Forbes/Lehmann

Income Securities
INVESTOR

Owners Operating Manual

SAVE THESE INSTRUCTIONS

- Fundamentals of Income Investing
- Page by Page Operating Instructions
- Glossary of Bond & Preferred Terms

INCOME SECURTIES ADVISOR, INC.

An Independent Provider of Investment Advice, Research and Financial Publications

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INCOME SECURITIES INVESTOR NEWSLETTER

GENERAL INFORMATION

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FOR THE
INCOME SECURITIES INVESTOR NEWSLETTER

The title of this document may seem odd, however, the Forbes/Lehmann Income Securities Investor Newsletter is more than just a security newsletter, it's a tool to be used for building a customized investment portfolio. Investment knowledge is key to success in building a securities portfolio. The information contained in this manual will provide insight into building and maintaining an income security portfolio tailored specifically for an individuals needs.

ISI's website (www.incomesecurities.com), currently lists over 400 active income security recommendations. That data, along with the monthly newsletter, helps an investor maintain a portfolio by providing updates, rating changes and alerts on companies and securities followed by ISI.

IMPORTANT INVESTING SAFEGUARDS

WARNING - NOT READING THIS MANUAL IS HAZARDOUS TO YOUR INVESTMENT HEALTH.

WARNING - IMPULSE BUYING IS EXPENSIVE.

WARNING – UNDERSTAND THE FEATURES OF THE SECURITIES YOU BUY.

WARNING - DO NOT USE IN TUB OR SHOWER, WATER COULD OBSCURE INFORMATION ON THE PERFECT IDEA.

Losing this Manual…can be hazardous to your wealth.

ABOUT THE PUBLISHER
INCOME SECURITIES ADVISORS, INC.

ISA is an independent investment advisory and research firm, specializing in fixed income securities, including corporate bonds, convertibles, preferreds and hybrids. ISA maintains current and historic databases on the entire high yield bond, preferred and hybrids markets as well as defaulted municipals and corporate bonds.

ISA publishes two monthly newsletters, the Forbes/Lehmann Income Securities Investor and the Defaulted Bonds Newsletter, which can be subscribed to in hard copy or via the electronic editions.

ISA also provides a variety of information services on the Bloomberg Professional financial information system. Type BIA <GO> on any Bloomberg terminal for a list of services.

OUR PHILOSOPHY

- We believe fixed income securities have a place in all investment portfolios no matter the age, wealth, or risk tolerance of the investor.
- We make investment selections for low, medium, and high risk investors and clearly identify the risk level of each security recommended.
- We advocate no one-investment strategy. While most fixed income investors are most comfortable with a buy and hold low risk strategy, others may wish to pursue a balanced portfolio strategy, a high yield strategy or a growth and income strategy.
- We believe an income investor should:
  - Know and stay within their personal risk level.
  - Have clear understanding of their investment objective.
  - Become knowledgeable in fixed income strategies and securities including Corporate Bonds, Convertibles and Preferreds.
  - Continue investment education through periodicals, books, and investment Web sites.

"THE INVESTOR MANIFESTO"

To invest wisely I must be honest with myself and establish a plan within my risk tolerance and aimed at specific goals. A plan that considers my age, the amount of principal I can afford to risk, cash flow or liquidity needs, and the amount of time I am willing to spend on managing investments. I must remember that ***understanding*** and managing ***Fear*** and ***Greed*** are cornerstones to successful investing.

FUNDAMENTALS OF INCOME INVESTING

Interest rates and credit ratings are the most important determinants in pricing of income securities

The benchmark for the prevailing rates is typically measured by the yield on ten-year Treasury bonds. This is used because it is viewed as a "risk free" investment against which all others can be measured.

Interest Rates

Prices

The relationship between income security prices and interest rates is an inverse one. As interest rates go up security prices go down. As interest rates go down security prices go up. This price movement is made necessary in order to keep the current yield of previously issued securities in line with new ones issued at current prevailing interest rates. Hence, the price movement of a particular security you hold may only be due to changes in current rates and does not reflect a change in the quality of that security. Investors who buy a security with the intention of holding it to maturity need not be concerned with price fluctuations since at maturity, they will receive the par amount no matter the price movements in between.

Credit Rating

Another determinant of pricing is the credit rating of the securities. Treasuries are assumed to be triple A (AAA) by major rating agencies, such as **Moody's, Standard & Poor** and **Fitch**. These agencies rate bonds and preferreds as to their credit risk, that is, the probability that the issuing company will be able to pay interest or dividends and redeem principal on the date promised. For a particular security, if the rating goes down the price should also go down and vice versa.

Ratings range AAA down to C

The more letters the better; a BBB/Baa is better than a BB/Ba, which is better than a B. Income securities rated BBB or higher are termed **"Investment Grade"**. Those rated BB or below are termed **"Below Investment Grade"**. The term "Junk Bonds" typically refers to below investment grade bonds and was a term created by the media.

Senior Secured Debt
Senior Unsecured Debt
Subordinate Debt
Junior Subordinate Debt
Hybrid Preferreds
Preference Stock
Common Stock

There is often a difference in ratings between Bonds and Preferreds from the same company. This is because bonds are higher in the pay chain and get paid first when finances are tight or in case of bankruptcy.

Hybrid Preferreds, which are a blend of bonds and preferreds, typically have the same rating as the company's bonds and are also paid before common and preferred stock.

HOW TO START

Investing begins with a strategic plan based on; age, personal risk tolerance, cash flow needs and how actively you intend to manage your portfolio. Before a plan can be devised an investor must make some personal decisions. The following information will help in this decision making process.

1. READ THE OPERATING MANUAL

An understanding of the terminology and knowledge of the security types in the ISI is important when using the Newsletter. The importance of this cannot be overstated. Common stocks are all about the same, they all represent a percentage of ownership in a company. This is not true with income securities.

Each bond or preferred is unique, having its own characteristics or features. Bonds and/or preferreds issued by the same company can be vastly different from each other. These differences must be understood even before the health of a firm is evaluated. For a successful bond or preferred investment, the issuer must only be able to pay interest or dividends. It does not have to prosper.

2. DETERMINE YOUR RISK TOLERANCE

In the context of ISI, risk refers primarily to loss of principal or income because the company was unable to meet its obligations. This is also known as credit risk and does not refer to other risks associated with income securities such as changes in interest rates or market risk. ISI identifies each recommended security by its risk level. The best measure for determining your risk level is "how well your portfolio lets you sleep at night."

For ISI purposes the Low Risk category usually consists of investment grade securities, Medium Risk has a mixture of investment grade and high non-investment grade securities and High Risk are usually below investment grade and non-rated securities.

NOTE: For common stock (equity) investors it may be instructive to compare the risks of equities vs. income securities. The most salient difference is volatility, that is the price movement of the security. Equities tend to jump up and down at the slightest change in a company's fortunes, while income securities mostly ignore these reports and don't react unless the change potentially threatens the company's survival. Typical equity risk would be equivalent to our high-risk portfolio, since these income securities are already concerned about a company's survival prospects.

3. DETERMINE YOUR INVESTMENT NEEDS

Every investor should have a reason to invest in a given security. Needless to say we all want our portfolios to grow but how this is accomplished depends on the type of securities we buy.

INCOME: Investors seeking a steady cash income and principle protection usually buy and hold low risk bonds, preferreds or hybrids. These are usually high-level investment grade securities with ratings at or above Baa1/BBB.

GROWTH AND INCOME: Investors looking for cash income along with growth frequently turn to convertibles or dividend paying common stocks. For those willing to take more risk, bonds, preferreds or hybrids trading below par value may be an option.

GROWTH: Investors seeking growth where cash income is not a factor usually go to common stocks or convertibles with low conversion premium.

HOW TO START (continued)

4. PACKAGING YOUR INVESTMENT FUNDS

An investor should carefully plan their investment goals before buying securities. Packaging or creating mini portfolios with funds available is an important step in planning. Two key elements in this planning process are:

TIMING: Package funds based on when they will be needed.

A. Long term - needs such as retirement are met with one investment package.

B. Shorter term - needs such as; saving for children's college education, future purchase of a new home, automobile, RV or that long dreamed about boat are usually addressed with a medium term package of securities.

C. Immediate needs - such as petty cash or unexpected expenses should be met from a package made up of cash, money markets or other types of liquid securities.

RISK: Package funds by risk. Age is a key element in this process.

A. Low Risk - packages aim for principal protection first, income second and usually consists of investment grade securities. Long-term portfolios are commonly saturated with low risk securities.

B. Medium Risk - packages have a balance between principal protection and income. They have a mixture of investment grade and high non-investment grade securities.

C. High Risk - packages are created with income and or growth as their primary goal. They usually consist of below investment grade securities. Principal protection is low priority.

5. DIVERSIFY

Industries go through business cycles, company's get into, and out of financial trouble, interest rates go up and down and, believe it or not, investors cash needs can change overnight. To protect against these and other risk and uncertainties it is imperative an investor not only "package" their funds but also diversify their investment risk by investing in different types of securities and various companies in different industries. Example: An investor who has a $100,000 portfolio invested in one security is at 100% risk to the fortunes of that company. A $10,000 position in 10 diversified securities lowers the risk to 10%. Thus if one security went sour the investor would still have 90% of their capital remaining.

A. Industries - Instead of investing in 10 different Utility companies spread the risk over 5 or more industries.

B. Companies – Here again spread your risk by keeping in mind your percent of exposure to any one company. While you're at it try to get companies in different geographical locations. Disasters affect all businesses in a region.

C. Security Type – Keep in mind that Fixed Income securities are more price sensitive to interest rate changes than Convertibles and Common Stocks.

SUMMARY

ISI realizes that this How To Start page may make investing appear to be a very difficult, time-consuming activity. Well it can be, however, our goal is to make subscribers comfortable when dealing with the Fixed Income portion of their invested funds. Careful planning will help an investor achieve their investment goals.

INCOME SECURITIES INVESTOR NEWSLETTER

LEAD ARTICLE

The monthly lead article addresses the overall economy and interest rate trends and shifts in rating sectors and the different debt instruments. It provides an analysis of the monthly changes in the comparative current market yields table found on Page 10 and where those changes spell opportunity or caution.

