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COMPANY SUMMARY

Thursday, December 10, 2009

Speaker: Bob Cummins

Rating: Strong Buy

Food Industry Comment:

Del Monte Foods (DLM-\$10.90)

	<u>F2009</u>	<u>F2010E</u>	<u>F2011E</u>	<u>Dividend/ Yield</u>	<u>Shares Out. (mil.)</u>	<u>12-Mo. Range</u>	<u>12-Mo. Target</u>
EPS (a)	\$0.75	\$1.05	\$1.30	\$0.20	198.8	\$12-\$6	\$15-\$16
P/E	-	10.4x	8.4x	1.8%			

(a) April fiscal years. Excludes nonrecurring gains and charges.

Del Monte, with annual sales of \$3.8 billion, is a leading processor and marketer of canned food products and pet foods, under a variety of well-known brands, including Del Monte, S&W, Contadina, College Inn, Meow Mix, Kibbles 'n Bits, 9Lives, Milk-Bone and others. Its progress recently has been impressive, thanks to the successful execution of its Accelerated Growth Plan, aided by solid unit volume gains, fiscal 2009 pricing actions, and productivity initiatives. Over the past twelve months, sales, operating income and EPS have increased 12%, 70%, and 118%, respectively (10%, 66%, and 115% excluding the impact of an extra week in the April 2009 quarter).

Those growth rates are clearly not sustainable, and in fact management has cautioned that EPS in the January quarter will likely be below a year ago due to a substantial increase in marketing expenditures, while the April period, in addition to higher marketing, will have one less week than a year ago. Nevertheless, we sense an increased dynamism in the company that bodes well for the future, in terms of both earnings growth and the valuation of the stock. We are reemphasizing our "1" (Strong Buy) rating, and raising our 12-month target price from \$14-\$15 to \$15-\$16.

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See page 9 for Analyst's Certification, pages 9-10 for Important Disclosures and pages 10-11 for Other Disclosures and Disclaimers

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The second quarter ended October, results of which were reported on December 3rd, was the fourth consecutive period to demonstrate strong growth in sales (+6%), operating income (+77%), and EPS (\$0.36 versus \$0.14, up 157%). The gross margin expanded by 630 basis points, to a record 32.3% of sales, and the operating margin by 590 bp, to 14.7%, also a new high. For the six months to date, sales increased 9%, and EPS were \$0.36, versus only \$0.10 a year ago.

Both Consumer Products and Pet Products performed well in the recent quarter. Consumer sales grew 9%, and operating income 58%, as the operating margin expanded by 420 bp to 13.5%, up from 9.3%. The Pet segment reported more modest sales growth of 3%, but income rose by a dramatic 86%, as the operating margin nearly doubled to 20.1% of sales, up from 11.3%. Comparisons will be more difficult in the second half, as the company last year had already begun to reap the benefits of pricing actions and productivity gains, while this year, as mentioned, marketing expenditures will increase, and the April quarter will be back to 13 weeks. Our tentative \$1.05 estimate for F2010 as a whole assumes second-half EPS of \$0.39, down from \$0.65 a year ago. Given the strong momentum in the first half, that could prove conservative.

Acquisitions and divestitures have played an important role in building the company, and are likely to continue to do so. It sold its soup and infant feeding businesses in F2006, and StarKist Seafoods in F2008. In both instances, sales and earnings were restated. On the other hand, it purchased the well-known Meow Mix and Milk-Bone pet food brands early in F2007, and that attractive high-margin category increased in importance to 38% of sales and 61% of operating income in that year, up from 29%, and 40% in F2006. We are not aware of any specific plans for further acquisitions in these or other product areas, but would not rule it out.

Table 1: Del Monte Foods Company - Quarterly Data (millions except EPS) (a)

