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# WALL STREET REPORTER

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APRIL 2007

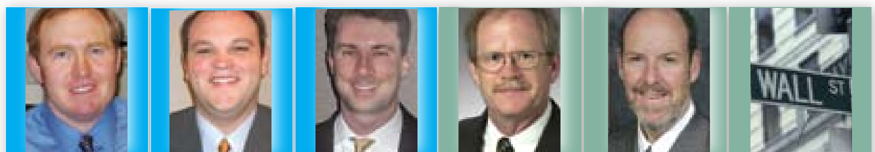
"INSIDE: OVER **16** HOT INVESTMENT IDEAS"

CEO INTERVIEWS



# Roundtable:
## The big potential in small banks

Rising interest rates and the end of the real estate boom have chased the speculators out of the housing market, prompting lenders to re-think their business models in search of profit. In a roundtable October 12, 2006 hosted by Wall Street Reporter, experts from inside and outside the banking industry discussed challenges facing bankers and named companies most likely to outperform in the new environment.



Bradley Milsaps, BANK ANALYST, Sandler O'Neill & Partners | Cory Shipman, BANK ANALYST, Stanford Group Co. | Brett Rabatin, BANK ANALYST, FTN Midwest Research | Richard Driscoll, CEO, Southwest Securities FSB | Douglas Biddle, PRESIDENT & CEO, Plumas Bancorp | Harold Giomi, CHAIRMAN & CEO, The Bank Holdings Inc.

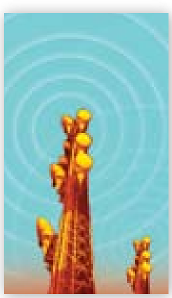
*(Continued on Page 4)*

# The next big things in technology stocks

*By Wall Street Reporter Staff*

THE OPPORTUNITIES FOR INVESTORS IN TECHNOLOGY ARE MORE ABUNDANT THAN ANY TIME SINCE THE LAST BIG TECH BOOM OF THE LATE 1990S. WALL STREET REPORTER'S INTERVIEWS WITH VENTURE CAPITAL LEADERS IN THE TECH AREA TURNED UP SOME HOT NEW IDEAS THAT HAVE PROMISE FOR GROUND-FLOOR INVESTORS.

WIMAX, a wireless technology for high-speed mobile and telecom data, is poised to expand rapidly, especially in overseas areas where there's not much wired infrastructure, said Sanjay Subhedar, general partner in Storm Ventures, a venture capital firm in Menlo Park, California. Standards are in place, equipment is now interoperable, and in the U.S. Sprint and Clearwire are deploying WIMAX networks, he said in an interview.



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$5.95 C$6.95 €5.95 £5.00

*Your guide to finding the next big thing*

Welcome to the latest issue of Wall Street Reporter. This publication is devoted to helping investors discover the best opportunities that are too often ignored by the big wirehouse analysts and traditional media companies.

There's a lot of ideas to choose from in these pages. Our banking interviews feature solid institutions with strong balance sheets that aren't household names outside their service areas. This sector has performed exceptionally well over the years, and some of the firms even pay dividends.

Be sure to read our feature on the next big things in technology. We spoke with three venture capital experts who know their way around the industry. They have demonstrated track records of success in recognizing and backing early-stage companies that are making the trends of the future. They are betting on areas such as new uses of the GPS satellite system to cell-phone technology that brings people in the same place together.

There's much more at www.wallstreetreporter.com including audio and video interviews with CEOs from companies across a wide swath of industries. New material is posted every day and you'll also find the latest news and interviews with analysts and money managers, bringing you the "best of the best" investment ideas.

But wait, there's even more. Check out our conferences, which bring CEO presentations from companies in the hottest sectors such as gold, mining, oil. biotech, and pharmaceuticals just to name a few. There's no substitute for listening to and meeting the leaders of these businesses to see for yourself what they have to offer. Our Small-Cap Discovery Conference will be held March 22, 2007 in New York, Details can be found on our web site and in this magazine.

This issue also has interviews with more than a dozen CEOs in industries from gaming to enterprise software to telecommunications. Find out first-hand how these innovators are taking their companies to the next level. Then you decide. After all, successful investing is all about getting in on the ground floor.

Jack Marks,
Publisher


# WALL STREET REPORTER
FOCUS ON FINANCIAL STOCKS

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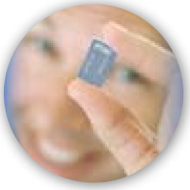
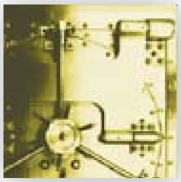
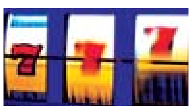








## FINANCIALS



## TELECOMMUNICATIONS



## ENTERPRISE SOFTWARE



## TECHNOLOGIES



## ENTERTAINMENT

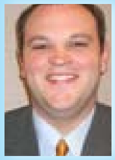


## INDUSTRIAL

# Roundtable:
## The big potential in small banks

**BRETT RABATIN**
BANK ANALYST
**FTN MIDWEST RESEARCH**

**BRADLEY MILSAPS**
BANK ANALYST
**SANDLER O'NEILL & PARTNERS**



**CORY SHIPMAN**
BANK ANALYST
**STANFORD GROUP CO.**

**RICHARD DRISCOLL**
CEO
**SOUTHWEST SECURITIES FSB**

**DOUGLAS BIDDLE**
PRESIDENT & CEO
**PLUMAS BANCORP**


**HAROLD GIOMI**
CHAIRMAN & CEO
**THE BANK HOLDINGS INC.**

On October 12, 2006, Wall Street Reporter Magazine hosted a regional banking and finance forum to update on companies and developments in the sector.

***WSR: Brett, maybe you could start the discussion on what always seems to be a busy topic in the recent past, which is the real estate and housing market as it affects the companies in the area that you are focusing on.***

**RABATIN:** I have been with FTN Midwest for about six years, and we've got quite a few bank analysts here, and so we have over 150 names under coverage: thrifts, large-cap, small-cap banks. So, we have a team here that does a lot of financials — also the insurance coverage this year, with a former CFO of one of the larger reinsurers. And what we've seen here recently with the housing market is: Everyone is aware that it is slowing, but there is a very differentiated aspect in the markets in that some markets such as Miami are coming off quite a bit, whereas other markets are not as bad. I was on a conference call earlier this morning


ROUNDTABLE

with a bank in the Pacific Northwest, and one of their markets (Boise, Idaho) is just going very well. And so it is very pocketed in different areas of the country, and in fact, probably even national banks are certainly not improving, but they are not decelerating much either. So, it is very fragmented in terms of what the real estate market looks like across the country. And for many banks in my coverage list — I cover mostly banks from the West Coast and in Texas — they don't do a lot of single family or one-to-four lending. They are more focused on commercial real estate and construction lending, and construction has definitely slowed somewhat. So far, we have seen this quarter the pipeline for most of the Pacific Northwest banks and that area has quite a bit of construction exposure. We've seen that the pipeline is stable but definitely, we're not seeing the growth that used to be there and the speculators are certainly out of the market. So, it hasn't been a huge negative impact so far, but definitely it is not going to be a boon to profitability for the banks going forward.

***WSR: Dick Driscoll from the corporate side, how does Southwest Securities FSB [a unit of SWS Group Inc. (NYSE: SWS $26.92)] see things in your sector of the country?***

**DRISCOLL:** Our sector of the country is Texas. We've really experienced modest increases in real estate values over the last few years, and quite often we lag the nation in increases in value. So, we did not have the run-ups that quite a few of you others enjoyed. Because of that, we have relative affordability compared to the rest of the country, and we are coming off of record volume, especially in the home building business. So, home sales have slowed, our inventories are up, but at the same time, because we've done record volume, this will still probably be the third-best year ever. Some of the volume builders are providing discounts on their product to move it, and I guess the builders too were being very careful to monitor the construction out there right now, but the key driver that we've had in our market is job growth. We continue to have job growth. And one thing I wanted to say about the real estate market here: We have experienced an influx of West Coast buyers who are buying property because it is relatively inexpensive to what they are seeing. And so, I would sum it up and say, there is certainly no panic here, but we are monitoring it very carefully.

***WSR: Is it fair to say that the positive trends in the recent couple of years on the energy side have impacted things?***

**DRISCOLL:** It has. On the Fort Worth side of the metroplex, we have a gas play going on right now called the Barnett Shale, which is producing large amounts of spendable income in our marketplace, which is also a very positive effect.

***WSR: Brad, how do things look from the companies that you are tracking?***

**MILSAPS:** We cover about 200 companies, all based in the financial service industry, including small-, large- and mid-cap banks and thrifts, the e-finance companies, as well as insurance. In terms of the real estate, I primarily cover banks in the Midwest and to some extent out west. Obviously, in the midwestern states, we haven't seen the run up in real estate prices as we've seen on the coast. So, less of an issue there. I think the bigger issue is the economies, especially in Michigan and some parts of Indiana, are obviously heavily dependent upon the automotive industry, and to some extent we just haven't seen the job growth there. So, that is probably a bigger concern than real estate in and of itself. In terms of the banks that I follow out west, I just spent about a week or so visiting with the banks in Las Vegas. And again, to echo Brett's comments, most of those banks aren't directly exposed to single-family speculative homebuilders. They've really steered clear of that business, and the sense I get is there is a lot of demand for commercial and retail space that should continue to drive those markets even if we do get some slowdown in real estate there.

***WSR: Doug Biddle with Plumas Bancorp (NASDAQ: PLBC $16.26), what do you see on California?***

**BIDDLE:** Well, it is kind of interesting. Our company is located in a real interesting subset of California — a very desirable vacation second home area up in northeastern California. So as a result of that, we are seeing some of the same trends, because obviously those that are

NYSE: SWS


NASDAQ: PLBC


### Stocks Discussed

(Closing price is as of November 3, 2006).

| Company | Symbol | Price |
|---|---|---|
| Alabama National Bancorp | NASDAQ: ALAB | $66.50 |
| BancFirst Corp. | NASDAQ: BANF | $48.38 |
| Cadence Financial Corp. | NYSE: NBY | $20.50 |
| Cullen/Frost Bankers Inc. | NYSE: CFR | $53.81 |
| Frontier Financial Corp. | NASDAQ: FTBK | $28.40 |
| Glacier Bancorp Inc. | NASDAQ: GBCI | $34.17 |
| Plumas Bancorp | NASDAQ: PLBC | $16.26 |
| Security Bank Corp. | NASDAQ: SBKC | $23.15 |
| Sterling Bancshares Inc. | NASDAQ: SBIB | $18.21 |
| Sterling Financial Corp. | NASDAQ: STSA | $32.95 |
| Summit Bancshares Inc. | NASDAQ: SBIT | $27.06 |
| SWS Group Inc. | NYSE: SWS | $26.92 |
| The Bank Holdings Inc. | NASDAQ: TBHS | $19.90 |
| US Bancorp | NYSE: USB | $33.57 |
| Wachovia Corp. | NYSE: WB | $54.30 |

desiring to relocate in our marketplace come from places like the San Francisco Bay Area, Los Angeles and so on, trying to realize that the baby boomer dream of that home in the mountains, home in the Gulf or things along that line. We've had some slowing in real estate sales in that regard, but like many of the other comments, our company stayed away from the spec building end of things. And from our standpoint, our economy is so diversified from the standpoint of agriculture, as well as our particular focus in a lot of indirect auto financing. We're seeing slowdowns in that just because of the general economic trend, but nothing of real significance that we really have over concerns about.

***WSR: Cory, how does Stanford Group see things in the banking area?***

**SHIPMAN:** Just real quickly, we are a relatively new company in town, at least the institutional brokers division. It's about three years old. I've been here about two years; prior to that, several years at Morgan Keegan in Memphis. We cover roughly 30 names — that sort of ebbs and flows depending on the M&A environment, but all in the Southeast as we define it: net of the Carolina down to Florida, over to Texas. So, the housing market as we are talking about at the Southeast is, I think, kind of what you are hearing from everyone else. You can't really lump everything together. It's more localized pockets of trouble or bubbles, if you will. Of course, the coast of Carolina (North and South) and Florida are the big areas of concern. In Florida, anecdotal evidence is that the housing market has slowed down, but it's primarily in your multi-family arena or the big buzzword of "condo lending." At the end of the day though, our view is that the Southeast as we define it is a growing area. The population continues to grow. The economy continues to expand as the population grows. So, it should be relatively insulated from what you may see on a national front.

***WSR: Harold Giomi with The Bank Holdings Inc. (NASDAQ: TBHS $19.90), how do you see things in your area?***

**GIOMI:** The Bank Holdings is headquartered in Reno, Nevada. We're fairly unique. We have an operation in northern Nevada as well as northern California. We have Silverado Bank, which is under the holding company. We also own three 1031 exchange companies, if you are familiar with 1031 exchanges: one in Bozeman, Montana and two in the Sacramento area. As it relates to real estate and housing in particular, I think I echo what everyone has been talking about. In the last three or four years in the Reno area, we've seen an escalation in prices and production of residential housing. And I think we're beginning now in the last six months to see a little bit of a breather, a little bit of a softening. Three or four years ago, if a home went on the market, it was sold within two or three days. We're seeing that same house taking three to four months to actually sell. Now with that said, the market is still strong on the commercial side, on the income-producing commercial real estate side. Where we do see a little bit of decline — about 10% to 15% — is in our exchange companies. And I think basically that's because of the housing market itself, the fact that it is slowing down. We are seeing that 10% in all areas. We have operations in southern Nevada, in California, as well as Montana and Hawaii. The only place that there is an increase in that business is in the State of Hawaii, but all other areas are somewhat slowing.

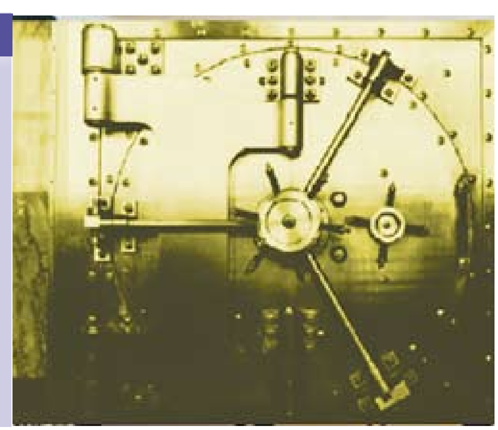
***WSR: Certainly over the years, there has been a lot of talk about expansion both by acquisition and internal growth. We've had quite a bit of merger and acquisition activity over the long run in banking. I'd like to have everyone's thoughts on where they see that kind of activity. Brad, maybe you could start off the discussion.***

**MILSAPS:** I think obviously the biggest deals we've seen this year have been in Texas, Florida, California. I think people will continue to go after

"It is very pocketed in different areas of the country, and in fact, probably even national banks are certainly not improving, but they are not decelerating much either. So, it is very fragmented in terms of what the real estate market looks like across the country"

**Douglas N. Biddle , Plumas Bancorp and Plumas Bank, President & CEO**

Douglas N. Biddle moved to Quincy and joined Plumas Bank in 1990. In September, 2005 he was promoted to president and chief executive officer of Plumas Bancorp and Plumas Bank. A lifelong Californian, he was born in Fairfield and graduated from the University of California at Davis with a Bachelor of Arts degree in Political Science. He received his Masters of Business Administration from the John Anderson School of Management at the University of California at Los Angeles. He and his wife Barbara have three grown children Joel, Emily, and Laura. Biddle is an active member of his church, and enjoys camping, golf, tennis and bridge.



growth areas. I guess I would look to the growth markets for banks with good market share, good balance sheets, where you may have succession issues. Nothing really new as you look at acquisitions and how you sort of come up with why people sell, etc. But by and large, I think most of the acquisition activity is going to still be driven by those growth markets, whereas it may need to occur, maybe, more in the Midwest markets, where you have too many banks chasing too few loans. But, that just hasn't happened yet, as a lot of those banks are looking outside of their core midwestern franchises into Florida, Texas and other areas to grow their footprint.

***WSR: Doug, how are you targeting expansion for your company, and what do you see in terms of that activity in your geography?***

**BIDDLE:** Interestingly enough, Brad's description of the Midwest market is actually a little bit of microcosm of our particular marketplace in that while we continue to enjoy steady growth in our relatively isolated marketplace in northeastern California — as I mentioned, a very desirable area for retirement and growing in second home ownership. We actually see that that is not going to be something in the long run that's going to be able to sustain us as well as we've done up until this time over the 26 years we've been in existence. And as a demonstration of that, we've just put a press release out yesterday that we are opening a loan production office focusing on government guaranteed and commercial real estate lending in the Sacramento marketplace to try to balance out our geographic distribution. We are also looking at some other marketplaces that do promise some growth and actually promise some opportunity with the prospect, as we view it anyway, of potential merger and acquisition activity — where we could pick up not only good talent in those marketplaces as a result of that merger activity, but also along with that good talent, good banking clients as well.

"Most of those banks aren't directly exposed to single-family speculative homebuilders. They've really steered clear of that business, and the sense I get is there is a lot of demand for commercial and retail space that should continue to drive those markets."

***WSR: Cory, in terms of the Southeast, what do you see in terms of expansion and acquisition activity?***

**SHIPMAN:** Well, what we've seen over the past couple of years, particularly before the Fed started raising rates, when the fed funds rate was at 1%, we did see a lot of de novo expansion. It was pretty easy and makes a lot of sense to build branches when the fed funds rate is razed to 1%, you could break even relatively quickly. The M&A activity has picked up recently, certainly not fully due to higher rates, but that is a big part of it. And as Brett said earlier, most of the M&A activity is really in search of the growth areas, Florida, Texas, even the Atlanta Metro area. Kind of year-over-year in the M&A statistics, the number of deals is down in our footprint just modestly. One of the things we are kind of looking for going forward to really drive M&A is really the buyers and sellers are going to have to find an excellent meeting place in the middle as far as pricing to really get a ramp up in the M&A activity. But in general, M&A is going to be with us for quite some time. When a bank sells out and then sprouts another four or five new start-ups, it is going to be a feeding mechanism that is going to last certainly more than my lifetime.

***WSR: Hal, in terms of your activities, what kind of expansion plans do you see in your neighborhood?***

**GIOMI:** We were in the midst of an acquisition ourselves and we expect to close the deal come November 1. And it adds quite a bit to the activities that we are doing here in Reno — it is a Reno bank, and it sort of expands our branch network. I looked at the growth pattern as it relates to branching, and I don't think we are going to elect to go down that path. It is so expensive to branch out. When you branch, typically it costs you somewhere between $1 million and $1.5 million per branch and it takes so long to develop that branch into a profitable operation. And I think what we are faced with, and it is a big concern right now, is that we have a tremendous amount of loans in our pipeline, both in Reno and as well as in California. Now the big question is, how do we fund those loans? And the funding sources are drying up. The competitive nature of those deposits is very, very heated right now. As the rates are going up, we are being pressured extremely hard on our loan pricing. So, we have to expand our license, not by branching, but I think if

*(Continued on Page 47)*

**J. Cory Shipman, Stanford Group, Senior Vice President**

Cory joined Stanford Group in August 2004. Prior to joining Stanford Group, Cory was a member of the financial institutions research team for six years at Morgan Keegan & Company, a regional sell-side firm, covering small and mid-cap financial institutions headquartered in the southern United States. Prior to joining the financial institutions research team in September 1998, Cory spent time over a three-year period in various positions at Morgan Keegan, including roles on the over-the-counter trading desk, in correspondent brokerage and in the IRA department. Cory received his B.B.A. degree in Finance from the University of Memphis.

ROUNDTABLE

# Move over, Goldman, Merrill and Morgan

SWS Group, Inc. is a Dallas-based holding company offering a broad range of investment and financial services through its subsidiaries.

Shares of this regional broker nearly doubled last year, outpacing that of the biggest names in the business as the firm built on its reputation for providing good old fashioned service. CEO Donald W. Hultgren of Dallas-based SWS Group, Inc. reveals how he's working to extend his company's growth curve. Interview of July 17, 2006.

***WSR: Give us a little bit of background and history on the company.***

**SWS**: The company has been in business 35 years. It is primarily involved in three businesses — securities clearing, which provides back office services for other brokerage firms; full-service brokerage, and banking through Southwest Securities, FSB (our bank).

WSR: Tell us about the overall business strategy for SWS' targeted core market.

**SWS:** Southwest Securities targets the southwest. We are the largest brokerage firm in the state of Texas. The primary mechanism we are using to grow the business is that we are recruiting brokers from other firms to join us and offer a Texas-based solution to their customers. We are rapidly recruiting brokers in Texas, New Mexico, and Oklahoma. As we grow our retail distribution system, we expect the rest of our brokerage operations to grow as well.

***WSR: What is the real value proposition that SWS Group brings to the table?***

**SWS:** The real value proposition is for the broker. Usually, the people attracted to our platform have worked in the past at a regional brokerage firm that was acquired and have found themselves now at a much larger firm with more structure and less freedom to work

with their clients as they see fit. We offer more freedom for financial professionals. We give them all the tools they need, whether it be access to mutual funds, insurance, or fee-based systems. We provide tools similar to what they have previously worked with, but we give them a more broker-friendly environment, which allows them to work the way they feel best for their customers.