April 2003

Forbes / Lehmann

www.incomesecurities.com

Income Securities INVESTOR

Building Your Wealth with Bonds, Convertibles & Preferreds

Four-peat for Bonds?

The economy looks like it will be a replay of 2002. The rally in bonds may not be over.

The Great Tobacco Bond Scam

If a corporation issued such bonds, someone would probably go to jail.

Pick of the Month

www.incomesecurities.com

SECOND ARTICLE

Fixed income investing requires investors to become more familiar with the actual investment instrument as well as the company. The second article each month is educational in nature. It frequently introduces new investment products that the investor may want to look into or should avoid. Our goal is to provide the investor with the knowledge he or she needs to comfortably expand their investment alternatives.

PICK OF THE MONTH

ISI also features on the front page our “Pick of the Month.” This is the security that we feel is currently very attractive for a variety of reasons. The issues selected always come from ISI’s list of over 300 active recommendations. The featured securities are at various levels of risk, hence, all investors will find several times a year a security that will fit their criteria.

CORPORATE UPDATES

The Corporate Update page is used to track and update subscribers on the more than 400 previously recommended bonds, convertibles, and preferreds. This is the page where any sell recommendations will be made and our reasoning for such a sale. **This is the only place in the newsletter that sell recommendations are made!**

The updates may concern all of a company's recommended securities or only a specific security. Since most investors hold income securities for long periods, this page should be reviewed regularly.

• SIGNIFICANT CORPORATE DEVELOPMENTS

- Mergers, name changes, buyouts, call announcements, tender offers and exchange notices are addressed here.

- Corporate developments, such as rating changes, earnings trends and the implications of market trends are analyzed and specific buy, sell or hold recommendations are made. There are often developments that may radically affect a company's stock price, but has no real impact on the company's income securities.

• RECOMMENDATION UPDATES AND/OR CHANGE

- **BUY** - If we think a security is undervalued, we will reiterate a Buy recommendation in this section.

- **SELL** - If we think a security is over priced and a temporary profit exists or the fundamentals of a company have radically deteriorated we may suggest Selling the security. Many times, particularly with convertibles, the price may rise to such an extent that the security is no longer as attractive as an income security.

- **HOLD** - Hold means hold, it's not a euphemism for sell. Remember the act of holding an income security is the relevant investment act. This is in contrast to common stock where the investment objective is only realized when a security is sold.

CURRENT RECOMMENDATIONS

Page 3 & 4 contains the nine specific Current Recommendations for the month. Many of these securities are first time recommendations, however previously recommended issues are often rerecommended. The recommendation includes a brief profile of the company, their recent reported financial results, the recommended Risk Level (Low, Medium, High) and the price up to which it should be bought.

The heading of each recommendation contains information to; identify the security; its rating and where it is traded. The following pages give a brief explanation of each element in the heading. For a more complete explanation of these elements we suggest you turn to the Glossary.

CORPORATE BOND RECOMMENDATIONS

General Widget Corp 6.325%; 01/28/09; Price 99.75; Current Yield 6.34%; Exchange NY; Rated A3/BBB+; Call 08/05 at 101.5; Yield to Call 7.17%; CUSIP 370425QS2

Rated The Moody and S&P credit ratings of the Security.

Call Date The call date, (month/year) if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the bond.

Call Price The price an issuer can redeem the security at. Usually at or above par value.

Yield To Call The average annual return you would receive to the first call date. This includes any discount or premium to the stated call price.

Yield to Maturity The average annual return an investor would receive if the security were held to maturity. Note: This element is only shown if the bond has no call clause.

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individuals Social Security number.

Issuer Any authorized legal entity including governments, agencies, and corporations that has the power to issue a security.

Coupon Rate Annual interest in percent based on par value $1000.00. Example: 6.325%=$63.25 per year.

Maturity The date the bond is due and pays back the holders par value.(usually $1000.00)

Current Price The price of a bond is traditionally shown at 10% of the par value ($1000.00). Example: a bond trading at 98.50 is actually priced at $985.00

Current Yield The annual rate of return, in percent based on current price. Example: Coupon Rate 6.325% divided by Current Price 99.75 multiplied by 100 = 6.34%.

Exchange The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto, N/L = Not Listed thus difficult to buy or sell.

NOTE: The three identifiers – Issuer, Coupon Rate and Maturity are usually all you need to place a bond order, however we suggest you also use the CUSIP for added accuracy.

PREFERRED RECOMMENDATIONS

General Motors Corporation 7.375%; Par $25.00; Price: $24.85; Current Yield 7.42%; Exchange NY; Rated: A3/BBB; Call 10/06 at $25.00; Yield to Call 7.58%; Pay Cycle 1b ; CUSIP 370442766; Family PET Bonds; Acronym SrNT's Symbol HGM (no preferred designation)

Issuer The corporation or subsidiary issuing the security or, in the case of preferreds in the Third Party Trust Preferreds family, the name of the underlying security's issuer.

Issue The annual dividend, usually in percent, and any special series identifier. (To convert percent dividends into dollars, divide percentage by 100, then multiply by the par value).

Par The Par Value or face value of a security. In the case of preferreds the issuing company sets this value. Par Value is often referred to as Liquidation Value

Price The current price of the Preferred in dollars.

Current Yield The annual rate of return, based on current price. To calculate, convert dividend into dollars, (dividend % / 100 x par value) divide the dollar dividend by the current price, then multiply by 100.

Exchange The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto

Rated The Moody and S&P credit ratings on the Security.

Call Date This (month/year) is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the security.

Call Price The price at which an issuer can redeem the security. Usually at or above par value.

Yield To Call The average annual return you would receive to the first call date. This includes any discount or premium to the stated call price.

Pay Cycle Denotes the months and time (b=beginning, m=middle, e=end) dividends are paid.1=Jan, Apr, Jul, Oct 2= Feb,May, Aug,Nov 3=Mar,Jun,Sep,Dec M=monthly

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Family ISI has broken the Preferred universe into seven families; Foreign (Fg), Partnership (Pshp), Perpetuals (Perp), PET Bonds (PB), REIT (REIT), Trust Preferreds (TP), ThirdParty Trust Preferreds (TPTP) The Glossary has details of each family.

Acronym These Trademark acronyms represent a certain structure of hybrid preferred securities created by a specific Wall Street firm. Securities may be listed in newspapers under these acronyms followed by a company ticker.

Symbol The letter code to identify a security on the exchange on which it trades. Be sure to use a preferred designator if so indicated. These designations vary by system and web page.

NOTE: When trading by phone use Symbol, Issuer, and Issue plus the CUSIP for added accuracy. When trading on the Internet, be sure to use a preferred designation if called for.

CONVERTIBLE BOND RECOMMENDATIONS

The convertible recommendation page contains both recommended bonds and preferreds. The type of security is shown in each security heading along with the information necessary to identify the security. The following page shows two preferred headings, one represents a Mandatory Preferred and the other an Optional Preferred. For a more complete explanation of the elements in the headings turn to the Glossary.

Ivax Corporation, 5.50%; 05/15/07; (bond) Price 88; Current Yield 6.25%; Exchange OTC; Rated NR/NR; Call 05/03 at $103.14; Conversion Rate 33.6475; Common Stock Price $13.00; CUSIP 465823AD4

Issuer The legal entity including governments, agencies, and corporations that issued the security.

Coupon Rate Annual interest in percent based on par value $1000.00. Example: 8.00%=$80.00

Maturity The date the bond is due and pays back the holder par value.(usually $1000.00)

Current Price The price of a bond is traditionally shown at 10% of the par value ($1000.00). Example: a bond trading at 98.50 is actually priced at $985.00

Current Yield The annual rate of return, in percent, based on current price. Example: Coupon Rate 8.00% divided by Current Price 98.50 multiplied by 100 = 8.122%.

Exchange The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto, N/L = Not Listed thus difficult to buy or sell.

Rated The Moody and S&P credit ratings on the Security.

Call Date The call date (month/year), if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the bond.

Call Price The price an issuer can redeem the security at. Usually at or above par value.

Conversion Rate The number of common stock shares a security can be converted to.

Common Price The current price of the stock the Security converts into.

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

NOTE: The three identifiers – Issuer, Coupon Rate and Maturity are usually all you need to place a bond order, however we suggest you also use the CUSIP for added accuracy.

CONVERTIBLE PREFERRED RECOMMENDATIONS

Mandatory Convertible

Teco Energy Inc, 9.50% (preferred); Par $25.00; Current Price $20.02; Current Yield 11.86%; Exchange NY; Rated NR/NR; Mandatory Conversion to Common Stock 01/15/05; Conversion Rate Variable; Common Stock Price $14.42; Pay Cycle 1m; CUSIP 872375209; Family Mandatory; Acronym ACES; Symbol TE U (need preferred designation)

Optional Convertible

Sinclair Broadcast Group Inc, 6.00%; (preferred); Series D; Par $50.00; Current Price $37.59; Current Yield 7.98%; Exchange NASDAQ; Rated B3/B–; Call anytime @$51.50; Conversion Rate 2.1918; Common Stock Price $11.86; Pay Cycle 3m; CUSIP 829226505; Family Optional; Symbol SBGIP (no preferred designation)

Issuer The corporation or subsidiary issuing the preferred. Exception: mandatory preferreds, ISI shows the corporation whose common stock an investor would receive.

Issue The annual dividend, usually in percent, and any special series identifier. (To convert percent dividends into dollars, divide percentage by 100, then multiply by the par value).

Current Price The current price of the convertible preferred.

Current Yield The annual rate of return, in percent, based on current price. To calculate, convert the dividend into dollars, (dividend % / 100 x par value), divide the dollar dividend by the current price, then multiply by 100.

Rated The Moody and S&P credit ratings on the Security.

Call Date The call date (month/year), if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the preferred.

Note: The mandatory conversion date is shown for Mandatory Preferreds.

Call Price The price an issuer can redeem the security at. Usually at or above the par value.

Conversion Rate The number of common stock shares a security can be converted to.

Note: The conversion ratio is variable for Mandatory Preferreds.

Common Price The current price of the stock the security converts into.

Pay Cycle Denotes the months and time (b=beginning, m=middle, e=end) dividends are payed.1=Jan, Apr, Jul, Oct 2=Feb,May, Aug,Nov 3=Mar,Jun,Sep,Dec M=monthly

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Family ISI has broken the Convertible Preferred universe into two families: Mandatory- has variable conversion rates and automatically converts to common stock on a set date: Optional – has fixed conversion rates and standard conversion rights.

