Zacks Small-Cap Research

November 11, 2011
Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

Trius Therapeutics (TSRX-NASDAQ)

TSRX: First Phase 3 Tedizolid Trial Data Expected Q1-2012…

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/24/2011
Current Price (11/11/11)	$7.23
Target Price	**$12.00**

UPDATE

We are maintaining our 'Outperform' rating and $12 price target on Trius Therapeutics. We believe the company's phase 3 candidate, Tedizolid, is poised to be "best-in-class" for acute bacterial skin and skin structure infections (ABSSSI) and methicillin-resistant *Staphylococcus aureus* (MRSA).

Clinical data from the 1st phase 3 trial, under SPA, is expected in early 2012. Recently, Trius initiated a 2nd phase 3 trial with Tedizolid, also under U.S. FDA SPA. Bayer is now funding 25% of the development costs for Tedizolid.

We believe the story is meaningfully under-valued by investors and positive phase 3 data in early 2012 will be the catalyst to drive the shares higher.

SUMMARY DATA

52-Week High	**$8.74**
52-Week Low	**$3.02**
One-Year Return (%)	**121.38**
Beta	**0.15**
Average Daily Volume (sh)	**76,976**
Shares Outstanding (mil)	**29**
Market Capitalization ($mil)	**$201**
Short Interest Ratio (days)	**5.52**
Institutional Ownership (%)	**23**
Insider Ownership (%)	**61**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
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**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	1.5 A	2.1 A	1.9 A	2.5 A	8.0 A
2011	2.7 A	2.9 A	30.4 A	5.5 E	41.5 E
2012					25.0 E
2013					25.0 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$5.08 A	-$2.69 A	-$0.57 A	-$0.37 A	-$2.36 A
2011	-$0.43 A	-$0.40 A	$0.49 E	-$0.37 E	-$0.62 E
2012					-$0.90 E
2013					-$0.61 E

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Third Quarter Financials

On November 11, 2011, Trius reported financial results for the third quarter 2011. Total revenues in the quarter were $30.4 million, and consisted of the full recognition of the $25 million upfront payment from Bayer Pharma AG for strategic collaboration to develop and commercialize Tedizolid in Asia/Pacific and emerging markets (Africa, Middle East, and Latin America), along with $2.0 million in a milestone earned under the collaboration, and $3.4 million under the company's federal research contract with the Defense Threat Reduction Agency (DTRA).

Income for the quarter totaled $14.3 million, or $0.49 per share. Trius exited the third quarter ended September 30, 2011 with $69.5 million in cash and investments. We forecast that Trius will exit 2011 with roughly $60 million in cash and investments, enough to fund operations through the phase 3 program.

Bayer Takes Asia/Pacific Rights

On July 27, 2011, Trius announced it had formed a strategic collaboration to develop and commercialize Tedizolid in Asia/Pacific and emerging markets (Africa, Middle East, and Latin America) with Bayer Pharma AG. Trius has retained full development and commercialization rights outside the Bayer territory, which includes unencumbered rights in the U.S., Canada, and Europe. Under terms of the agreement, Bayer paid Trius a $25 million upfront payment and will support approximately 25% of the future development costs of Tedizolid required for global approval in acute bacterial skin and skin structure infections (ABSSSI) and pneumonia. In addition, Trius is eligible to receive up to $69 million in certain development, regulatory, and commercial milestones, along with double digit royalties (we model 15%) on sales. On the conference call, CEO Jeff Stein noted that 50% of these milestones are pre-commercialization. We note that Trius recognized $2.0 million already under the collaboration in the third quarter 2011 for the initiation of the 2nd phase 3 trial with Tedizolid.

We are particularly excited about the deal for a number of reasons:

- ✓ Firstly, Bayer is an outstanding commercial partner, with expertise in anti-infectants including Cipro and Avalox. Bayer has the financial strength and experience to launch Tedizolid in Asia, including China, and potential emerging markets across the Africa and the Middle East. Bayer just recently moved its commercial operations for Asia to China. We expect Bayer to commence clinical work in China / Japan shortly.