***WSR: How is SWS Group avoiding the trend towards acquisition, as well as the decreasing of the overall financial market?***

**SWS:** Our situation here is one where we are on a growth curve and not looking to be acquired. As a result of that, we are attracting other brokers. That is not to say that at some point down the road, someone would offer to acquire us — however, we haven't seen any evidence of that recently.

***WSR: How is the company reducing the risks of commission revenue vis-a-vis the three different segments SWS is presently operating under?***

**SWS:** Again, in terms of our commission revenues, we are a full-service brokerage firm; the customers are willing to pay us a reasonable price for the services our brokers provide. We haven't really seen any significant deterioration of commission rates. If the market were a little more robust, we would see more commissions, which everybody would welcome. In our clearing business segment, it is very competitive. We compete on the basis of price in many cases. It is a function not just of price, but of service and technology. We believe we have one of the best technological platforms in the clearing business. We rely on people to be willing to pay us a fair price to have access to that platform.

***WSR: And so SWS is getting involved in investment banking activities as well?***

**SWS:** Yes, we have a corporate finance team that works with corporations. We also have a public finance team that works with municipalities. Our public finance business has been very strong, and we have seen some record results in recent quarters. Our corporate finance business is still in a growth mode.

***WSR: Tell us a little about the growth potential here within the regional market space that SWS is targeting.***

**SWS:** The last quarter (ended March 31, 2006) was unusually strong, primarily because we recognized the value of our New York Stock Exchange seat, and we sold a subsidiary as well. Taking a look at what the numbers might have been without some of those items, we were looking at income from continuing operations of USD$0.48, compared to USD$0.25 one year ago. Revenue has been strong — the strength is coming primarily from growing the retail business, as well as the public finance

"For the last few years, we have focused on getting our costs under control. We are now changing gears so that we can focus on generating revenues; specifically, we are looking at becoming more revenue-driven through all of our customer bases."


side and the stock loan business. Our strengths are very broad-based. The only business not up to speed is our fixed income business, which is big for us, but with a flat yield curve, it hasn't produced the kind of results it has in the past.

"SWS' regional focus is a competitive advantage. Regional firms in other parts of the country have much more difficulty defining exactly what the region is, and they also have a lot more competitors than we do. We continue to focus on improving our return on equity."

***WSR: Does SWS use its banking customers as a marketing target for its brokerage?***

**SWS:** Yes — for the last few years, we have focused on getting our costs under control. We are now changing gears so that we can focus on generating revenues; specifically, we are looking at becoming more revenue-driven through all of our customer bases, whether it be our clearing customers, our independent contractor brokers, or the brokers who work for us. We are making a significant effort to do more cross-pollination and reach out to those customers with our entire line of products.

***WSR: Has SWS' regional focus hindered you in terms of your stock valuation?***

**SWS:** No, I don't believe so. SWS' regional focus is a competitive advantage. Regional firms in other parts of the country have much more difficulty defining exactly what the region is, and they also have a lot more competitors than we do. We continue to focus on improving our return on equity. Investors who have paid attention to us over the last few years understand our focus and the progress we're making.

***WSR: In summary, tell us why investors should take a strong look at the company.***

**SWS**: We are a key player in the southwest economy. We have good operating leverage on the clearing side — as we continue to add customers, it will positively impact our earnings. We are committed to the dividend. We pay USD$0.11 a quarter, and we are very committed to giving that return to shareholders.

**SUMMARY**

SWS Group (NYSE: SWS) is primarily active in the securities clearing, banking and retail brokerage businesses. While the clearing operation is national in scope, commercial activities focus on the Southwest. The company is actively expanding its broker network, which is currently the largest in Texas. Commission pricing is stable. Clearing platform is technologically distinguished. Recent expansion into corporate finance has delivered encouraging early results. Revenue has been almost universally strong and profit is up 92% year-over-year. Cost control efforts have been successful. Goal is now to continue growing the various client bases while cross-selling products and services through existing accounts. Management considers the company's regional strategy to be a competitive advantage and remains committed to its dividend policy.

www.swsgroupinc.com www.southwestsecurities.com Phone: 214-859-1800

CEO INTERVIEW

# First State blazes path to growth

**First State Bancorporation, New Mexico's largest locally managed bank, increased its assets 19% in 2006, excluding acquired loans and deposits. H. Patrick Dee, Executive Vice President, COO, and President, takes us on a tour of the company's balance sheet and growth prospects in a May 26, 2006 interview. 26, 2006.**

***WSR: Tell us about the key drivers in the company's recently-announced first quarter 2006 financial results.***

**FSNM:** Our loan growth on an annualized basis was 24%, which is exceptionally strong. Normally, we expect it to be more in the 15% range; however, we had exceptional loan volume this quarter. Our deposit growth was very strong. We allowed USD$30 million in brokered deposits to run off during the quarter; if you factor that out, we had 20% annualized growth rate in deposits. Our interest margin has improved as we are slightly asset-sensitive; we believe our fundamentals are extremely strong. Our bottom line was affected by some acquisition-related expenses. We completed two acquisitions in first quarter 2006, as well as some other one-time items that impacted our profitability, but we believe the rest of the year is going to be right back on track with analyst expectations. We are very encouraged by the balance sheet growth we are seeing at this stage. We also had improving net interest margins, and we achieved a 15%-plus return on equity in the second half of 2005, which is a good level for us to be at, given our very aggressive growth posture.

"Our major goals are to continue the momentum we have in New Mexico and to build on what we've started in Colorado, where we've added lending and senior management staff. We are focusing on Colorado as a very strong growth area."

***WSR: Bring us up to date now on the acquisitions the company has made.***

**FSNM:** We closed both of those transactions in early January 2005. The branches we acquired are largely in New Mexico, where they serve the purpose of filling in some of the markets we are in as well as getting us into some new ones, particularly the Las Cruces market in the southern part of the state. We are excited about the opportunities there. Also, Access Anytime had a branch in the Phoenix area, and we are excited about the long-term prospects for growth there. We do have to put together a full commercial banking team in that market which, in terms of the loan side, we are starting from scratch.

***WSR: There was a first-quarter charge of USD$825,000 related to these acquisitions; will this be a one-time cost?***

**FSNM:** The USD$825,000 included some substantial one-time charges related to the acquisitions as well as a few other non-recurring items. These inflated our expense levels and had a significant impact on the bottom line. We believe that they will not reoccur, other than some smaller amounts of conversion-related expenses on these two acquisitions in the second quarter 2006 and a small amount in the third quarter, as we won't complete the final conversion of the Access systems until August 2006.

***WSR: In terms of asset quality, what can investors expect to see regarding these two acquisitions?***

**FSNM:** The asset quality of both of these banks was good; we've seen no real change in our overall numbers. We are a fairly aggressive lender, but our non-performing numbers have been at or below 40 basis points recently; we are confident about that going forward. The loan portfolios we acquired in these two instances were both in good shape.

***WSR: Tell us about the recent name change of one of the bank's subsidiaries, from First State Bank to First Community Bank, and the reasons for this rebranding.***

**FSNM:** We had used the First State Bank name in New Mexico going back to 1922, but when we entered the Colorado market, we could not use that name there, so we had used the First Community Bank name in both Colorado and Utah. As we entered the Arizona market, we could not use the First State Bank name. We needed a common identity across all of our markets and elected to use the First Community Bank name.

***WSR: What differentiates First State from some of the larger national banks in these markets?***

**FSNM:** We fall in between the smaller local banks and the very large ones. We have almost the same technical capabilities the larger banks have, so we can compete very effectively in the commercial sector, our most important area. We have a larger lending limit than the local community banks, so that we can handle many of the small-to-medium sized commercial customers that don't get the level of service from the big banks they would like to have, and that the small banks can't take care of. We have a much faster response time on our loan approvals than the large banks do — we are very competitive in every aspect of the lending relationship, a formula that has worked well for us in New Mexico. We are starting to see good results coming out of Colorado — again, we are confident that the same will happen in Arizona, where three very large banks have 65% of the deposit market share.

***WSR: What are some of the emerging trends that the company has identified, which will present opportunities?***

**FSNM:** New Mexico continues to be very solid, and we've made substantial progress there, but we believe we can take some additional market share in our larger markets, principally Albuquerque, Santa Fe, and Las Cruces, as well as participate in the growth in those markets. In Colorado, we have a very small market share, and we are just now hitting our stride, in that we are picking up some great loan relationships and deposit relationships. We believe the Colorado market is just starting to recover from some of the tough times it has had. Again, through a combination of taking market share and participating in that market's growth, we can drop significant income to the bottom line. Arizona is largely unproven for us at this point — we have recently hired a market president for the Phoenix/Scottsdale area, a very experienced commercial banker who will help us select a strong commercial lending team.

***WSR: How is the increasing interest rate environment impacting the local markets?***

**FSNM:** To date, our local markets have not really slowed down with the increase in interest rates. The rates were at such low levels that it really hasn't impacted the growth we are seeing as yet. It may ultimately have a little bit of an impact on the housing markets in these states, but the only state that has seen a significant increase in housing prices which might be some cause for concern is Arizona. New Mexico has been steady and Colorado is rebounding from some low points of the past few years. We don't believe that interest rates are a negative factor for us in the marketplaces. As long as they don't go to extremely high levels, we should be able to continue to take market share and do it in a way that allows our customers to continue to grow their businesses.

***WSR: Tell us about the board and management team in place.***

**FSNM:** Our board is essentially unchanged from when we first went public in 1993. It consists of well-known community leaders in each one of our markets who have helped guide the company. In the past few years we added a couple more board members to that list. We have a very solid board that knows our marketplaces and can help us in that regard. Senior management is largely unchanged as well over the past several years. We recently had our chief credit officer leave the company, but that doesn't cause us concern at this point because we have a very strong credit culture throughout. All of our regional presidents have commercial lending backgrounds, as well as our CEO, Mike Stanford, who has a strong lending background.

***WSR: What are the major objectives lying ahead for the company over the next 12 to 18 months?***

**FSNM:** Our major goals are to continue the momentum we have in New Mexico and to build on what we've started in Colorado, where we've added lending and senior management staff. We are focusing on Colorado as a very strong growth area for us as we bring up our market share and improve our profitability. The third component very important to us, which is a little longer-term, is in the Arizona market where we are starting to build a team. Utah is one market we haven't talked much about, but it's been very profitable for us. It's a relatively small part of the company, but it's one of our most profitable states, and one that will continue to grow, but not quite as aggressively. The Utah marketplace is dominated by Zions and Wells Fargo, and we believe the opportunities are going to come a little bit slower for us there.

***WSR: Will the company continue to look for strategic acquisitions that will add to its model?***

**FSNM:** We will look for those — hardly a month goes by that we don't see some kind of opportunity come across our desk. In particular, we are interested in the front range of Colorado and also in the Arizona market, in Phoenix and Tucson. It may be a challenge for us to find further acquisitions that make sense for us which we can buy at a price that will work for our shareholders. There are going to be those opportunities; we will take a hard look at them and do what we can to get more done. We know we can grow effectively through de novo branch operations, but we're also very interested in acquisitions.

***WSR: Does the investment community understand the company's potential at this point?***

**FSNM:** Not yet — the acquisitions and some of that noise in the first quarter numbers have masked that a little bit. We believe that once the investment community understands that the underlying fundamentals are strong, they will very clearly see that we are back on track. Through the end of 2005, we had provided a 19% plus compound annual rate of return to our shareholders who invested in our initial public offering in 1993.

***WSR: In closing, tell us a few of the key things potential investors should bear in mind when looking at First State Bancorp.***

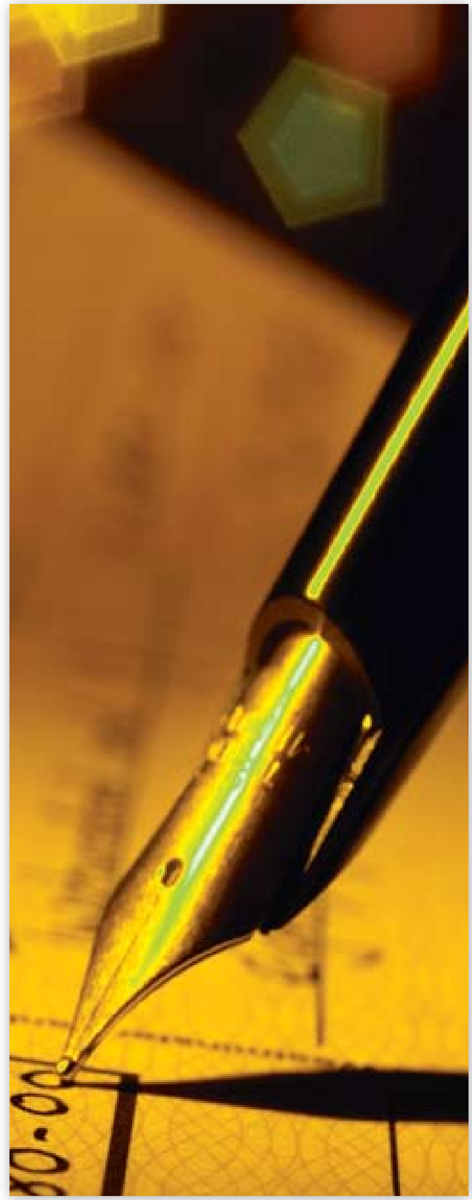
**FSNM:** The most important thing is our past solid track record. We've demonstrated over a period of time that we can deliver on what we're trying to do, and we haven't changed the way we've operated — we are not trying to do things differently than we were years ago. We believe we are in four states that have outstanding potential for the growth of our organization, the underlying economies are solid, and we believe that we can build one of the premiere banking franchises in the southwest.

**SUMMARY**

First State Bancorporation (NASDAQ: FSNM) operates the largest banking network based in New Mexico. Return on equity topped 15% in 2H05, thanks in part to "exceptional" 24% loan growth, 20% gross deposit growth and improving interest margins. While lending is "aggressive," non-performing loans still account for only 0.4% of activity. Recent M&A expands the network into Las Cruces and Phoenix. A toehold in Colorado is deepening as that market improves. Utah operations are small but very profitable. Service to the mid-range commercial customer is emphasized. Despite the effect of acquisitions and one-time charges, management is confident that future performance will meet forecasts. Goal is to continue growth through de novo channels and the best M&A opportunities that emerg. www.snl.com Phone: 505-241-7102

# Banking on experience

The Bank Holdings is the holding company for Nevada Security Bank. The bank was incorporated in February 2001 and opened for business on Dec. 27, 2001 with initial capitalization of more than USD$14 million.




The Bank Holdings has gone from $14 million to $550 million in assets over the last five years. CEO Harold Giomi and CFO Jack B. Buchold tell us their plans to become an even bigger player in Nevada's booming economy. (Interview of August 2, 2006).

CEO INTERVIEW

***WSR: Talk a little about the new acquisition and how it fits into the scheme of the regional banking conglomerate presently in the region.***

**TBHS:** We were very fortunate in our efforts to acquire Northern Nevada Bank. It fits our territory, it's right in our backyard, and it adds an additional USD$140 million to our asset base, which by end of year will be at USD$550 million. The strategic tone of the two organizations are in sync. When we first started Nevada Security Bank, our position was not to be a bank in the USD$100 million to USD$200 million range. Our goal was USD$750 million to USD$1 billion within a five to seven-year time span. The acquisition of Northern Nevada furthers that goal. It is a well run and profitable bank. It is accretive immediately to The Bank Holdings and Nevada Security Bank. Northern Nevada's personnel are a good match with our organization. There are no layoffs expected, and plans are already completed to integrate the employees of both banks.

***WSR: Give us some highlights from the recent quarter.***

**TBHS:** Three primary factors contributed to the increase — one, the distribution of assets we have. We continue to grow loans despite a slumping economy. Loan rates are better than the investment rates; second, the net interest margin has been enhanced with recent increases in both prime and discount rates. We have been able to capture some of that increase and bring it into the loan portfolio. We haven't had a rapid rise in deposit acquisition costs, despite an extremely competitive deposit market. We've been able to keep a competitive rate and increase our net interest margin; and third, as a result of our acquisition of the two qualified intermediary 1031 companies, we've been able to increase both fee and interest income.

***WSR: What is the target market that the company is going after? What are some of the additional value propositions that the company offers to these types of customers?***

**TBHS:** We are a middle-market wholesale institution, and we are involved in several different aspects of real estate lending as well. We have single-family housing where we do the construction, and the individual borrower seeks their own term-out, and their own permanent mortgage. We like to do those types of loans as well as the construction of office complexes, strip shopping malls, and so on. We are also involved in commercial and industrial loans. We want to penetrate that middle market type customer, the company that has annual sales of between USD$1 million to USD$100 million. We will not turn our backs on retail — we are planning several new products and services aimed at those customers as well. Within the next six to seven months, we are will announce several programs intended for both consumers and retail-

"We continue to grow loans despite a slumping economy. Loan rates are better than the investment rates; second, the net interest margin has been enhanced with recent increases in both prime and discount rates. We have been able to capture some of that."

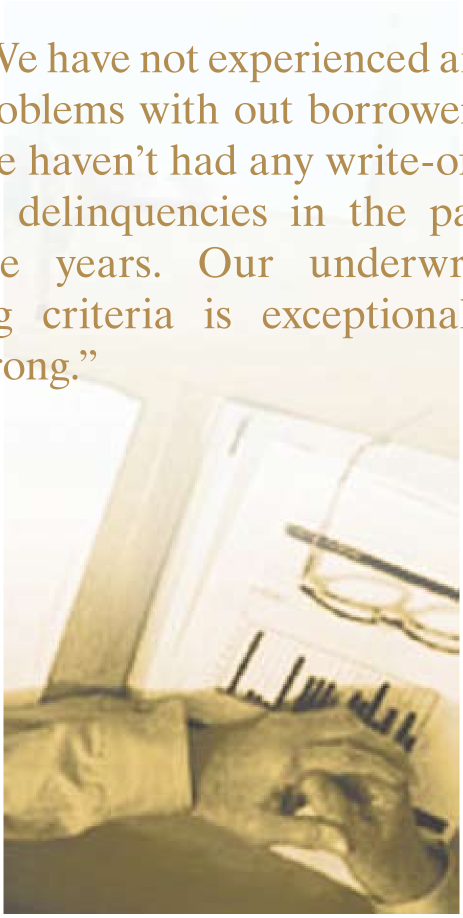
ers. We have a good base and position in the middle market area, and now may be the time to turn our focus somewhat to retail. We see a great opportunity in that field, although the competition is really heating up on the deposit side.

***WSR: With the burst in the Internet bubble, especially in the Silicon Valley area, has the company seen any ill effects, particularly in both loan portfolios and the real estate market?***

**TBHS:** At the beginning of 2006, we experienced a bit of softening in the real estate market — homes and commercial properties have stayed on the market longer perhaps than a year ago. We see a slight decrease in market value. The market in Roseville is still strong — we have a high degree of diversification in that area. We have lending activities throughout the Sacramento area. We are heavily involved in the Reno area as well as in Las Vegas. We have a few participation loans with other Las Vegas banks. We have not experienced any problems with our borrowers. We haven't had any delinquencies or write-offs within the past five years. Our underwriting criteria is exceptionally strong. However, we are also in the risk-taking business. Our portfolio remains extremely strong, and we don't see any market deterioration. The other thing is the Internet bubble. There has been a great deal of movement of smaller companies to the Roseville and Reno areas, both of which are technologically oriented. We've have one major customer that moved his whole operation from the San Jose area. In other words, the Internet bubble may have burst in Silicon Valley, but it has moved up the valley into Roseville and Reno.

***WSR: Talk a little bit about the demographics and the growing of the population in the area which the company serves.***

"We have not experienced any problems with out borrowers. We haven't had any write-offs or delinquencies in the past five years. Our underwriting criteria is exceptionally strong."



**TBHS:** Growth is phenomenal in both Roseville and Sacramento. Reno is booming — there are a many people who have moved and are moving their business from California into Nevada. It is not the Reno of 30 or even 50 years ago. It has changed drastically. There are Fortune 500 companies that have relocated to Reno; once that happens, the general population will follow. Although we cannot bank those Fortune 500 companies, we can bank the individuals and the people that do business with them. The area south of Reno, all the way to Gardnerville, is booming as well. There are many retirees relocating to the area. Sixty to 70% of the people coming in and buying homes are paying cash. There is no financing. Affluent individuals are relocating as well, with the majority moving from California; there are some people moving from Midwest and East Coast states as well.

***WSR: Why should investors look at the company as a potential investment opportunity?***

**TBHS:** Our number one focus is to give a fair return to our shareholders; our long-term goal is to be a major player in the state of Nevada while achieving a minimum of USD$750 million in assets, as well as a return-on-assets minimum of 1% and return-on-equity of between 12% and 16%. We believe we are making our growth decisions intelligently and in a businesslike manner. We have other projects on the table at which we are looking. We have many opportunities. What places us in prime position is that originally when the bank was started, we told ourselves, if we wanted to be at USD$750 million or USD$1 billion, we need qualified people to get us there. We did just that early on. We have the people on staff to grow the bank up to USD$1 billion. We have three individuals that are former presidents or CEOs of independent banks. We have three former CFOs. We have four former chief credit officers from independent banks. In other words, we believe we have the depth of personnel that can take this company to the next level.