Acronym These Trademark acronyms represent a certain structure of hybrid preferred securities created by a specific Wall Street firm. Securities may be listed in newspapers under these acronyms followed by a company ticker.

Symbol The letter code to identify a security on the exchange on which it trades. Be sure to use a preferred designator if so indicated. These designations vary by system and web page.

NOTE: When trading by phone use Symbol, Issuer, and Issue plus we suggest using the CUSIP for added accuracy. When trading on the Internet, be sure to use a preferred designation if called for.

CORPORATE BOND PRICING

The Bond Pricing page is more than just pricing of active recommendations. The page shows important variables for use in making new selections and comparing bond investments. The page lists active recommendations, but is not comprehensive. More than 100 nonconvertible bond recommendations are active but because of space limitations only a limited number can be shown each month. Because a recommended bond is not listed does not mean ISI no longer follows it. To see the entire list go to www.incomesecurities.com. For a more complete definition of column titles we suggest you turn to the Glossary.

Exch The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto, N/L = Not Listed thus difficult to buy or sell..

Issuer The corporation or subsidiary issuing the Bond.

Coupon Rate Annual interest in percent based on par value $1000.00. Example: 8.00%=$80.00

Maturity The date the bond is due and pays back the holder par value.(usually $1000.00)

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Current Price The price of a bond is traditionally shown at 10% of the par value ($1000.00). Example: a bond trading at 98.50 is actually priced at $985.00

Current Yield The annual rate of return, in percent based on current price. Example: Coupon Rate 8.00% divided by Current Price 98.50 multiplied by 100 = 8.122%.

Yield to Maturity The average annual return an investor would receive if the security were held to maturity. YTM includes, total coupon payments to maturity, interest on interest and any discount or premium to the par vale or face value of the Bond.

Moody/S&P The Moody and S&P credit ratings on the Security.

Call Date The call date, if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the bond.

Call Price The price an issuer can redeem the security at. Usually at or above par value.

Yield To Worst The lowest yield you can expect from either yield to call or yield to maturity.

Recommend The recommend column list the maximum price to pay for the bond. Hold means just that, do not buy nor sell. Sell usually is accompanied by a story on the Corporate Update page (Pg2). Sell means get rid of the security.

NOTE: The three identifiers – Issuer, Coupon Rate and Maturity are usually all you need to place a bond order, however we suggest you also use the CUSIP for added accuracy.

CONVERTIBLE BOND PRICING

The Convertible Pricing page, is more than just pricing of active recommendations. The page shows important variables for use in making new selections and comparing both convertible bond and preferred investments. Due to space limitations the page shows only a few of the convertible recommendations that are still active. All securities in the current model portfolios will be listed each month. Just because a past recommended security is not listed does not mean ISI no longer follows it. To see the entire list go to www.incomesecurities.com. For a more complete definition of column titles we suggest you turn to the Glossary.

Exch The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto, N/L = Not Listed thus difficult to buy or sell..

Issuer The corporation or subsidiary issuing the bond.

Coupon Rate Annual interest in percent based on par value $1000.00. Example: 8.00%=$80.00

Maturity The date the bond is due and pays back the holder par value.(usually $1000.00)

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Current Price The price of a bond is traditionally shown at 10% of the par value ($1000.00). Example: a bond trading at 98.50 is actually priced at $985.00

Current Yield The annual rate of return, in percent based on current price. Example: Coupon Rate 8.00% divided by Current Price 98.50 multiplied by 100 = 8.122%.

Yield to Maturity The average annual return an investor would receive if the security were held to maturity. YTM includes, total coupon payments to maturity, interest on interest and any discount or premium to the par vale or face value of the Bond.

Moody/S&P The Moody and S&P credit ratings on the security.

Conversion The number of common stock shares a security can be converted to.

Common Price The current price of the stock the security can be converted into.

Premium The percent of market price the convertible bond is trading at above the value of the common stock a convertible bond could be converted into (Conversion Value).

Call Date The call date, if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the bond.

Call Price The price an issuer can redeem the security at. Usually at or above par value.

Yield To Worst The lowest yield you can expect from either yield to call or yield to maturity.

NOTE: The three identifiers – Issuer, Coupon Rate and Maturity are usually all you need to place a bond order, however we suggest you also use the CUSIP for added accuracy.

CONVERTIBLE PREFERRED PRICING

The Convertible Preferred Pricing page is more than just pricing of active recommendations. The page shows important variables for use in making new selections and comparing both convertible bond and preferred investments. Due to space limitations the page shows only a few of the convertible recommendations that are still active. All securities in the current model portfolios will be listed each month. Just because a past recommended security is not listed does not mean ISI no longer follows it. To see the entire list go to www.incomesecurities.com. For a more complete definition of column titles we suggest you turn to the Glossary.

Symbol The letter code to identify a security on the exchange on which it trades. For preferreds, symbols not in parentheses require a preferred designation. These designations vary by system and Web page.

Family ISI has broken the Convertible Preferred universe into two families: Mandatory-preferreds that have variable conversion rates and automatically convert to common stock on a set date: Optional- preferreds that have fixed conversion rates and standard conversion rights. The Glossary has details of each family.

Issuer The corporation or subsidiary issuing the preferred. Exception: Mandatory convertible preferreds- ISI shows the corporation whose common stock an investor would receive.

Issue Annual dividend, usually in percent. Many issues also have a special series identifier.

Div Annual dividend in dollars.

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Current Price The current price of the preferred. Prices posted on the Pricing Pages and on the Web Page are from the last business day of the month.

Current Yield The annual rate of return, in percent, based on current price. Example: Div \$2.35 divided by Current Price \$24.50 multiplied by 100 = 9.59%.

Moody/S&P The Moody and S&P credit ratings on the Security.

Conversion The number of common stock shares a Security can be converted to.

Rate The conversion ratio is variable for Mandatory Preferreds,

Common Price The current price of the stock the security can be converted into.

Premium The Percent of Market Price the convertible bond is trading at above the value of the common stock the preferred could be converted into (Conversion Value).

Call Dat The call date, if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the preferred.

Call Price The price an issuer can redeem the security at. Usually at or above the par value.

Yield To Call The average annual return you would receive to the call date. This includes any discount or premium to the stated call price.

NOTE: When trading by phone use Symbol, Issuer, and Issue plus we suggest using the CUSIP for added accuracy. When trading on the Internet, be sure to use a preferred designation if called for.

PREFERRED PRICING

The Preferred Pricing page is more than just pricing of active recommendations. The page shows important variables for use in making new selections and comparing preferred investments. More than 130 nonconvertible preferred recommendations are active but because of space limitations only a limited number can be shown each month. When a recommended Preferred is not listed it does not mean ISI no longer follows it. To see the entire list go to www.incomesecurities.com. For a more complete definition of column titles we suggest you turn to the Glossary.

Symbol The letter code to identify a security on the exchange on which it trades. For preferreds, Symbols not in parentheses require a preferred designation. These designations vary by system and Web page.

Exch The exchange the security is traded on. Am=American, NY=New York, NQ=NASDAQ, To=Toronto,

Family ISI has broken the Preferred universe into seven families; Foreign (Fg), Partnership (Pshp), Perpetuals (Perp), PET Bonds (PB), REIT (REIT), Trust Preferreds (TP), Third Party Trust Preferreds (TPTP) The Glossary has detailed explanations of each family.

Issuer The corporation or subsidiary issuing the security

Issue The annual dividend, usually in percent, and any special series identifier. (To convert percent dividends into dollars, divide percentage by 100, then multiply by the par value).

Div Annual dividend in dollars.

Cycle Denotes the months and time (b=beginning, m=middle, e=end) dividends are payed.1=Jan, Apr, Jul, Oct 2=Feb, May, Aug,Nov 3=Mar,Jun,Sep,Dec M=monthly

CUSIP This is a unique identifier assigned to a security. No two are alike. Similar to an individual's Social Security number.

Current Price The current price of the preferred in dollars. ISI usually prices the last day of the month.

Current Yield The annual rate of return, based on current price. To calculate, convert the dividend into dollars, (dividend % / 100 x par value) divide by current price then multiply by 100.

Moody/S&P The Moody and S&P credit ratings on the security.

Call Date The call date, if any, is the first date the issuer can redeem the security. The security can be called anytime after this date. The issuer is not obligated to call the preferred.

Call Price The price an issuer can redeem the Preferred at. Usually, at or above par value.

Yield To Call The average annual return you would receive to the first call date. This includes any discount or premium to the stated call price.

Debt Maturity Maturity date of the underlying bond and redemption date of the Preferred.

Recommend This column shows the maximum price to pay for the Preferred. Hold means just that. Sell is accompanied by a story on Pg 2. Sell means get rid of the security.

NOTE: When trading by phone use Symbol, Issuer, and Issue plus we suggest using the CUSIP for added accuracy. When trading on the Internet, be sure to use a preferred designation if called for.

RATING CHANGES AND NEW ISSUANCE

This page contains three information elements that should be reviewed each month.

RATING CHANGES

A key determinant of pricing is the credit rating of a security. Three major rating agencies in the country are Moody's Investor Services Inc., Standard & Poor's Corp. and Fitch Inc/New York. These agencies rate bonds and preferreds as to their credit risk, that is, the probability that the issuing company will be able to pay interest or dividends and redeem principal as promised. Both the bond and preferred list are not comprehensive with respect to all securities, but we include all ratings changes for securities on our pricing pages.

Bonds and preferreds from the same company may have different ratings, depending on their relative seniority vis-a-vis other bonds and preferreds. Hybrids preferreds (PET Bonds, Trust Preferreds, Third Party Trust Prederreds) are either a bond or are underwritten by a bond and as such typically carry the higher Bond rating because they are also higher in the pay chain.

INVESTMENT GRADE

	Moody's	S&P/Fitch
Highest Credit Quality	Aaa	AAA
Very High Credit Quality	Aa	AA
High Credit Quality	A	A
Medium Credit Quality	Baa	BBB

BELOW INVESTMENT GRADE

	Moody's	S&P/Fitch
Speculative Credit Quality	Ba	BB
Highly Spec Credit Quality	B	B
Vulnerable to Default	Caa	CCC
High Possibility to Default	Ca	CC
Lowest Quality	C	C
In Default / Arrearage	C	D

Ratings Modifiers: Moody's:1,2,3 S&P/Fitch: +/-

NEW PREFERREDS ISSUED

New preferreds issued in the preceding month are shown to give subscribers a general overview of typical interest rates for new issues. This list is not complete and is included only for general information.