	F2010	F2009	F2008	F2007 (d)	F2006	F2006
			Cont. Ops. (f)			Cont. Ops. (c)
July						
Net Sales	\$813.7	\$726.2	\$626.8	\$674.1	\$753.5	\$671.1
Cost of Products Sold	553.8	566.8	457.9	505.1	568.0	509.3
Gross Profit	259.9	159.4	168.9	169.1	185.5	161.8
SG&A Expenses	139.0	146.1	127.6	122.1	135.5	114.4
Operating Income	120.9	13.3	41.3	47.0	50.0	47.4
Interest Expense	24.2	27.6	32.8	30.5	38.0	21.2
Other Expense (Income)	1.9	(1.1)	0.6	0.3	0.6	-
Total	26.1	26.5	33.4	30.8	38.6	21.2
Income Before Taxes	94.8	(13.2)	7.9	16.2	11.4	20.6
Income Taxes	35.9	(5.2)	2.9	4.3	4.4	9.9
Net Income	\$58.9	\$(8.0)	\$5.0	\$11.9	\$7.0	\$16.3
Diluted Shares	199.5	197.7	205.6	204.0	205.7	210.5
Earnings Per Share	\$0.30	\$(0.04)	\$0.02	\$0.06	\$0.03	\$0.08
Gross Margin	31.9%	21.9%	26.9%	25.1%	24.6%	24.1%
SG&A/Sales	17.0	20.1	20.4	18.1	18.0	17.0
Operating Margin	14.9	1.8	6.6	7.0	6.6	7.1
Effective Tax Rate	37.9%	39.4%	36.7%	26.7%	38.6%	37.8%
October						
Net Sales	\$958.9	\$901.0	\$808.2	\$893.5	\$938.1	\$882.3
Cost of Products Sold	649.7	666.5	588.5	644.9	703.8	650.8
Gross Profit	309.2	234.5	219.7	248.6	234.3	231.5
SG&A Expenses	168.6	155.0	140.3	146.2	149.4	139.1
Operating Income	140.6	79.5	79.4	102.4	84.9	92.4
Interest Expense	24.0	30.1	35.9	42.9	41.0	22.9
Other Expense (Income)	0.8	12.0	(1.7)	0.1	(1.7)	1.1
Total	24.8	42.1	34.2	43.0	39.3	24.0
Income Before Taxes	115.8	37.4	45.2	59.4	45.6	59.6
Income Taxes	43.0	10.1	17.5	22.8	16.9	22.3
Net Income	\$72.8	\$27.3	\$27.7	\$36.6	\$28.7	\$42.7
Diluted Shares	202.2	198.6	205.4	203.5	205.4	202.2
Earnings Per Share	\$0.36	\$0.14	\$0.14	\$0.18	\$0.14	\$0.21
Gross Margin	32.3%	26.0%	27.2%	27.8%	25.0%	26.2%
SG&A/Sales	17.6	17.2	17.4	16.4	15.9	15.7
Operating Margin	14.7	8.8	9.8	11.5	9.1	10.5
Effective Tax Rate	37.1%	27.0%	38.7%	38.4%	37.1%	37.6%

(Continued)

Table 1: Continued (a)

	F2010	F2009	F2008	F2008	F2008	F2007 (d)	F2006	F2006	
			Cont. Ops. (f)						
January									
Net Sales	\$942.3	+8%	\$869.0	\$1,001.1	+10%	\$907.2	+15%	\$878.5	+2%
Cost of Products Sold	659.8	+19	632.4	747.9	(2)	649.1	+18	638.3	+3
Gross Profit	282.5	+15	236.6	253.2	(6)	258.1	+33	240.2	(3)
SG&A Expenses	149.0		120.7	138.4		135.4		136.2	
Operating Income	133.5		115.9	114.8		122.7		104.0	
Interest Expense	27.4		34.0	38.8		42.2		22.7	
Other Expense (Income)	7.9		(1.1)	(1.1)		(0.6)		(0.1)	
Total	35.3	+18	32.9	37.7	(5)	41.6	+16	22.6	(1)
Income Before Taxes	98.2	+12%	83.0	77.1	(5)	81.1	+17%	69.9	+3%
Income Taxes	38.6		29.7	26.7		28.0		24.7	
Net Income	\$59.6		\$53.3	\$50.4		\$53.1		\$52.0	
Diluted Shares	198.5	(3)%	204.1	201.4	(1)%	204.4	+1%	201.9	(5)%
Earnings Per Share	\$0.30	+15	\$0.26	\$0.25	(4)	\$0.26	+18	\$0.22	+8
Gross Margin	30.0%		27.2%	25.3%		28.5%		27.6%	
SG&A/Sales	15.8		13.9	13.8		15.0		15.9	
Operating Margin	14.2		13.3	11.5		13.5		11.7	
Effective Tax Rate	39.3%		35.8%	34.6%		34.5%		35.3%	
April									
Net Sales	\$1,057.4	+21%	\$875.8	\$1,044.1	+11%	\$940.1	+18%	\$799.2	
Cost of Products Sold	729.6	+39	640.5	789.4	+5	697.1	+19	595.3	
Gross Profit	327.8	+29	235.3	254.7	+10	243.0	+16	203.9	
SG&A Expenses	193.2		131.0	144.2		142.4		117.0	
Operating Income	134.6		104.3	110.5		100.6		86.9	
Interest Expense	25.2		28.7	32.5		39.0		21.4	
Other Expense (Income)	5.3		(0.3)	(0.3)		0.6		0.1	
Total	30.5	+37	28.4	32.2	+28	39.6	(7)	21.5	
Income Before Taxes	104.1	+44%	75.9	78.3	+19%	61.0	+8%	65.4	
Income Taxes	35.3		28.1	24.5		15.9		23.7	
Net Income	\$68.8		\$47.8	\$53.8		\$45.1		\$41.7	
Diluted Shares	198.8	-	199.3	199.3	(3)%	205.0	+1%	202.9	
Earnings Per Share	\$0.35	+46%	\$0.24	\$0.27	+23	\$0.22	+5	\$0.21	
Gross Margin	31.0%		26.9%	24.4%		25.8%		25.5%	
SG&A/Sales	18.3		15.0	13.8		15.1		14.6	
Operating Margin	12.7		11.9	10.6		10.7		10.9	
Effective Tax Rate	33.9%		37.0%	31.3%		26.1%		36.2%	