CEO INTERVIEW

**SUMMARY**

The Bank Holdings (NASDAQ: TBHS) provides a wide range of banking services through its the Nevada Security Bank subsidiary. The company's recent acquisition of Northern Nevada Bank pushes its assets into the $550 million range; the transaction should be immediately accretive. Loan portfolio is growing and net interest margin is improving. Fee income is also rising. While the business footprint is currently focused on middle-market wholesale customers and real estate, management is planning several new retail services. Population growth in the region has been "phenomenal." Although local real estate markets have softened, delinquincies have been minimal. Goal is to build assets to $750 million while keeping ROA at 1% or higher and ROE above 12%.

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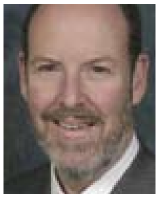
# Plumas finds success in its own backyard

Plumas Bancorp is a bank holding company and the parent company of Plumas Bank. Plumas Bank, based in Northeastern California, is a locally owned and managed full service community bank with assets of over USD$470 million.



Plumas Bancorp is benefiting from the transformation of its rural California territory into a retirement paradise. CEO Douglas N. Biddle tells us about the long-term prospects for his community-focused bank. (Interview of August 17, 2006).



***WSR: Give us a general overview of Plumas and the geographic area in northern California that it serves.***

**PLBC:** Our Company is 26 years old, started by Plumas County-based local business people in Quincy, California. Over the years, we branched out into communities within Plumas County and other nearby mountain counties. It has been interesting that, because of our localized focus and knowledge of the area, our company has been able to prosper in a very mountainous and rural area in northeastern California. Many of the large national chain organizations that had branches in this region when the Company was formed have left. We've taken advantage of that by acquiring account relationships from those who want to do business with a local, stable community bank. We have also purchased branch deposits from some of these departing organizations over that period of time. That has enabled us to leverage our infrastructure to such a degree that we've been able to build on it and achieve financial success operating in this region.

***WSR: What are the demographics of your focus area? What is the customer base Plumas specifically seeks to serve?***

**PLBC:** There have been some significant changes in that demographic and customer base over the years since the company has been in business. This has contributed to our continued success. This is a very mountainous, sparsely-populated section of California. It may be surprising to some, but there are portions of California like that. As a result, up until 20 or 25 years ago, the economy was heavily focused on natural resource-based industries such as mining, timber harvesting, along with agriculture. With increased environment restrictions, this type of business activity has been significantly curtailed. But with the baby boom generation moving into the retirement age, this area has become an attractive area for those seeking a second or a retirement home. As a result, a lot more real estate development catering to that segment of the market has taken place, and as a company, we have benefited from that activity. The construction market has been very prosperous and vibrant up here during the last 15 to 20 years. When people relocate to our area, they bring their financial resources with them. It has elevated the economic and age demographics of our area. We see those demographic trends continuing as we're just beginning the era of the retiring baby boomer. There are many good things ahead for our area because of that continuing demographic phenomena.

"With the baby boom generation moving into the retirement age, this area has become an attractive area for those seeking a second or a retirement home. As a result, a lot more real estate development catering to that segment of the market has taken place."

***WSR: What are some of the things that are unique about Plumas Bank? What do you do differently to separate yourself from the competition? What does the bank focus on to attract the growing clientele of the area?***

**PLBC:** We know the local economic trends and business individuals in our areas because we are headquartered here. One of the unique factors of our company is that, for the most part, we have a Director living in and representing the markets in which we are located. As a result, they have their pulse on the current economic trends. They are also a terrific source of business referrals, both for new people coming in as well as established businesses in those locations. Our Company is locally-focused, which is different than the other competitors we deal with here. Our competitors are mostly national chains that have a business model which features a very standardized approach. Given the large areas and multifaceted business lines they are in, they have to do that. Because we are local and knowledgeable about what's happening in the individual communities we serve, we have the adaptability to be very personable and customized in the way we offer our banking solutions to clients.

***WSR: So is the company's focus on a more comprehensive marketing path? Can we assume that a lot of the businesses in the area are probably not concentrated in any one industry segment?***

**PLBC:** The first assumption was correct primarily because of our sparsely-populated area and wide geographic distribution. We have to present ourselves as a financial institution that provides a wide array of needs and services. We don't have the economies of scale or concentration of opportunities to portray ourselves as a niche professional bank or niche construction-only lender or a niche SBA-only bank. We do a little bit of everything, because those are the opportunities that present themselves to us. They are not in such a concentration that we can focus solely on one or two niche markets that way.

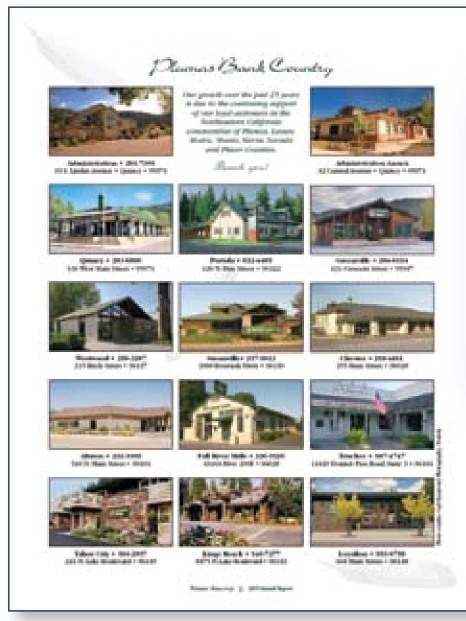
***WSR: What are some of the other products Plumas offers outside of mainstream banking services? Do they offer loans or investment and insurance services?***

**PLBC:** Yes, we do all of those. Banking products and services are commodities these days. The differentiating factor, either the branding or the value proposition, at least in our company is the individualized attention. Business owners in our communities are not used to a high-tech, non-personal approach in banking. They appreciate the individual attention. Since we operate in small communities, our employees frequently see our clients — at the bowling alley, church, the grocery store, etc. When they do then come into the bank, there is a higher comfort level on the part of the client because they are dealing with someone who really knows them. As a result, we strive to parlay that specific knowledge and individual attention into something where the customer feels like there is a personal interest taken in their particular need or issue.

***WSR: It's impressive that the bank has close to USD$500 million in assets. Looking ahead, does the bank aim to branch out into more highly-concentrated communities? Is the bank's growth organic in nature, or via acquisition, or growing along with the community as it continues to grow?***

> "We do a little bit of everything because those are the opportunities that present themselves to us. Our company is locally focused, with is different than the other competitors we deal with here. Our competitors are mostly national chains that have a business model which features a very standardized approach."

**PLBC:** We would not turn down an opportunity for an acquisition if one was presented. However, based on our current strategy plan, we see the growth focused for this company in two primary directions. One, we plan to take advantage of the business growth opportunities offered by the continued demographic trends in our current service area. Secondly, there are a number of communities in adjacent areas which are more populated, where some of those demographic trends are also happening. These are in the northern Sacramento Valley and in northern Nevada area, both of which adjacent to our current market. We are taking a look at those markets in the sense that while they are not urban like Los Angeles or the San Francisco Bay Area, some of these other adjacent markets still have a smaller-community atmosphere. Our style of banking and the way we service our clients plays well in these types of communities even as they become more populated with people leaving more urban areas to find smaller-town retirement settings. These areas present strong opportunities for us,






and, as a result, we are seriously looking at some of those areas as possible expansion opportunities if the conditions present themselves.

***WSR: We want to address some of the things that make this company an attractive investment opportunity. Even though you are primarily a banker, tell us why people would want to come here and have chosen this area as a place to settle on retiring.***

**PLBC:**: Well, as I'm speaking to you right now, I'm looking outside my office window, and I'm looking out to mountains that are covered with forests, and the mountains

**SUMMARY**

Plumas Bancorp (NASDAQ: PLBC) has been providing community banking services for the last quarter century in its home territory of Northeastern California. Assets are in the $470 million range. Formerly rural and resource-based, the region has evolved into a vacation and retirement center. Many larger banks have fled the area, leaving their local assets and customer base to be absorbed. Banking activities are broad-based to serve the diverse needs of the local population. Construction has been "very prosperous and vibrant" as demographic trends remain favorable. Sometimes challenging geography has encouraged aggressive technological adoption. Expansion toward both Sacramento and Nevada is seen as a possibility, but management's focus and business style remain fundamentally local in orientation.

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and the meadows that are represented in the geography in most of our market area are sprinkled with a variety of lakes, rivers, streams, and creeks. This is an area of California supplying quite a bit of water to the state in the form of snow pack over the winter months. As a result, the melting snow over the course of springtime and summer provides the kind of water needed for opportunities such as fishing, water skiing, other kinds of boating. Our area is also noted for its back packing and hunting recreational opportunities. In addition, over the years a number of developers have built golfing resorts and retirement communities up in this area because it is not that far away from large population centers. These developments are about four to five hours away from the San Francisco Bay area, three hours from Sacramento. Many people have been vacationing up here for a number of years and they like the idea of at least spending a portion of their retirement years up here in the mountains where they can take advantage of all those opportunities.

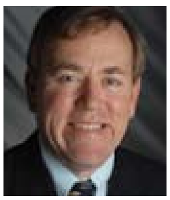
***WSR: Very picturesque. To conclude, what would be the best reasons for investors to take a look at Plumas Bancorp as a potential investment opportunity?***

**PLBC:** There are a number of reasons. Within the banking landscape of this region of the country, it is unusual to find a company that has been around for 26 years. There has been a great deal of new bank charter activity in the West, because a number of banks have been sold or merged over the past 10 years. Plumas Bancorp has continued to persevere and prosper through several boom-and-bust economic cycles. We consider ourselves a long-term player and have been able to do quite well even in a region that doesn't have the kind of demographic and economic growth more typical of an urban or suburban area. As a result, we've got the long-term experience to deal in markets where the economy does well at times and then sometimes slows because we have been through those patterns. Second; the desire for the baby-boom generation to find a location like this to spend some of their retirement years is accelerating. Our area will continue to be the kind of place that attracts retirees. One of the other things we've done well to build for the future is to invest in technology. This has been forced upon us because of the wide geographic area that we serve. We cover a territory 250 to 300 miles from end to end. Given the weather issues that happen during the winter, we have really pushed ahead to install some technological advances that help our business model. For example, we've been fully Check 21 compliant for a year. Using this technology, we transmit images of our customers' checks over our wide area network electronically and then forward those images for presentment to the Federal Reserve. We were the third bank in the country to fully utilize this approach. This has allowed us to cut our courier expenses by USD$10,000 per month. It has also positioned us to take advantage of the decrease in pricing that the Fed is passing along to those that have adopted this technology. Those that are continuing to hang on to processing paper checks are going to face accelerated costs. Similarly, we have had a Voice-over-IP telephone system installed for close to two years. We're fairly aggressive when it comes to adopting some technologies that enable us to be more productive, because the geographic challenges we face have forced us to look at those kinds of supplements and tools to help our business model thrive in this kind of geographic and business environment.

"We plan to take advantage of the business growth opportunities offered by the continued demographic trends in our current service area [and] a number of communities in adjacent areas which are more populated, where some of those demographic trends are also happening."


# A perfect fit for building both lending activity and assets

Pacific Financial Corporation operates as a financial holding company of Bank of the Pacific. The bank operates as a regional community bank that offers commercial loans, agriculture loans, installment loans, real estate loans, residential mortgage loans, and personal and business deposit products. Its commercial and agricultural loans consist primarily of secured revolving operating lines of credit and business term loans.



Pacific Financial Corp. has expanded across coastal Washington State and into Oregon. CEO Dennis A. Long gives us a look at his core markets and explains why profits are on track to more than double this year. (Interview of August 11, 2006).

***WSR: Could you give us an overview of the company and its assets?***

**PFLC:** As of June 30, we stood at USD$517 million, almost USD$518 million. We are made up of three banks that have come together over the last six years — Bank of the Pacific was originally formed in Long Beach, Washington and Bank of Grays Harbor was established in 1979 in Aberdeen, Washington, which is where we are presently headquartered. Those two companies merged in December 1999. Two years ago, we purchased Bank Northwest (BNW Bancorporation) in Bellingham, Washington which has proven to be very beneficial to us. The bank's performance prior to the Bank NorthWest acquisition demonstrated we had a great ability to gather deposits, but had a slower growth profile on the loan side. Bank NorthWest, on the other hand, had high growth profile on the loan side, but struggled a bit to gain deposits. The two came together creating a perfect fit for growing both the company's assets and its liabilities.

> "The bank's performance prior to the Bank NorthWest acquisition demonstrated we had a great ability to gather deposits, but had a slower growth profile on the loan side. Bank NorthWest, on the other hand, had high growth profile on the loan side."

***WSR: Where is the community that Pacific Financial generally serves?***

**PFLC:** Prior to the merger, the old Bank of the Pacific stretched from the Columbia River, north, up the coast of Washington State, and the former Bank Northwest was 80 miles north of Seattle, near the Canadian border. Since the merger, the Bank of the Pacific has continued to grow, and currently has 19 branches covering not only the geographic areas noted above, but is making inroads in northern Oregon as well. (More on that later).

***WSR: What is the typical demographic in this area?***

**PFLC:** The coastal area is highly tourism-oriented due to our Pacific Ocean location; therefore we have large swings of activity between May and September every year. However, we also serve a growing number of retired folks who live in our communities year-round. Additionally there is a significant forest products industry that conducts a substantial amount of loan activity with us. The Bellingham area is more retail in nature, yet it has become one of the top 20 retirement locations in the United States. We've seen significant growth in that market.

***WSR: Give us an idea as to the loan portfolio and some of the types of products Pacific Financial offers.***

**PFLC:** Our loan portfolio stands at slightly more than USD$400 million. In the agricultural portfolio, we have USD$40 million. It's not a significant amount, but the loan portfolio is excellent. Most of it is located in the Bellingham market, where two-thirds of the United States' supply of raspberries is grown. We finance companies in both the dairy and raspberry industries. The other loan product that has done well for us in the Bellingham market is residential real estate development and secondary market lending, because of the influx of people moving there. Those two things have been very favorable, but overall our bank maintains a pretty even profile between commercial and consumer lending. There has been regulatory pressure on banks with large spec real estate loan portfolios; however we are not leveraging capital beyond the recommended regulatory guidance for this market segment.

***WSR: What does the bank offer to the community in terms of both commercial and retail lending that allows it to attract equally both types of customers?***

**PFLC:** It always comes back to people. We have an extremely talented group of individuals working for us. We are not just a commodity source for providing money to do things; We are also providing the necessary expertise to help the borrower be better than they would have been completely on their own. An example would be the lending we do for the hospitality industries. It is a type of lending that a lot of banks tend to shy away from, and it's always been viewed as high risk. Our losses within the hospitality industry over the past 15 years have been less than USD$500,000. That demonstrates the expertise of our people.

***WSR: What are some of the highlights from the recent earnings report and what can investors really take from those results moving forward?***

**PFLC:** We adopted FASB 91, (amortization of loan fees) in the 4th quarter of 2005. We hadn't been doing that in the past so, in the beginning, it significantly cut into our earnings. It appeared that our loan fee income for the first six months of 2006 was down by USD$600,000. Even though it's reported that way from an accounting perspective, we still managed to put up additional net income numbers. Over a three-year period of time, loan fee income will level out, and become consistent with previous figures. We now are required to spread the fee income over the life of the loan instead of taking it into income directly as we have done in the past. We continue to pay a very good dividend, a positive point for our shareholders who like to buy and hold our stock (which is common for most of our long-time shareholders). Our dividend is yielding close to 5% . . . a very high rate given the fact that certificates of deposits are currently running about the same rate. Therefore our investors get both a good annual dividend and the benefit of stock appreciation.

***WSR: In terms of growth and expansion, what does the company have planned?***

**PFLC:** It may be a combination of both; however, our view is we are going to grow organically, but when opportunities present themselves we will definitely take a look. That is how Bank NorthWest came to us. We weren't looking; we were helping them with some participation loans, and realized that there was a wonderful fit between our two balance sheets. As a result, we came together. We've also added a branch in Anacortes, a community in the Skagit County market, just south of Bellingham and Whatcom County. We opened that office in June. In February we opened an office in Raymond, Washington. Both of those branches have far exceeded our early expectations. In fact, Raymond has been open only six months and has already surpassed first-year projections. We also recently purchased the rights to enter into Oregon . . . this through a Depository Transfer and Assumption Agreement. We opened a loan production office in Oregon three years ago (which has grown to about USD$35 million in loans) but because of Oregon law, we could not gather deposits there. By purchasing the Depository Transfer and Assumption Agreement, we are now able to get a branch charter and, at the end of this month, will begin gathering deposits in our loan production office as well as start looking for additional opportunities to branch out into the northwestern corner of Oregon. This market is very compatible with the other offices that we have on the coast of Washington.

"We were also an accelerated filer under Sarbanes-Oxley, which initially held down our earnings. But this year so far, we've already grown from USD$0.43 in 2005 to USD$.52; I expect this will continue to grow. Our forecast indicates we should be near USD$1.10 by the end of 2006."

***WSR: Why would potential new investors want to get involved with the company?***

**PFLC:** All an investor needs to do is to look at the earnings in our company. During the first year-and-a-half after the merger, because of merger-related expenses, our earnings did not grow as rapidly as we would have liked. We were also an accelerated filer under Sarbanes-Oxley, which initially held down our earnings. But this year so far, we've already grown from USD$0.43 in 2005 to USD$.52; I expect this will continue to grow. Our forecast indicates we should be near USD$1.10 by the end of 2006. We expect to see our dividends and our excellent growth continue. All these things added together tells investors that there are great opportunities ahead for them, and at our present stock price, there should continue to be a very high yield from our dividends. ●

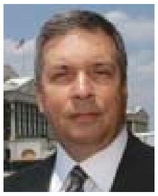
**SUMMARY**

Pacific Financial Corp. (OTCBB: PFLC) provides banking services to coastal Washington State and beyond through its Bank of the Pacific subsidiary. Strategic acquisitions have left the bank with $517 million in assets; FY profit has expanded from $0.43 in 2005 to a forecast $1.10 in 2006. Despite an apparently unflattering comparison due to adoption of FASB 91, lending income is stable. Forestry, agricultural and hospitality interests are well represented in the $400 million loan portfolio, which is balanced between consumer and commercial accounts. "Extremely talented" in-house lending officers help keep charge-offs low. The company recently acquired the right to gather deposits in Oregon, allowing it to expand its footprint organically and through opportunistic M&A. Dividend yield is around 5%.

www.thebankofpacific.com Phone: 360-537-4061

# Eat your heart out, United Airlines! Universal Express has shipped 5 million pieces of luggage and not lost a single bag.

Universal Express, Inc. and its subsidiaries provide value-added services and products to the Private Postal industry, worldwide logistical services such as; luggage delivery to consumers and businesses, logistical and shipping services to manufacturers and distributors, and equipment leasing.



Business is literally picking up for Universal Express, Inc. which provides luggage delivery, logistical and shipping services, equipment leasing and services to private postal carriers. CEO Richard A. Altomare tells us about his plans to restore the company's share price with new alliances and revenue sources. (Interview of May 3, 2006).



***WSR: Tell us about your partnership with Futurelec and also your MadPackers' unit contract with Florida Atlantic University. How will these two partnerships impact the company's future?***

**USXP:** Let me address MadPacker first. This is a relatively new division that has signed not only FAU University, but has many other universities that are being considered by their Board of Directors. They simply pick up students' belongings at their homes and bring them to their dorm. It is an attempt to avoid that highly stressful check-in day that most people who have ever brought children to school understand. This is also a financial opportunity for the universities. We are very pleased at the growth of that division. It has modeled itself after the parent company, Luggage Express, which picks up suitcases at travelers' homes and brings them to their end destination, bypassing the airport. Over the past eight or nine years, we have seen many changes in both the airline industry and the Luggage Express business model. Our other contract is the one with eBay. EBay is probably the more important one to discuss. We have 9,000 postal locations throughout the United States in our trade association; we have been racking our brains for products and programs that we can introduce and offer to the stores to increase traffic flow, as well as to make them want to be part of our trade association. When eBay came to us (through their representative, QuikDrop), we came up with a joint program, which is nothing more than a flat-screen TV installed inside the postal stores with a special camera whereby a consumer can walk into the postal store. The screen will have an eBay representative on the other side, where they can speak in real time, and they can show the product that they would like to put on the eBay auction block. As soon as it's placed on the auction block, the consumer can then bring it to the person behind the counter and they can mail it out after it has been sold. That concept could mean hundreds of thousands of dollars in extra revenue for each postal store operator in the United States. We felt that those programs and announcements were current at this time and continue to show the maturation of both those divisions.

