cited here with respect to short selling are not all inclusive and investors should consult with their independent advisors prior to engaging in any recommended short selling strategies, including, if applicable, the short sale recommended in this report.

The risks detailed above are not inclusive. Other significant risk factors not identified here may be equally or more important to any particular investor in terms of assessing the overall risks associated with these securities.

The information contained herein is illustrative and is not intended to predict actual results, which may differ substantially from those reflected herein.

**Investors should consider this report as only a single factor in making their investment decision.**



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