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COMPANY SUMMARY

Thursday, May 10, 2007

Speaker: Bob Cummins

Rating: Buy

Food Industry Comment:

Dean Foods (DF-\$32.30)

	<u>2006</u>	<u>2007E(a)</u>	<u>2008E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range(b)</u>	<u>12-Mo. Target</u>
EPS (c)	\$2.12	\$1.72	\$1.75	nil	128.9	\$37-\$20	\$35-\$36
P/E	-	18.8x	18.5x				

- (a) Reflects recapitalization and \$15 per share dividend distribution effective April 2, 2007.
- (b) Adjusted for dividend distribution.
- (c) Continuing operations. Excludes nonrecurring gains and charges.

While we have a high degree of confidence in Dean Foods' management, and expect that the company will continue to outperform most of its peers over the long term, we are reducing our rating from "1" (Strong Buy) to a more cautious "2" (Buy), to reflect commodity price pressures that may get worse before they get better. Adding to the confusion is the fact that reported EPS over the next four quarters were already expected to show year-to-year declines of 25%-30%, reflecting higher interest expense as a result of the \$1.94 billion dividend distribution that took place on April 2nd. Another consideration is that despite the recent selloff, the present share price, adjusted to include the distribution, is still 36% above the June 2006 low. We will consider restoring our "1" rating if the pressures on margins prove to be less than feared, or if further weakness in the share price results in an attractive buying opportunity. Our revised 12-month target price is \$35-\$36, down from \$37-\$38.

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Dean's results for the first quarter ended March, reported on May 3rd, were strong, showing growth of 5% in sales, 12% in operating income, and 17% in net income. EPS were \$0.50 versus \$0.40, up 25%, as shares outstanding declined 6% as a result of buybacks. (The buyback program has now been suspended in view of the April recapitalization.) The EPS figure included a \$0.03 settlement payment related to the modification of a supply agreement with a grocery customer. That benefit will be offset by reduced sales to the customer over the balance of the year. Excluding the payment, EPS were up 17.5%.

The larger of Dean's two business segments, the \$9 billion a year Dairy Group, reported healthy 1Q sales growth of just under 5%, with milk volume increasing 2%. Operating income rose more than 9%, although management states that half of the increase was attributable to the one-time settlement payment. The smaller but higher-margin specialty segment, White Wave Foods, with annual sales of \$1.3 billion, continued to show healthy growth, with 1Q sales and operating income up 7% and 25%, respectively. Among its four key brands, Horizon Organic milk achieved sales growth in the mid-teens, while Silk soymilk, International Delight coffee creamers and Land O'Lakes products all achieved high single-digit increases.

The company's biggest near-term challenge is competitive price cutting in the organic milk category, where a long-time struggle to procure adequate supplies to satisfy demand has suddenly developed into an oversupply situation. Category growth, which has been at a healthy 20%-25% annual rate over recent years, remains strong, but it appears that production of raw organic milk is up over 40% this year, as more farmland has been converted to organic use. As a result, conditions in the marketplace are highly volatile, with Dean's competitors cutting retail prices and expanding distribution aggressively. As the industry leader, Dean intends to do what is necessary to protect its position, even if it means reduced near-term profits. Management believes the sudden rise in production is a temporary surge rather than an ongoing phenomenon, and that the rate of increase will moderate gradually, while demand should continue to grow. Nevertheless, the financial impact is such that White Wave's profits will show year-to-year declines in the second and third quarters, if not longer.

The other challenge to Dean's 2007 earnings goals, ironically, involves short supplies rather than surpluses. The Dairy Group is seeing significant increases in the cost of conventional milk, and agricultural experts are forecasting that prices will continue to rise over the course of the year. In past periods of commodity inflation, Dean's dairy management has been highly effective in passing along cost increases promptly to protect profit margins, but there is always some lag in achieving the desired results, and if the increases continue over a period of time, there is bound to be some profit impact. Unlike the issues in organic milk, the situation in conventional milk is less a case of immediate concern than one of anxiety about the future.