"It's a good time to take a look at our stock, because the only thing this stock can do, based on the company's good management and its viability is to go back to normal levels."

***WSR: Describe the company's core business strategy as it relates to this industry. In addition, tell us about your recent Webcast.***

**USXP:** Let me first describe the Webcast. I invite everyone to visit our usxp.com Website, where they can listen to that Webcast. I would like to address that our core businesses has always been the private postal stores and our luggage service. Our postal association consists of 9,000 stores, our courier association consists of 4,000 courier companies, and the Coalition of Luggage Security, the trade association you are referring to, consists of 42 individual companies — visiting congressmen and senators in Washington, talking about the importance of luggage safety in our airports. When we first created Luggage Express, it was created not only as a business for Universal Express and its customers and shareholders, but also in the best interests of the airline industry. The typical airplane spends one hour being loaded and one hour being unloaded; the typical airline loses approximately $1 billion a year just in luggage handling costs, not counting the increased fuel costs and the amount of extra weight being placed on these planes. The average airline today has about a 7% to 8% lost luggage rate. Luggage Express has been operating for eight or nine years. We have moved 5 million suitcases, and we have never misplaced one. To be able to pick up suitcases, to bar code them, to ship them, to make sure that they move from point A to point B has been an interesting development, not only for Universal Express, but also as a special service that's being planned and worked on with our trade association, because the postal stores and the couriers as well as the major carriers, because we do utilize the big three carriers as well as we utilize the small couriers. Universal Express is unique because it is an outsourced transportation company. It is not a company whose overhead will increase as its business grows. What you see with Universal Express today in its overhead is pretty much what you are going to see as its overhead as its revenues continue to mature. We are a 22-year-old company. To be able to survive during that period of time indicates a reasonable amount of resiliency and growth and some good ideas. We think all of our associations do relate very much to our core businesses, and the Webcast given last week to our shareholders hinged on one very important topic that they are all interested in, and that is our continued ability to pick up capital for some acquisitions that we have been working with. Those capital transactions that are coming from the Middle East are very much on track. Sometimes they move a little slower than I would like. We have six very strong partners in the Middle East, and they are not related to each other. We know all six of them will be completed. In a worst possible scenario, should one or two of them fail to materialize, we know we have much more than we need to achieve all of our objectives, which have always been to get on the American Stock Exchange and to squeeze a horrific short position that Universal Express has been subjected to. The reason I can verify we have a short position is that we are the only company I know in the United States that has received two federal jury judgments totaling $700 million to prove that naked short-selling does exist here in the United States. It's a good time to take a look at our stock, because the only thing that this stock can do, based upon the company's good management and its viability is to go back to normal levels.

> "They simply pick up students' belongings at their homes and bring them to their dorm. It is an attempt to avoid that highly stressful check-in day that most people who have ever brought children to school understand. This is also a financial opportunity for the universities."

***WSR: What is typical in terms of the turnaround time for delivery that a customer might expect using the luggage delivery services? Also, how do you address a consumer base that would want to take advantage of this service but at the same time is very expedient-oriented?***

**USXP:** We are in a society that wants everything yesterday. With our luggage delivery system, we can deliver luggage within the same day or up to within three


**SUMMARY**

Universal Express (OTCBB: USXP) provides a range of postal, shipping and logistical services under various brands. The company's core businesses are its 9,000-location private postal network and courier operation Luggage Express, which delivers suitcases door-to-door to bypass airline handling problems. Management believes this operation can grow 10% a month, completely funding the parent company's fixed overhead. Strategic deals with travel companies and credit card issuers are emerging. At least one university has adopted the company's "dorm room moving" program, fueling "very pleasing" growth there. The company has also entered an alliance with eBay in which sellers can list and ship auction items directly from its postal stores. Various acquisitions and an AMEX listing are on the table. www.usxp.com Phone: 561-367-6177




CEO INTERVIEW

days. The more days that we have to deliver a suitcase, the cheaper it is. When we first started, we didn't have many people who knew about this service, nor did we have much business. It was very expensive. We thought that when we started this service, that senior citizens, disabled, the narcissistic or wealthy would utilize it. We didn't anticipate the volume of suitcases we would be processing on a daily basis. If we were able to prove that this service worked, we could lower the price because of the volume. When we started, we were charging $200 to send a domestic suitcase one way, and that was very expensive. We are now charging between $40 and $45 a suitcase, one way, in most areas of the United States. My white paper, available for your listeners at usxp.com and has recently been read into the Congressional Record, shows we can now charge $15 a suitcase. Americans do not have to stand on these lines and our Luggage Express service can even make that easier. We can return to arriving at the airport 15 to 20 minutes before a flight, not two hours or three hours and have to stand on lines, because if you have no luggage, there should be separate entrances and separate lines for you to walk right through.

***WSR: What kind of volume increases are necessary to retain the margins that you have, as well as continue to drive revenue growth?***

**USXP:** We believe Luggage Express can increase its business at this moment only 10% more per month. In doing that, we will be able to cover all of the overhead of the parent company. We've just embarked upon some strategic alliances with a number of major credit card companies, as well as a number of major cruise line companies. We are in discussions with three airlines, because an airline, after the reservation has been taken, can simply say to the flier, "by the way, would you like to have your suitcase picked up and delivered to your end destination for an extra cost of blank"? And that blank number can include some moneys for the airline. If you multiply that by the millions of passengers that an airline has, these airlines that were previously not profitable will significantly increase their profits. It also adds extra space in the belly of their ships for them to put paying cargo on and to know that it's going to be available to them, because they know how many people on that flight have taken advantage of the luggage service. However, keep in mind that when the Postal Association can sign contracts like it did with eBay, when this MadPackers organization can sign major universities in the first few weeks of its existence, the best is yet to come. But the shareholders have to keep in mind that for us to be able to build a foundation of something that we believe will be here for a long time, you have to make sure you are building it properly. We believe that we have done just that.

> "If we were able to prove that this service worked, we could lower the price because of the volume. When we started, we were charging $200 to send a domestic suitcase one way, and that was very expensive. We are now charging between $40 and $45 a suitcase."

***WSR: In closing, tell us why you feel that this company should be considered a good investment opportunity.***

**USXP:** I believe that Luggage Express will be a major player in the luggage industry. One has to determine whether or not the American public will utilize such a service. We believe it will. We believe that our trade associations, PostalNation and UniversalPost, will be able to accomplish a great deal in a short period of time. Our expenses are fixed, our overhead is fixed; the only thing left is for us to now plug in the revenues. Universal Express adds one other dimension, 50,000 plus shareholders, 30 plus market makers, liquidity of 200 million to 300 million shares a day. The stock price is low, but liquidity is important. I believe investors should take a hard look at Universal Express at usxp.com. ●

# The last telecom frontier

AXESSTEL is a leading designer and developer of feature-rich GSM and CDMA-based products such as fixed wireless desktop phones, public call office phones, voice and data terminals, broadband modems and 3G gateways.

Only 10% of India's population has the ability to make a telephone call. Axesstel, Inc. is working to change that and bring wireless phone service to emerging markets. CEO Marv Tseu talks about the "transformative" opportunities that lie ahead in this September 1, 2006 interview.

***WSR: Start with a general profile of the company and address the market segment that you serve. Also, give us an approximation of its size and growth potential.***

**AFT:** We are serving emerging markets — India, Sri Lanka, Pakistan, Romania — where voice communication services have been absent from the residential community because of the costs of providing fixed wired infrastructure. In many of the rural areas, there has been an absence of fiber optic cables normally present in developed countries. What is happening is that as these countries start coming up the socioeconomic scale, the governments are interested in providing universal communications and voice communication services similar to the U.S. This kind of service is being provided by operators who are delivering voice and data services via wireless technologies. We provide the telephones and data products that reside in the homes and businesses linked to the wireless services. As you start to look around the world, you'll see enormous amounts of opportunity. In India alone, just over 10% of the population has the ability to make a telephone call. We believe that the opportunity is about USD$1 billion a year in terms of market size and growing at 25% compounded annual growth rate. Our business is providing the terminal devices; we believe we have a terrific opportunity and have successfully established a brand and a customer base across 30 countries around the world and enjoying a good reputation.

"The opportunity to migrate our business into a data products business is a long-term vision and goal of ours, and it provides a huge opportunity for us to play in larger markets."

***WSR: Describe for us some of the value propositions that your customers consider when they choose to work with you.***

**AFT:** We sell to the wireless operators in these various countries and our product is provided to their customers along with the service. These wireless operators are most interested in having a high-quality, good, reliable telephone and data product system in the residential environment because their main mission is to provide the service. They want to make sure that whatever they do in terms of what we call customer premise equipment (CPE) is reliable and in no way impacts the delivery of the service. Quality becomes a very paramount issue. We are renowned for being one of the highest-quality producers in this particular area — that's the number one issue. We do it at an extremely affordable price, so the value proposition is in the performance-price ratio.

***WSR: Who are some of these wireless providers?***

**AFT:** They are big names. In India, it is Tata, Reliance, and a government-owned telecommunications company called BSNL. In Venezuela, it's the Telefonica Group. In Romania, it's Zapp Communications. There are many of these operators functioning in the emerging markets.

***WSR: What are some of the challenges from the wireless perspective in terms of establishing services in some of these areas? How problematic is it for the wireless companies to establish***

**SUMMARY**

Axesstel (AMEX: AFT) develops voice and data products for wireless carriers in emerging markets. Focus is on end users; management estimates the global opportunity in the $1 billion range, growing 25% a year. "Leapfrogging" over wireline directly into wireless telephony is viewed as a major business driver. The company has developed a pure EVDO wireless broadband modem that does not require Ethernet; initial rollout of these proprietary devices will begin in January. Solutions support 3G and, increasingly, plaforms like HSDPA and WiMax. Customers include blue-chip wireless communications networks in India, Venezuela and 28 other countries. Revenue reached $95 million in FY 2005 and is rapidly growing as data products become a larger part of the sales mix.

www.axesstel.com Phone: 858-625-2100

***service in some of these countries?***

**AFT:** The issue is the inverse of how hard it is to establish wired communications in these environments. If you think about Indonesia or the Philippines, a composition of thousands of individual islands making up the country, how do you provide wired voice communication services? The problem is you don't. And now with advancing technologies, what the operators are able to do is put up a single base station tower on an island serving the entire geography of that island. The simplification that has come as a result of wireless technology is bringing voice and data communication services to millions of people who have been denied it in the past. We play a part in that in terms of providing the terminal equipment that sits in the home.

> "The simplification that has come as a result of wireless technology is bringing voice and data communication services to millions of people who have been denied it in the past. We play a part in that in terms of providing the terminal equipment that sits in the home."

***WSR: Does that make these underdeveloped countries a little more technologically advanced than some of the areas in North America?***

**AFT:** Yes. That is in fact some of the dynamics that are going on. It's the leapfrogging effect. In certain countries there will already be an established infrastructure for the provisioning of certain services, in terms of these emerging markets going towards the latest technology. Where it is most evident is in the area of broadband data services. You need to stratify. Countries like India and China are most focused on voice communications; they will get the data later, but it will be a number of years before that happens. In many of the Latin American countries, what you are starting to see is that they are not only using the wireless infrastructure to provide voice communications, but they are expanding those infrastructures to be able to provide broadband data services with huge data pipes that are coming over the airwaves, able to deliver applications and are bandwidth-heavy. In some of those countries, there is a broadband wireless infrastructure more advanced than some of the developed countries.

***WSR: Axcesstel recently announced it had received the patent for a seamless connection device. Tell us about the device, what it is, what its applications are, as well as what this patent provides for the company in terms of leverage.***

**AFT:** We have developed a number of combination devices, particularly in the area of gateways and modems. One of our devices takes a broadband data stream coming in from the operator, so that's your path of Internet connectivity. In this country, it would be DSL or cable modem, and in many of these advanced emerging markets, they are bringing in the pipe wirelessly. So it would come in EV-DO, as it's called, and then it has to still be redistributed into the building or the household. Normally, as you would think about your DSL at home, you would plug your computer into a junction box, or you

might have a wireless connection. We have developed a box that is wireless coming in and wireless going out into the home, so that there isn't a need for an Ethernet connection. You can just hook up to your broadband service on a wireless station. This product is what is covered by our patent, and we believe it's a very powerful and broad patent and will provide us terrific protection.

***WSR: What are the trends developing within the market space, and how is the company poised to take advantage of those trends?***

**AFT:** This is extremely important to our business. We believe we have a very robust business in the fixed wireless phone area. We also see that our long-term future is really in the broadband data modem area. The information age and the applications and opportunities to bring large scale applications like IP TV, Internet, all of the various voice-over-IP services over a wireless link into the home becomes very important. The opportunity to migrate our business into a data products business is a long-term vision and goal of ours, and it provides a huge opportunity for us to play in larger markets. We are in a robust market already, but we see a great opportunity from the data products market.

***WSR: Where are you focusing your efforts in the newer 3G technologies and other next-generation products?***

**AFT:** As we talked about before, we are expanding our product portfolio, producing more and more data products; clearly, the new technology trends in the 3G area are driving much of our activity. We currently have a number of EVDO modems that are in the marketplace, and we will be coming out with a new one in the January 2007 timeframe, which combines EVDO broadband wireless coming in and WiFi coming out into the home or business that allow users to connect to the Internet through a completely wireless interface. We'll be putting this all out into the spectrums of 800, 1900 and 450 mhZ. 450mhZ is essential for us because it's the fastest-growing spectrum in the world today. Beyond EVDO, we are also working in the area of HSDPA, again part of the next generation of broadband technologies and also in the WiMax area; you'll be hearing announcements coming out about that over the next few years.

***WSR: According to recently-announced second quarter numbers, your revenues came in at close to USD$23 million, which more than doubled the first quarter's numbers. There was record revenue from broadband modem sales of close to USD$6 million. What are some of the other highlights we can take from the second quarter numbers that indicate the direction the company is moving in?***

**AFT:** In 2005, the company's performance was primarily based on a concentration of 90% of the revenues coming in from three or four customers, with one providing as much as 60% of the revenue stream. Of the USD$95 million of revenues we did, 90% of those revenues came from a single product. The company had very strong concentration in customers and products. It was very dominant in India, which provided most of the revenue stream. We have diversified both customers and products. We have over 30 products. We are in 30 countries around the world with over 40 operators. While India is an important part of our revenue stream, Latin America has emerged as being a significant part of our mix as well. What you are seeing is a more balanced company that goes from phones to data products and goes around the world in terms of customer base. That's a strong foundation to build a company on.

***WSR: In terms of the stock's historical performance, there was quite a sharp sell-off towards the end of 2005, and while the stock has recovered somewhat from that, it still has not seen a return to its previous valuation levels. Does the investment community really understand the potential of the company?***

**AFT:** As with anything, the news is starting to get out. People are starting to become aware that this is a very different company today than it was in the past. It is up to our management to prove this as a sustainable model, as well as our goal for the foreseeable future, to show progressive and improving financial results that underpin the story that we are a different company. It started with our second quarter results and will continue through the third and fourth quarters; we are very hopeful about the future. It is correct that we should, after some of the setbacks we experienced in the latter part of last year and through the first quarter of this year, re-prove our ability to be a stable performer in the financial markets.

***WSR: Many investors are familiar with Plantronics, a company in which you played a key role. What do you take from your experiences with that company to your management of Axesstel?***

**AFT:** In many ways, Axesstel is a company that is still very young. It is a public company with a USD$37 million market cap. What I saw was the opportunity to take a company that was undervalued and create real value by using experiences I've learned in bigger companies and helping the company come up the maturity curve in terms of its thought processes around selling, products, operations, and manufacturing. How do we create more repeatable models on the sales side as well as the operations side that will allow us to be efficient in the way we grow the business? And then recruiting new teams that have experience in bigger companies who will be ***able to take this company and move it into the kinds of market caps that justify the public market standing.***

> "We have diversified both customers and products. We have over 30 products. We are in 30 countries around the world with over 40 operators. While India is an important part of our revenue stream, Latin America has emerged as being a significant part of our mix."

***WSR: In closing, what are some of the other reasons that the company is a particularly attractive proposition for an investor?***

**AFT:** The real key item is that this is a company in transformation. It is an opportunity to get into a business that has a very substantial base, that provides a way of funding, a transformation into the data products arena. And that the opportunity in providing broadband data terminals and gateways for the next generation of technologies that will be coming on in the next 6 to 12 years, providing strong opportunities for ground-floor companies like Axesstel, and we believe that we will enjoy the opportunity to grow with those kinds of markets.

# Dial up this VOIP play

Integrated Research developed PROGNOSIS software and has an 18-year heritage of providing performance monitoring and management solutions for business-critical computing and IP telephony environments. Customers include 35% of all Fortune 1000 companies including the world's largest bank, telecommunications company, stock exchange, computer hardware manufacturer and Internet service provider. The company services customers in more than 50 countries through direct sales offices in the USA, Europe and Australia, and via a global channel-driven distribution network.

**Integrated Research has added VoIP monitoring and management software solutions to its existing software business. CEO Keith Andrews tells us why his company is poised to capture the growth opportunities VoIP presents. (Interview of September 19, 2006).**

***WSR: Bring us up to speed on the company's products and solutions.***

**IRI:** The Company has an 18-year history of selling management and monitoring tools to some of the largest corporations in the world; the Fortune 1000 has been our traditional market. In 2000 we moved into offering a monitoring and management tool for the emerging Voice-over-IP market. More recently we have seen this market really take off, and believe this represents an exciting growth opportunity for the company.

***WSR: Expand on these target markets and give us a better feel for market share.***

**IRI:** In our traditional market, we lead the sector when it comes to managing proprietary critical services that typically run the largest banks', large-switch ATM networks, stock exchanges, and emergency 911 systems around the world. We have a good legacy understanding of the most critical business system environments. The Voice-over-IP market is now rapidly emerging although it is not yet mature. We see many enterprises wanting to adopt carrier-class IP telephony across their global organizations; these are not consumer type VoIP implementations. They are large companies like JPMorgan Chase, British Airways and Boeing looking to manage their own telephony environments across their existing data network. Additionally, there are telecommunications providers and system integrators such as Orange Business Services, IBM Global Services, T-Systems and BellSouth who are providing IP telephony for their largest clients. It is very cost-efficient for them and helps them add a whole new range of application services they could not previously offer.

***WSR: Talk about the key drivers in place, and what major trends are affecting your core business. Also, tell us how Integrated Research is favorably positioned in that regard.***

**IRI:** Alongside our emerging opportunity in the IP telephony arena, and as part of our core business we have a large base of customers and specific, entrenched solutions supporting credit card and ATM transactions. If you believe as an investor that there are going to be more credit card transactions, more debit card transactions, more Internet-related transactions, people buying things across the Web, then each of these domains represent growth drivers for the large part of our core business. As a consequence of these increasing networked and online transaction markets, our customers need to buy more capacity; when they buy more capacity, they buy more licenses for our PROGNOSIS brand products. Over many years, these factors have driven and continued to grow our core business at a steady rate. However our growth market, the emergence of enterprise Voice-over-IP, is just a matter of when it happens, not if it will happen. Many enterprises today are either trialing or slowly phasing in large deployments. As a company we price our products by the number of end points organizations deploy, so as they expand these phased IP telephony deployments, we will gain more license fees as part of that expansion.

> "If you believe as an investor that there are going to be more credit card transactions, more debit card transactions, more Internet-related transactions, people buying things across the Web, then each of these domains represent growth driver."

***WSR: Does the company have the infrastructure in place to handle this additional growth in demand?***

**IRI:** We are investing significantly in adding new people to build and sell our product. We are also focusing on partnering with companies who will help take our product to market. However, unlike an IT services company we do not need to add significant new headcount to grow the business exponentially. We are not a start up. Our product suites exist and have been developed and successfully deployed at significant customer sites over many years. Some of the markets are just catching up now! Our products leverage our existing core architecture and we are continually adding functionality to an existing product rather than developing a lot of new products. So to answer your question, can we scale? The answer is yes. Even though we are Australian-based, we have significant operations around the world, large operations here in the U.S. in Denver and Washington, and our European headquarters located in the U.K. with a German branch office.

***WSR: In addition to these strategic partnerships and alliances, will the company look to M&A activities as a catalyst towards that continued growth?***

IRI: We have not traditionally grown through M&A. We've typically developed our own products and grown organically. We will look at M&A if there was something that could complement our existing technology, where the build-versus-buy argument was pretty compelling for us to somehow acquire that capability. We wouldn't rule it out, but it has not traditionally been the focus of the company to grow through M&A.

***WSR: Tell us about the present Board and senior-level executive team.***

IRI: The Board has a strong mix of good governance and technology skills, as well as people who are very familiar with building global businesses. The Australian Stock Exchange and good governance practices are very much aligned with what the SEC requires. We have a good governance practice and a lot of transparency in the way we operate. At a management level, we are an Australian company doing 97% of our business offshore. By default, the people who run our international businesses are very strong local people. The President of the U.S. business and head of our U.K and European operations are both strong seasoned executives. We have a German national running our German office. So our strategy is to employ local people to represent the company, so we look like a local office to our customers. Beyond the regional operations we have a very experienced management team across all facets of the company.