(a) Excludes nonrecurring gains and charges.
(b) 14 weeks. (c) Continuing operations. Reflects sale of soup and infant feeding businesses.
(d) Includes acquisitions of Meow Mix from May 19 and Milk-Bone from July 2, 2006. July quarter excludes \$10 million pretax gain on divestiture.
(f) Continuing operations. Reflects sale of Starkist Seafood.
nm Not meaningful.

Table 2: Del Monte Foods Company - Quarterly Segment Data (millions) (a)

	July		F2010		F2009		F2008		F2007 (d)		F2006	
July												
Net Sales:												
Consumer Products	\$401.4	+5%	\$383.5	+21%	\$317.9		\$444.6	+6%	\$420.6	-	\$422.2	\$476.7
Pet Products	412.3	+20	342.7	+11	308.9		308.9	+22	253.5	+30%	194.4	194.4
Total	\$813.7	+12%	\$726.2	+16%	\$626.8		\$753.5	+12%	\$674.1	+9%	\$616.6	\$671.1
Operating Income:												
Consumer Products	\$32.1	nm	\$9.8	+3%	\$9.5		\$14.2	(10)%	\$15.8	(47)%	\$30.0	\$34.9
Pet Products	102.8	nm	15.4	(65)	43.9		47.8	+10	43.5	+91	22.8	23.5
Total	134.9	nm	25.2	(53)	53.4		62.0	+5	59.3	+12	52.8	58.4
Corporate	(14.0)	-	(11.9)	-	(12.1)		(12.0)	-	(12.3)	-	(11.0)	(11.0)
Total Income	\$120.9	nm	\$13.3	(68)%	\$41.3		\$50.0	+6%	\$47.0	+12%	\$41.8	\$47.4
Operating Margin:												
Consumer Products	8.0%		2.6%		3.0%		3.2%		3.8%		7.1%	7.3%
Pet Products	24.9		4.5		14.2		15.5		17.2		11.7	12.1
Total	16.6		3.5		8.5		8.2		8.8		8.6	8.7
Corporate	(1.7)		(1.7)		(1.9)		(1.6)		(1.8)		(1.8)	(1.6)
Total Income	14.9%		1.8%		6.6%		6.6%		7.0%		6.8%	7.1%
October												
Net Sales:												
Consumer Products	\$536.8	+9%	\$491.9	+6%	\$463.6		\$593.5	+5%	\$566.5	(3)%	\$584.4	\$673.5
Pet Products	422.1	+3	409.1	+19	344.6		344.6	+5	327.0	+57	208.8	208.8
Total	\$958.9	+6%	\$901.0	+11%	\$808.2		\$938.1	+5%	\$893.5	+13%	\$793.2	\$882.3
Operating Income:												
Consumer Products	\$72.5	+58%	\$45.8	+4%	\$44.0		\$45.8	(13)%	\$52.6	(17)%	\$63.7	\$71.7
Pet Products	84.8	+86	45.7	+1	45.1		48.7	(23)	63.4	+95	32.5	33.3
Total	157.3	+72	91.5	+3	89.1		94.5	(19)	116.0	+21	96.2	105.0
Corporate	(16.7)	-	(12.0)	-	(9.7)		(9.6)	-	(13.6)	-	(12.6)	(12.6)
Total Income	\$140.6	+77%	\$79.5	-	\$79.4		\$84.9	(17)%	\$102.4	+22%	\$83.6	\$92.4
Operating Margin:												
Consumer Products	13.5%		9.3%		9.5%		7.7%		9.3%		10.9%	10.6%
Pet Products	20.1		11.3		13.1		14.1		19.4		15.6	15.9
Total	16.4		10.2		11.0		10.1		13.0		12.1	11.9
Corporate	(1.7)		(1.3)		(1.2)		(1.0)		(1.5)		(1.6)	(1.4)
Total Income	14.7%		8.8%		9.8%		9.1%		11.5%		10.5%	10.5%