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As noted, EPS over the immediate future will be below a year ago in any event, in view of higher interest expense. On the conference call, while stressing all of the uncertainties, management targeted likely 2Q earnings at \$0.37-\$0.38 (versus \$0.55 last year), about in line with analysts' estimates, but suggested that it would be prudent to use the low end of its previous guidance of \$1.72-\$1.78 for the year. We would not be surprised to see both the quarterly and annual figures revised downward.

Table 1: Dean Foods Company - Quarterly Summary (millions except EPS) (a)

	2007	2006	2005	2005	2004	2005	2004	2004	2004	2003
			Restated (b)	Restated (c)						
March										
Net Sales	\$2,629.7	\$2,509.0	\$2,474.6	\$2,260.2	\$2,743.2	\$2,452.2	\$2,144.9			
Cost of Sales	1,942.5	1,857.7	1,863.3	1,695.1	2,085.3	1,839.7	1,573.6			
Gross Profit	687.3	651.3	611.3	565.1	658.0	612.4	571.2			
Operating Costs	527.3	508.8	478.2	440.5	494.9	452.5	415.9			
Operating Income	159.9	142.5	132.9	124.6	163.1	160.0	155.3			
Interest Expense	52.2	47.5	39.2	41.1	42.6	42.5	55.3			
Other Expense (Income)	(0.1)	0.1	(0.1)	(1.5)	(0.2)	(1.6)	(0.5)			
Total	107.8	94.9	93.8	85.0	120.7	119.0	100.5			
Income Before Taxes	40.7	37.4	37.4	33.9	46.5	45.1	38.5			
Income Taxes	\$67.0	\$57.4	\$56.5	\$51.1	\$74.2	\$73.9	\$62.0			
Net Income										
Diluted Shares	134.5	142.4	155.7	162.7	155.7	162.7	135.6			
Earnings Per Share	\$0.50	\$0.40	\$0.36	\$0.31	\$0.48	\$0.45	\$0.42			
% of Sales:										
Gross Profit	26.1%	26.0%	24.7%	25.0%	24.0%	25.0%	26.6%			
Operating Costs	20.0	20.3	19.3	19.5	18.1	18.5	19.4			
Operating Income	6.1	5.7	5.4	5.5	5.9	6.5	7.2			
Effective Tax Rate	37.8%	39.5%	39.9%	39.9%	38.5%	37.9%	38.3%			
June										
Net Sales	\$2,477.9	\$2,515.1	\$2,515.1	\$2,603.3	\$2,806.6	\$2,806.6	\$2,222.6			
Cost of Sales	1,794.6	1,867.9	1,867.9	2,016.1	1,949.9	2,168.4	1,621.4			
Gross Profit	683.3	647.2	647.2	587.2	652.7	638.2	601.2			
Operating Costs	509.1	485.1	485.1	455.0	487.7	469.2	413.7			
Operating Income	174.2	162.2	162.2	132.2	165.0	169.0	187.5			
Interest Expense	48.8	38.6	38.6	42.6	40.7	44.1	50.1			
Other Expense (Income)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.3)			
Total	48.7	38.4	38.4	42.4	40.5	44.0	49.8			
Income Before Taxes	125.6	123.8	123.8	89.8	124.5	125.0	137.7			
Income Taxes	49.0	48.2	48.2	36.2	48.5	47.9	52.0			
Net Income	\$76.6	\$75.5	\$75.5	\$53.6	\$76.0	\$77.1	\$85.7			
Diluted Shares	140.4	157.2	157.2	163.6	157.2	163.6	144.8			
Earnings Per Share	\$0.55	\$0.48	\$0.48	\$0.33	\$0.48	\$0.47	\$0.56			
% of Sales:										
Gross Profit	27.6%	25.7%	25.7%	22.6%	25.1%	22.7%	27.0%			
Operating Costs	20.6	19.3	19.3	17.5	18.8	16.7	18.6			
Operating Income	7.0	6.4	6.4	5.1	6.3	6.0	8.4			
Effective Tax Rate	39.0%	38.9%	38.9%	40.3%	39.0%	38.3%	37.8%			