Note: We do not have opinions on these issues, and in fact some may not be available for the retail market. Tickers are not shown because they have not been assigned or are subject to change.

FAQs

The FAQs element has been created to address subjects or concerns dealing with fixed income securities. Since many of our subscribers are new to the world of corporate bonds, convertibles and preferreds we will also address frequently ask questions about fixed income investing. Examples: "How do I buy a bond?", "Why does the preferred you recommended have a different name when I look it up on the internet?"

MODEL PORTFOLIOS

The model portfolios are designed to make it easy to invest in a variety of similar risk level securities that provide fairly even monthly payouts. The portfolios are structured for an investment of roughly $100,000, thus they can easily be scaled up or down for various investment amounts.

Each year ISI launches a new set of model portfolios. This is done for a variety of reasons including current prices, call dates and ratings. This does not mean an investor should sell the old and buy the new. On the contrary, if the portfolio is doing the job it was assembled to do and it is still in balance, continue to hold.

When creating the new portfolios, ISI evaluates both bonds and preferreds for such factors as credit rating, including direction of any changes, current yield, call date, price to call vs current price, and of course dividend or interest pay dates. As you might imagine with this many variables, few securities are reselected from one year to the next.

Low-risk Portfolio

Level Monthly Payout

The Low-risk Portfolio is made up of high-level investment grade securities. It will be the lowest yielding, but also, with ratings at or above Baa2/BBB, the most secure. Following principal protection, the next objective of this portfolio is to generate a relatively even payout each month.

Medium-risk Portfolio

Level Monthly Payout

The Medium-risk Portfolio is made up of both investment grade and below investment grade securities. The yield on this portfolio will be higher than the Low-risk model but ,with ratings between Ba3/BB- and Baa2/BBB, more volatile. Like the Low-risk Portfolio, capital appreciation is not a goal, however, high level monthly payouts supercede principal protection.

High-risk Portfolio

High Current Income

The High-risk Portfolio is comprised of below investment grade securities ranging from nonrated up to Ba2/BB. High current income is the primary goal, but capital appreciation can also be expected. Safety of principal and level monthly dividend/ interest payout are secondary considerations.

Convertible Portfolio

Growth and Income

The Convertible Portfolio is structured for investors seeking growth and income. Most of the securities in this portfolio offer relatively high income with the prospect of capital appreciation. Ratings range from nonrated (NR) up to A3/A-. This is the most volatile of the four portfolios. Because convertibles are tied to common stock the value of the portfolio is driven by both the stock market and interest rates. Safety of principal is a secondary consideration. Level cash flow does not apply to this portfolio.

Summary Statistics

Total Return

The summary statistics below each portfolio displays the average monthly dollar payout, current yield, and current value of the portfolio. The Total Return percentage includes the difference between the Current Value and the Inception Value plus year to date income.

Pricing

The securities in the current portfolios will be listed each month on the Pricing pages (5,6,7) or the Current Recommendations pages (2,3). All active recommendations can also be found on www.incomesecurities.com

INTEREST RATES AND COMPARATIVE YIELDS TABLE

The monthly table compares current yields of various types and risk/rating level of fixed income securities to the yield of the benchmark 10 year U.S. Treasury Bond. The purpose of this presentation is to give investors an overview of the activity in the interest rate market both from a year to date (YTD) view and a month-to-month comparison. The current month spreads are a good guide to finding under priced securities. This table is frequently addressed in Richard Lehmann's lead article on page one.

Yields — This column displays the month end Current Yield for various types of fixed income securities. The yields shown are a composite of the current market, so you will often see significant differences between these numbers and the comparable current yields of individual securities detailed on our pricing pages. Such differences may represent temporary buying opportunities.

Net Change — Net Change for the month and Y.T.D (year-to-date) shows the change in basis points (100 basis points equals 1%). A change in the 10-year U.S. Treasury yield is considered a change in the risk-free interest rate. The changes for the other securities reflect this same change plus whatever other risks investors perceive at the time.

Spread — The Spread columns represent the difference in current yield between risk-free 10-year U.S. Treasury and each security category. These are point in time columns, the first being the spread between the 10-year U.S. Treasury and the security category at the end of last year. The second or last column shows the current spread. A widening of spreads means an increased concern about credit quality. A sudden widening of spreads is termed a 'flight to quality'. Spreads identify which securities are out of line with historical relationships as well as as each other, and may represent buying opportunities or sell warnings.

MUNICIPAL BONDS

Yields — Since Municipal Bonds are tax-exempt, their yields should be looked at in terms of their percentage of the 10-year U.S.Treasury yield. The last two columns under municipal bonds show this percentage, the first column is the percent of Treasury yield at the end of last year, the second or last column gives you the current percent.

Thus, if a muni yields 87% of the 10-year Treasury, it means they should be considered as an alternative to buying Treasuries by anyone whose incremental tax rate is higher than the reciprocal of that number, or 13%. Hence, the higher the yield percentage, the lower your incremental tax rate needs to be, to make munis attractive.

OTHER BENCHMARKS SHOWN

Inflation Indexed Treasuries — These numbers relate to the yield for U.S. Treasury Inflation Indexed Securities. The "Spread" numbers reflect the trend of inflation the market is predicting.

10Yr Euro — The 10-year Euro denominated German Govt. Bond represents this category. The "Yield" is based on the Euro.

Euro Spot Rate — The Euro is the official currency of the European Economic & Monetary Union. The "Net Change" columns are the change, in basis point, for the month and year to date. Example: 120 = the Euro went up 1.2% versus the U.S.dollar.

BUYING AND SELLING CORPORATE BONDS

ISI understands the difficulty individual investors have when trying to buy a corporate bond. There are thousands of bond issues in the market place but less than 1200 are listed on a major U.S. exchange. Bonds not listed on a major exchange are shown as OTC (Over The Counter) in the current recommendation heading (page 3&4) and as N/L (Not Listed) on the pricing pages. (5&6)

BASICS FOR TRADING BONDS

1. Auction Market-Bid/Ask/Spread

Bonds like stocks trade on an auction market thus, they have a bid, the highest price offered to buy a bond, and an ask, the lowest price a seller hopes to get for their bonds. Most trades take place somewhere between these two prices.

2. Quantity

The prices quoted are usually for trades of $20,000 (20 Bonds) or higher. When buying bonds in smaller quantities an investor will commonly have to pay a higher price than the ask price. The reverse is true when selling a bond in the secondary market; the price you receive may be lower.

3. Identifying a Bond

When requesting a quote or placing an order for a bond be sure to carefully identify the bond completely by using: issuer, coupon rate, maturity date and, as an added precaution, the CUSIP number. Also include the number of bonds you want to buy or sell. Remember, 10 bonds represents $10,000 face value of securities.

4. Exchange Traded Bonds

Exchange traded bonds are much easier to buy and sell than OTC or unlisted issues. Most full service and discount brokerage firms will be able to place an exchange order. Make sure you tell the broker that it is an exchange-traded bond, they often won't know this. Before you place an order ask for a quote.

Identify the bond by: issuer, coupon rate, maturity date and as an added precaution the CUSIP number. Include the number of bonds you want to buy or sell.

Agreeing to the ask price quoted should ensure your buy, however, you can also place a bid at a lower price. When selling a bond you can offer it at the bid price or enter a new ask price.

When submitting new bids be reasonable and make it near the market price. Have patience, the more liquid a bond is the better chance for an early execution. Many investors place Good Till Cancelled order for bonds, but don't forget that you have placed the order.

5. Not Listed (OTC) Bonds

OTC bonds are difficult to buy and sell in small quantity. Most discount brokers will not shop for a specific bond. Thus, if it is not in their inventory, chances are an investor will not be able to execute an order. The sell side is also difficult for small quantities. Full service firms look beyond their own inventory however this does not guarantee an execution.

Price quotes are very important and if it is possible multiple quotes should be obtained before placing and order. Be careful, don't chase a bond and watch for big spreads. It is best to specify a bid when buying and an offering or ask price when selling.

6. Accrued Interest

The amount of interest accumulated but not paid between the most recent payment and the sale of a bond. When purchasing bonds on the secondary market, this is the interest the former owner earned but has not been paid. It will be added to the buy price of a bond and be paid to the seller. The new buyer will receive the full semi annual interest payment on the next pay date.

ALL ABOUT PREFERREDS

Prior to a 1993 revolution, corporations owned most of the preferred stocks in the market. Utilities and banks were the dominant issuer and corporate investors, who could deduct 70% of the dividends received from taxable income, were the main buyers. This "DRD" (dividend received deduction) advantage allowed issuers to place lower dividend rates on the stock. Individual investors avoided preferreds because of these low yields and because they were very illiquid.

This situation changed dramatically with the invention of a new type of hybrid security that allowed issuers to treat them as debt for tax purposes thus allowing them to deduct the interest expenses from taxes. These hybrids were aimed at the rapidly growing mutual fund and pension fund markets and today they make up over 65% of the non-convertible preferred universe. Surprisingly, these securities are relatively unknown to most individual investors.

To help subscribers in the evaluation and understanding of preferreds, especially the hybrids, ISI has classified the preferred universe into nine logical groupings, which we have dubbed 'families'. There are seven non-convertible families and two convertible families. The members of each family have similar characteristics. For more information we suggest you consult the Glossary.

HYBRIDS - BONDS / INDIRECT BONDS

The following three hybrid families are very similar in that they are either pure bonds or represent an indirect ownership in a bond. They come in a multitude of different structures with a variety of acronyms but all have several things in common: they pay Interest (per IRS) not dividends: have a maturity date (usually 30 or more years): and trade on the New York Stock Exchange. These bonds, that trade like stocks, offer individual investors a wealth of opportunity.