***WSR: Does the investment community understand this company and the direction it's going in?***

**IRI:** We probably don't get as much coverage being an Australian company as we would if we were listed in the U.S. This actually represents an opportunity for some people to look at us, benchmark us against companies on NASDAQ or other overseas exchanges. The price/earnings ratio we are trading at is significantly lower than a lot of our peers, even though our earnings performance is generally much stronger. We represent a significant opportunity to investors.

***WSR: In closing, why should investors consider Integrated Research as a long-term investment opportunity?***

**IRI:** First of all, we are stable and have strong recurring revenues. We've been around 18 years, and 50% of our revenue is derived each year through maintenance contracts. With this we generate a lot of cash, and have no debt. These long-term fees are the first key part. In addition, we have significant upside both in our core, matured business, which is supporting the growth of online and credit card transactions and also our emerging high-growth, VoIP business opportunity. For the first time this new business will start to offer the company significant growth; it may not be this year, it may not even be next year, but will in the next few years. We are currently regarded by industry analysts as the market leader in the enterprise VoIP management arena and aim to retain this position. So in summary, we are a stable, reliable company with a significant growth opportunity, and a strong history of succeeding with the Global 1000 companies. We are attractive from that perspective, and we are also attractive if you benchmark us against peers who are listed on international exchanges.

"We are stable and have strong recurring revenues. We've been around 18 years, and 50% of our revenue is derived each year through maintenance contracts. With this we generate a lot of cash, and have no debt. These long-term fees are the first key part."

**SUMMARY**

Integrated Research (ASX: IRI) is on the cusp of capturing growth from a 2000 decision to expand its portfolio of performance monitoring and management solutions to target the VoIP market. Operations are scalable and global in scope. Core client base is the Fortune 1000; as these organizations deploy VoIP, the company's products help them maintain carrier-class environments. Management believes demand for VoIP management tools will take off in the next few years and believes that its current leadership in the enterprise space will continue. The rise of online retail is driving steady growth for the company's electronic payment support solutions. Half of all revenue is from long-term maintenance contracts. Debt is nonexistent and cash flow is substantial.

www.prognosis.com Phone: +61-2-9966-1066

# Down under wonder

## A fledgling Australian company looks to China's booming online market for growth, and grabbing onto the 'long tail.'

Mooter Media has developed a platform for both the online publishers and advertising aggregators that can predict, personalize and deliver relevant advertisements to online publisher content pages. The company is wholly focused on providing advertising targeting technologies to the global online advertising market.

Mooter Media is bringing cutting-edge online ad distribution to China's huge markets. CEO John F. Diddams (left) tells us how his company's network is already serving 2 billion page views a month. Dr. Matthew J. McDougall, Executive Director and COO, joined the interview of November 9, 2006.

***WSR: Bring us up to speed on the company's services, solutions and operations.***

**MMZ:** In the past year, the company has worked predominantly in northern Asia, in an advertising marketplace where we have engaged publishers for our distribution; we have engaged advertising providers to give us listing advertising, and we distribute those. Using our technology for targeting, we have taken revenue share on that and have seen success in China. We have 100 publishers with two billion page views a month, and distribution taking ads from a number of the large ad providers, which indicates the type of business we are doing here.

***WSR: Expand on your target markets and market share for us.***

**MMZ:** Our target markets are involving marketplaces in terms of advertising online. We target countries such as China, where they are coming into online advertising in a rapid way in terms of page views and also in terms of value of the advertising itself. India is another example of a country we target. The reason we do that is with our technology, the whole dynamic in the process of targeting advertising, the scale of something we address and therefore, when you get large volumes of advertising and large volumes on the publishers, we can dynamically target the advertising through those various publishing titles.

***WSR: Talk about the key drivers in place; also, tell us what major trends you see affecting your core business and how Mooter Media is favorably positioned.***

**MMZ:** The major issue is that China is a huge growth market. Its online advertising has doubled over the last year and is forecast to continue to grow at that rate. On the other hand, they are still behind the West in terms of sophistication. We've been able to come in and offer publishers that don't have much monetization of their site a way to quickly monetize their sites by using our targeted advertising; once in there, we can then offer more services. We are now planning the next generation of our products to move up from paid listings to display advertising, and we are moving from "CPC" cost-per-click type revenue models up to "CPM" cost per 1,000, which is more prevalent in the West. We are migrating these publishers and customers to these better methods of advertising and of course, by providing the service, which we do as a web service, we "clip the ticket" on the way through. We will grow the company at a rate similar to that of the advertising industry in these growth markets. We've chosen that route rather than try to compete on a crowded space in America and other markets, and we have made good inroads.

> "When you are investing in a market like China, you are not necessarily looking for a quick buck. What you are looking for is buying distribution, which is a bit of a land grab."

***WSR: How important are strategic partnerships, alliances, or M&A activities for this company moving forward?***

**MMZ:** We are always open to opportunities. We have a number of strategic alliances in China. At present, we are dealing with five of the top eight ad providers. We are also looking at strategic alliances with an unnamed American supplier of technology for ad serving campaign management and so on and are introducing that into this market. We are aware that we have a very large distribution and established operations in China. It's difficult to set up

CEO INTERVIEW

operations and companies in China. We already have that; what we are now looking for is to say, "what other products and services are available in the west and are commonplace on the Internet in the west that aren't here yet in China or India or the developing markets, and we can easily either license or joint venture or acquire rights to those technologies and bring them into these emerging markets?"

***WSR: Tell us about the present Board and management team.***

**MMZ:** Both Matt McDougall and myself are on the Board. Dr. McDougall has a Ph.D. in Mathematics and also speaks Mandarin. He is in charge of our Chinese operations. I come from an investment banking background. Our Chairman came from a very large venture capital firm that put the original seed capital in. One of our other directors is Jack Matthews, the newly-appointed head of Fairfax Digital, the online subsidiary of Fairfax Media. Fairfax Media owns 20% of our company, and they are one of the largest, if not the largest, media companies in Australia. Their offline properties include *The Sydney Morning Herald*, and *The Australian Financial Review*, which is the premier financial paper in Australia. They own all those mastheads and have a significant online presence. Jack Matthews is the Director of our company and has given us a lot of assistance.

***WSR: Does the investment community understand this company and the direction it's going in?***

**MMZ:** I don't think they do in Australia because we are a little peroquial down there. Australia is a small market. We only have 20 million people, 14 million Internet users, and relatively small online marketing. It's all high-value, low-volume. What the investment community can't get their head around is the size of the numbers in a market like China. By comparison, China has only 8% Internet penetration, but that translates to 130 million Internet users. If I told you there were 200 million children at school learning how to use computers and compare that with our total Australian population 20 million, you would understand. All the Internet users in China are educated because you need to be to be able to operate a Western keyboard to be able to create Chinese characters. They are all high-value and relatively young. From my marketing studies, that's the very market most advertisers want to get to. I don't think the local investment community understands. The other thing we suffer from is, as a public company, we have to put out quarterly reports on cash and half-yearly reports on earnings and so on. When you are investing in a market like China, you are not necessarily looking for a quick buck. What you are looking for is buying distribution which is a bit of a "land grab". You want to get your distribution the best way you can. The best way we get distribution is by not trying to get revenue out of our customers upfront, but by saying to them; "take it for nothing, try it out, if it works, then we'll go forward with it, if it doesn't, then you can walk away with no cost to you at all", and so far no one has walked away, and everybody is using it. For us, it's a much longer tail, it's a short-term investment where we are prepared to forgo revenues because we can see that the value will increase rapidly when we start pushing new products and services through the extensive distribution we've gained.

"For us it's a much longer tail, it's a short-term investment where we are prepared to forgo revenues because we can see that the value will increase when we start pushing products and services through the extensive distribution we've gained."

***WSR: In closing, why should investors consider Mooter Media as a long-term investment opportunity?***

**MMZ:** They should look at us as a long-term rather than a short-term, because in the short-term, there is not enough stock to do so; we don't believe it's a trading stock. It's a long-term stock because we have got our own proprietary technology and access to other excellent technologies already operating in the West. We have already established business, operations, and distribution in China. We are in one of the largest growth industries being the online advertising industry. Investors are aware of how much is going online at the expense of newspapers, for example, and how much advertising is coming away from TV and going to online, and how much conversions there are in online, mobile, and other media. We are in one of the largest growth industries, and we are operating in one of the largest growth markets (China, Asia, India). It is a long-term play. ●

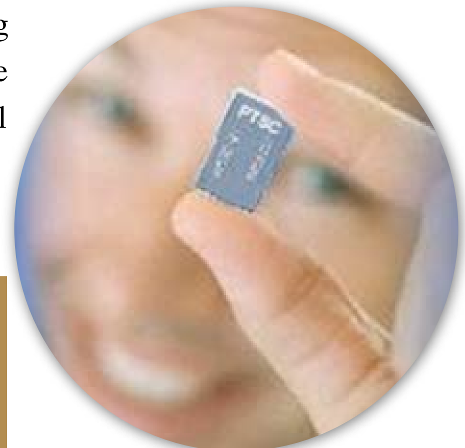
**SUMMARY**

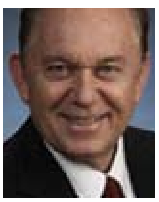
Mooter Media (ASX: MMZ) is applying online advertising technology on a massive scale in Asia. Focus markets include China and India; China in particular is characterized as a "huge" growth opportunity as online ads are doubling on an annual basis. The company has built a distribution network of 100 content publishers serving 2 billion page views per month. Strategy to woo publishers on a free trial basis has been universally successful so far. Five of China's biggest ad providers are working with the company. Platform is rapidly evolving from per-click to more sophisticated CPM models. The company has deep backing from established Australian media interests and is actively seeking additional technology partners. Goal is to pursue "the long tail."

www.mootermedia.com Phone: +61-2-9325-5900

# Intellectual property play that pays dividends

Patriot Scientific has emerged as an effective and dynamic intellectual property licensing Company, developing and marketing innovative and proprietary semiconductor technologies. The company's portfolio of proprietary designs encompasses fundamental microprocessor technology, as well as pending patents designed to protect Patriot's proprietary technology.





**Patriot Scientific owns critical microprocessor patents that companies like Intel and AMD have licensed. CEO David Pohl tells us how his IP portfolio is already paying shareholder dividends. (Interview of September 29, 2006).**



***WSR: How large is the market you are addressing? Please elaborate on the potential growth.***

**PTSC:** The market we are addressing can be looked at in terms of the value of the products marketed by the companies that we address as well as the number of companies in our markets as candidates as well. The market itself is estimated at being over USD$200 billion a year in terms of the products marketed by the companies we target as licensing candidates; on the other hand, we also look at the number of companies licensing candidates, and currently over 300 companies have been notified that they are candidates for licensing of our portfolio. There are several hundred more that are on the list that could be contacted within the coming year.

***WSR: You recently authored a letter to shareholders where you mentioned the company's dramatic transition. Tell us about the valuable intellectual property that you currently hold.***

**PTSC:** This has been an exciting year for what is an exciting company. This intellectual property is a patent portfolio, consisting of ten patents originally applied for in 1988 and granted in 1998. That means that the patents' life extend through the year 2015, and these patents cover the fundamental design architecture for most of the microprocessors used around the world.

***WSR: How would we compare and contrast Patriot Scientific and its offering to others in the field, and what are the unique characteristics that give you competitive advantages in this market space?***

**PTSC:** The unique characteristics are that our microprocessor design covers a fundamental architecture, including a high-speed clocking system, a multiple instruction fetching system, and other characteristics that are technical. All of this translates to architecture fundamental in microprocessor design, which many companies around the world already use. This microprocessor technology touches the lives of everyone who is a consumer, who has consumer electronic products, in addition to commercial application. For example, when someone who starts up their luxury automobile, there may be 150 microprocessors activated in that action. When someone uses their microwave, their dishwasher, the set-top box on their television set, medical devices, or any of the countless other things that use microprocessors affecting our lives in so many ways, they don't stop to think about or realize it as they go through their daily lives.

***WSR: What are some of the drivers in this market space as well as some of the***

> "We operate as a lean company that can be nimble in adapting to business needs as we go forward, and we are positioning ourselves so that we accumulate cash and the revenues that flow from the licensing program…"

***trends shaping the way in which you position this company and its technologies?***

**PTSC:** Patriot is a unique company from the standpoint that its technology goes back to when it was first acquired in 1994. The company spent millions of dollars in research and development and marketing its own version of a chip before they decided, in 2005, to focus on licensing its portfolio. We formed a joint venture and set out to approach the marketplace in a fashion that we thought was the most prudent way to represent the interests of our shareholders and to capitalize on the value of this portfolio. In doing so, we have been able to point proudly to the fact that we have some 11 marquee-name companies who are in the industry, have recognized the value of this portfolio, and have also acquired licenses. That started with companies like Intel and AMD, moved on through companies like HP and Fujitsu, Casio, Sony, Seiko-Epson, Pentax, Olympus, and most recently Kenwood. That indicates that this market is highly aware of the value of microprocessors and our particular microprocessor technology. We look for this to increase as the use of microprocessors and the current trends to couple microprocessors in an array increases. Our electronic society is becoming more and more dependent on microprocessors; that is what drives our company and our focus to license other companies to use this valuable technology.

***WSR: How have you positioned the company to capitalize on these trends, and what are the some of the key goals and strategies that you are focused on to ensure that success?***

**PTSC:** We have positioned the company through our very effective joint venture formed in June 2005, which resulted in our licensing program, which has proven to be a very valuable strategy for the benefit of both the company and its shareholders. We find this to be an effective way to position the company in terms of deriving the revenue that has been generating cash. We operate as a lean company that can be nimble in adapting to business needs as we go forward, and we are positioning ourselves so that as we accumulate cash and the revenues that flow from this licensing program, we can then look at various alternatives including paying dividends and also using that cash for joint ventures or opportunities to acquire other companies. That is our strategy at present — to look at creating additional revenue streams and acquiring other technology that will be compatible with that that we already have.

> "This intellectual property is a patent portfolio, consisting of ten patents originally applied for in 1988 and granted in 1998. . . These patents cover the fundamental design architecture for most of the microprocessors used around the world."

***WSR: From an investment standpoint, you have completed a dramatic transition. As far as the investment community is concerned, is the company well understood at this stage of development, and if there are any misnomers or misconceptions, how would you address them?***

**PTSC:** One of the challenges for a company like Patriot that has been around for a few years is to distinguish itself from the pack of micro-cap companies. When you are a company trading with stocks currently in the range below USD$0.80 per share and a market cap of USD$300, there are a lot of investors that overlook companies like Patriot. Part of what we are doing is working with a new and powerful public relations agency to get our message out, having conversations with various media organizations to spread the message, and to create the sense of consistency investors look for in dealing with a micro-cap stock.

***WSR: What are the best reasons for a prospective shareholder to invest in Patriot Scientific in 2006 and beyond?***

**PTSC:** We can point to the company's history and the fact that within the past year after having formed this valuable joint venture that the company's shares, a little over a year ago were trading in the range of USD$0.15 or USD$0.16. In the spring of this year, we briefly got up to over USD$2 a share, and we paid some dividends, which clearly distinguished us in the field of micro-cap companies. What we are doing is accumulating cash in a way that clearly sets a course demonstrating that investors can look at this company as having tremendous potential for growth and revenue that would make it a good long-term investment. ●

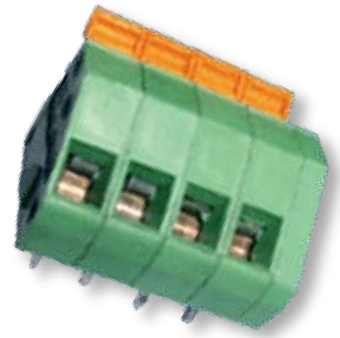
**SUMMARY**

Patriot Scientific (OTCBB: PTSC) has amassed a significant portfolio of intellectual property relevant to the semiconductor industry. The company's 10 patents cover various aspects of fundamental microprocessor design architecture, including high-speed clocking and multiple instruction fetching capabilities; management notes that the IP is already in use at several manufacturers and incorporated into "most of the microprocessors used around the world." Licensors include AMD, Intel and nine other tech bellwethers. Current potential licensor pool includes around 300 companies. Patent expiry is not until 2015. Additional acquisitions are possible as the company works to multiply its revenue streams. The company has paid a dividend and future payouts are on the table. Increasing prevalence of microprocessor-enabled devices is seen driving growth.

www.ptsc.com Phone: 760-547-2700

# The right connections

JITE designs and manufactures electronic and electrical connection devices for security, industrial control, automation, telecommunication, and power supply industries. JITE is head quartered in Toronto, Canada and carries out research and manufacturing operations in Shenzhen China at its 80,000 sq. ft, ISO 9001 certified facility.



Jite Connections recently went IPO after 11 years as a profitable private company that designs and manufactures electronic and electrical connection devices for security, industrial control, automation, telecommunication, and power supply industries. JITE carries out research and manufacturing in Shenzhen, China. CEO Charles Qin talks about his plans to build a world-class manufacturing operation in this August 8, 2006 interview.



***WSR: Tell us about the recent amalgamation and what it means for JITE going forward.***

**JITE** My Partner Jimmy and I started as a private company 11 years ago. Both of us were educated in China with an engineering background and a business background. In our 11-year history, we have always been profitable. In 2005, we were informed that JITE was qualified for listing in the TSX. We acknowledged that once we went public, many advantages and opportunities would come to us. This is why we had a reverse takeover, to set us up on a platform for rapid future growth.

***WSR: Bring us up to speed on the company's products and operations.***

**JITE** We are headquartered in Toronto, Canada, with manufacturing facilities in Shenzhen, China. JITE employs over 1,300 people in China. Our customers include a number of Fortune 500 companies such as GE, Tyco, Emerson, Siemens and Panasonic; these companies constitute about 70% of our Canadian sales and 30% of our Chinese sales. Our primary market is in the industrial connection devices field, which according to a 2004 study done by Bishop Research, a prominent research organization, the current existing market has up to USD$33 billion annually.

***WSR: How important are strategic partnerships and alliances for JITE moving forward?***

**JITE** We have been very successful in reigning in our top-tier customers; along the way, we have begun strategic alliances with certain companies. We are presently in discussions with several unnamed companies at this stage, and we are confident that we will grow in three areas — one, the internal growth in the industry; second, the joint venture with our non-Chinese company; and finally, mergers/acquisitions in and out of China. Strategic alliances will be on both the joint venture and merger/acquisition sides. We believe we have both a good business model and operational expertise in China. We have good global operational capability as well. We are confident that the business will grow rapidly; we have demonstrated over 30% growth

> "Our customers include a number of Fortune 500 companies such as GE, Tyco, Emerson, Siemens and Panasonic; these companies constitute about 70% of our Canada Sales and 30% of our China Sales. Our primary market is in the industrial connection devices field."

**SUMMARY**

Jite Connectors (TSX-V: JTI) designs and manufactures electrical connection devices for a wide range of applications. Headquartered in Toronto, the company does its manufacturing in China's Shenzhen industrial hub. Fortune 500 companies comprise most of North American sales and a substantial proportion of revenue in Asia. Founders received business and engineering training in China and Canada and cite their bicultural background as crucial to their success. Strategy encompasses organic expansion as well as M&A (both in China and elsewhere) and strategic partnerships; several relationship discussions are on the table. Annual growth exceeds 30% and the company has "always" been profitable over its decade-long history. Goal is to become a truly world-class manufacturer over the next 20 years.

www.jite.com Phone: 905-731-0380

year-to-year. In the future, we expect this growth to continue.

***WSR: What is unique about JITE Technologies?***

**JITE** We are strong in both engineering and operational expertise. My partner and my dual background made JITE's operation model possible. We accommodated North American's operation and management experience into our Chinese operation system with customization under Chinese environment. Now days, worldwide companies know that there are more advantages of doing business with China. We are so in this competitive position and we are confidant JITE will fully utilize its unique advantages to take any opportunities, which will bring JITE's operation globally.

***WSR: Tell us about the present Board and management team.***

**JITE** My background as Chairman and CEO includes mechanical engineering as well as an MBA from Queen's University in Canada. My partner comes from an automation engineering background and has an MBA from Huadong University of Science and Technology. Our CFO is a Canadian CA with very high credentials. Our Board has four independent directors besides my partner and me, all located in Canada. Three of them are CAs (Chartered Accountants). All our Board members come from highly qualified business backgrounds — one is a CFO of QuStream, a TSX-listed company.

***WSR: Does the investment community fully understand the direction this company is going in?***

**JITE** We have plans, we believe we are going forward, and we are looking forward to tremendous growth ahead. We've been operating as a private company profitably for 11 years; the last year-and-a-half has been a time for us to operate in the business in addition to getting our company listed. Now that we are listed and able to reach more media outlets and opportunities certainly, we are on track to move ahead to implement our plans and deliver results.