- ✓ Secondly, the $25 million upfront payment provides Trius with much needed cash to continue the ongoing phase 3, TR-701-p3-A, program. As of May 2011, this trial was about 65% complete. Bayer will also reimburse Trius for approximately 25% of global development costs, including 100% in China and Japan. This includes unfinished preclinical and CMC work. Also, Trius can earn up to $69 million in potential backend milestone, which include additional indications into skin and lung infections. Respiratory infections like Avian Flu and SARS are significant medical concern in Asia, and we believe Tedizolid has significant potential to treat lung infections, a key differentiator from Cubists Cubicin, in China and Japan.

- ✓ Thirdly, Trius retains the unencumbered rights to develop, commercialize or separately partner in the U.S., Canada, and the EU. We believe the above deal with Bayer is just a taste of what could come in terms of a U.S. or European deal for Tedizolid following successful completion of the first phase 3 trial.

- ✓ Finally, it validates our belief that Tedizolid is a potential blockbuster drug, with differentiating factors from both Pifzer's Zyvox (linezolid) and Cubist's Cubicin (daptomycin), and reinforces our assumption that Trius can sign a significantly larger deal for Tedizolid in unlicensed territories in 2012.

Enrollment Complete In 1st Phase 3 Trial

In September 2011, Trius announced it had completed enrollment in the 1st phase 3 trial (TR701-112). We discuss this trial in greater detail below. We are expecting data from the trial in early 2012.

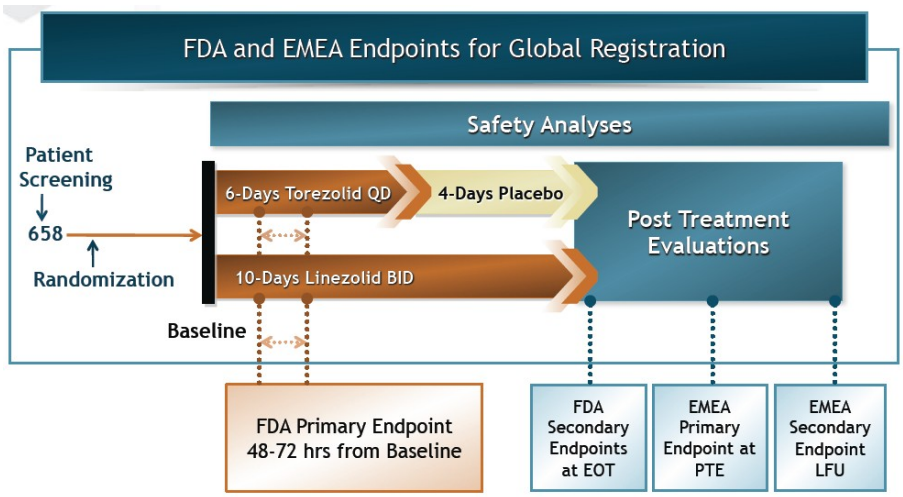
Enrollment Underway In nd Phase 3 Trial

In September 2011, Trius announced it had initiated the 2nd phase 3 trial (TR701-113) testing Tedizolid administered initially as a once-daily intravenous (IV) infusion with the possibility to switch to once-daily oral therapy in ABSSSI patients. We remind investors that Trius and the FDA came to a Special Protocol Assessment (SPA) on the design of the trial in August 2011. The study will compare the efficacy and safety of once-daily administration of 200 milligrams of tedizolid phosphate for 6 days with that of twice-daily administration of 600 milligrams of linezolid (Zyvox) for 10 days. The primary endpoint will be the cessation of infected lesion spread and absence of fever at 48 to 72 hours following initiation of treatment. Secondary endpoints will include sustained clinical response at the end of therapy visit, and the investigator's assessment of clinical response at all visits and clinical success at the post treatment evaluation visit. The goal is to show non-inferiority of Tedizolid vs. linezolid. If this is met, an assessment of superiority of Tedizolid with respect to the primary efficacy endpoint will also be made. This would be a "home run" outcome. The trial is being run in collaboration with Bayer Pharma AG. Initiation earned Trius a $2.0 million milestone payment. We expect the trial to seek to enroll patients in North and South America, Europe, South Africa and Asia.