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Table 1: (Continued)(a)

	2007	2006	2005 Restated (b)	2005	2004 Restated (c)	2005	2004	2003
September								
Net Sales	\$2,517.8	\$2,569.4	\$2,569.4	\$2,646.6	\$2,583.6	\$2,646.6	\$2,772.5	\$2,306.8
Cost of Sales	1,823.8	1,918.4	1,918.4	1,997.2	1,977.9	1,997.2	2,127.7	1,713.3
Gross Profit	694.0	651.0	651.0	649.4	605.6	649.4	644.8	593.5
Operating Costs	519.8	495.1	495.1	491.5	465.0	491.5	480.5	416.4
Operating Income	174.2	156.0	156.0	157.9	140.6	157.9	164.3	177.1
Interest Expense	48.0	37.8	37.8	40.2	41.8	40.2	43.2	45.8
Other Expense (Income)	(0.1)	(0.2)	(0.2)	(0.2)	0.4	(0.2)	0.4	(1.8)
Total	48.0	37.7	37.7	40.0	42.2	40.0	43.6	44.0
Income Before Taxes	126.2	118.3	118.3	117.9	98.4	117.9	120.7	133.1
Income Taxes	48.4	44.8	44.8	44.8	40.3	44.8	46.4	50.0
Net Income	\$77.9	\$73.5	\$73.5	\$73.1	\$58.1	\$73.1	\$74.3	\$83.1
Diluted Shares	139.2	155.5	155.5	155.5	162.1	155.5	162.1	160.5
Earnings Per Share	\$0.56	\$0.47	\$0.47	\$0.47	\$0.36	\$0.47	\$0.46	\$0.52
% of Sales:								
Gross Profit	27.6%	25.3%	25.3%	24.5%	23.4%	24.5%	23.3%	25.7%
Operating Costs	20.7	19.2	19.2	18.5	18.0	18.5	17.4	18.0
Operating Income	6.9	6.1	6.1	6.0	5.4	6.0	5.9	7.7
Effective Tax Rate	38.4%	37.9%	37.9%	38.0%	41.0%	38.0%	38.4%	37.8%
December								
Net Sales	\$2,593.8	\$2,615.6	\$2,615.6	\$2,694.6	\$2,589.2	\$2,694.6	\$2,791.1	\$2,510.3
Cost of Sales	1,883.2	1,941.8	1,941.8	2,024.2	1,963.2	2,024.2	2,122.0	1,899.8
Gross Profit	710.7	673.7	673.7	670.5	626.0	670.5	669.1	610.5
Operating Costs	525.8	506.1	506.1	504.7	459.5	504.7	466.7	421.3
Operating Income	184.9	167.6	167.6	165.8	166.5	165.8	202.4	189.2
Interest Expense	50.2	44.6	44.6	47.1	40.8	47.1	42.4	44.1
Other Expense (Income)	0.5	(0.2)	(0.2)	(0.3)	0.9	(0.3)	0.9	(0.1)
Total	50.7	44.3	44.3	46.8	41.7	46.8	43.3	44.0
Income Before Taxes	134.2	123.3	123.3	119.0	124.8	119.0	159.1	145.1
Income Taxes	50.3	48.1	48.1	45.6	47.8	45.6	60.3	55.2
Net Income	\$83.9	\$75.1	\$75.1	\$73.4	\$77.0	\$73.4	\$98.8	\$89.9
Diluted Shares	137.4	145.5	145.5	145.5	155.5	145.5	155.5	161.4
Earnings Per Share	\$0.61	\$0.52	\$0.52	\$0.50	\$0.50	\$0.50	\$0.64	\$0.56
% of Sales:								
Gross Profit	27.4%	25.8%	25.8%	24.9%	24.2%	24.9%	24.0%	24.3%
Operating Costs	20.3	19.4	19.4	18.7	17.8	18.7	16.7	16.8
Operating Income	7.1	6.4	6.4	6.2	6.4	6.2	7.3	7.5
Effective Tax Rate	37.5%	39.0%	39.0%	38.3%	38.3%	38.3%	37.9%	38.0%

(a) Formerly Suiza Foods. Excludes nonrecurring items.

