

Pressure Biosciences (PBIO-OTCQB)

PBIO: Record PCT product sales reported for 3Q12; valuation very attractive, upgrade to Outperform.

Current Recommendation	Outperform
Prior Recommendation	Neutral
Date of Last Change	11/15/2012
Current Price (11/28/12)	\$0.22
Twelve- Month Target Price	\$1.25

OUTLOOK

Pressure BioSciences (PBIO) is a research products and services provider for the life science industry. We are impressed and optimistic about the Company's novel, enabling platform technology pressure cycling technology (PCT) which has competitive advantages over existing technologies in the sample preparation market. PCT is increasingly gaining recognition by research labs. The Company just reported record PCT product sales in 3Q12 and we expect continued growth in 4Q12 and beyond.

Valuation is very attractive at this time. Therefore, we upgrade the shares to Outperform.

SUMMARY DATA

52-Week High	\$0.85
52-Week Low	\$0.18
One-Year Return (%)	-72.22
Beta	2.12
Average Daily Volume (sh)	24,107

Shares Outstanding (mil)	11
Market Capitalization (\$mil)	\$2.4
Short Interest Ratio (days)	3.01
Institutional Ownership (%)	2
Insider Ownership (%)	41

Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00

5-Yr. Historical Growth Rates	
Sales (%)	37.0
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	N/A
P/E using 2011 Estimate	N/A
P/E using 2012 Estimate	N/A

Zacks Rank	N/A
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Risk Level	High,
Type of Stock	Small-Value
Industry	Med Instruments
Zacks Rank in Industry	N/A

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2011	0.18 A	0.19 A	0.28 A	0.34 A	0.99 A
2012	0.31 A	0.32 A	0.39 A	0.42 E	1.44 E
2013					2.50 E
2014					5.50 E

Earnings per Share

(EPS is operating earnings before non-recurring items)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2011	-\$0.34 A	-\$0.41 A	-\$0.19 A	-\$0.30 A	-\$1.14 A
2012	-\$0.14 A	-\$0.12 A	-\$0.09 A	-\$0.08 E	-\$0.42 E
2013					-\$0.20 E
2014					-\$0.08 E

Zacks Projected EPS Growth Rate - Next 5 Years %	N/A
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WHAT'S NEW

Record PCT Sales Reported for 3Q12

On Nov 15, 2012, Pressure BioSciences (PBIO) announced financial results for the three month period ended September 30, 2012.

Total revenue for the third quarter of 2012 was \$391,616 compared to \$280,422 for the comparable period in 2011, a 40% increase.

Revenue from the sale of Pressure Cycling Technology (PCT) products and services was \$297,867 for the third quarter of 2012 compared to \$217,734 for the same period in 2011, a 37% increase. Grant revenue in the third quarter of 2012 was \$93,749 compared to \$62,688 for the same period in the prior year.

The Company installed eight PCT Sample Preparation Systems (PCT Systems) during both quarters. Sales of PCT-based consumables generated revenue of approximately \$28,000 for the three months ended September 30, 2012 compared to approximately \$21,000 for the same period in 2011, an increase of 33%.

Operating loss for the third quarter of 2012 was \$686,520, compared to \$745,811 for the same period in 2011, a decrease of approximately 8%. After the exclusion of non-cash charges, operating cash burn for the 2012 third quarter was approximately \$507,000 compared to approximately \$658,000 for the third quarter of 2011, a decrease of approximately 23%.

Loss per common share - basic and diluted - was \$0.09 for the third quarter of 2012 compared to \$0.19 for the same period in 2011.

Our takeaways from the earnings report

Third quarter of 2012 was an impressive quarter. PBIO's financial results continued to improve.

PBIO recorded record PCT product sales of \$0.30 million in 3Q12, an increase of 37% year over year. Third quarter product sales was also \$0.05 million over our estimate of \$0.25 million. PBIO also reported that revenue for the first nine months of 2012 exceeded \$1.00 million, which surpassed the total revenue for 2011.

For the third quarter of 2012, the Company worked hard to increase revenue while reducing its operating loss. Operating loss for the third quarter of 2012 was \$686,520, a decrease of approximately 8% year over year. Operating loss also beat our estimate of \$0.9 million.

We are especially happy to see increased sales of consumables for the quarter. Sales of PCT-based consumables generated revenue of approximately \$28,000 for the three months ended September 30, 2012 compared to approximately \$21,000 for the same period in 2011, an increase of 33%. We expect the sales of consumables will continue to grow in the coming quarters. As we pointed before, this growth in consumables sales is very important to the Company's long term sustainable growth. We remind investors consumables are recurring revenue source to the Company with higher margin, which are associated with the installation of PCT equipments. When more and more equipments are installed, more consumables will be used. The growth of installed equipments will eventually stabilize, but the use of consumables will increase each quarter as the equipment base becomes larger. Although revenue from consumables currently accounts for only a small portion of PCT product sales (about 10%), this number will become larger going forward and make a meaningful contribution to the top line.