INVESTMENT THESIS

Phase 3 Tedizolid Update

Study-112 ➔ Enrollment in the company's first phase 3 trial with Tedizolid is progressing on plan. Enrollment has recently been expanded to include 60+ sites in Europe and Latin America. This nearly triples the number of sites, as previously the trial was only enrolling at around 30 sites in North America earlier this year. With things now accelerated, we believe enrollment should complete in the next few months. Management guidance is for data in early 2012. We remind investors that this program is testing Tedizolid vs. Pfizer's Zyvox (linezolid) in 650+ patients under a U.S. FDA special protocol assessment (SPA). The trial tests 200mg once-daily (QD) Tedizolid for 6 days head-to-head in a non-inferiority study to 600mg twice-daily (BID) Zyvox (linezolid) for 10 days.



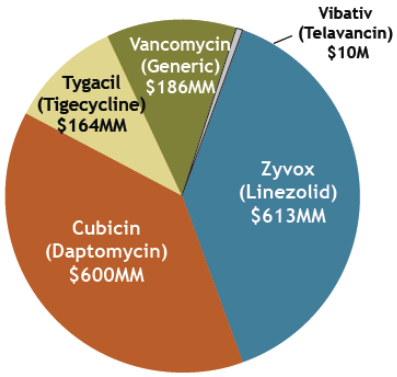
Study-113 ➔ Recently, Trius announced that it has reached an agreement with the U.S. FDA for a SPA on the design of its second planned phase 3 study (Study-113) for the IV-to-Oral step-down trial. This trial will compare the efficacy and safety of 200mg QD Tedizolid for six days to 600mg BID linezolid (Zyvox) for 10 days. All patients will be initiated on IV dosage form for a minimum of one day and be transitioned to the oral dose form at the discretion of the clinical investigator. We expect Trius to start this second pivotal study in the fourth quarter 2011.

The primary endpoint for both trials will be the cessation of infected lesion spread and absence of fever at 48 to 72 hours following initiation of treatment. Secondary endpoints will include sustained clinical response at the end of therapy visit, and the investigator's assessment of clinical response at all visits and clinical success at the post treatment evaluation visit. The goal is to show non-inferiority of Tedizolid vs. linezolid. If this is met, an assessment of superiority of Tedizolid with respect to the primary efficacy endpoint will also be made.

This would be a “home run” outcome. With respect to the IV-to-Oral step-down trial (Study-113), we will be looking to see if patients transition to oral medication on Tedizolid earlier in the treatment phase than linezolid. We note that having both an IV and oral dosage formulation is a key differentiator to Cubist’s Cubicin (daptomycin). Between Zyvox and Cubicin, we estimate these drugs have over 80% of the dollar market share in MSSA/MSRA.

U.S. Sales 2010 - $1.56 Billion

- ✓ 20% CAGR in branded sales from 2005 – 2010
- ✓ 6% CAGR in vancomycin sales from 2005 – 2010
- ✓ Vancomycin success rate at declining for MRSA



…Tedizolid Poised To Be Best-In-Class…

Despite the rapid growth in new antibiotics such as Cubicin and Tygacil, we believe there is significant room for improvement in the treatment paradigm. Tedizolid is a second generation oxazolidinone being developed for the treatment of serious gram-positive infections, including MRSA. Based on clinical data from phase 1 and phase 2 studies, Tedizolid offers several key advantages over the market leading product in Pfizer’s Zyvox (linezolid), a first-generation oxazolidinone with worldwide sales over $1.1 billion in 2010. These advantages include far more rapid bacteriocidal onset, far more convenient once-daily dosing, a shorter course of therapy at only 6 days vs. the 10 to 14 days recommended wit h Zyvox, and superior cure rates in difficult-to-treat MRSA infections.