Pet Bonds - (Preferred Equity Traded Bonds) This "Family" of preferreds are actually bonds. They are unique in that they usually trade in $25 denominations rather than $1000 and are often listed on the New York Stock Exchange. They pay interest, not dividends and can pay a monthly, quarterly or semi-annual distribution. Pet Bonds are issued directly by a Corporation and in a few cases by a Government agency or Municipality. Unlike bonds, they trade without accrued interest because it is assumed to be in the purchase price.

Trust Preferreds - This "Family" of hybrid preferreds has characteristics of both bonds and preferred stocks, but is essentially a bond. They are issued by a business trust, which is established by a parent company (Example ABC Corp sets up ABC Capital Trust). The Trust will issue the $25.00 par value hybrid preferreds and lend the proceeds to its parent by purchasing a long- term (usually 30 year) subordinated bond.

When the Trust receives interest payments on the bond, they pass them directly to the preferred stockholder as either quarterly or semi-annual distributions. Trust Preferred shareholders get paid before regular preferred and common stock shareholders.

Many Trust Preferreds have a deferrable interest clause. This means the underlying bond has a feature allowing the issuer to defer interest payments for up to 5 years. During any deferral period the interest accrues and is taxable for the holder.

Third Party Trust Preferreds - This "Family" is similar to Trust Preferreds except they are issued by a third party. A "Depositor" corporation, usually a wholly-owned limited-purpose subsidiary of a large brokerage firm, will buy a block of bonds of a particular company, deposit them into a Trust they establish which in turn will issue the $25.00 par value preferreds.

These preferreds are sometimes given acronyms such as CorTS, CABCOS, CBTCS, SATURNS and PPLUS. The acronyms are the "brand names" of the underwriter or affiliate, and does not relate to the company that issued the underlying bond.

The securities are sometimes hard to discern since they often are titled by the name of the Depositor corporation such as Structured Products or Lehman- ABS. ISI newsletter shows these securities under the name of the underlying bond issuer.

Some of these issues have a deferrable interest clause. This means the underlying bond has a feature allowing the issuer to defer interest payments for up to 5 years. During any deferral period the interest accrues and is taxable for the holder.

TRADITIONAL PREFERRED STOCK

The four remaining non-convertible preferred families; Foreign, Partnerships, Perpetuals and REITS are equities, not bonds or quasi bonds. They pay dividends, usually have no maturity date, trade on a major stock exchange, and stand below debt but above preference and common stock in the issuers pay chain.

Foreign - This "Family" of preferred securities is issued by foreign-based companies in US dollars. There are several types of securities in this "family". They are often issued as American Depository Receipts (ADR). ADR's are also called American Depository Shares (ADS). Be careful when buying these preferreds, some of the issues are subject to foreign withholding taxes. Dividends are generally subject to the new dividend tax rate.

Partnership - This "Family" of preferred security is issued by a Partnership. There are a variety of partnership structures, however the most common are; Limited Liability Companies (LLC) and Limited Partnerships (LP). In most cases a parent company establishes and becomes the general partner of these entities. These issues are almost identical to Trust Preferreds, but Investors receive an IRS Schedule K-1 rather that Form 1099. The K-1 is usually sent out much later than 1099s and since it could add pages to a tax return the preparation fee will go up.

Perpetual - This "Family" of security is senior to common equity but junior to all debt. Perpetual preferreds usually have a fixed cumulative dividend and have no maturity, like common stock. Most are callable some time in the future and are DRD (Dividend Received Deduction) eligible for corporation or qualifying investors. For individuals the dividends are subject to the new dividend tax rate.

REIT - (Real Estate Investment Trust) This "Family" of preferreds is issued by a special purpose corporation or trust that raises capital from investors to acquire or provide financing for all forms of income-producing real estate. REIT's typically pay high dividends on their common stock because they are required to pay out 95% of their earnings in order to keep those earnings from being taxed. The common stock dividend, of course, changes with the REIT's earnings. Investors buy a REIT's preferred because it usually pays a higher dividend than the common stock and is a fixed rate no matter what the earnings. Some of the preferreds have a clause, which requires the REIT to pay the higher of, the fixed minimum dividend or the common stock dividend. All dividends are taxed at the ordinary income tax rate.

CONVERTIBLE PREFERREDS

There are two families of convertible preferred stocks, Mandatory and Optional. Convertible preferreds can be classed as equity – paying dividends or debt – paying interest.

Mandatory- This "Family" of convertible preferreds will automatically convert to common stock on a specific date. They typically have short maturity dates, ranging from one to four years. Most issues have a variable conversion rate based on the price of the common stock they relate to. Most convertibles in this family are not callable before the mandatory conversion date and are not convertible by the holder into common stock before their maturity date. Convertible securities are very individual creatures and at times, members of either family can have features of the other.

Optional - This "Family" of convertible preferreds are normally convertible at any time by the holder at fixed conversion rates and typically are perpetual or with a long maturity. They are usually callable after five years and are convertible at the option of the holder into a common stock at any time. Convertible securities are very individual creatures and at times members of either family can have features of the other.

BUYING PREFERRED / SYMBOLS

When requesting a quote or placing an order for a preferred verbally or online be sure to carefully identify the security completely by using; symbol, issuer, issue and the CUSIP number.

Symbol

The symbol is a letter code to identify a security on an exchange. Preferreds frequently are coded with the issuers symbol plus a series code. Example: IBM A, IBM D. Symbols for hybrids usually have an unrelated code. Example: (HGM) is a General Motors PET Bond; (MJF) is a Cummins Third Party Trust Preferred. In some cases preferred symbols are the same as the issuers common stock symbol (Cameco, CCJ).

Preferred Designator

Some preferred symbols need a Preferred Designation added. In the ISI newsletter symbols not in parentheses require this designator. These designators vary by system and Web page, thus an investor must learn the specific designator being used by their Broker or quote system. Example: When using Yahoo, type HGM for General Motors, IBM_pA for the IBM series A and CCJ_p for the Cameco preferred. AOL symbols are HGM, IBM-A and CCJ-.

WWW.INCOME SECURITIES.COM

Like all sophisticated tools, the Income Securities Investor Newsletter has many added accessories to enhance its value to users. The ISA Web page is the platform for subscribers to augment the information and ideas included in the monthly newsletter.

Without the restriction of size, ISI is able to show all of the active securities recommended over the years. This list of over 400 bonds, convertibles and preferreds does not contain issues that have: matured; been called, tendered or exchanged; nor those that have been sold.

Without the restriction of size, each security can be shown in full detail along with the last written recommendation and any stories written on the issuing company.

HOW TO GET STARTED

1. After reaching the home page (www.incomesecurities.com) click on the "ISA Subscriber Log-On" bar

2. Fill in the Username and Password and click submit.

3. The page that comes up offers a multitude of features and options including:

A. **"Investor Alert"-** The Alert service is used to notify subscribers of special situations concerning corporate issuers of securities ISI has recommended. Also shown are call or tender announcements that require action before the next newsletter is published. Alerts could also be triggered for any other items that ISI thinks may be of special interest to subscribers. **Note: The E-mail Investor Alert is identical to the Investor Alert except subscribers to this extra service are notified immediately whenever an alert is posted to the web site.**

B. **"Current Newsletter"-** By clicking on this bar the most recent newsletter will be displayed in Adobe PDF format. The software's versatility allows users to; change size and focus, search for specific words, rotate pages rapidly and, using the Thumbnail Tab, select specific pages to view.

C. **"Owners Manual"-** The Owners Manual should be considered another accessory to the Income Securities Investor Newsletter. It has been designed to assist subscribers in maximizing the value of the material presented each month.

D. **"Preferred Movers"-** Each day ISI displays the preferreds which have had the greatest price movement in the last one day five days and one month as well as which now have the highest yields. Warning, this is raw date from the entire universe of preferreds. The majority of the issues that appear have hidden risk and have never been recommended by ISI. (* Indicates issues on the recommended list)

E. **"Model Portfolios"-** Subscribers have a choice with this feature. Selecting this bar will display all four of the Model Portfolios. By clicking on Low, Med, High or Conv the specific portfolio will be displayed. For further details on each security, click the Symbol.

F. **"Security Search"-** The security search feature allows you to use the CUSIP number or the securities symbol as an identifier. Typing in the just part of an issuers name will display all of the Bonds, Convertibles and Preferreds that are active ISI recommendations for that issuer. **Note: The search inputs are not case sensitive.**

G. **"Glossary"-** The glossary is available two different ways. By entering a word or term you go directly to the definition as well as any related or similar terms. Clicking on the "View All" button will open the entire glossary file. Note: This option could be slower because of the file size.

ACTIVE RECOMMENDATIONS

The center column of this page is entranceway to the 400 active securities recommended at one time or another by ISI. Although many of the issues may not be good buys at this time because of price they remain on the list because of ISI's buy and hold philosophy. We encourage subscribers to be conscious of call dates, call prices and maturity dates when shopping this list. To review a list click the type of security you are interested in.

A. Bonds - The bond list appears in alphabetical order by issuer. To change this order, click on any column-title that appears in the color blue or red. Once you find the bond you are looking for or that looks interesting, click on the issuers Name. The page that comes up is devoted exclusively to the bond selected. In addition to details of the bond, by scrolling down you can see the last written recommendation and its date. Also shown will be any corporate updates ISI wrote concerning the bonds issuer.

B. Preferreds - The preferred list appears in alphabetical order by issuer. To change this order, click on any column-title that appears in the color blue or red. Once you find the preferred you are looking for or that looks interesting, click on the Symbol. The page that comes up is devoted exclusively to the selected preferred.

The space next to the symbol will show the preferred designation clause if it is necessary for the selected preferred. (This symbol requires a special designation to identify it as a preferred quote system. Brokerages and online systems use different methods to denote preferreds. For example, Yahoo! Uses _p to denote a preferred stock)

In addition to the issuers name ISI included a line entitled Security/Name. This space contains the formal name used for many of the hybrid preferreds especially the Third Party Trust Preferreds. In addition to details of the preferred, by scrolling down you can see the last written recommendation and its date. Also shown will be any corporate updates ISI wrote concerning the preferreds issuer.

C. Convertible - Bonds, Preferreds- Both the convertible bond and convertible preferreds list appear in alphabetical order by issuer. To change this order, click on any column-title that appears in the color blue or red. Once you find the security you are looking for or that looks interesting, click on the issuers Name for convertible bonds or Symbol for convertible preferreds.