(Continued)

Table 2: Continued (a)

	F2010	F2009	F2008	F2007 (d)	F2006	F2006	F2006
			Cont. Ops. (f)			Cont. Ops. (c)	
January							
Net Sales:							
Consumer Products		\$509.3	\$492.7	\$551.0	\$624.8	\$562.3	\$651.2
Pet Products		433.0	376.3	356.2	376.3	227.3	227.3
Total		\$942.3	\$869.0	\$907.2	\$1,001.1	\$789.6	\$878.5
Operating Income:							
Consumer Products		\$69.0	\$60.1	\$54.3	\$55.8	\$59.6	\$70.2
Pet Products		76.7	66.7	82.3	(15)	45.4	46.3
Total		145.7	126.8	136.6	(8)	105.0	116.5
Corporate		(12.2)	(10.9)	(13.9)	-	(12.5)	(12.5)
Total Income		\$133.5	\$115.9	\$122.7	(6)%	\$92.5	\$104.0
Operating Margin:							
Consumer Products		13.5%	12.2%	9.9%	8.9%	10.6%	10.8%
Pet Products		17.7	17.7	23.1	18.6	20.0	20.4
Total		15.5	14.6	15.1	12.6	13.3	13.3
Corporate		(1.3)	(1.3)	(1.5)	(1.1)	(1.6)	(1.5)
Total Income		14.2%	13.3%	13.5%	11.5%	11.7%	11.8%
April							
Net Sales:							
Consumer Products	(b)	\$566.8	\$474.1	\$594.9	\$642.4	\$573.4	
Pet Products		488.6	401.7	345.2	401.7	225.8	225.8
Total		\$1,057.4	\$875.8	\$940.1	\$1,044.1	\$799.2	
Operating Income:							
Consumer Products		\$70.5	\$45.6	\$42.3	\$51.3	\$59.1	
Pet Products		82.1	76.4	72.1	76.8	41.1	41.1
Total		152.6	122.0	114.4	128.1	100.2	
Corporate		(18.0)	(17.7)	(13.8)	(17.6)	(13.3)	
Total Income		\$134.6	\$104.3	\$100.6	\$110.5	\$86.9	
Operating Margin:							
Consumer Products		12.4%	9.6%	7.1%	8.0%	10.3%	
Pet Products		16.8	19.0	20.9	19.1	18.2	18.2
Total		14.4	13.9	12.2	12.3	12.5	
Corporate		(1.7)	(2.0)	(1.5)	(1.7)	(1.6)	
Total Income		12.7%	11.9%	10.7%	10.6%	10.9%	

(a) Excludes nonrecurring items. (b) 14 weeks.

(c) Continuing operations. Reflects sale of soup and infant feeding businesses.

(d) Includes acquisitions of Meow Mix from May 19 and Milk-Bone from July 2, 2006. July quarter excludes \$10 million pretax gain on divestiture.

(f) Continuing operations. Reflects sale of StarKist Seafood.

nm Not meaningful.