Trius plans to make Tedizolid available in both an oral and IV formulation, providing an advantage to Pfizer’s Tygacil and Cubist’s Cubicin. These three products generated sales of $1.4 billion in the U.S. in 2010, gaining sizable market share as the therapeutic window on generic vancomycin is rapidly closes. We believe physicians will quickly convert the next leap forward in the treatment of acute bacterial skin and skin structure infections (ABSSSI) and methicillin-resistant *Staphylococcus aureus* (MRSA) in Tedizolid.

Trius and Bayer are currently in discussions with the U.S. FDA on a third phase 3 program to focus on lung infections. This could be another significant differentiator to Cubist’s Cubicin (daptomycin). We expect management to secure an SPA for this third phase 3 trial in the fourth quarter 2011, and start the study shortly thereafter. We expect that management will also seek to conduct a study in bacteremia in 2012, providing yet another strong point of differentiation to Pfizer’s Zyvox (linezolid).

…Key Advantages vs. Both Zyvox & Cubicin…

	Zyvox (linezolid)	Cubicin (daptomycin)	Tedizolid
IV & Oral Formulation	YES	NO	YES
Rapid Efficacy Onset	NO	YES	YES
Once Daily Dosing	NO	YES	YES
Short Course of Therapy	NO	NO	YES
Skin Infections	YES	YES	YES
Active In Lung Infections	YES	NO	YES
Bacteremia	NO	YES	YES

The chart below is a retrospective analysis of cross trial response rates for ABSSSI and cSSSI based on the primary endpoint for phase 3 trials for Zyvox and the phase 2 data from Trius' Tedizolid.

Measurement	Linezolid*	Torezolid#
ABSSSI Primary Endpoint Cessation of spread, afebrile, ≥ 1 systemic sign, lesion size ≥ 75cm² at 48-72 hrs from baseline	78.8%	91.3%
cSSSI Primary Endpoint Clinical response at test-of-cure	91.2%	98.2%

Source: Trius Inc., Pfizer, Inc.

Based on current timelines, we are expecting a new drug application (NDA) in 2013, with FDA approval in 2014. We expect that Trius will look to commercialize Tedizolid in the U.S. on its own and partner for the opportunity outside the U.S. We see worldwide sales of $800 million in 2020.

VALUATION & RECOMMENDATION

Rating Outperform / Target of $12

In January 2011 we initiated coverage of Trius Inc. with an Outperform rating. We are confident in the outcome of the company's ongoing phase 3 trials testing Tedizolid vs. Pfizer's Zyvox (linezolid) for the treatment of acute bacterial skin and skin structure infections (ABSSSI). We see significant market share gains for Tedizolid over the three market leading products, Zyvox, Cubicin, and Tygacil. The current market cap of only ~$215 million undervalues the story in our view.

Based on a combination of three valuation methods, DCF, comparative deal analysis, and comparison to peer group, we see the company fairly valued at a market capitalization of roughly $325 million.

Valuation Method	Projected Market Cap.
Discounted Cash Flow	~ $350 Million
Take-Out Value / Comparative Deals	~ $325 Million
Peer-Group Analysis	~ $250 Million
Estimated Fair Value	~$340 Million

This equates to a target price of $12 per share based on 28.5 million shares outstanding. We note that there are roughly 1.7 million warrants outstanding that become exercisable at $8.40 per share in November 2011.