Balance Sheet Boosted with the Conversion of Ironridge BioPharma Convertibles

On November 28, 2012, PBIO announced that Ironridge BioPharma Co. has converted their remaining 200 shares of the Company's Series E Convertible Preferred Stock into shares of the Company's common stock. Following this conversion, all 500 shares of Series E Preferred Stock purchased by Ironridge in the April 2012 \$500,000 registered direct transaction with the Company have been converted.

The total number of shares of common stock issued to Ironridge for their Series E Preferred Stock investment was 1,113,033, of which 688,378 were reflected in the 11,189,612 shares issued and outstanding on September 30, 2012. In connection with the Series E Preferred Stock transaction, the Company paid the make-whole dividend with a combination of cash and common stock.

Ironridge BioPharma Co. is an institutional investor specializing in equity investments in the life sciences sector. Ironridge is a long-only institutional investor that seeks to be a long-term financial partner. Ironridge made the investment in PBIO this past April. The funds received were used in part to support the new marketing and sales program that PBIO introduced earlier this year, which helped PBIO achieve record PCT products revenue in the third quarter of 2012, and will also play an important role in PBIO's anticipated future revenue growth.

With the conversion, the perceived "overhang" is gone, and PBIO paid out no more shares than originally registered. The conversion not only boosts PBIO's balance sheet, but also validates the Company's PCT technology platform. This is an indication that Ironridge BioPharma is optimistic about PBIO's prospect and is willing to become its long term investor.

A Big Distribution Deal with Constant System

On November 26, 2012, PBIO announced that it has signed deal with British Constant Systems Ltd (CS). The two companies have entered into a two-way, strategic marketing, selling, and distribution agreement.

Under the terms of the Agreement, PBIO has been awarded non-exclusive rights to market, sell, and distribute CS's unique, high-pressure cell disruption equipment and consumables in the United States, Canada, and Mexico. Meanwhile, CS has been awarded the rights to market, sell, and distribute PBIO's pressure cycling technology (PCT) based instruments and consumables in England, Scotland, Wales, Ireland, Spain, Portugal, Italy, Norway, Sweden, Finland, Denmark, and Singapore. CS currently has strong sales and distribution channels in all twelve of these countries. PBIO, on the other hand, has none. The Agreement is in effect until December 31, 2013; however, PBIO and CS expect to extend the Agreement prior to its termination.

The initial Agreement focuses on cooperative marketing, selling, and distribution. The companies expect to co-market their products through shared booths at trade shows, joint email campaigns, combined advertisements and webcasts, and other means of gaining visibility for the two related, pressure-based product lines. They also plan to make sales calls together, when appropriate. The companies have also begun discussions on the possibility of expanding the current Agreement to include cooperative research, development, and manufacturing in the near future.

This is a big deal for PBIO in our view. The two companies are worldwide leaders of complementary ultra-high pressure product lines for the life sciences market. Constant Systems is a British company that has been providing niche biomedical products and services to a global client base since 1989. CS designs, develops, and manufactures high pressure cell disruption equipment required by life sciences laboratories worldwide, particularly disruption systems for the extraction of proteins. CS has nearly 900 machines installed in over 40 countries worldwide.

The two product lines complement each other exceedingly well. While both the CS and PBIO technologies are based on high pressure, each product line has fundamental scientific capabilities that

the other does not have. PBIO's PCT Platform uses certain patented pressure mechanisms to achieve small-scale, molecular level effects. CS's technology uses different, proprietary pressure mechanisms for larger-scale, non-molecular level processing. In a number of routine laboratory applications, such as protein extraction, both effects can be critical to success. Therefore, for protein extraction and a number of other important scientific applications, laboratories will benefit by using the CS and PBIO products, either separately or together. This is a wonderful synergy of two well-respected, growing, and complementary product lines.

Constant Systems' reach will introduce PBIO's PCT products into 12 countries where PBIO does not have current coverage. Equally important, CS' pressure-based cell disruption systems are needed by many of the same companies and scientists in North America that use or need PBIO's PCT. Therefore, revenue for PBIO could be boosted in two ways in 2013 and beyond.

The Deal with Cole-Parmer Will Boost Shredder SG3™ Sales

On November 7, 2012, PBIO and **Cole-Parmer** signed a supplier agreement. Under the agreement, Cole-Parmer will distribute PBIO's Shredder SG3™ System.