(b) Reflects sale of Iberian operations.

(c) Reflects spinoff of TreeHouse Foods, sale of Marie's and Dean's Dips, and expensing of stock options (FAS 123R).

Table 2: Dean Foods Company - Quarterly Segment Results, Continuing Operations (millions) (a)

	2007		2006 Restated (b)		2006		2005 Restated (c)		2005		2004	
March- Net Sales:												
Dairy Group	\$2,307.1	+5%	\$2,207.7	\$2,202.1	-	\$2,193.1	\$2,189.8	+12%	\$1,956.8			
WhiteWave Foods	322.7	+7	301.4	307.0	+9%	281.5	268.9	+22	220.7			
Total	2,629.7	+5	2,509.0	2,509.0	+1	2,474.6	2,458.7	+13	2,177.5			
Corporate/Other	-	-	-	-	-	-	103.1	+25	82.6			
Total	<u>\$2,629.7</u>	+5%	<u>\$2,509.0</u>	<u>\$2,509.0</u>	+1%	<u>\$2,476.6</u>	<u>\$2,561.8</u>	+13%	<u>\$2,260.2</u>			
Operating Income:												
Dairy Group	\$171.1	+9%	\$156.6	\$152.7	+2%	\$149.0	\$148.6	+7%	\$138.3			
WhiteWave Foods	27.8	+25	22.2	26.1	+107	12.6	9.3	(5)	9.8			
Total	198.8	+11	178.8	178.8	+11	161.6	157.9	+7	148.1			
Corporate/Other	(38.9)	-	(36.3)	(36.4)	-	(28.6)	(19.4)	-	(13.2)			
Total	<u>\$159.9</u>	+12%	<u>\$142.5</u>	<u>\$142.5</u>	+7%	<u>\$132.9</u>	<u>\$138.5</u>	+3%	<u>\$134.9</u>			
Operating Margin:												
Dairy Group	7.4%		7.1%	6.9%		6.8%	6.8%		7.1%			
WhiteWave Foods	8.6		7.4	8.5		4.5	3.5		4.4			
Total	7.6		7.1	7.1		6.5	6.4		6.8			
Corporate/Other	-		-	-		-	-		-			
Total	<u>6.1%</u>		<u>5.7%</u>	<u>5.7%</u>		<u>5.4%</u>	<u>5.4%</u>		<u>6.0%</u>			
June- Net Sales:												
Dairy Group			\$2,176.1	\$2,170.7	(3)%	\$2,227.6	\$2,224.6	(2)%	\$2,271.2			
WhiteWave Foods			301.8	307.2	+7	287.5	273.4	+13	242.3			
Total			2,477.9	2,477.9	(1)	2,515.1	2,498.0	(1)	2,513.5			
Corporate/Other			-	-	-	-	104.5	+16	89.8			
Total			<u>\$2,477.9</u>	<u>\$2,477.9</u>	(1)%	<u>\$2,515.1</u>	<u>\$2,602.6</u>	-	<u>\$2,603.3</u>			
Operating Income:												
Dairy Group			\$181.2	\$180.5	+5%	\$171.4	\$171.0	+10%	\$154.8			
WhiteWave Foods			29.3	30.0	+5	28.6	28.5	+177	10.3			
Total			210.5	210.5	+5	200.1	199.5	+21	165.1			
Corporate/Other			(36.2)	(36.2)	-	(37.9)	(27.7)	-	(21.8)			
Total			<u>\$174.2</u>	<u>\$174.2</u>	+7%	<u>\$162.2</u>	<u>\$171.7</u>	+20%	<u>\$143.3</u>			
Operating Margin:												
Dairy Group			8.3%	8.3%		7.7%	7.7%		6.8%			
WhiteWave Foods			9.7	9.8		9.9	10.4		4.3			
Total			8.5	8.5		8.0	8.0		6.6			
Corporate/Other			-	-		-	-		-			
Total			<u>7.0%</u>	<u>7.0%</u>		<u>6.4%</u>	<u>6.6%</u>		<u>5.5%</u>			