The page that comes up is devoted exclusively to the selected security. Specific information relating to the convertible details are shown under the Rust colored bars. For Mandatory convertible preferreds, additional information shows the details of the "variable" conversion ratio.

GLOSSARY

ACRONYM - A word or term made up from the initial letters of a name or parts of a series of words, such as "QUIDS" for Quarterly Income Debt Securities. Most of the preferred acronyms are Trademarked identifiers that represent certain types of hybrid preferred created by specific Wall Street firms.

ACCRUED INTEREST - The amount of interest accumulated but not paid between the last payment date and the buy or sell date. When purchasing bonds on the secondary market, this is the interest the former owner earned but has not been paid. It will be added to the buy price of a bond and returned to the seller. The new buyer will receive a full interest payment on the next pay date. Preferreds also accrue interest, but trade "flat", without the participants having to account for the accrued interest. Instead, preferreds have an ex-dividend date and the accrued interest is bundled into the price of the preferred. For example, a quarterly pay preferred that is going to go ex-dividend tomorrow will generally trade at a higher price today because the purchaser will receive three months worth of accrued interest. The next day the preferred will probably drop in price by the amount of the payment.

ADJUSTABLE RATE - These are securities with a variable interest or dividend rate. Their rate is usually related to the yield of another security (treasury bills, notes, bonds) or to indexed lending rates such as the Prime or Libor. The amount they pay will rise or fall in concert with the rate or yield they are related to. Thus, these securities are ideal for principal protection when rates are rising.

ADR- American Depository Receipt- A share of stock that is issued by an American Bank which is backed by foreign securities on deposit.

ARREARAGE - refers to the past due dividends on cumulative preferred and preference stock. This obligation must be satisfied before common stock dividends can be paid. Arrearage payments, when finally made, are to the current holders of the stock issue being paid off, not to holders of the stock when the dividends were missed.

BASIS POINT - The smallest measure used when quoting yields on bonds and preferred stocks. 100 basis points = 1%. Example: An increase of 60 basis points to a yield of 7.00% would make it 7.60%.

BOND - An IOU of a corporation that usually requires the issuer to pay the holder an agreed upon interest rate for a set period of time, and to repay the IOU at maturity. Corporate bonds are usually issued in $1000 denominations. The holder of a bond is a creditor of the corporation, not a part owner like a shareholder.

Secured Bonds are backed by collateral, which can be sold to satisfy the debt.

Debentures are non-collateralized bonds backed only by the full faith and credit of the company.

CALL DATE - The first date an issuer can redeem a bond or preferred before maturity. In most cases, the issue can be called any time after this date at par value. The issuer, however, is not obligated to call the security.

CALL PRICE - The price at which a bond or preferred stock with a call provision will be redeemed at. In most cases this price will be the par value. Some securities have a call price schedule, which begins at a premium to par value then declines annually to eventually settle at the par value.

CALLS - Most bonds and preferreds have a clause, which permits the issuing company to redeem or retire all or part of the shares outstanding at defined prices for specific dates in the future. There are several types of call provisions:

Continuous Calls: are the most common redemption plan in use by companies. This type of call allows the company to redeem their bonds and preferreds at anytime, usually with 30 days notice. Most bonds and preferreds have a schedule of annual redemption prices with beginning dates (Example: 6/1/91 @ $52, 6/1/92 @$51, etc.). In this example the issuer can redeem these shares at $52 anytime between 6/1/91 and 6/1/92 and at $51 anytime between 6/1/92 and 6/1/93.

Discrete Calls: will list specific days and prices the issue can be called. In some cases it may indicate that the issue can only be called on a dividend pay date.

Soft Calls: A provision that can be attached to a convertible bond or preferred, which determines the callablity of the security by triggers in the common stock price. Example: ABC's bonds or preferreds will become callable if the underlying security trades at or above a price of $20 for a 30-day period.

CLOSED-END MUTUAL FUND - These funds have a fixed number of shares, which are traded on the secondary markets similarly to stocks. The market price may exceed the net asset value per share, in which case it is considered at a "premium." When the market price falls below the net asset value per share, it is at a "discount."

COLLAR - Bonds and preferreds (floaters, adjustables, etc.) with this feature have upper and lower limits within which the dividend rate can be reset. These limits are frequently referred to as the ceiling and floor.

CONVERTIBLE - A bond or preferred that can be converted or exchanged into common stock, usually from the same company. Income Securities Advisor has created two Families of Preferreds: *Mandatory* - The security will automatically exchange into common stock on the maturity date. These preferreds are usually created and issued by a third party such as an investment banker or broker-dealer and usually have a variable conversion ratio based on the common stock price. *Optional* - The holder has the right to convert at any time. The issuer will often force conversion by calling the issue at par when the conversion value is greater than par.

Conversion Parity - The price at which a convertible bond or preferred must sell for it to equal the current market value of the common shares to be received upon conversion.

Conversion Premium - The value of the common stock one would receive if converted immediately compared to the current market price of the convertible. This number is usually expressed as a percent. For example if the security was convertible into common stock with a value of $885.96 (conversion value) and the current market price of the security was $1050.00 then the Premium would be $164.04. To get the conversion premium divide the premium $164.04 by the Market Price $1050.00 times 100. This would give a conversion premium of 15.62%.

Conversion Price - The dollar price at which convertible bonds, or preferred stock will be converted into common stock. The conversion price is established at the time of the issue of the convertible.

Conversion Rate - Same as Conversion Ratio.

Conversion Ratio - The number of shares into which each convertible bond or preferred can be converted. Example, if one convertible bond can be converted into 50 shares of common stock, then the conversion ratio is 50:01 or 50.0000. The conversion ratio is established at the time of issue of the convertible.

Conversion Value - The value of the number of shares into which a convertible security can be converted. Multiply the conversion ratio by the common stock price. Note: Sometimes referred to as conversion parity.

COUPON RATE - Annual interest in percent based on par value $1000.00. Example: 8.00%=$80.00

CUMULATIVE DIVIDEND - Almost all preferred stocks are designated cumulative, thus an issuer must declare and pay all current and unpaid past dividends (arrears) before they can pay common share dividends. An issuer can pay current dividends and still be in arrears from past dividends. Missed payments on non-cumulative issues are usually not covered. Note that the board of directors must declare dividends on preferreds each quarter. Hence, such dividends do not accrue and are not added to the purchase price, as with bonds.

CURRENT PRICE - The current price of the security. Prices posted on the Pricing Pages and on the Web Page are from the last business day of the month. The price of a Bond is traditionally shown at 10% of the par value($1000.00). Example: A bond trading at 98.5 is actually priced at $985.00.

CURRENT YIELD - The annual rate of return (stated as a percent) an investor will be paid on a specific bond or preferred based on the current price.

Bonds - To calculate current yield for bonds, divide the coupon rate by the number shown as current price and multiply by 100. Example: (9.60% coupon divided by 95 current price = 0.1010) multiplied by 100 = 10.10% current yield.

Preferreds - To calculate current yield for preferreds, you must first get the dividend (Issue) into dollars. To do this, divide the percent by 100 then multiply the results by the par value. Example: (8.25% / 100 = 0.0825) X $25.00 = $2.063. To complete the calculation for current yield, divide the dollar dividend by the current price of the security then multiply by 100. Example: ($2.063 / current price $24.00 = .0859) X 100 = 8.59% current yield. Note: some preferreds show dividends in dollars.

CUSIP - (Committee on Uniform Securities Identification Procedure) This is a unique identifier assigned to a security. No two are alike. (Similar to an individuals Social Security number).

CYCLE - This coding indicates when a preferred pays its dividend.

1: Jan, Apr, Jul, Oct
2: Feb, May, Aug, Nov
3: Mar, Jun, Sep, Dec
M: Monthly
b: - beginning of the month
m: - middle of the month
e: - end of the month
x/x: - semiannual (05/11= May/November)

DEBT MATURITY - The date the underlying bond of a Trust Preferred or Third Party Trust Preferred matures. The preferred will expire on this date and return to the holder par value plus any accrued interest/dividend. PET Bonds will mature on this date and return to holder's par value plus accrued interest.

DEBENTURE - An unsecured bond whose holder has the claim of a general creditor on all assets that are not specifically pledged to secure other debt.

DEFAULT - The failure of a borrower to pay interest or repay principal in a timely manner. For bond issuers, additional non-payment conditions constitutes an event of default are defined in a legal document called a "bond indenture."

DEFERRAL OF DISTRIBUTIONS - This is when a preferred or underlying bond has a feature allowing the issuer to defer interest payments, under certain circumstances, for up to 5 years before it can be declared in default. This can be done only if the parent also suspends dividend payments on its common stock (Distribution on the preferreds will continue to accrue during any deferral period and investors must pay tax on the accrued, but unpaid interest. Dividends on the common and preferred stock cannot resume until all unpaid interest has been paid.)

DISCOUNT - The amount a bond or preferred trades below the face or par value of the security. Note: such discounts may be because a security was issued at a price below par or because of a decline in its market price. If the security was issued at a discount, a portion of such a discount (OID - Original Issue Discount) must be recognized as income by the holder for federal income tax purposes.

DIVIDEND - The money paid to shareholders. It is usually a fixed amount stated in dollars or a percent of par value. When the dividend amount is stated as a percent of par, the dollar value of the dividend is calculated by multiplying the percentage by the par value. (Example: Widget Co. $25.00 par with a 6.25% dividend) $25 .00 times .0625 = $1.5625. Sometimes a dividend can be Paid in Kind, (PIK) i.e. with common stock shares of the issuing company or additional preferred shares.

DRD (Dividends Received Deduction) - A tax advantage that allows certain corporations to deduct 70% of the dividends they receive from DRD eligible preferreds.

EQUITY LINKED SECURITIES (ELS) - A bond or preferred which is potentially convertible into shares of another company's security. The ELS typically pays interest or dividends and its price will move with the price of the linked security.

Commodity Linked Securities- These hybrids are similar to Equity-linked, however, they are dependent on a commodity, price or index.

EX-DIVIDEND DATE - Is the date on which a stock trades without the dividend. Investors purchasing stock on or after the ex dividend date will not receive the declared dividend. Opening price ex-dividend date is usually down an amount roughly equal to the dividend.

FACE VALUE - This is the principal amount of a bond, usually $1000.00. Commonly used synonymously with the term par value.