PROJECTED FINANCIALS

Trius Therapeutics, Inc.
Income Statement

	2009 A	2010 A	Q1 A	Q2 A	Q3 A	Q4 E	2011 E	2012 E	2013 E	2014 E
Torezolid (N.A. Sales)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-	-
Torezolid (EU Sales)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-	-
Torezolid (Asia/EM Sales)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-	-
Total Torezolid Revs	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Contracts & Collaborations	**$5.0**	**$8.0**	**$2.7**	**$2.9**	**$30.4**	**$5.5**	**$41.5**	**$25.0**	**$25.0**	**$20.0**
YOY Growth	-	-	-	-	-	-	*100.0%*	*-39.8%*	*0.0%*	*-20.0%*
Total Revenues	**$5.0**	**$8.0**	**$2.7**	**$2.9**	**$30.4**	**$5.5**	**$41.5**	**$25.0**	**$25.0**	**$20.0**
YOY Growth	-	*60.1%*	-	-	-	-	*100.0%*	*-39.8%*	*0.0%*	*-20.0%*
CoGS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	*0%*	*0.0%*	-	-	-	-	*0.0%*	*0%*	*0%*	*0%*
R&D	$23.0	$23.3	$10.4	$10.4	$14.9	$13.5	$49.2	$40.0	$30.0	$30.0
% R&D	-	-	-	-	-	-	-	*160.0%*	*120.0%*	*150.0%*
SG&A	$4.1	$5.4	$2.3	$2.5	$3.7	$3.0	$11.6	$12.5	$14.0	$15.0
% SG&A	-	-	-	-	-	-	*27.8%*	*50.0%*	*56.0%*	*75.0%*
Operating Income	($22.2)	($20.7)	($10.1)	($10.0)	$11.8	($11.0)	($19.3)	($27.5)	($19.0)	($25.0)
Operating Margin	*0%*	*0.0%*	-	-	-	-	*-46.4%*	*-110.0%*	*-76.0%*	*-125.0%*
Interest & Other Income	($0.5)	($3.2)	$0.0	$0.0	$2.5	($0.1)	$2.4	($0.5)	($0.4)	($0.2)
Pre-Tax Income	($22.7)	($23.9)	($10.1)	($10.0)	$14.3	($11.1)	($16.8)	($28.0)	($19.4)	($25.2)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($22.7)	($23.9)	($10.1)	($10.0)	$14.3	($11.1)	($16.9)	($28.0)	($19.4)	($25.2)
Net Margin	*0%*	*0.0%*	-	-	-	-	*-40.6%*	*-112.0%*	*-77.6%*	*-126.0%*
Reported EPS	**($31.09)**	**($2.36)**	**($0.43)**	**($0.40)**	**$0.49**	**($0.37)**	**($0.62)**	**($0.90)**	**($0.61)**	**($0.76)**
YOY Growth	-	*-92.4%*	-	-	-	-	*-73.7%*	*45.1%*	*-32.9%*	*26.0%*
Basic Shares Outstanding	0.7	10.1	23.6	25.3	29.5	30.0	27.1	31.0	32.0	33.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