(Continued)

Table 2: (Continued) (a)

	2007	2006 Restated (b)	2006	2005 Restated (c)	2005	2004	
Sept.- Net Sales:							
Dairy Group		\$2,209.4	\$2,204.1	(3)%	\$2,270.3	\$2,267.5 +1%	\$2,234.3
WhiteWave Foods		308.4	313.6	+5	299.1	284.9 +10	259.9
Total		2,517.8	2,517.8	(2)	2,569.4	2,552.4 +2	2,494.2
Corporate/Other		-	-	-	-	94.2 +5	89.4
Total		\$2,517.8	\$2,517.8	(2)%	\$2,569.4	\$2,646.6 +2%	\$2,583.6
Operating Income:							
Dairy Group		\$173.7	\$172.7	+10%	\$156.5	\$156.2 +5%	\$149.1
WhiteWave Foods		35.4	36.5	+1	36.2	35.9 +42	25.3
Total		209.1	209.1	+9	192.7	192.1 +10	174.4
Corporate/Other		(34.9)	(34.9)	-	(36.7)	(28.4) -	(23.5)
Total		\$174.2	\$174.2	+12%	\$156.0	\$163.7 +8%	\$150.9
Operating Margin:							
Dairy Group		7.9%	7.8%		6.9%	6.9%	6.7%
WhiteWave Foods		11.5	11.6		12.1	12.6	9.7
Total		8.3	8.3		7.5	7.5	7.0
Corporate/Other		(1.4)	(1.4)		(1.4)	-	-
Total		6.9%	6.9%		6.1%	6.2%	5.8%
Dec.- Net Sales:							
Dairy Group		\$2,248.7	\$2,244.0	(2)%	\$2,282.5	\$2,279.6 +3%	\$2,203.2
WhiteWave Foods		345.1	349.8	+5	333.2	317.2 +10	287.3
Total		2,593.8	2,593.8	(1)	2,615.6	2,596.8 +4	2,490.5
Corporate/Other		-	-	-	-	97.9 (1)	98.7
Total		\$2,593.8	\$2,593.8	(1)%	\$2,615.6	\$2,694.6 +4%	\$2,589.2
Operating Income:							
Dairy Group		\$173.1	\$172.1	+4%	\$165.2	\$164.1 +6%	\$154.2
WhiteWave Foods		45.8	46.8	+24	37.6	38.2 (9)	42.0
Total		218.9	218.9	+8	202.7	202.3 +3	196.2
Corporate/Other		(34.1)	(34.1)	-	(35.1)	(30.4) -	(19.3)
Total		\$184.9	\$184.9	+10%	\$167.6	\$171.9 (3)%	\$176.9
Operating Margin:							
Dairy Group		7.7%	7.7%		7.2%	7.2%	7.0%
WhiteWave Foods		13.3	13.4		11.3	12.0	14.6
Total		8.4	8.4		7.7	7.8	7.9
Corporate/Other		(1.3)	(1.3)		(1.3)	-	-
Total		7.1%	7.1%		6.4%	6.4%	6.8%

(a) Excludes nonrecurring items. Reflects spinoff of TreeHouse Foods and sale of Marie's and Dean's Dips.

(b) Reflects transfer of Hershey business from White Wave Foods to Dairy Group.