FAMILY - One reason preferreds remain a secret is that they are harder to understand than common stocks or even bonds. Hence, to feel comfortable with them you need to invest some serious time studying their features. To ease this process, we have broken up the preferred universe into nine logical groupings, which we have dubbed 'families'. The members of each family have similar characteristics.

For the non-convertible preferreds we have created seven Families. We use the term "preferreds" instead of "preferred stock" because many of the securities are bonds or represent indirect ownership of a bond.

> **Foreign -** These preferred stocks are issued by a foreign corporation in US dollars. The legal rights of the holder are dictated by the rules of the issuer's country.
>
> **Partnerships -** These preferred stocks are issued by a partnership' has its distributions reported on an IRS K1 form. The tax treatment of payment on such preferreds may differ.

Perpetuals - These preferred stocks have no maturity date and have tax preference for corporate buyers i.e. DRD eligible.

Trust Preferreds - These preferreds are backed by a bond held in trust, hence, they represent a creditor claim rather than a share holder claim against the company.

Third Party Trust Preferreds - These are Trust Preferreds created by an investment banker or broker-dealer not the issuer of the underlying bond. They go by trade names such as CorTS, CABCO, SATURNS, PPLUS, etc.

PET (Preferred Equity Traded) Bonds - These are preferreds that are in fact bonds, usually $25 par and traded on the NYSE.

REIT - These are preferred stocks issued by a REIT (Real Estate Investment Trust).

Convertible preferreds have only two families, which may or may not have a bond as the underlying security:

Mandatory - The preferred will automatically exchange into common stock on the maturity date. These preferreds are usually created and issued by a third party such as an investment banker or broker-dealer and usually have a variable conversion ratio based on the common stock price.

Optional - These preferreds give the holder the right to convert into common stock at anytime.

Note: the issuer will often force conversion by calling the issue at par when the conversion value is greater than par.

FLAT TRADING - A bond traded without separate accrued interest. The price paid or received is deemed to include the accrued interest. Issuers in default and Income Bonds commonly trade flat.

FLOATING RATE SECURITIES (FLOATERS) - These are securities with a variable interest or dividend rate. Their rate is usually indexed to the yield of another security (U.S. Treasury bills, notes, bonds) or to another lending rates such as the Prime or Libor. The amount they pay will rise or fall in concert with the rate or yield they are related to. Thus, these securities are ideal for principal protection when rates are rising.

FOREIGN - This “Family” of preferred securities is issued by foreign-based companies in US dollars. There are several types of securities in this “Family”. They are often issued as American Depository Receipts (ADR). ADR’s are also called American Depository Shares (ADS). Some of these preferreds are subject to foreign withholding taxes. Those issued by banks usually have non-cumulative dividends.

FUNDS FROM OPERATIONS (FFO) - FFO is the most commonly accepted and reported measure of a REIT's operating performance. It is equal to a REIT's net income, excluding gains or losses from sales of property, and adding back real estate depreciation. This alternative measure is preferable to traditional profit measures because REIT's are principally tax shelter vehicles and as such, are designed to minimize taxable income.

HIGH YIELD (JUNK BOND) - In some cases, the term "junk bonds" is used to refer to all high-yield bonds – i.e., those that are rated below investment grade or are not rated. In other cases, the term refers to the lower tiers of high-yield bonds in credit quality. Many of today's high-yield bonds, particularly those rated Ba by Moody's or BB by other rating agencies, are not considered "junk."

HYBRID PREFERREDS - Corporate securities that have characteristics similar to both preferred stock and corporate bonds. There is a multitude of structures and acronyms for these securities but several things are common for all of them - the issuer can deduct the payments from their taxes, Holders receive interest not dividends and they are very liquid since they trade as stocks on major exchanges. For further details look under the following families, PET Bonds, Trust Preferreds and Third Party Trust Preferreds.

INCOME BOND - This type of bond pays interest only if the issuer has sufficient earnings. They are usually issued when a company is not sure of its earnings prospects.

INDENTURE - The formal agreement between bondholders and an issuer defining key elements of the bond or debenture such as maturity, amount issued, redemption rights and protective covenants. This information is shown in the prospectus.

INTEREST - The agreed upon payment a borrower pays a lender for the use of money. Bonds are defined in annual interest rates often referred to as coupon rate. To convert the percentage into dollars, multiply by 10. (9.60% X 10 = $96.00)

INTEREST RATE RISK - The price erosion of a fixed income security in a rising interest rate environment.

INVESTMENT GRADE - Bonds considered suitable for purchase by prudent investors. Bonds rated Baa3 and above by Moody's and BBB- and above by Standard & Poor's, Fitch IBCA and Duff & Phelps are considered investment grade.

ISSUE - Many firms have multiple preferred issues thus it is imperative to correctly identify each issue. Each preferred is identified by the term issue that shows the annual dividend, usually in percent, and any special series identifier. (To convert percentage dividends into dollars, divide by 100, then multiply by the par value).

ISSUER - Any authorized legal entity including governments, agencies, and corporations that has the power to issue a security. Exceptions: Third Party Trust Preferreds- ISI shows the corporation who issued the underlying Bond; Mandatory convertible preferreds- ISI shows the corporation whose common stock an investor would receive.

JUNK BOND (HIGH YIELD) - In some cases, the term "junk bonds" is used to refer to all high-yield bonds--i.e, those that are rated below investment grade or are nonrated. In other cases, the term refers to the lower tiers of high-yield bonds in credit quality. Many of today's high-yield bonds, particularly those rated Ba by Moody's or BB by other rating agencies, are not considered "junk."

LIBOR (London Interbank Offered Rate) - The rate banks charge each other for short-term Eurodollar loans. LIBOR is frequently used as the base for resetting rates on floating-rate securities.

MANDATORY - This "Family" of convertible preferreds will automatically convert to common stock on a specific date. Most issues have a variable conversion rate based on the common stock price it relates too. (Example: If the common stock of ABC corporation is at or above the Threshold Price ($46.93) the conversion ratio will be 0.8314. If the common is at or below the Reference Price ($34.81) the conversion ratio will be 1.1122. If the price is between the Threshold and Reference price, the investor will receive the par value of the preferred ($25.00) in common stock.) In most cases these securities are units, made up of a purchase contract and a bond or trust preferred. Most convertibles in this family are not callable before the mandatory conversion date and usually are not convertible by the holder. Convertible securities are very individual creatures and at times members of either family can have features of the other, intermarriage if you will. MATURITY - The date a bond comes due. Principal and any accrued interest must be paid off.

MUTUAL FUNDS - are pools of money that are managed by an investment company. They offer investors a variety of goals, depending on the fund and its investment charter. Some funds seek to generate income on a regular basis, others to preserve an investor's money or invest in growth stocks. Funds can impose a sales charge, or load, on investors when they buy or sell shares. Many funds these days are no load and impose no sales charge, but all have expense charges.

Closed-End Mutual Fund: These funds have a fixed number of shares, which are traded on the secondary markets similarly to stocks. The market price may exceed the net asset value per share, in which case it is considered at a "premium. " When the market price falls below the net asset value per share, it is at a "discount. "

Open End Mutual Fund: An investment fund that stands ready to sell new shares to the public and to redeem its outstanding shares on demand at a price equal to an appropriate share of the value of its portfolio, which is computed daily at the close of the market. This is typical of the majority of mutual funds.

NET ASSET VALUE - The market value of all the securities held in a mutual fund divided by the number of shares outstanding.

NON-CUMULATIVE PREFERRED - Missed dividends do not accrue. Omitted dividends are, as a rule, gone forever

OPEN END MUTUAL FUND - An investment fund that stands ready to sell new shares to the public and to redeem its outstanding shares on demand at a price equal to an appropriate share of the value of its portfolio, which is computed daily at the close of the market. This is typical of the majority of mutual funds.

OPTIONAL - This “Family” of convertible preferreds are normally convertible at any time by the holder at fixed conversion rates and typically are perpetual or with a long maturity. They are usually callable after five years. . Most convertibles in this family are convertible at the option of the holder into common stock at any time. Convertible securities are very individual creatures and at times members of either family can have features of the other, intermarriage if you will

PAR - An abbreviated term for Par Value.

PAR VALUE - The face value of a security. For bonds, it’s the principal amount due at maturity. In the case of preferreds the issuing company sets this value. Par Value is often referred to as Liquidation Value

PARITY (Conversion) - The price at which a convertible bond or preferred must sell for it to equal the current market value of the common shares to be received upon conversion.

PARTICIPATING PREFERRED - These rarely seen preferred issue receive their regular stated dividend plus participate with common stockholders, under specific conditions, for additional distribution of earnings by the issuer.

PARTNERSHIP - This “Family” of preferred securities are issued by a Partnership. There are a variety of partnership however the most common are; Limited Liability Companies (LLC) and Limited Partnerships (LP). In most cases a parent company establishes and becomes the general partner of these entities. In most cases these securities are structured like Trust Preferreds including the holder having an indirect ownership of a bond. These issues pay interest not dividends. Note: Investors receive an IRS Schedule K-1 rather that Form 1099. The K-1 is usually sent out much later than 1099s.

PAY CHAIN - The rating of securities is a subjective activity based on both qualitative and quantitative factors involving current business and economics situation of an industry an individual issues. Securities of an issuer may vary because of collateralization as well as status in the "pay chain"

Senior Secured Debt
Senior Unsecured Debt
Subordinated Debt
Trade creditors, Junior Subordinated Debt
Debt Secured Hybrid Preferreds
Preferred Stock
Preference Stock
Common Stock

Note: Commonly the preferred stock of an issuer will be rated one level below the issuer's bonds. This is also related to the "Pay Chain". When comparing securities use either the bond ratings or the preferred ratings, to mix will give a disjointed view.

PAYMENT-IN-KIND SECURITIES (PIK) - These securities normally pay dividends or interest in the form of additional securities. However, PIKs can also include securities with payment in common stock, cash, or even the securities of a different company. Because the payment options are so diverse the dividend amount is usually stated in cash so that a holder will know, for example, that he will receive $2.00 worth of securities.

PERPETUAL - This "Family" of security is a capital stock of a company that is senior to common equity but junior to all debt. Perpetual preferreds usually have a fixed cumulative dividend have no maturity, just like common stock. Most are callable sometime in the future and are DRD (Dividend Received Deduction) eligible for corporation or qualifying investors.