Table 3: Del Monte Foods Company - Quarterly Operating Profit Margins

	F2010	F2009	F2008	F2008 Cont. Ops. (c)	F2008	F2007	F2006 Cont. Ops. (a)	F2006	F2005	F2004 Cont. Ops.	F2004	F2003
July						(b)						
Consumer Products	8.0%	2.6%	3.0%	3.0%	3.2%	3.8%	7.1%	7.3%	8.8%	8.3%	8.3%	12.6%
Pet Products	24.9	4.5	14.2	14.2	15.5	17.2	11.7	12.1	9.7	16.8	16.0	18.0
Total	16.6	3.5	8.5	8.5	8.2	8.8	8.6	8.7	9.1	10.6	10.5	14.1
Corporate	(1.7)	(1.7)	(1.9)	(1.9)	(1.6)	(1.8)	(1.8)	(1.6)	(1.3)	(1.0)	(0.9)	(0.8)
Total	14.9%	1.8%	6.6%	6.6%	6.6%	7.0%	6.8%	7.1%	7.8%	9.6%	9.6%	13.3%
October												
Consumer Products	13.5%	9.3%	9.5%	9.5%	7.7%	9.3%	10.9%	10.6%	12.2%	12.0%	11.9%	10.3%
Pet Products	20.1	11.3	13.1	13.1	14.1	19.4	15.6	15.9	15.2	19.0	16.4	20.2
Total	16.4	10.2	11.0	11.0	10.1	13.0	12.1	11.9	13.0	13.7	13.1	13.1
Corporate	(1.7)	(1.3)	(1.2)	(1.2)	(1.0)	(1.5)	(1.6)	(1.4)	(1.4)	(1.2)	(0.9)	(0.9)
Total	14.7%	8.8%	9.8%	9.8%	9.1%	11.5%	10.5%	10.5%	11.6%	12.5%	12.2%	12.2%
January												
Consumer Products	13.5%	13.5%	12.2%	12.2%	8.9%	9.9%	10.6%	10.8%	11.6%	13.7%	13.7%	12.7%
Pet Products	17.7	17.7	17.7	17.7	18.6	23.1	20.0	20.4	18.4	22.3	21.1	21.1
Total	15.5	14.6	14.6	14.6	12.6	15.1	13.3	13.3	13.4	15.9	14.9	14.9
Corporate	(1.3)	(1.3)	(1.3)	(1.3)	(1.1)	(1.5)	(1.6)	(1.5)	(0.9)	(0.8)	(0.4)	(0.4)
Total	14.2%	13.3%	13.3%	13.3%	11.5%	13.5%	11.7%	11.8%	12.5%	15.1%	14.5%	14.5%
April												
Consumer Products	12.4%	12.4%	9.6%	9.6%	8.0%	7.1%	10.3%	10.3%	9.9%	13.5%	10.8%	10.8%
Pet Products	16.8	16.8	19.0	19.0	19.1	20.9	18.2	22.2	22.2	25.4	19.5	19.5
Total	14.4	13.9	13.9	13.9	12.3	12.2	12.5	13.1	13.1	16.5	13.1	13.1
Corporate	(1.7)	(2.0)	(1.7)	(1.7)	(1.7)	(1.5)	(1.6)	(1.5)	(1.5)	(0.9)	(0.2)	(0.2)
Total	12.7%	11.9%	11.9%	11.9%	10.6%	10.7%	10.9%	11.6%	11.6%	15.6%	12.9%	12.9%

(a) Reflects divestiture of soup and infant feeding businesses. (b) Includes acquisitions of Meow Mix on May 19 and Milk-Bone on July 2. July quarter excludes \$10 million pretax gain on divestiture. (c) Continuing operations. Reflects sale of StarKist Seafood.

Table 4: Del Monte Foods Company - Annual Income Statements (a)

	F2009 (b)	F2008 Cont. Ops. (c)	F2008	F2007 (d)	F2006	F2005
Net Sales	\$3,626.9	\$3,179.8	\$3,736.8	\$3,414.9	\$2,998.6	\$2,899.3
Cost of Products Sold	2,622.7	2,319.9	2,809.1	2,500.8	2,213.9	2,155.5
Gross Profit	1,004.2	859.9	927.7	914.1	784.7	743.8
SG&A Expenses	643.3	520.2	567.5	539.8	479.9	419.5
Operating Income	360.9	339.7	360.2	374.3	304.8	324.3
Interest Expense	110.3	131.4	150.3	154.6	88.2	97.4
Other Expense (Income)	24.1	(2.5)	(2.5)	0.4	1.1	2.8
Total	134.4	128.9	147.8	155.0	89.3	100.2
Income Before Taxes	226.5	210.8	212.4	219.3	215.5	224.1
Income Taxes	78.8	77.0	72.5	71.5	78.5	83.8
Net Income	\$147.7	\$133.8	\$139.9	\$147.8	\$137.0	\$140.3
Diluted Shares	198.4	202.8	202.8	203.8	204.2	212.4
Earnings Per Share	\$0.75	\$0.66	\$0.69	\$0.72	\$0.67	\$0.66
% of Sales:						
Gross Profit	27.7%	27.0%	24.8%	26.8%	26.2%	25.7%
SG&A Expense	17.7	16.3	15.2	15.8	16.0	14.5
Operating Income	10.0	10.7	9.6	11.0	10.2	11.2
Effective Tax Rate	34.8%	36.5%	34.1%	32.6%	36.4%	37.4%

(a) April fiscal years. Millions except EPS. Excludes nonrecurring gains and charges.