Discounted Cash Flow Model

Trius Therapeutics (TSRX)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Tedizolid N.A. Sales (Full)	**$0**	**$0**	**$0**	**$0**	**$28.3**	**$71.6**	**$134.2**	**$215.4**	**$298.5**	**$365.5**	**$385.7**	**$406.4**
YoY Growth	-	-	-	-	-	*153%*	*88%*	*60%*	*39%*	*22%*	*6%*	*5%*
Royalty on Ex-N.A. Sales	**$0**	**$0**	**$0**	**$0**	**$3.1**	**$9.4**	**$19.7**	**$32.5**	**$44.5**	**$53.1**	**$59.1**	**$64.1**
YoY Growth	-	-	-	-	-	*203%*	*110%*	*65%*	*37%*	*19%*	*11%*	*8%*
Pipeline	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Grants, Licensing & Collabs	**$25.0**	**$42.5**	**$5.0**	**$25.0**	**$35.0**	**$0.0**	**$10.0**	**$0.0**	**$15.0**	**$0.0**	**$10.0**	**$0.0**
Cash Revenues (in Millions)	**$25.0**	**$42.5**	**$5.0**	**$25.0**	**$66.4**	**$81.0**	**$163.9**	**$247.8**	**$358.0**	**$418.6**	**$454.8**	**$470.5**
CoGS	*$0*	*$0*	*$0*	*$0*	*$2.8*	*$7.2*	*$12.7*	*$19.4*	*$25.4*	*$29.2*	*$30.9*	*$32.5*
R&D	*$49.2*	*$40.0*	*$30.0*	*$30.0*	*$20.0*	*$22.0*	*$24.0*	*$26.0*	*$35.8*	*$41.9*	*$45.5*	*$47.0*
SG&A	*$11.6*	*$12.5*	*$14.0*	*$12.5*	*$25.3*	*$29.7*	*$35.9*	*$44.0*	*$52.4*	*$59.1*	*$61.1*	*$63.1*
Other Expenses	*$0*	*$0*	*$0*	*$0*	*$15.4*	*$6.6*	*$13.0*	*$21.0*	*$28.9*	*$34.9*	*$37.8*	*$40.4*
EBITDA	($35.8)	($10.0)	($39.0)	($17.5)	$2.8	$15.6	$78.3	$137.4	$215.5	$253.5	$279.6	$287.3
Depreciation and amortization	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$1.0*	*$1.5*	*$2.0*	*$2.5*	*$3.0*
EBIT	**($36.3)**	**($10.5)**	**($39.5)**	**($18.0)**	**$2.3**	**$15.1**	**$77.8**	**$136.4**	**$214.0**	**$251.5**	**$277.1**	**$284.3**
EBITDA margin	-	-	*-790.0%*	*-72.0%*	*3.5%*	*18.6%*	*47.4%*	*55.1%*	*59.8%*	*60.1%*	*60.9%*	*60.4%*
Cash Taxes	$0	$0	$0	$0	$0.0	($3.0)	($24.9)	($43.7)	($68.5)	($80.5)	($88.7)	($91.0)
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*20.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
Balance Sheet												
Capital Expenditures	$0.5	$0.5	$1.0	$2.5	$3.0	$2.0	$1.0	$0.5	$0.5	$0.5	$0.5	$0.5
Working Capital	$1.0	$1.0	$1.0	$1.0	$1.0	$1.5	$2.0	$2.5	$3.0	$3.5	$4.0	$4.5
Non-Cash Adjustments	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
Capital Adjustments	**$0.5**	**$0.5**	**$1.0**	**$2.5**	**$3.0**	**$2.5**	**$2.0**	**$2.0**	**$2.5**	**$3.0**	**$3.5**	**$4.0**
Discounted Cash Flow												
Cash Income	($36.3)	($10.5)	($39.5)	($18.0)	$2.3	$12.1	$52.9	$92.8	$145.5	$171.0	$188.4	$193.4
Depreciation and amortization	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$1.0	$1.5	$2.0	$2.5	$3.0
Net Cash Changes	($0.5)	($0.5)	($1.0)	($2.5)	($3.0)	($2.5)	($2.0)	($2.0)	($2.5)	($3.0)	($3.5)	($4.0)
Post-Tax Operating Cash Flow	**($36.3)**	**($10.5)**	**($40.0)**	**($20.0)**	**($0.2)**	**$10.1**	**$51.4**	**$91.8**	**$144.5**	**$170.0**	**$187.4**	**$192.4**
Dividends / Payments	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow	**($36.3)**	**($10.5)**	**($40.0)**	**($20.0)**	**($0.2)**	**$10.1**	**$51.4**	**$91.8**	**$144.5**	**$170.0**	**$187.4**	**$192.4**