(c) Reflects expensing of stock options and divestiture of Iberian operations.

Table 3: Dean Foods Company - Annual Segment Results, Continuing Operations (millions) (a)

	Compound Annual Growth	2006		2005		2004 (b)		2003 (c)		2002 (d)
Net Sales:										
Dairy Group	4%	\$8,841.8	(2)%	\$8,999.5	+3%	\$8,712.4	+15%	\$7,547.2	(1)%	\$7,601.0
WhiteWave Foods	33	<u>1,256.7</u>	+7	<u>1,175.2</u>	+16	<u>1,013.1</u>	+69	<u>598.9</u>	+49	<u>401.7</u>
Total	<u>6%</u>	<u>\$10,098.6</u>	(1)%	<u>\$10,174.7</u>	+5%	<u>\$9,725.5</u>	+19%	<u>\$8,146.1</u>	+2%	<u>\$8,002.7</u>
Sales % of Total:										
Dairy Group		88%		88%		90%		93%		95%
WhiteWave Foods		12		12		10		7		5
Operating Income:										
Dairy Group	4%	\$684.7	+6%	\$647.2	+7%	\$604.2	(6)%	\$640.2	+8%	\$592.5
WhiteWave Foods	54	<u>132.7</u>	+21	<u>109.8</u>	+35	<u>81.5</u>	-	<u>2.9</u>	(88)	<u>23.5</u>
Total	<u>7%</u>	<u>\$817.4</u>	+8%	<u>\$757.0</u>	+10%	<u>\$685.7</u>	+7%	<u>\$643.1</u>	+4%	<u>\$616.0</u>
Income % of Total:										
Dairy Group		84%		85%		88%		100%		96%
WhiteWave Foods		16		15		12		-		4
Operating Margin:										
Dairy Group		7.7%		7.2%		6.9%		8.5%		7.8%
WhiteWave Foods		<u>10.6</u>		<u>9.3</u>		<u>8.0</u>		<u>-</u>		<u>5.9</u>
Total		<u>8.1%</u>		<u>7.4%</u>		<u>7.1%</u>		<u>7.9%</u>		<u>7.7%</u>

(a) Reflects spinoff of TreeHouse Foods and sale of Marie's Dips and Dressings, Dean's Dips, and Iberian operations.

(b) Reflects acquisition of Milk Products of Alabama, Ross Swiss Dairies and Horizon Organic.

(c) Reflects acquisition of Kohler Mix and Melody Farms.

(d) Reflects acquisition of Marie's and WhiteWave (Silk).

Analyst's Certification

I Robert J. Cummins certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other Dean Foods reports issued by me are: 2/1/05 (\$35.30) – Strong Buy – Target \$40-\$41; 5/18/05 (\$38.50) – Strong Buy – Target \$42-\$43; 1/12/06 (\$38) – Strong Buy – Target \$42-\$43; 3/3/06 (\$38) – Strong Buy – Target \$42-\$43; 8/3/06 (\$38) – Strong Buy – Target \$44-\$45; 2/12/07 (\$44) – Strong Buy – Target \$50-\$51.

Important Disclosures

Guide to Investment Ratings and Target Prices:

Strong Buy ("1"). The stock's total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

Buy ("2"). The stock's total return is expected to exceed the average total return of the analyst's industry coverage universe over the next 12 months.

Hold (Neutral) ("3"). The stock's total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Sell ("4"). The stock's total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

Analyst's Ratings Distribution

		% Investment Banking
Buy*	71%	0%
Hold	29%	0%
Sell	0%	0%

*Includes companies rated "Strong Buy" and "Buy."

Unless otherwise specified, the time frame for price targets included in this report is 12 months.

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.

The principal risks to the achievement of our price targets, in addition to general market trends, are disappointing earnings and a lower than expected price/earnings ratio.

Important Disclosures, continued



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Capital Management Associates holds positions in the common shares of the subject company in managed accounts.

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