Cole-Parmer is a leading global source of laboratory and industrial fluid handling products, instrumentation, equipment, and supplies since 1955. Its product lines, including popular brand names such as Masterflex®, Oakton®, and more, are sold through company-owned customer channel outlets and a strong network of international dealers.

PBIO's SG3 System is a closed system, which operates by using pressure, which forces the sample against the lysis plate in the tubes for low-shear cell disruption. The resulting samples exceed the yields of those derived from traditional labor-intensive methods such as manual mortar and pestle preparation. The samples also offer better integrity than bead beating methods. Higher reproducibility and lower cost in sample preparation make this efficient new device a standout option for research labs, forensics, cryogenics, medical diagnostics, and more. It also offers full chain-of-custody tracking from collection to testing.

With Cole-Parmer's reputation and extensive distribution channels, sales of SG3 will be greatly boosted in the coming quarters, which will make a meaningful contribution to PBIO's top line growth down the road.

Global Reach Expansion will Boost Sales in 2013 and Beyond

On July 12, 2012, PBIO announced distribution agreements with three companies in different countries. This is the indication that the Company continues to expand in the global market.

These distribution agreements with three companies have combined sales coverage in six new countries. This brings to eleven the number of additional countries over the past seven months where the PCT sample preparation instrument and consumable products are now being offered for sale.

For China, the Company entered into an exclusive distribution agreement with the Yinzhou Police Equipment & Technology Co., Ltd. (Guangzhou, China) for its PCT product line and a non-exclusive agreement for its patent-pending, mechanical homogenization device, the Shredder SG3, and associated consumables. This Agreement allows Yinzhou to market and sell PBI products into the forensics marketplace only. PBIO plans to add one or more additional distributors in China for representation outside of the forensics area during the second half of 2012.

For Vietnam, Cambodia, and Laos, the Company entered into an exclusive distribution agreement with BMN MSI., Ltd. (Hanoi, Vietnam) for its PCT product line and a non-exclusive agreement for the Shredder SG3 homogenization device and associated consumables.

For Australia and New Zealand, the Company entered into an exclusive distribution agreement with iScience Technology (Melbourne, Australia) for its PCT product line, and a non-exclusive agreement for the Shredder SG3 homogenization device and associated consumables.

PBIO recently launched aggressive commercialization initiatives for its Pressure Cycling Technology (PCT)-based products. Within one year, management has established multiple co-marketing or distribution agreements worldwide. During the first half of 2012, PBIO added four strategic US partners and four international distributors to help the Company aggressively market and sell its novel PCT instruments and consumables. Initial orders have already been received from several of these new partners/distributors. We believe that the number of such orders will continue to increase, which will positively impact revenue for 4Q12 and beyond.

PCT Platform Continues to Show Advantages in Multiple Studies

Recently, PBIO announced that multiple research reports have cited the ability of the Company's PCT Platform to improve the detection of RNA, DNA, and/or protein in forensic, environmental, and biodefense applications, and in research studies focused on the discovery of biomarkers of disease. These studies were conducted in laboratories worldwide, including:

- On Nov 2, 2012, PBIO announced that scientists from two separate research groups presented data at the recent HUPO 11th Annual World Congress (Boston, MA) indicating that the incorporation of the Company's PCT Platform into their sample preparation processes resulted in a marked improvement in the quality and/or efficiency of test results. These studies were presented by scientists from the Center for Biologics Evaluation and Research of the **FDA** and from **Janssen Research and Development**.
- On Nov 14, 2012, PBIO announced that Dr. Bradford Powell, a prominent microbiologist and recognized infectious diseases expert, presented a keynote address during the opening ceremony of this year's annual Clinical Microbiology & Microbial Genomics Conference (ClinMicro-2012). In the Keynote address and a second, main session presentation in the conference, Dr. Powell presented data highlighting the advantages of the Company's powerful and patented PCT Platform that have been shown to enable significant improvements in molecular-based microbiological testing, a rapidly growing and extremely important area in laboratory medicine today.
- On Oct 18, 2012, PBIO announced that two research groups have reported on the ability of the Company's PCT Platform to improve the detection of DNA in challenging forensic samples. The studies were presented by scientists from the Institute of Applied Genetics, Department of Forensic and Investigative Genetics, University of North Texas Health Science Center (UNTHSC) in Fort Worth Texas, and from the Harris County Institute of Forensic Sciences in Houston Texas. The study results were presented at the 23rd annual International Symposium on Human Identification (ISHI), being held from October 15-18, 2012, in Nashville, TN.