***WSR: Why should investors consider JITE Technologies as a long-term investment opportunity?***

**JITE** We are a very strong, unique company with 11 years operating history. Our products are very competitive in the market. We have strong operational expertise as well as a global dual cultural and very competent management. Our goal is to become a major force in the next 20 years as a world-class company. We strongly believe that we have a long way to grow from here, and we are a company built on operations and on delivering the results. As an investor, getting involved earlier will definitely be beneficial in the long run. ●

"We accommodated North American's operation and management experience into our Chinese operation system with customization under Chinese environment. Nowadays, worldwide companies know that there are more advantages of doing business with China."

CEO INTERVIEW

# Backing the right horse

TrackPower is currently focused on developing regional racetracks and gaming projects. Tioga Downs is a re-development project near Binghamton, New York, that will include (pending licensing approvals) a 5/8ths mile harness track and gaming and entertainment center.

U.S. racetracks are finding they can't survive without alternative revenue sources. Trackpower, Inc. is filling that need with interests in projects like Tioga Downs in upstate New York, a planned harness racetrack, gaming and entertainment center. CEO Edward M. Tracy discusses the synergies created by coupling video gaming with horse racing in this May 16, 2006 interview.

***WSR: Tell us where currently stands with the Tioga Downs Property.***

**TPWR:** We got through the development stage at Tioga, finished the architectural joints, engineering, hired a job contractor, and began moving the project forward. At that time, our anticipated cost for the construction of the project was $23 million. We broke ground in late July 2005, and we formed a partnership with two new partners, the first being Nevada Gold. We were also challenged at Vernon Downs by a company called Oneida Entertainment, which is backed by Plainfield Asset Management, a hedge fund out of Greenidge, Connecticut. Our strategy had been to pair those two properties together to get some synergies and operating efficiencies on the marketing side. We ended up with a four-way joint venture, Nevada Gold, Southern Tier Acquisitions (Jeff Gural's company), the Chairman of Newmark Realty in New York, TrackPower and Oneida Entertainment was again backed by Plainfield Asset Management. We have a diverse group, one group primarily focused on racing, one group primarily focused on gaming, and one group primarily focused on the financial side. We formed American Racing to encompass both Vernon Downs and Tioga. Since July 2005, we have spent a lot of time developing the concept and the theme, and we are currently 95% complete with the construction and looking to open racing on June 9, or 30 days away. The project is on schedule and on budget. Again, the cost of construction is coming in at about $23.8 million. Our total financing that was required for this was about $88 million to complete both projects. On May 1, we took possession of Vernon Downs, the second phase of that group of projects. Since then, we have been very busy with our redevelopment plans. We have applied for all the appropriate licenses, and in the meantime, have gotten our temporary conditional license to operate Tioga Downs. We are going to start racing on June 9, and we look to open the VLTs about two weeks later.

In terms of Vernon Downs, the bankruptcy took a lot longer that we anticipated; therefore, we are getting a little bit of a later start. We are hoping to obtain a temporary license for racing by the end of this week. We are looking to open racing in the early part of July and the VLTs by the first week of August.

***WSR: In other words, by forming a partnership with another company, the company is reducing its overall risk?***

"We got through the development stage at Tioga, finished the architectural joints, engineering, hired a job contractor, and began moving the project forward. At that time, our anticipated cost for the construction of the project was $23 million."

CEO INTERVIEW

**TPWR:** Our partner, who is providing some of the debt financing, was required to put in equity dollars. We are all equity partners on one level and are able to fill out the company's financing needs. We dramatically reduced our risk profile. There was a corresponding reduction in the percentage points that we own. We are very pleased with the outcome, and it is going to give us the opportunity once these projects are completed and are cash flowing to go on and do other projects.

***WSR: What will TrackPower be looking at in terms of adding to its portfolio for the future?***

**TPWR:** Part of our strategy from the very beginning was to buy undervalued assets. By going through the bankruptcy, though it was a tedious process, we were able to get a tremendous amount of value for our shareholders. That strategy will continue to work for us, even with going into more established gaming markets and looking for undervalued assets that can be improved. We will continue to seek out joint ventures and partnerships that add to our ability to expand the portfolio base, with the goal of growing into a mid-cap gaming company within the next four to five years and then a large-cap gaming company beyond that.

"Part of our strategy from the very beginning was to buy undervalued assets. By going through the bankruptcy, though it was a tedious process, we were able to get a tremendous amount of value for our shareholders. That strategy will continue to work for us."

***WSR: What are some of the key trends developing in the industry in terms of gaming and racetrack development and how does Trackpower plan to take advantage of these trends?***

**TPWR:** The first big trend is that, without receiving subsidies from the gaming industry, horse racing is doomed to fail in every state. The second big trend we can capitalize on is the continuing consolidation in the gaming business. There will be a lot of focus on the big gaming companies acquiring some of the mid-size and smaller gaming companies. That creates opportunities for us to go out and do acquisitions. Those are the two biggest forces in the marketplace that affect a company like TrackPower. We are looking at some kind of stepping stone growth going forward.

***WSR: What is unique about Track-Power? What gives the company a competitive advantage in this market?***

**TPWR:** TrackPower was a company that did not have a business for the previous five years, which has brought forth opportunities to define its platform and growth steps going forward.

***WSR: Does the investment community understand the potential that Track-Power has to offer?***

**TPWR:** We are off the radar screen of the big institutions for a number of reasons. First, they don't spend a lot of time looking at stocks that are trading in a range that we are trading, nor at the size of projects that we do until they become real.

***WSR: In summary, why should a potential investor be interested in Track-Power?***

**TPWR:** I believe the past 12 months are a good indicator of where we are going. We have established a direction, we have gone in that direction, we have proven our ability to design and develop these kinds of projects, to get legislation passed favorable to our bottom line, to attract the kind of partners that give us stability and a stronger balance sheet and the ability to go and finance these projects. ●

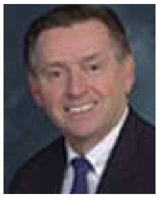
**SUMMARY**

TrackPower (OTCBB: TPWR) is redeveloping previously mothballed regional racetracks to incorporate a video gaming component. The company's Tioga Downs track opened on schedule in June after $23.8 million in renovations and a second property (bought out of Chapter 11 bankruptcy protection) started racing again at the end of August. Both projects are owned through joint ventures, which reduces the company's risk profile and development costs. Once cash flow emerges, additional projects are likely. Goal is to continue to add assets, eventually growing into a mid-cap gaming enterprise by 2010. Management notes that the prospect of consolidation in the industry creates M&A opportunities. Gaming is seen as crucial to the survival of horse racing throughout the nation.

www.trackpower.com Phone: 905-773-1987 x226

# What price peace of mind?

Proginet provides data security solutions to some of the world's biggest enterprises. CEO Kevin M. Kelly tells us the secret of his company's recent growth and why the forward-looking drivers indicate more of the same. (Interview of September 19, 2006).



Proginet, a provider of enterprise security software and solutions, markets an affordable package of products to protect corporate data at rest and in motion. CEO Kevin Kelly, in this September 19, 2006 interview, explains why shares of his company are underpriced compared to competitors--and what he's planning to do about it.

***WSR: Let's begin with what makes a company a good investment opportunity vis-a-vis the marketplace and your company as a public entity.***

**PRGF:** The question really is: what does an investor want in terms of a return on investment, and what level of risk are they willing to accept? If you take a look at the basics, it's a company that is built on sound business principles, well-defined in terms of its growth plans, one with experienced management, financial strength, and a committed Board of Directors. It's a good place to start to look at companies where the stock is undervalued, or what is considered the Warren Buffett model of investing.

***WSR: Along those lines, why do you feel that Proginet would present a good investment opportunity?***

**PRGF:** We think Proginet is a great investment opportunity. We have reported 12 consecutive quarters of revenue growth on a year-to-year comparison. We are profitable with a positive cash flow of more than USD$0.5 million per quarter with an EBITDA of USD$0.75 million per quarter. We have no debt, and we have over USD$2.5 million cash in the bank. We have almost 500 customers in 23 countries around the world, many in the Global 2000. Finally, we have practical and affordable solutions for the huge security software market, expanding rapidly because of fear of identity theft and new privacy regulations. In a recent study done by the Privacy Rights Clearinghouse, a non-profit organization dedicated to protecting people from identity theft, over 93 million individual records have been compromised due to poor data security since February 2005. Corporations need solutions like ours to protect their data. We have less shares outstanding today than when we went public, and we have substantial stock appreciation opportunities. According to standard industry metrics, our stock price is half of what it might be compared to other players in the market.

***WSR: In fact, with Proginet's profitability, revenues, attractive balance sheet, cash position and consecutive quarters of growth, it also achieved record profitability and year-end revenues totaling just under USD$9 million. Given all these factors, the company trades at a significant discount. At this juncture, why is the company undervalued?***

**PRGF:** There are a couple of reasons. Firstly, Proginet has never really addressed the issue of Investor Relations. We've been focused primarily on the growth and development of our technology and the growth of our markets in terms of selling those products in a global market. We support the Global 2000 customers, and they are customers with very high requirements in terms of the technology, which has to be state-of-the-art. We've had to invest heavily in R&D for a longer period of time before we could get to the revenue growth and profitability stage. We're there with record revenues and record profitability as of fiscal year-end July. Now it's time to get the word out both in terms of an investor relations program and a marketing program, including direct shareholder



contact, market analyst reports, participation in outside industry and market events. We have an aggressive schedule already in place. Lastly, if you take a look at the metrics mentioned in terms of industry standards, EBITDA would be in the range of 13 to 22, Proginet is currently less than 5; revenue multiples typically would be in the 3.5 to 7 range, while at Proginet it is less than 2. As investors recognize the strengths of Proginet in terms of those fundamentals, financial strength, and our strong management team; we would expect that coupled with our projected growth in this coming year, our stock price would more reasonably reflect the company's performance.

***WSR: In terms of visibility in getting the story out there, tell us about your product offerings including applications and market potential.***

**PRGF:** Proginet offers two complimentary products that solve the problem of information security for companies of all sizes. Our SecurPass password protection software controls who can access information, and our CyberFusion Integration Suite protects the information during internal and external data transfers and while data is being stored. It secures data in motion and data at rest. Together, SecurPass and CyberFusion make sure that the only people that can see data and transfer data are the ones authorized to do so. Our target market is the Global 2000, up to the Global 5000. Our products are differentiated by their open standards architecture, their scalability, their reliability, control, and the absolute guaranteed security, requirements of those enterprises. We see a paradigm shift in how enterprises must deal with global worldwide movement, management and security of people, goods, money, and data. One of our customers, a major financial data processor, uses our technology where they do over 500,000 file transfers a quarter and process over 4 billion financial transactions a year, using Proginet's technology to protect both the data in motion and at rest. Combining our CFI and our SecurPass provide a pair of very powerful solutions for the post-Enron world and all its many regulatory requirements.

***WSR: Tell us about some of the value propositions that customers have in choosing to work with Proginet and what problems that the company's products solve.***

“Our target market is the Global 2000, up to the Global 5000. Our products are differentiated by their open standards architecture, their scalability, their reliability, control, and the absolute guaranteed security, requirements of those enterprises.”

**PRGF:** The big problem is all about data security; to protect the data in motion, you have to protect the data at rest. With today's new environments, you have to protect data transferred over the Internet, a public domain as compared to traditional internal networks. Then there is the question of how to manage too many passwords or forgotten passwords. Our solutions enable companies to answer those fundamental questions — what data was sent to or received by your company, by whom and to whom? You have to answer the question yesterday, last week, and last month. In all of our surveys and talking with all of our potential customers, we've never found a single customer who can answer those questions satisfactorily. What Proginet's technology does today and what we're going to be developing in the future, are additional capabilities that allow customers to secure their data no matter where it is and what form it's in. We've had much success with the newest technology we introduced last year, our CyberFusion Integration Suite. We have customers that use Proginet's technology to transfer car designs over the Internet, they close out their stores worldwide, they allow their agents in the field to transfer data, access contracts, get pricing schedules all using the Internet. We have traditional enterprise-wide customers, major financial institutions that transfer all of their data corporate-wide, both internal and external, using Proginet's technology. We're geared for enterprises who have an absolute requirement for data security and have to make sure they know only authorized individuals gain access to that data.

***WSR: There are many applications for this technology. How does Proginet exactly go about providing these solutions, what is unique about them and the company itself that give it a competitive edge in the marketplace?***

**PRGF:** Proginet has been around for over 20 years. Our background is the main-

frame world, where security and password requirements are paramount. On top of that, there are the issues of scalability and reliability. Our technology is built on the premise that all processing platforms within an enterprise have to meet rigid standards. Our software is designed in terms of an open standards architecture, allowing customers to deploy our software quickly and cost-effectively across all of their technology environments. We're multi-platform. We can support not only large mainframe computers, but all the computers within an enterprise's global network. We support the Internet, and that's built around a service-oriented architecture. Our products are plug-and-play technology, so companies can integrate them with the technologies they have deployed for many years. This includes integration with your customers systems. As a matter of fact, one of our large financial institutions has been using our technology for several years and has upgraded as Proginet introduced new products. They encouraged over 100 of their customers to subscribe to Proginet's technology so they could communicate with each other in terms of the sharing of that financial information.

***WSR: How large is the overall market Proginet is targeting? Elaborate on the potential growth in that particular market.***

**PRGF:** We serve two major spaces, the data security market, and the password security market. Major market analysts estimate that this market is currently over USD$8 billion per year, data security representing USD$5 billion and password security representing USD$3 billion annually. Additionally, this market continues to grow in excess of 12% a year, the fastest-growing component of the software industry. The market is continually expanding as companies are required to comply with all the regulations with Sarbanes-Oxley, Gramm-Leach-Bliley, HIPPA legislation which affects healthcare, and the beauty of Proginet's technology is that we service all vertical markets. We can support these organizations and satisfy the requirements of all these regulations.

***WSR: What are some of the major trends you see developing in this space that have an effect on your core business?***

**PRGF:** There are several major drivers; the Web is one. It is becoming more and more of a business network because of its cost effectiveness. We have to make sure we provide the technologies to the market that secures data on the Web in the same terms we secure internal processing. Global business expansion is something that not only affects Proginet, but every company that exists today. You have to worry about how you keep track of people, money, goods, data, and all of those have to be protected when you cross-borders around the world. Global business expansion is something that affects us heavily both in terms of our own distribution networks and the technology we develop to support the global enterprise. It's always an issue that you have to offer technology that is cost-effective and efficient for the organization. When I talk about service-oriented architecture, I talk about open standards or standardization, now we have approaches in terms of business process management. The bottom line is that the major forces are driving all organizations to consider costs and efficiency as a major component of any solution. Of course, there are the other major drivers, the regulatory environment. It has gotten quite bad since post-9/11; all indications are it's only going to get worse, not better. What Proginet does is make sure we support our customers in terms of meeting regulatory requirements so they don't have to worry about them.

***WSR: It always seems that technology advancements in security are one step behind those trying to break the security, so obviously there is a need for a lot of regulations. You mentioned some of these major trends and the ability that you have to leverage some of the relationships with current customers can help. In what ways can the company capitalize on these trends?***

**PRGF:** We really have to stay focused on our target market. Number one, that means continued investments in research and development. Right now, we spend over 15% of our revenues on R&D, and we expect that number to be at that level

"Major market analysts estimate that this market is currently over USD$8 billion per year, data security representing USD$5 billion and password security representing USD$3 billion annually. Additionally, this market continues to grow in excess of 12% a year."

or higher for the next three years over our business plan and probably even greater thereafter. We expect to achieve some leverage by continuing to expand the number of partnerships we have and the strategic alliances we enter into in terms of technology collaboration. Obviously, no company of Proginet's size, or even the IBMs of the world, can do all things for all people. What we do is look for relationships where we can leverage what other vendors have, what we have, and put together total solutions for a market play. Last but not least, in terms of the way we expect to capitalize on the opportunities, is to make sure we continue to provide superior customer support. As a matter of fact, that includes not only how we respond to our customers, but how we develop and test our technology to make sure they are very reliable. Looking at customer support calls we had responded to over the past year, Proginet responded to 3,000 customer support calls, less than 1.25% of those calls were related to software issues that needed to be addressed. What that tells us is that the quality of our technology is very strong and our ability to support customers has been rated very highly, not only by our customers, but even by the Gartner Group doing a customer survey. One of the quotes they had for us, was that of all the surveys they did, Proginet was the only vendor who had been responded to where the market said that Proginet under-promises and over-delivers. That is consistent with our mindset in terms of how we support our customers.

***WSR: What are some of the other key goals and strategies that the company is focusing on to ensure future success and improve long-term shareholder value?***

**PRGF:** For the past three years, our strategy has been and will continue to be focused on our troika of sales, alliances, and acquisitions. We continue to invest in innovative security development, responding to our customers and market needs, and growing organic sales. We also continue to pursue alliances with strategic partners to expand market coverage. Finally, we continue to explore the acquisition of companies adding complementary technology to our portfolio. We have done such acquisitions in the past. We have acquired mainframe software technology businesses from two major vendors, including Microsoft and Novell, as well as smaller vendors. We expect the combination of our sales strategy, our alliance strategy, and our acquisition strategy will allow us to grow, as evidenced in Proginet's three-year growth and our record performance in 2006. With strong momentum going into 2007, we will produce corporate performance that will bring our stock back in line with what industry metrics are.

***WSR: How does the company expect to accomplish those strategies?***

**PRGF:** What Proginet has done is reorganize in the latter part of fiscal 2006 — to create new dedicated departments for each of those strategies. We now have strict organizational lines for managing the sales organization, alliances, acquisitions, as well as marketing and investor relations activities. We are much more cleanly-organized, to assure everybody's focus on each of those components of our strategy to assure our success.

> "We have reported 12 consecutive quarters of revenue growth on a year-to-year comparison. We are profitable with a positive cash flow of more than USD$0.5 million per quarter with an EBITDA of USD$0.75 million per quarter. We have no debt."

***WSR: In summary, why would an investor want to take a strong look at Proginet's stock?***

**PRGF:** Number one, Proginet is strong in terms of the traditional metrics one would apply to a company in terms of its financial strength, managerial strength, and product technology, all of which are clearly fundamental. Number two, we have a game plan with a goal to execute that primarily has upside as compared to downside. Obviously, all investments have downside, but the downside for Proginet is that, we may grow a little bit slower than we have anticipated, so the stock may not move as fast as we are expecting. On the upside, given that we have had 12 consecutive quarters of profitability, strong cash positions, and a solid balance sheet, I expect that our stock will go up and better match industry metrics. If that happens, our stock price in a year would more than double what it is today, and if we grow at the pace we expect, it could be more than that. There is always a downside in investments, but the upside, if one takes a look at the balance sheet and the business strategies of Proginet are much stronger.

**SUMMARY**

Proginet (OTCBB: PRGF) has built a two-decade track record as an enterprise computer security company. Core applications include password and data management. Revenue has climbed over the last 12 quarters and quarterly EBITDA is in the $750,000 range. Cash position is a solid $2.5 million and debt is nonexistent. The company operates in 23 countries, focusing on a Global 2000 clientele. Although the core technology evolved out of a mainframe environment, current product line is platform-neutral, open standard and plug-and-play. Management notes that regulatory burden has gotten "quite bad" since 9/11 and is likely to grow even heavier. R&D spending remains healthy. Goal is to continue to pursue additional sales alliances and outright M&A opportunities.

www.proginet.com Phone: 516-535-3639

# Betting on cashless gaming

Kenilworth Systems Corporation, a Mineola, New York-based public company, is a technology company with significant resources and intellectual property. The company began its success as a security systems developer for nuclear power facilities. Kenilworth has also helped the Australian government with their Cashless Wagering systems which eventually led to other efforts directed at gaming industry opportunities.

With the U.S. ban on accepting credit card payments for gambling, Kenilworth Systems Corporation is betting that its casino-style games through government lotteries will be a big hit. Herbert Lindo, the company's chairman and president, tells us how his lottery-based model differs from credit-card Internet betting. (Interview of October 6, 2006).

***WSR: Give us an understanding of the company's business model and tell us about the patented Roulabette System.***

**KENS:** We have a series of patents to what we call Roulabette. What it comes down to is that subscribers to digital satellite programming in the United States and other industrialized nations of the world will be able to bet as they watch live in-progress casino table game action on their television screen. Viewers will be able to wager from remote locations as if they were in the casino playing at the table. We call the system Roulabette. Upon our request, the international law firm of Greenberg Traurig rendered an opinion that we are legal in the United States and do not violate the 1961 Wire Act, which is very important since Congress just passed a law which prohibits the use of credit cards and debit cards. We do not use either. Roulabette will primarily be deployed in conjunction with lottery systems, both in the United States and in foreign countries. Digital satellite subscribers will be able to go to their local lottery agent and make deposits and/or collect winnings in the same manner as if they are purchasing lottery tickets using pre-encoded Roulabette Play Cards inserted into the lottery terminal. Last Saturday, Congress passed the legislation, which has propelled us right into the U.S. market. For three years, the House was trying to prevent Internet gambling from foreign countries, and it couldn't get approved in the Senate. Last Saturday, all of a sudden they did attach it to the Homeland Security bill. Once the bill is combined and printed, we do not violate that Act because we do not use any credit facilities with our wagering. What we're doing is asking satellite subscribers, if they want to play along with us, to go to their local lotteries and buy tickets and make deposits. By using lotteries that can accept cash-only deposits, we will be assured that high school students and college freshmen will not be able to participate. By using the lotteries' data system, the compulsive gambler can be identified, and, if necessary, limited or shut out. It's a practical solution to all illegal betting. The Roulabette System is identical to the simulcasting of horse and dog racing, permitted in the United States. The wagering takes place at the receiving location, not at the sending location. Roulabette programs will include casino entertainment and commentators similar to those for sporting events and poker terminals in order to assist players with the rules and strategies of the game.