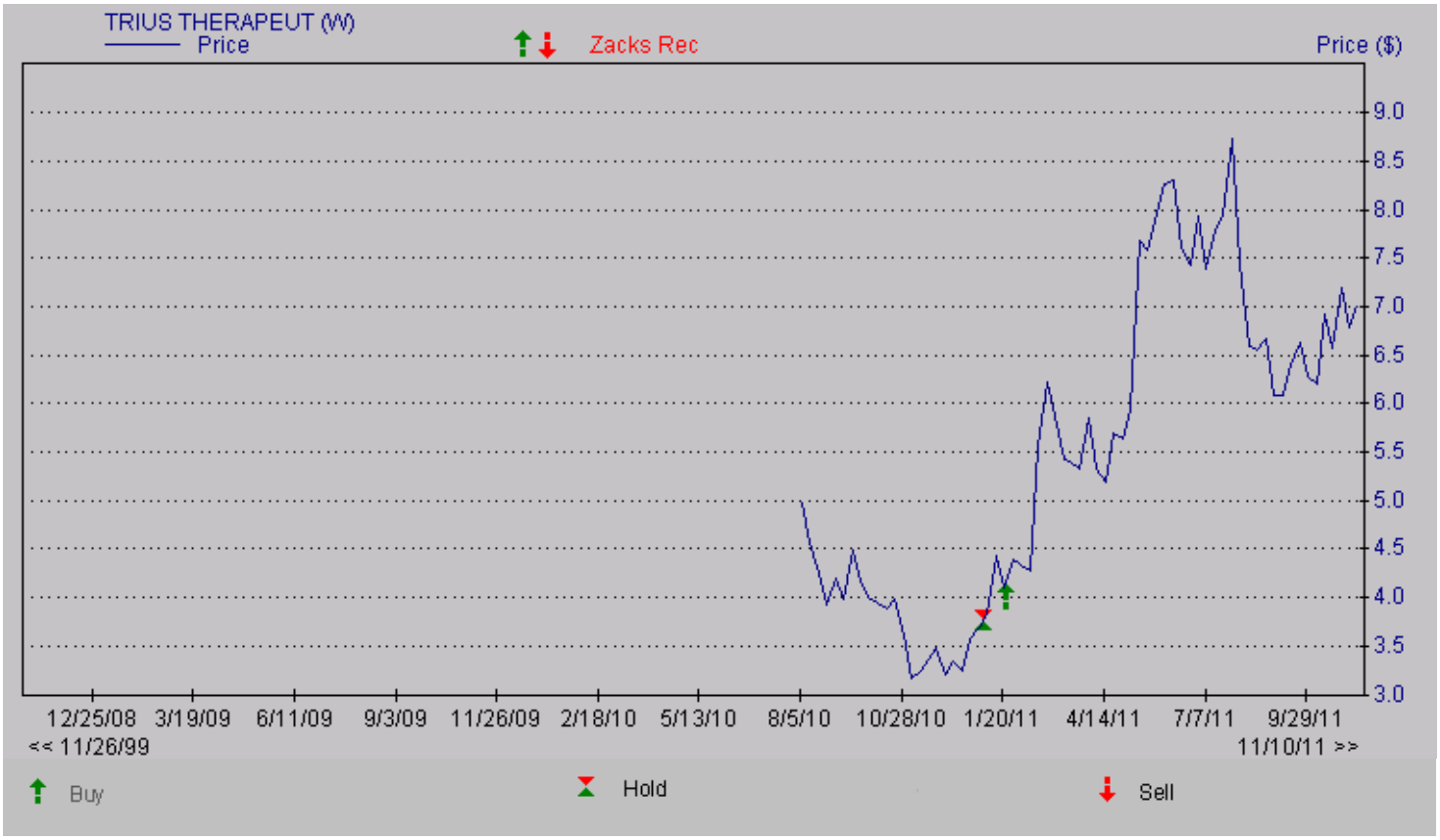
Assumptions	
Beta:	N/A
Equity Risk Premium:	8%
Risk Free Rate:	3%
Firm Risk Premium:	80%
Discount Rate:	**17%**

Valuation	
10-Year Model:	$154.4
Terminal Growth:	3%
Terminal Value:	$235.6
Net Cash - LT Debt:	$60.4
Firm Value:	**$450.5**

Price Target	
Basic Outstanding:	28.5
Warrants / Options:	4.1
Dilution:	3.0
Adjusted Fully Diluted:	35.7
Target Price:	**$12.62**

Source: Zacks Investment Research, Inc. Jason Napodano, CFA

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1027 companies covered: Buy/Outperform- 17.5%, Hold/Neutral- 74.9%, Sell/Underperform – 6.7%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2011, Zacks Investment Research. All Rights Reserved.