We believe these findings, together with previous publications, strongly support the importance of the PCT Platform in the life sciences field, including forensics, environmental analyses, biodefense, and biomarker discovery applications. This has created increased interest in its PCT Platform in the past, and will continue to drive sales in the future.

VALUATION AND RECOMMENDATION

We are upgrading PBIO shares to Outperform from Neutral and our new twelve-month price target is \$1.25.

Our call is based on two factors: financial results and business development are improving and valuation is very attractive. We have already discussed the financial results for the third quarter of 2012 and recent business development, both were very impressive.

In terms of valuation, we think PBIO shares are undervalued based on the Company's fundamentals. Currently, the Company trades around \$0.20 per share with a market cap of \$2.0 million. We believe this deeply undervalues the Company based on the current fundamentals mentioned above. We understand that market discounts the value of the Company because the Company has only limited revenue base and has been losing money since its inception. We also understand that the Company has a relatively weak balance sheet, and further financing will be needed soon. However, when we look at the Company and the industry in which it operates in more detail, we realize that this is a company with huge opportunity and one that can grow its revenue and earnings at a tremendous rate in the next few years.

PBIO operates in the rather large, but underserved research services market. The Company has developed a unique and superior pressure cycling technology for the preparation of biological laboratory samples. The Company's PCT platform holds competitive advantages over incumbent technologies in many important aspects related to sample preparation.

Currently, the Company is in the early stage of commercialization of its platform technology. We realized that sales have not been stellar so far, but this is understandable. Pressure cycling technology is quite new to most customers in the sample preparation market, and the costs for PCT are also higher than those for most existing technologies. Therefore, rollout of the PCT platform will take time. However, once customers become familiar with the new PCT platform, and realize its advantages over existing technologies, uptake of PCT and its consumable products by the industry will increase dramatically in our view.

We are especially optimistic about the Company's collaboration programs which will generate great awareness of the PCT platform among researchers in the sample preparation market. We are also impressed with the potential of the PCT technology in new application areas such as in the forensic, oil spill clean-up and agricultural applications.

PBIO has established extensive distribution partnerships with leading companies in the life science industry. With a growing sales force and a clear growth strategy in place, sales should pick up steam in the coming quarters.

We are now optimistic about the Company's prospect. With a rapidly growing market worldwide, combined with its unique technology and broad range of product offering, the Company is well positioned to boost its top line and bottom line in the coming years. According to our long term financial model, the Company's revenue will grow at a compound annual growth rate (CAGR) of 118% in the next three fiscal years from 2012 to 2015. The Company will become profitable in fiscal 2015 with earnings per share (EPS) of \$0.06 according to our model.

We think PBIO is more like a development stage biotech company. Shares of the Company should trade around a P/E of 30x, which is similar to the average P/E multiple of the research services/biotech industry. If we apply this P/E to our estimated EPS of \$0.06 in fiscal 2015, discounted at 20% for 2 years, we get our price target of \$1.25 per share. As long as the Company can execute its growth strategy correctly, we believe this goal is achievable.