"What it comes down to is that subscribers to digital satellite programming in the United States and other industrialized nations of the world will be able to bet as they watch live in-progress casino table game action on their television screen."

***WSR: Kenilworth Systems recently received final approval for the first live-in-progress casino table game***

***broadcast from the Philippines Amusement and Gaming Corporation. Explain to us the importance of receiving this approval.***

**KENS:** We concentrated on the Philippines because they are strategically located in the Asian and the Pacific Rim market. We've requested if we could play along, an agreement which is on our Web site. What we're doing now, in order to prove that we don't disturb other players, we did a live test, also available on our Web site. In March, we conducted a live in-progress casino table game test to demonstrate the ability to broadcast the table games for around-the-world viewing without disrupting the normal security, monitoring, and protecting the privacy of players at adjoining tables. The film clip of the test broadcast which was made at a Roulabette table located in a new Hyatt Hotel and Casino, Manila is available for viewing on our website. We have acquired the broadcast site for Roulabette, now we have to obtain agreements from jurisdictions that will permit to receive the broadcast. We are doing that right now in Europe, South America, and other markets. One of the prime markets will be China itself since they have 12 lotteries. In Asia, there are 170 million satellite and cable subscribers. We point out to everybody — "why would anyone play along with a virtual make-believe casino game when they can play along with a real-time live casino game instead without having to travel to a casino?" We have some statistics which show that China has 12 lotteries which had a net win last year of the equivalent of USD$87 billion. Estimates from the Professor in the Beijing University in China estimated that last year Chinese residents wagered the equivalent of USD$500 billion illegally. That's a tremendous amount and a tremendous market for us because "why would they let this escape?" The same thing in the United States — "why let the foreign money escape the foreigners and none that collect on it?" We propose like for instance in the United States, the passing of the bill on Saturday puts us squarely in business in the U.S. We expect that sooner or later we will be able to broadcast from a casino operator in Las Vegas a minimum of horse and dog race simulcast plays, as they have 500 of these in the country and they can play along directly there. We also have filed patents. There are also 10 million slot machines in the world that are in use, and we have filed a patent which has not as yet been approved; this would permit us to play along in a slot machine a live casino game which you could do. The game would be still presented, the same games, the same handle program, and everything is the same. If you touch a button and all of a sudden you switch from a virtual game to playing a live game and switch back again, which means that for the price of a handle pull, you can place a wager on a live game which should be a tremendous incentive for people for a change of pace; for casinos overall, it will teach them how to play roulette. A lot of people don't know how to play roulette. In fact, they're afraid to go to a roulette table because they don't understand it. The same thing goes for dice. Dice betting, how do you bet come, how do you bet don't come, and everything, all this will be explained by using slot machines. For instance, slot machines and race tracks in the United States are known as video lottery terminals. If you gain approval from lotteries to include them, it would be a tremendous business as far as casinos are concerned and would also be a tremendous advantage because it teaches people to play and understand the real game. Baccarat is another game which very few people understand. It's simple — the odds are best in Baccarat and not anything else that they offer you. Casinos are built from losers, not winners. It's like flipping a coin, either heads or tails, we used to do it as kids and they're still doing it today, except now it's called Baccarat.

***WSR: The estimated markets for this type of gambling is over USD$500 billion annually. What type of competition does Kenilworth currently face, and what are the barriers to entry that will help it maintain its position?***

**KENS:** We believe when we are fully deployed both in the United States and internationally, we are in a USD$500 billion net win market, which is shared with lotteries, satellite broadcasters, and other companies which will be involved with us. We retain 30% of that net win, and we pay for all operating costs. After operating costs and everything left, to be fully deployed we should earn USD$100 billion annually, which would be after taxes in foreign countries, the United States, and other places. We have no warehouses, no banks, no buildings, no brick-and-mortar casinos. All of this is clear profit, and that potential will be recognized as soon as we start to get better deployed. The market in general doesn't even fully understand what satellite broadcasting is or what is a live game broadcast versus a virtual broadcast. That will be to our benefit. Since that bill was passed and prohibits the use of credit facilities, we had never even thought about using, or using banks to


**SUMMARY**

Kenilworth Systems (OTC: KENS) has developed a novel system for running casino games via satellite television. The platform supports wagering through a cash-only network of local lottery agents; counsel has opined that the system differs from credit card online gambling enough to be legal in the US. "Lottery" model is built out in both the US and China, as well as elsewhere. A test broadcast from the Philippines is planned and Las Vegas simulcasts should follow. Management has built long-term connections with the casino industry. The company's share of net wins is 30%. Onboard security systems identify and manage problem betters. A global footprint is contemplated in order to capture a share of a $500 billion market opportunity.

www.kenilworthsystemscorporation.com Phone: 516-741-1352

manage our wagering because banks can also provide credit facilities. We're not violating anything passed on Saturday, which is a plus. We will immediately start to look into how we can start deploying this from Las Vegas to simulcast centers in the United States. That's our first aim.

***WSR: Will the company be looking to enter into partnerships or strategic alliances to further its objectives?***

**KENS:** Absolutely. We plan to form joint ventures and alliances with other companies because this is a major project that needs cash to deploy rapidly, the sooner the better. We are open to any partnership or strategic alliance with anyone who comes. The most likely companies will be satellite broadcasters and casino operators.

***WSR: Tell us about the background and experience of the Board and senior management team.***

**KENS:** Originally, we were in the business of supplying security systems to nuclear generating electric power plants. After both Three Mile Island and Chernobyl, there isn't a Congressman or Senator who would endorse nuclear power generating facilities in the United States. There are 102 facilities in operation, and we were supplying security systems for 92 of them. 36 plants that we had contracted for never came online. That's the idea, what do we with our updated security system? We have a good card system which can't be duplicated, copied or infringed upon. We decided to take the cash out of the gaming industry; our first customer in Melbourne, Australia was the Totalizator Agency Board (TAB). They contacted us to design the software. We were primarily a software company. We had 62 software employees working for us as early as 1975. We were in the beginning of this, but we designed software especially for nuclear power and security systems. We followed people. Our system provided that the minute you came into the parking lot, we knew where you are, and we followed you to make sure that everything went right. That kind of security was not necessary for casinos or anywhere else. We went ahead and started to do this, and we introduced the tracking system used today in slot machines in Las Vegas. We introduced it in 1985, Governor O'Brien approved it, and the State Legislature approved it. We believe because of this connection and everything else that we will be able to obtain early approval for a casino operator in Las Vegas to cooperate with us to bring the live games to simulcast centers — we have 500, some in New York and some in Long Island. They can capture the money that's flowing out of the country, estimated between USD$15 billion and USD$20 billion. Why lose it? Why not collect it and use it for schools the way they were supposed to be? Lotteries are aiding school teaching and teachers. This will very quickly become something accepted rather than rejected. There are concerned citizens and certain Senators who represented us against expanding gambling. We're not expanding gambling. We're expanding entertainment. When you can make a USD$0.25 bet, you're not gambling, you're looking for entertainment and pastime — that's our aim and our game, that's what we want. Have you any idea how many quarters they are available throughout the industrialized world? We are in a huge market and attracting the lottery player, the guy who buys a lottery ticket for a dollar and wants to become a millionaire. If they invest in Kenilworth eventually, they can become the millionaire by just biding their time until we get the breakthrough we need.

“After operating costs and everything left, to be fully deployed we should earn USD$100 billion annually, which would be after taxes in foreign countries, the United States, and other places. We have no warehouses, no banks, no buildings, no brick-and-mortar casinos.”

***WSR: What is your vision for Kenilworth over the next two to three years?***

**KENS:** Our vision is to not only attract companies that join us in financing, but bring in personnel, so we can teach them what we have and they can develop. There is no technical breakthrough needed for what we're doing. We believe as we get this recognition, first of all our stock price will enhance itself, but more importantly, let's assume we have approval in Nevada from the State Legislature and the Gaming Control Boards to broadcast from Las Vegas. Las Vegas is the gaming capital of the world; everybody wants to visit it because there's something to see. Once you've been there once or twice, unless you're a heavy gambler, you don't need to go back. Everybody has a little gambling instinct in himself or herself, that's why all of the lotteries are prospering, although some of them are not doing too well. We have plenty of Off-Track Betting Centers that are struggling because of the high price of oil — the extra USD$2 or USD$20 a week that customers were spending on lottery tickets or for our entertainment is disappearing. Oil prices are coming down a little bit, but it's not going to stay there.

***WSR: In summary, why would Kenilworth Systems represent a good long-term investment opportunity?***

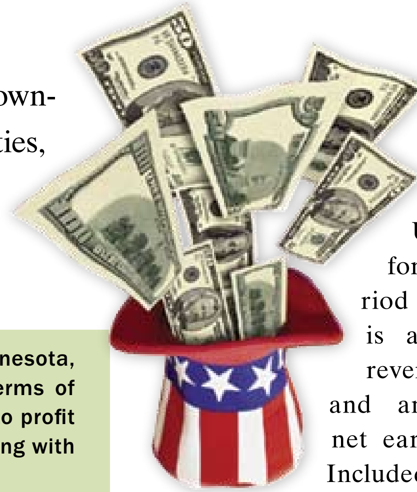
**KENS:** To recap, we believe we're in the right business. Playing along with a live game is a natural progression from playing virtual and make-believe games. It is something that will catch on and probably catch on quickly.

CEO INTERVIEW

# Southwest Casino builds a track record of profitability by catering to local gaming markets

Southwest Casino Corporation engages in the development, ownership, operation and management of casinos, gaming facilities, and related amenities in the United States. The company also provides management services with two casino facilities, located in Concho and Clinton, Oklahoma.

**With construction underway on a racetrack/casino in Minnesota, Southwest Casino and Hotel Corp. is raising the stakes in terms of the scale of its properties. CEO James B. Druck says the path to profit comes from knowing the micro markets and successfully working with the native American tribes.**



CEO INTERVIEW

***WSR: A major development was the recent decision from the Court of Appeals in Minnesota on the North Metro Project. Where does the company stand on the project in regard to the progress of the track and the casino in plan to be built there?***

**SWCC:** All of our obstacles to proceeding with the racetrack and cardroom in Minnesota have been eliminated. We are presently proceeding with all normal pre-construction and pre-opening planning activities, including finalizing all plans and construction contracts, finalizing our bids from subs, and completing our financing. We are hopeful to have all of that work done by the end of October. If not, we will probably start our construction in late winter so that we don't finish the project a year after we start and then have it sit idle through the winter when we can't race.

***WSR: What can we take from the current quarter in terms of highlights that will enable the company to build on the success obtained up to this point?***

**SWCC:** For the quarter ended June 30, 2006, Southwest had net earnings of USD$378,000 on revenue of USD$5,444,000, compared to net earnings of USD$300,000 on a revenue of USD$5,181,000 for the same period in 2005. This is an increase in revenue of 5% and an increase in net earnings of 26%. Included in net earnings for the quarter ended June 30 is a charge for income taxes in the amount of USD$226,688, which was zero in 2005, due to the six-month loss for the period ended June 30, 2005. Similarly, for the six months ended June 30, 2006, Southwest had net earnings of USD$675,000 and revenue of USD$10,819,000, compared to a net loss of USD$107,000 on revenue of USD$9,897,000 for the same period in 2005. This amounts to earnings of USD$0.03 per outstanding share, on a fully-diluted basis in the first six months, as compared to a loss of USD$0.01 per outstanding share in the first six months of 2005. Included in the net earnings for the six months ended June 30 is a charge for income taxes of USD$400,000, which was zero for the comparable period and nearly doubles our net income, but for the provision for taxes. We have, by the way, a large NOL, so the provision for taxes is somewhat artificial, and we will not be paying taxes for some time. We attribute our improvement in operating results to increased management fees, generated for the casinos we operate for the Cheyenne and Arapaho Tribes of Oklahoma.

***WSR: Tell us about your current casinos and projects; where are they located and how are their management and operations run?***

**SUMMARY**

Southwest Casino & Hotel Corp. (OTCBB: SWCC) has amassed a diverse portfolio of local-scale gaming interests. The company operates two Native casinos in Oklahoma; both are significant revenue generators. Tribal relations are very good. The company is also a significant player in Colorado's Cripple Creek casino development. "All obstacles have been eliminated" to build a racetrack/casino in Minnesota and pre-construction work has begun. Management combines wide-ranging expertise in casino management (having turned unprofitable facilities around in the past) with tribal connections and experience in equine pursuits. Fee-based consulting has provided cash flow. Revenue climbed to $5.4 million in 2Q while margins widened substantially, pushing the company into profitable territory even after a charge for tax provisions.

www.swcasino.com Phone: 952-853-9990

**SWCC:** We have two Native American properties we operate for the Cheyenne and Arapaho Tribes of Oklahoma. Lucky Star Concho is located 35 miles west of the Oklahoma City Airport in an Oklahoma City suburb called El Reno. That property has close to 1,000 machines and 25 table games, a restaurant, bar, and some other entertainment facilities. We do boxing and wrestling and music events there. We've had ESPN fights, Showtime fights, and Telemundo fights. Lucky Star Clinton is the second operation we have for the Cheyenne and Arapaho Tribes of Oklahoma. That is located 60 miles west of Concho and El Reno, just off I-40 in Clinton, and that facility has 400 electronic gaming positions and a small snack bar. They do very well and contribute significantly to our revenue stream. We also have the Gold Rush, Gold Diggers and Uncle Sam's Casinos in Cripple Creek, Colorado. Those properties aggregate 500 gaming positions, restaurant, small number of hotel rooms and our outdoor amphitheater. Cripple Creek is an old mining town licensed for Limited Stakes Gaming in the early 90s and is a Casino Town today. We operate 10% of the devices and generate 11% of the market revenue. The other project we have in development is our racetrack cardroom in Minnesota. We have dubbed it North Metro Harness Initiative, although we have instituted a name contest among the local community and the Harness horsemen to come up with a better handle for it. That will be harness racing simulcasting and a 50-table cardroom facility that will have live poker and other table games — blackjack, Let It Ride, Caribbean Stud — games like that. We've recently signed a management contract with the Oto-Missouri tribe in northern Oklahoma to operate their Paradise Seven Clans Casino. That project is at the NIGC awaiting approval; by Federal law, our actual duties and revenues cannot commence until we have Federal Approval.

***WSR: In addition to the Metro North (Racino) project, are there any Racino properties you are looking to develop in the future? Is this a trend that will continue to grow the Racino concept?***

**SWCC:** Our experience at Minnesota, and my personal experience as an active thoroughbred horseman in the past, puts us in a unique position to capitalize on the Racinos trend. The Minnesota project may not fall within some people's definition of a Racino, as we will have racing, simulcasting and table games, but we will not have slot machines. It is clear the trend will continue. Racetracks need additional sources of revenue — they are a wonderful entertainment product, but they are not a great gambling product, because the time in between bets is too long, it takes too much brainpower, and there's too much coming off the top. Yet, they've never figured out how to benefit from their entertainment aspect. We intend to capitalize on that. Our racetrack will feel like Ben Hur meets the St. Paul Saints at the County Fair. The St. Paul Saints is a local minor league baseball team Bill Murray has an interest in, and it is a party all day, everyday. That is the feeling we want to accomplish to support both the non-cardroom and cardroom activities. We will be very successful. We don't have any Racinos on the horizon for us, but the trend will continue. Both racetracks and the states need additional sources of revenue, and we think once we get this project under construction, we will be capitalizing on the experience.

***WSR: Another trend in the industry has been the popularity of "local casinos" relative to the more destination locations. Of the properties you're currently involved with, one could put those under the heading of a local casino, although some of the entertainment venues attached to the properties makes them a destination to an extent. Can the company continue to prosper from the growth of this local casino trend?***

**SWCC:** Local casinos are our sweet spot. We compete well, we understand what locals want, and it is a little bit different in every market; the typical size of those projects are well within our means financially. We are not ready for a billion-dollar project. In Indian country, we were the first company approved by the National Indian Gaming Commission to be a management contractor. We are licensed in both Minnesota and Colorado; both of those licensing processes are involved and well-respected by other regulators. Our ability to compete and get licensed makes us think we are going to be able to capitalize on what's going on with the development of local property.

***WSR: How important is room occupancy rates to your company's financial success?***

**SWCC:** We only have 13 rooms at the Gold Rush, so it is not a major component, although we manage those rooms well and derive significant revenue. We do our best to give them all away, but we rate those players we give them to, and we generate significantly more in net revenue by giving our rooms away than by selling them. We have additional hotel space planned on the drawing boards for several projects. It is a major component for many properties; it isn't

"Racetracks need additional sources of revenue — they are a wonderful entertainment product, but they are not a great gambling product, because the time in between bets is too long, it takes too much brainpower, and there's too much coming off the top."

for us yet, but it will be in the future.

***WSR: What are some of the value propositions your company offers to potential partners in the Indian Nation that enable you to be both a good fit and a promising partner?***

**SWCC:** It starts with our respect for both the tribes and their membership, and our efforts to enhance their underlying economy and underlying self-respect. We are in the neighborhood of 90% Native American-employed in Oklahoma. Our entire top management is Native American. Our Vice President and General Manager, Brian Foster, is a Native American. He is the only member of the senior team in Concho and Clinton that is not a member of the Cheyenne and Arapaho Tribes of Oklahoma. In Eagle Pass, Texas, we employed 56 tribal members. The Kickapoo tribe there is the poorest tribe in America. We put 56 tribal members to work, only one of them could read or write. We have donated sacred land we have purchased back to the Cheyenne and Arapaho Tribes. Fundamentally, we have respect, we have shown respect, and we've built up respect. We also execute well. We built Lucky Eagle Casino in Eagle Pass, Texas in 82 days from groundbreaking to opening. We assisted the Fort Sill Apache Tribe that had a major leakage problem, and we turned an unprofitable casino to profitability in a very few months. We worked with a tribe in Iowa and increased net income by 15% in 12 months. We have an entire menu of services we provide from complete development, management and finance to consulting in accounting, internal controls, marketing, database, customer service, asset security, table games security, title 31 compliance and so on. We offer those services on a fee-for-menu basis, and we have gone into many native operations and straightened things out or assisted them in improving their situation.

> "Local casinos are our sweet spot. We compete well, we understand what locals want, and it is a little bit different in every market; the typical size of those projects are well within our means financially. We are not ready for a billion-dollar project."

***WSR: In a recent management development, the company announced the hiring of Tracie Wilson as Chief Financial Officer.***

**SWCC:** She is very talented and has been a tremendous help to us in the couple of months she's been on-board. She is going to give us better control and is also providing me with project analysis and comparisons that I had a feel for before — I now have some hard numbers to work with.

***WSR: Does the investment community fully understand the potential of this company and what it is capable of accomplishing?***

**SWCC:** At the outset, 2005 was a bit of an anomaly. We announced a transaction we elected not to proceed with, because it was not on sound footing. But it was with a highly visible, well-recognized individual, and people flocked to the stock. The other issue we had was that there was very little free trading stock in the marketplace, so a little bit of buying had a big impact. 2005 is considered to be an anomaly, but our company is undervalued. Every CEO probably thinks that or they ought to think that, and I don't think we are properly valued in the marketplace. We do have a couple of things we need to accomplish to gain the respect we need. First, we need to get a North Metro Harness initiative under construction and moving towards an opening. Secondly, we need to either execute an extension of our contract of the Cheyenne and Arapaho Tribes or replace that cash flow through other sources, and we are very focused on those things. The marketplace understands those issues. We are continuing to evaluate our management, consulting, development, and acquisition opportunities and expect to continue to show the growth and the success we have had in the past.

***WSR: In summary, give us some of the reasons investors would want to get involved with the company.***

**SWCC:** We are a small company and very cheap. We plan to grow significantly over the next five years. We are well situated to accomplish this growth because of our varied backgrounds in Indian country and competitive local markets. We consider our North Metro racetrack cardroom to be a significant leap forward in size, scope, and visibility. ●

# Category Killer

Produce Safety & Security International, Inc. is promoting their patented ozone systems, equipment and machinery and other proprietary sanitizing product lines on a worldwide basis to commercial, government and major industrial users.

Produce Safety & Security International Inc. makes equipment that sanitizes food products, extends shelf life, and wipes out bacteria known for causing illness in people on cruise ships and restaurants worldwide. CEO C.W. Karney tells us the first R&D phase is over and full operations of the Scottsdale, Arizona-based company are underway. (Interview of November 2, 2006).