PET BOND (Preferred Equity Traded Bonds) - This "Family" of preferreds are actually bonds. They are unique in that they are usually $25.00 Par and traded on the New York Stock Exchange. (The normal bond is $1000.00 par and trades over the counter). Pet Bonds are issued directly by a parent company. Pet Bonds pay interest, not dividends and can pay either a quarterly or semi-annual distribution.

PREFERENCE STOCK - fall between preferred and common stock in their rights to dividends or liquidation payments. It is common for this stock to be rated lower than the preferred stock of a company by the credit agencies.

PREFERRED DESIGNATION - Many preferreds need a special designator attached to their symbol for identification. Brokerages and online quote systems use different designators thus it is important investors know the designator for the system they are using. Examples: Yahoo uses _ p to denote a preferred. CCJ is the symbol for Cameco Corp's common stock and preferred stock. To get the preferred you must type CCJ_p. Household Capital Trust V symbol HI X should be typed HI_pX. ISI brackets preferred symbols that do not require a designator. Example: (DCX).

PREFERRED STOCK - is the senior class of capital stock or equity of a company. Preferred stock must pay its stated dividend amount before preference or common stocks receive dividends. This stock also has priority over the other two in any liquidation distributions, such as bankruptcy. However, all forms of capital stocks, which make up the equity of a company, fall behind debt issues (bond, notes, etc.) and all other creditor claims in their right to payments of any sort. Although these equity issues represent part ownership in a company, they normally do not have voting rights.

PREMIUM - The amount that a bond or preferred is selling for above face value (par value). Examples: a $1000 bond trading at $1050 has a $50 premium; a $25.00 par preferred trading at $26.00, has a $1 premium.

PREMIUM (CONVERTIBLES) - The percent of Market Price the convertible bond is trading at above the value of the common stock a convertible bond could be converted into (Conversion Value). Example: Market Price $1050.00 minus Conversion Value (common stock price $20.25 multiplied by the conversion ratio 43.751 = $885.96). = $164.04. To convert the premium dollars into a percentage divide the premium $164.04 by the Market Price $1050.00 and multiply by 100 = 15.62% Premium.

PROSPECTUS - This is the official selling circular which must be given to purchasers of new bonds or preferreds registered with the Securities and Exchange Commission (SEC). The prospectus contains details of the security. Included are financial details of the issuer as well as management overview, history, experience, competition and prospects. A preliminary version of this document is called a Red Herring.

PUT BONDS - A bond that gives the holder the right to require the issuer to purchase the bonds at a set price, usually par, at some date prior to maturity.

RATE OF RETURN - For bonds or preferred see Current Yield.

RATINGS - Ratings are based on an evaluation of an issuer's strength to meet its credit obligations. Credit Risk concerns both the financial and moral obligations that an issuer of securities will meet its payments as promised.

Investment Grade	Moody's	S&P
Highest Credit Quality	Aaa	AAA
Minimal Risk of Meeting Financial Obligations		
Very High Credit Quality	Aa	AA
Little Risk of Meeting Financial Obligations		
High Credit Quality	A	A
Low Risk of Meeting Financial Obligations		
Medium Credit Quality Adequate		
Quality for Meeting Financial Obligations	Baa	BBB

Below Investment Grade	Moody's	S&P
Speculative Credit Quality	Ba	BB
Very Thin Coverage of Meeting Financial Obligations		
Highly Speculative Credit Quality	B	B
Questionable Coverage of Meeting Financial Obligations		
Vulnerable to default	Caa	CCC
Must have improved conditions to meet Financial Obligations		
Highly Vulnerable to Default	Ca	CC
Most Likely will not Meet Financial Obligations		
Lowest Quality	C	C
Avoid could be in Default Arrearage		
In Default Arrearage	C	D
Ratings Modifiers	1,2,3	+/-
#1 is highest rating		

REDEMPTION - The repayment of a security at or before it's maturity date. Redemption values are commonly at par and in some cases can be in the form of another security.

REIT - Real Estate Investment Trust (REIT) This "Family" of preferreds is issued by a special purpose corporation or trust that raises capital from investors to acquire or provide financing for all forms of income-producing real estate. These properties include shopping centers, hotels, office buildings, apartment complexes, health facilities, industrial properties and more. Generally. a REIT does not pay corporate income tax if it distributes at least 90% of its taxable income to shareholders. To qualify for this tax treatment, at least 75% of gross income must come from rents of real property or interest income from mortgages on real property. Some of the preferreds have a clause, which requires the REIT to pay the higher of, the fixed minimum dividend or the common stock dividend.

RESET - Refers to the next scheduled date for a possible adjustment of the payout rate of a floating rate or adjustable rate security. Adjustments are calculated based on a defined index for the specific security.

RISK - In the context of income securities, risk refers primarily to loss of principal or income because the company was unable to meet its obligations. This is also known as credit risk and does not refer to other risks associated with income securities such as changes in interest rates or market risk. For our purposes the Low Risk category usually consists of investment grade securities, Medium Risk has a mixture of investment grade and high non-investment grade securities and High Risk are usually below investment grade securities.

SINKING FUND – Money accumulated on a regular basis in a separate custodial account that is used to redeem bonds or preferreds. Some bonds or preferreds have a mandatory retirement clause, which requires the issuer to retire a set number of securities each year for a set time frame. The securities can be purchased in the open market or selected by lot. The redemption date can be a specific date or extend over a full year.

SOFT CALL - A provision that can be attached to a convertible bond or preferred stock. If such a provision exists and the underlying stock of the convertible reaches a predetermined price for a set period of time, the bonds or preferreds become callable.

STEP SECURITIES (UP/DOWN) – These securities have a specific schedule for changing the interest or dividend rate. Commonly called Step-up/down notes or preferred.

SYMBOL - The letter code to identify a security on the exchange on which it trades. For Preferreds, Symbols not in parentheses require a Preferred Designation. These designations vary by system and Web pages. Note: Often called Ticker or Stock Symbol.

TENDER OFFER - An issuer of a bond or preferred offers to buy back a specific security at a set price and for a set time period. Holders of the security are not obligated to accept the tender offer.

THIRD PARTY TRUST PREFERREDS - This “Family” is similar to Trust Preferreds except they are issued by a third party. A “Depositor” corporation, usually a wholly-owned limited-purpose subsidiary of a large brokerage firm, will buy bonds of a particular company, deposit them into a Trust they establish which in turn will issue the $25.00 par value preferreds.

These preferreds are sometimes given acronyms such as CorTS, CABCOS, CBTCS, SATURNS and PPLUS. The acronyms are the “brand names” of the underwriter or affiliate, and does not relate to the company that issued the underlying bond.

The securities are sometimes hard to discern since they often are titled by the name of the Trust such as Structured Products or Lehman- ABS. Sometimes, but not always, the title is followed by a series such as Lehman MOT A-1, which offers a hint that this Trust Preferred is based on a Motorola bond. ISI Newsletter shows these securities under the name of the underlying bond issuer.

Some of these issues have a deferrable interest clause. This means the underlying bond has a feature allowing the issuer to defer interest payments for up to 5 years. During any deferral period the interest accrues and is taxable for the holder.

TRADING FLAT – A bond that trades with no accrued interest such as a bond in default or an Income Bond. Most bonds trade with accrued interest, meaning the buyer pays the seller the market price of the bond plus the accrued interest from the last payment date.

TRUST PREFERREDS - This “Family” of hybrid preferreds has characteristics of both bonds and preferred stocks, but is essentially a bond. They are issued by a business trust, which is established by a parent company (Example ABC Corp sets up ABC Capital Trust). The Trust will issue the $25.00 par value hybrid preferred and lend the proceeds to its parent by purchasing a long- term (usually 30 year) subordinated bond.

When the Trust receives interest payments on the bond, they pass them directly to the preferred stockholder as monthly, quarterly or semi-annual distributions. Trust Preferred shareholders get paid before regular preferred and common stock shareholders.

Many Trust Preferreds have a deferrable interest clause. This means the underlying bond has a feature allowing the issuer to defer interest payments for up to 5 years. Distribution on the Trust Preferreds will continue to accrue during any deferral period and investors must pay tax on the accrued, but unpaid interest.

VARIABLE CONVERSION RATE - The conversion rate of this type of convertibles depends on the price of the common stock. Typically, the higher the common stock price the lower the conversion rate and vice versa. Mandatory convertibles all have variable conversion rates based on the common stock the security converts into.

VARIABLE RATE - These are securities with a variable interest or dividend rate. Their rate is usually related to the yield of another security (treasury bills, notes, bonds) or to indexed lending rates such as the Prime or Libor. The amount they pay will rise or fall in concert with the rate or yield they are related to. Thus, these securities are ideal for principal protection when rates are rising.

YIELD - Return on an investor's capital investment, expressed as an annual percentage rate.

Current Yield - The annual rate of return (stated as a percent) an investor will be paid on a specific bond or preferred based on the current price.

Bonds -To calculate current yield for bonds, divide the coupon rate by the number shown as current price and multiply by 100. (Example: (9.60% coupon divided by 95 current price = 0.1010) multiplied by 100 = 10.10% current yield.

Preferreds - To calculate current yield for preferreds, you must first get the dividend (Issue) into dollars. To do this, divide the percent by 100 then multiply the results by the par value. Example: (8.25% / 100 = 0.0825) X $25.00 = $2.063. To complete the calculation for current yield, divide the dollar dividend by the current price of the security then multiply by 100. Example: ($2.063 / current price $24.00 = .0859) X 100 = 8.59% current yield. Note: some preferreds show dividends in dollars.

Yield to Call – The average annual return you would receive to the first call date. This includes any discount or premium to the stated call price.

Yield to Maturity – The average annual return an investor would receive if the security is held to maturity. YTM includes, total coupon payments to maturity, interest on interest and any discount or premium to the par value or face value of the Bond.

Yield to Worst – The lower of; yield to call or yield to maturity. The worst combination of all the possible call dates, maturity date and call or maturity prices.

ZERO COUPON BONDS - A bond sold at deep discount from its face (par) value that pays no interest until it matures at face value. Although no payments are made, holders of these bonds must pay taxes on the annual accrued interest. These securities are ideal for non-taxable accounts (IRA's).

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