PROJECTED INCOME STATEMENT

\$ in million except per share data	Q1	Q2	Q3	Q4	12/11A	Q1	Q2	Q3	Q4	12/12E	12/13E	12/14E	12/15E
<i>Product/Service Revenue</i>	\$0.18	\$0.19	\$0.22	\$0.18	\$0.77	\$0.16	\$0.22	\$0.30	\$0.32	\$1.01	\$2.00	\$5.00	\$10.50
<i>YOY Growth</i>	-4.50%	-32.71%	11.81%	-15.03%	-12.51%	-8.8%	17.7%	36.8%	79.1%	31.2%	98.6%	150.0%	110.0%
<i>Grant Revenue</i>	\$0.00	\$0.00	\$0.06	\$0.16	\$0.22	\$0.14	\$0.10	\$0.09	\$0.10	\$0.44	\$0.50	\$0.50	\$0.50
Total Revenues	\$0.18	\$0.19	\$0.28	\$0.34	\$0.99	\$0.31	\$0.32	\$0.39	\$0.42	\$1.44	\$2.50	\$5.50	\$11.00
<i>YOY Growth</i>	-37.9%	-52.6%	-24.6%	22.2%	-26.3%	69.2%	70.4%	39.7%	25.0%	46.0%	73.3%	120.0%	100.0%
<i>CoGS</i>	\$0.1	\$0.1	\$0.1	\$0.1	\$0.3	\$0.1	\$0.1	\$0.1	\$0.1	\$0.4	\$0.8	\$1.6	\$2.9
Gross Income	\$0.10	\$0.11	\$0.19	\$0.24	\$0.64	\$0.23	\$0.22	\$0.28	\$0.31	\$1.04	\$1.69	\$3.89	\$8.12
<i>Gross Margin</i>	56.3%	58.9%	66.6%	72.6%	65.3%	74.4%	66.4%	72.2%	73.8%	71.8%	67.7%	70.7%	73.8%
<i>Gross Margin for PCT revenue</i>	56.3%	58.9%	57.0%	48.5%	55.3%	52.5%	51.3%	63.5%	65.6%	59.7%	59.7%	67.7%	72.6%
<i>R&D</i>	\$0.2	\$0.3	\$0.2	\$0.2	\$1.0	\$0.3	\$0.3	\$0.2	\$0.3	\$1.1	\$1.2	\$1.4	\$1.6
<i>% R&D</i>	121.2%	138.3%	88.5%	71.0%	98.2%	88.9%	78.9%	63.3%	71.4%	74.6%	48.0%	25.5%	14.5%
<i>SG&A</i>	\$0.7	\$0.7	\$0.7	\$0.9	\$3.0	\$0.9	\$0.6	\$0.7	\$0.8	\$3.0	\$3.5	\$4.0	\$5.0
<i>% SG&A</i>	396.6%	362.3%	244.1%	260.1%	300.2%	301.1%	197.7%	184.3%	178.6%	210.4%	140.0%	72.7%	45.5%
<i>Other</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>% Other</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	(\$0.8)	(\$0.8)	(\$0.7)	(\$0.9)	(\$3.3)	(\$1.0)	(\$0.7)	(\$0.7)	(\$0.7)	(\$3.1)	(\$3.0)	(\$1.5)	\$1.5
<i>Operating Margin</i>	-461.5%	-441.7%	-266.0%	-258.5%	-333.1%	-315.6%	-210.1%	-175.3%	-176.2%	-213.1%	-120.3%	-27.5%	13.8%
<i>Other Net</i>	\$0.00	\$0.08	\$0.18	\$0.04	\$0.31	(\$0.10)	\$0.17	(\$0.11)	\$0.00	(\$0.03)	\$0.00	\$0.00	\$0.00
Pre-Tax Income	(\$0.8)	(\$0.8)	(\$0.6)	(\$0.8)	(\$3.0)	(\$1.1)	(\$0.5)	(\$0.8)	(\$0.7)	(\$3.1)	(\$3.0)	(\$1.5)	\$1.5
<i>Pref. stk Div</i>	\$0.13	\$0.41	\$0.40	\$1.19	\$2.14	\$0.02	\$0.58	\$0.13	\$0.15	\$0.88	\$0.00	\$0.00	\$0.00
<i>Taxes (Benefit)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax Rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reported Net Income	(\$1.0)	(\$1.2)	(\$1.0)	(\$2.0)	(\$5.1)	(\$1.1)	(\$1.1)	(\$0.9)	(\$0.9)	(\$4.0)	(\$3.0)	(\$1.5)	\$1.5
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Net Margin</i>	-535.0%	-614.9%	-343.9%	-599.7%	-518.2%	-355.7%	-335.4%	-236.4%	-211.9%	-276.9%	-120.3%	-27.5%	13.8%
<i>Shares Out</i>	2.8	2.9	6.3	6.7	4.7	7.7	10.2	10.9	11.4	10.0	15.0	20.0	25.0
Reported EPS	(\$0.34)	(\$0.41)	(\$0.15)	(\$0.30)	(\$1.10)	(\$0.14)	(\$0.11)	(\$0.09)	(\$0.08)	(\$0.40)	(\$0.20)	(\$0.08)	\$0.06
<i>YOY Growth</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>One time charge</i>	\$0.00	\$0.00	(\$0.22)	\$0.00	(\$0.22)	\$0.00	(\$0.18)	\$0.00	\$0.00	(\$0.18)	\$0.00	\$0.00	\$0.00
Non GAAP Net Income	(\$1.0)	(\$1.2)	(\$1.2)	(\$2.0)	(\$5.3)	(\$1.1)	(\$1.3)	(\$0.9)	(\$0.9)	(\$4.2)	(\$3.0)	(\$1.5)	\$1.5
Non GAAP EPS	(\$0.34)	(\$0.41)	(\$0.19)	(\$0.30)	(\$1.14)	(\$0.14)	(\$0.12)	(\$0.09)	(\$0.08)	(\$0.42)	(\$0.20)	(\$0.08)	\$0.06

Source: Company filings and Zacks Investment Research Inc. estimates

HISTORICAL ZACKS RECOMMENDATIONS



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