(b) 53 weeks.

(c) Reflects sale of StarKist Seafood.

(d) Includes acquisitions of Meow Mix on May 19 and Milk-Bone on July 2. Excludes \$10 million pretax gain on divestiture.

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 Del Monte Foods reports issued by me are: 1/12/06 (\$10.4) – Strong Buy – Target \$13-\$14; 3/30/06 (\$11.90) – Strong Buy – Target \$14-\$15; 6/15/06 (\$11.30) – Strong Buy – Target \$14-\$15; 7/26/06 (\$10.50) – Strong Buy – Target \$14-\$15; 9/15/06 (\$10.20) – Strong Buy – Target \$14-\$15, 12/7/06 (\$11.25) – Strong Buy – Target \$14-\$15; 3/19/07 (\$11.15) – Strong Buy – Target \$14-\$15; 6/27/07 (\$12) – Strong Buy – Target \$15-\$16; 9/5/07 (\$10.60) – Strong Buy – Target \$14-\$15; 12/19/07 (\$8.80) – Strong Buy – Target \$12-\$13; 3/4/08 (\$9.15) – Strong Buy – Target \$12-\$13; 6/18/08 (\$7.40) – Strong Buy – Target \$9-\$10; 1/22/09 (\$6.90) – Strong Buy – Target \$9-\$10; 6/25/09 (\$8.95) – Strong Buy – Target \$11-\$12; 9/9/09 (\$12) – Strong Buy – Target \$14-\$15.

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*	63%	0%
Hold	37%	0%
Sell	0%	0%

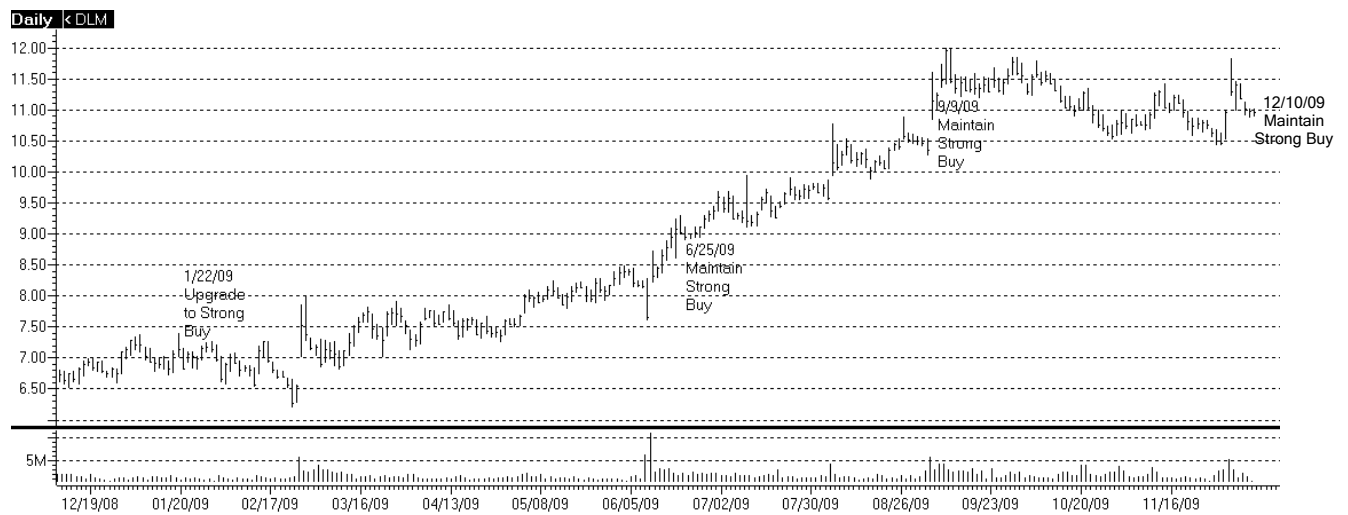
*Includes companies rated "Strong Buy" and "Buy."

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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