***WSR: Give us an outline of the overall target market opportunity for the company.***

**PDSC:** The market opportunity for our products is worldwide. What our company does is remove food-borne illness pathogens such as E.coli OH157, salmonella, and listeria. Removing these pathogens extends the shelf life of fresh produce; it also prevents and removes breakouts, such as the E.coli one we had here not long ago with the problems with spinach and some of the problems we had with salmonella. We use a completely-patented process. We have several different ways of doing it; we can use ozone units that we can use either with air where we're using it for dry products and which also have at work is infused into water solution; it gives a real fast kill and extensive shelf life. There is no residue left with it like with chlorine and some of the other products out there. We also have a complete audit trail where we are able to trace a chemical analysis of our product process all the way through to the retail chain store, hotel, cruise ship, or even the end user.

***WSR: Tell us about ozone, its impacts in your field, and some of the advantages it has over current technology.***

**PDSC:** Ozone has been around forever. For example, it is created when you have a thunderstorm and you have the lightning, it clears the air. That "clean air" smell you have is ozone. Currently, with our ozone process, it's cost-effective, generated by ozone generators that come out of the air. You have no gases, liquids, none of the stuff one normally works with. It works in two processes, by using the ozone air and a fogger mister you can use at the end of your produce retail store section. We also have it at the packing house and storage level where the product goes through the conveyor belt to be packaged and prepared for shipment — the one that goes through the water bath with an infusion of ozone which gives an immediate kill. The ozone process is energy-saving because you're not using any hot water. At anywhere between 38 and 74 degrees, ozone gives the best killing effect. Thus, it cuts down, for example, where the people have been using hot bath waters and any other processes, similar to when they use a hot bath for papayas and mangoes coming out of Mexico. This would eliminate all high-energy costs. We have test results from major universities such as the University of Florida, Rutgers, Michigan State, Cornell, and Purdue. We have some work we have done with the UC Davis Group in California. We also have research papers done by the University of Santiago in Santiago, Chile.

> "Removing these pathogens extends the shelf life of fresh produce; it also prevents and removes breakouts, such as the E.coli one we had here not long ago with the problems with spinach and some of the problems we had with salmonella."

***WSR: Give us an example of some of the company's products and also the value proposition in putting products out on the market.***

**PDSC:** There are three major lines in our operations. One is the audit control we use for auditing all chemical audits of all processes we use within our distribution food safety process. That process extends the shelf life, but also gives us a complete audit trail to the end user. We also have the truck sanitization operation, which cleanses the truck with a high-pressure ozone system with our Spherequat products, which remove the food-borne pathogens as well. In other words, you get a sanitization and a disinfectant at the same time. We will also issue a third-party chemical analysis showing that the truck has been sanitized. The other product lines we have are our quaternary program, which will remove DPA-registered and patented products. We are able to use these products in ready-to-use units already certified by the DPA. At 200 parts per million, it can be used in the back food restaurants, in hotels, in any of the hospitals for cleaning disinfectants. Within that product line, we also have a product line called Medic-Kleen for first responders to accidents. It's also in the dental DRC Programs that dental offices use as a blood and organic stain remover and also protects against hepatitis and other viruses that may be in the blood at the time when first responders arrive.

***WSR: Give us some insight into recent developments at Produce Safety and how they are impacting the business.***

**PDSC:** We are in the process of opening two facilities in Dallas, Texas. There will be a food safety process whereby we will be able to distribute not only to the area's food chains, but to the military as well as other governmental agencies. It's a completely fail-safe process running throughout our packing facility. One of the reasons we are doing this is that we will contract with growers all over the country, and they will use our ozone-safe process at the time of packing. We will also pay the vendor within the 10-day period. Doing that will increase the amount of quantity and quality of the product we will contract and will also give us a more conducive price for our operation. These products will be shipped in returnable, reusable bins through our Dallas, Texas facility via the piggyback train system. This will also cut down on costs. By using the returnable reusable bins, it will eliminate carton costs, giving the consumer a more economical piece of food product. At our Dallas packaging plant, the product will be processed with our ozone safe product process; it will then be stored and sent in returnable, reusable units to the clients we have contracts with. Doing this cuts down on labor costs, thus giving us another cost reduction we can pass on to the consumer. It also provides a complete audit trail so they can know on a daily basis what the product was that was being shipped. One of the other things we will have is a requisition-type process that was used and is still being used by the military. We will be purchasing and delivering against the requisition of orders of which the client wants. It isn't like the normal produce house that you get so many packages to sell of each commodity when it comes in, because it will all be size-graded for each customer and then delivered on an ozone-sanitized truck. There will be a complete food-safe processed product going to that client's facility, whether it would be on the cruise ships, in the hotels, or in the casinos. In terms of the hotel industry, most still have their own laundry system. By using ozone in the laundry, you reduce the amount of detergents to be used in the cleaning product. It will also reduce and eliminate hot water costs.

***WSR: Will the company's strategy continue to be one focused on organic growth or through acquisitions? Where would you put research and development in your pipeline of fueling growth opportunities going forward?***

**PDSC:** Research and development is one of the most important factors we have. We are currently working with the University of Florida, especially with our ozone ice machines we have been putting into some of the chains. In the seafood department of a lot of these chain stores, the ozone ice machine removes the odor, extends the shelf life of the seafood, and removes any of the food-borne pathogens that may be present, such as E.coli, salmonella, and so on. We are getting proposals ready for being able to use it not only in the medical field, but in the transportation, food staging, and food service areas.

> "The ozone ice machine removes the odor, extends the shelf life of the seafood, and removes any of the food-borne pathogens [and] we are getting proposals ready for being able to use it not only in the medical field, but in transportation, food staging, and food service."

***WSR: Is the company properly understood by the investment community? Also, if there are any misnomers or misconceptions out there, how would you address them?***

**PDSC:** One of the major problems we have is that there are a lot of areas out there with issues where there is no quick fix available. We've been taking a good beating by the shorters and everything else that's been going out there. One of the things it does is make us more stable and solid than any other company I know of at this point, especially one where we went from R&D into an completely-operational company. All of our inventories are paid for. We are not fully-reporting; we are a Pink Sheet and are going through the reporting process.

***WSR: In closing, why should we continue to follow this company?***

**PDSC:** One of the major reasons is that we are a fully-functioning and operational company. We are able to remove food-borne pathogens and extend the shelf life of flours. We are cost-effective, and it's been a fast learning curve. We have grown tremendously in the last eight months. The potential for what has occurred where we are able to be in the international market — we have several operations going for both Australia and for the United Kingdom.


**SUMMARY**

Produce Safety & Security International (OTC: PDSC) removes microbes from food through a proprietary ozone process. The company's technology is effective against E. coli, salmonella, listeria and other pathogens while increasing shelf life. Unlike chlorination, no residue remains in the food; unlike hot water sterilization, no heating is required, reducing energy costs. Paper trail allows for both quality control and certification of all treated produce. Major universities have tested the system. Model is for growers to process food during packing and then ship to centralized locations for distribution to hotels, cruise ships and other large-scale consumers. The company is opening two facilities in Dallas. The technology also has applications in seafood, medical and even laundry markets.

www.foodsafeint.com Phone: 928-717-1773

*(Continued from Page 4)*


we do grow, our attitude is acquisitions and/or additional operations under the holding company that would generate substantial fee-generating income.

***WSR: Are your acquisitions putting you into new areas? I wasn't clear if your comment meant it was just expanding the things you are already in or does that take you into something new?***

**GIOMI:** It takes us into Carson City from Reno. Carson is about 30 miles from south of Reno, but it gives us a greater penetration in our home market as well, because the bank that we are buying is headquartered here in Reno. So, it eliminates the competitor and allows us to pick up another branch in another area.

**BIDDLE:** And if I might add a comment to Harold's remarks? As Harold just mentioned, the competitive marketplace for funding sources is extremely, extremely difficult. And it is interesting, fortunately, for us to think some of the potential solutions are reinventing or re-looking at the traditional model of gathering core deposits. And a number of organizations are already beginning to pursue this to the point where we are going to have to consider (and have talked a bit about already) that companies are developing in addition to the loan production model, the deposit production office model, using the technology such as the remote capture, essentially servicing a clientele with an outbound party and using technology to gather in and process those deposits as a means of growing our core deposit, rather than having to put any money into brick and mortar. Because once you've got that infrastructure in place for that imaging process, the marginal cost of growing is actually relatively less. It is relatively minor.

"When the fed funds rate was at 1%, we did see a lot of de novo expansion. It was pretty easy and makes a lot of sense to build branches when the fed funds rate is razed to 1%, you could break even relatively quickly. The M&A activity has picked up recently."

***WSR: Brett, in terms of your region, what are you seeing in terms of the expansion and acquisition plans?***

**RABATIN:** In the west, let me just give California as an example. Last year, there were over 30 de novo banks formed. And if you took the capital that they've raised to keep this bond over $6 billion in loans with that, there has been a ton of expansion. In many markets, what happened is, as you have seen, the banks that have sold in the past two years, essentially the management teams (after their non-competes are up) have gone out and have done the same thing they did five or six years ago, or maybe ten years ago, and they started another bank. So, there has been tremendous expansion in the number of new de novo banks out there in the hotter growth markets. There are slower areas that many banks were deciding, "hey, maybe we should have expanded there." That seems to be the current trend given that competition there might be lower, and it will be a great place to try and grow core deposits. I think from an M&A perspective, it is poised to continue to increase materially in the next 12-18 months for several reasons. One is, banks always want to sell at peak earning power, and right now banks are probably at peak earning power. Going forward, there are several questions: how much for additional loan loss provisioning, current profitability, the yield curve? But you have to be from Alpha Centauri to not know that the environ-

**Dick Driscoll, Southwest Securities FSB, CEO**

Richard (Dick) Driscoll was elected Chairman of the Board of Directors and Chief Executive Officer of Southwest Securities Bank in March 2002. He joined the bank in 1991 as President and member of the Board of Directors. He has also served as an Executive Vice President of the parent company, SWS Group, Inc., since 2003.

As the senior officer of the bank, Mr. Driscoll is responsible for its strategic direction and growth. Under his leadership the banking team has developed and expanded both traditional and non-traditional banking services, including creating profitable niches such as factoring, secondary investment purchase and mortgage warehousing. The bank has grown to over 150 employees and nearly $800 million in assets during his tenure.

Mr. Driscoll began his career after earning an accounting degree from St. John's University in Collegeville, Minnesota. He was employed initially as a CPA with Hawkins, Ash and Baptic. From there he joined Peterson and Company. In 1981, Mr. Driscoll moved to Texas to become Comptroller of Nowlin Savings and Mortgage and later served as Chief Financial Officer.He is also a past member of the Federal Reserve Board's Thrift Institution Advisory Council. Mr. Driscoll currently serves on the Board of Directors of America's Community Bankers.

ment is not positive going forward for lending and taking deposits. And then just lastly, this is somewhat similar to the '98 timeframe, but you've got banks when you can grow your loans double-digit, but you can only grow your core deposits single-digit, and so you are always at the margin funding a portion of your production with higher-cost funding. That's not good for the margin, aside from what the yield curve is. And so banks would be out there looking for two things: growth in higher and faster growth markets, and also banks that might have excellent liquidity that they can use to fund their own operations that they continue to grow. So, banks that have excess liquidity will be in high demand I think, and then also banks obviously that are in attractive metro markets are going to be in high demand. I think the valuation for a lot of those markets does reflect that currently.

***WSR: Dick, any additional comments on expansion plans, growth?***

**DRISCOLL:** Yes, first I want to mention that we are sitting here in the Dallas-Fort Worth area, so we are in one of these hot growth markets. I am very bullish on this area, but that is causing everyone who is not in the Dallas-Fort Worth area to be coming in, opening up branches or bringing in loan production offices. And we have had quite a bit of merger/acquisition activity and community banks have sold at what I would call some very high prices. Knowing some of the sellers, they probably did the right thing by taking the money and selling out. And as Brett mentioned, we are also seeing these de novo banks happening all over the Dallas-Fort Worth area, where managements down the road, are just going to try to do it again. They are going to bring back their loan officers, bring back their customers and grow again and sell again. We have always grown internally. We have not ruled out the M&A activity, but we have been successful by attracting experienced business development-oriented bankers, and really we think when a new player buys into the markets, that's our best opportunity to get their experienced bankers. They may not want to work for that new money center bank, and we can not only get the banker, but also get that banker and their customers. And then, once we have them on board, then we build a branch around that banker and fill in with other lenders. It's been very successful for us. So, really what we are trying to do is rather than buy the bank, we are trying to buy the banker after the bank has been bought. And I guess the other comment I want to make is about funding as was brought up by two colleagues. We have a unique product because we are part of a holding company that has a brokerage firm and a bank. Southwest Securities, the brokerage company, offers an FDIC-insured money market product that flows through to the bank, and it is at a money market rate, but matches up well with most of our loans, which are prime based. So, it's not a cheap source of funds, but it's a market rate source of funds and our operating costs are basically nil on this. And then the good point of this is there

> "Banks always want to sell at peak earning power, and right now banks are probably at peak earning power. Going forward, there are several questions: how much for additional loan loss provisioning, current profitability, the yield curve?"

ROUNDTABLE

NASDAQ: TBHS


NYSE: SWS


NASDAQ: PLBC


**SUMMARY**

As the national housing market cools, the impact on community banking will be localized and must be evaluated on a case-by-case basis. Regions that lagged the boom (including Texas and the Midwest) or are still enjoying favorable economic conditions are expected to hold up better. Current valuations inspire caution, leading participants to favor defensive large-cap names as well as more stable smaller banks. Branch creation is no longer as attractive in the current rate environment to banks looking to expand their footprints into desirable territories. Competition for core funding is driving M&A activity as well as adoption of more focused deposit production techniques. The ability to "export" deposits from low-growth regions to more active areas is emphasized. As de novo banks continue to emerge, the fight for deposits intensifies; these new operations can pursue aggressive fund-gathering strategies that established franchises find "frustrating." Some banks are diversifying their activities into non-traditional areas (like asset management or 1031 exchange) and niche lending markets.

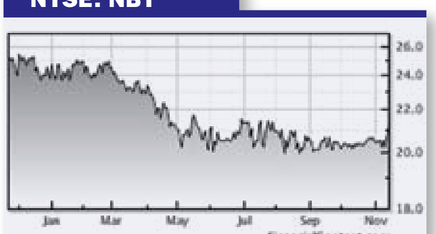
NYSE: USB


NYSE: WB


NASDAQ: SBCK


NASDAQ: ALAB


NYSE: NBY




NASDAQ: BANF


is a large supply, there is a huge supply of this, so we do not have a problem getting the funding like a lot of the other community banks have.

***WSR: You did touch on one thing I hope people will comment on is that beyond the basic bank businesses, are companies trying to get into new businesses? Are of the banking executives seeing much of that?***

**GIOMI:** Speaking for myself, yes, it's different businesses. And this is why we got into the exchange companies, because it is a very cheap funding source for us, and we are looking at other avenues of buying companies that may provide the same funding types. So, the answer is yes, we are looking at other areas.

***WSR: Just for anyone who doesn't know, how would you categorize an exchange company in terms of what they do?***

**GIOMI:** Typically, if an investor owns a piece of property (both commercially or a residential home) and he decides to sell, he can sell that property and place the funds into a 1031 exchange; the "1031" is the section of the IRS code. In that, he doesn't have to pay federal tax or state tax on it. And he has got 180 days to choose another piece of property that he will buy, and once that deadline is met, he takes that money that he has in the 1031 and through an escrow, through a title company, purchases the other piece tax-free. And in the meantime, we have the deposits.

W***SR: Anyone else, any observations in terms of expanding into other businesses?***

RABATIN: I'll make a comment that a lot of banks in the west are expanding or have been expanding aggressively in small business lending, SBAs in particular. So, they are opening up a ton of loan production offices across the country and it is a very cheap way to grow loans. That program of the government has been very successful and they are able to originate and sell off most of the guaranteed portion of those loans. And the offices don't cost much to start. It's been highly competitive for the lenders in that area just given that it has been so successful. But that's one area where a lot of community banks are expanding. And then the other one is the age-old looking at asset management, and so a number of banks I have seen here recently opening up asset management arms to try and beef up their ability to provide other services besides their core banking services, so that they might try and offer some sort of asset management type arm to their customers. So, that seems to be two of the areas in the west where banks are looking to expand their operations.

**BIDDLE:** And to echo what just Brett just mentioned, that's in fact exactly what our company is embarking on now with our announcement to open our Sacramento SBA-subsidized LPO. What that also does too is, it opens up an opportunity for us to do something very akin to that, but more in the secondary market for commercial real estate. Obviously, there are a number of loan opportunities that we will come across and do that don't fit the government and other guaranteed lending parameters. We can essentially sell those off to those large organizations that are looking to accumulate those in a commoditized manner and pick up some fee income, in some cases not even having to underwrite the loan much beyond — just a cursory check as to whether or not the loan hits the parameters of the even-



**Brett Rabatin , FTN Midwest Research, Bank Analyst**

Brett joined Midwest Research in 2000 from J.C. Bradford where he was an associate equity analyst following regional banks and thrifts. Prior to joining J.C. Bradford, Brett was an analyst with Mercer Capital focusing on transaction advisory and valuation services for financial institutions. Brett began his career in banking in the employ of Bank Compensation Strategies Group working on analysis of benefit plans and compliance with banking regulations

tual purchaser. And so there again, it is interesting enough. Things even in the commercial real estate market are becoming more and more commoditized, and we in our industry need to acknowledge that and be able to be prepared for and profit from that opportunity.

***WSR: I would like to give the analysts an opportunity to take a little bit about their investment strategy in the banks, including maybe some specific ideas. Brad, maybe you could kick off that discussion?***

**MILSAPS:** Yes, well, maybe just kind of generally. We are probably as cautious as we have ever been, especially sort of here on the eve of earnings season, especially towards a lot of the small- and mid-cap banks, really for all the reasons that everyone has gone over: a slight yield curve, the potential for credit issues down the road and then mostly valuation. We continue to target many specific areas around the country. We still like the Pacific Northwest. We think generally the banks there are very well positioned, still continue to feel very good about Texas for the small-cap banks that are less in that market, and generally feel good about the Southeast. And then probably less bullish on banks in the Midwest. In terms of individual names, we were probably more heavily weighted towards the larger-cap or money center banks at the this point, maybe specific names like US Bancorp (NYSE: USB $33.57) or also someone like a Wachovia Corp. (NYSE: WB $54.30). Valuation, capital generation capabilities, returning capital to investors: all of these point to very solid outlooks for both of these companies and that's probably where the majority of our thoughts are at this point.

***WSR: In terms of investment strategy at Stanford Group, what are you looking at?***

**SHIPMAN:** I will step back and look at kind of a big picture. When we make recommendations, we generally look at three primary factors in a bank, and first and foremost is the management team. The quality and depth of that management team is really what you are investing in over the long term. And then also the markets that the banks operate in — not necessarily a high-growth market, but one that could be experiencing M&A disruption or anything like that. And then the strategy that the company employs in that market: is it appropriate? When we look at these things, the numbers generally speak for themselves if we had those factors working in our favor. As we stand today, I have to echo a lot of what Brad just said. It's really just caution with valuation where it is. With an inverted yield curve, with kind of uncertainty surrounding the economy and where we are going here, our list of recommended stocks is rather slim at this point. It's really certainly specific ideas more than ever. With the yield curve where it is, we certainly are looking for well-funded institutions. The idea of core funding is the bread and butter that's been brought up several times today. These core-funded institutions are typically shorter on the curve as opposed to longer on the curve. Where our recommendation is going to stand at this point, some specific ideas are some core-funded institutions in markets that I hesitate to say "off the beaten path," but certainly not your higher competitive metro markets, places like Macon, Georgia. Security Bank Corp. (NASDAQ: SBKC $23.15): well-rounded funding base in Macon, Georgia with a lending arm in Atlanta. Really a great example of a company that will be able to protect the margin going forward, as we are heading into more headwinds than the tailwinds that we have had. Alabama National Bancorp (NASDAQ: ALAB $66.50) in Birmingham: a great franchise that they've cobbled together down in Florida with a great stable funding base in Alabama. Companies along those lines. And the other one would be Cadence Financial Corp. (NYSE: NBY $20.50) in Starkville, Mississippi and has recently been expanding into Memphis and Nashville and Birmingham. For the patient investor, as this franchise is put together and that core funding base is exported into the higher-growth markets, with a patient investor, you can sit here and collect the 5% dividend yield. We feel that they will be rewarded in the long term.

***WSR: Brett, how does your group see the investment environment?***

**RABATIN:** In the past two quarters es-




pecially, I've been trimming quite a few names that I had buy rated to neutral. So, a number of the stories and ideas that I have been looking in the past year or so have worked out. The names are not attractive as they used to be. There is just not as much available for recent valuation around the country. Names on my specific list that I like presently, one is BancFirst Corp. (NASDAQ: BANF $48.38), actually in Oklahoma. They are liquid, they are core funded, they've got a steady-as-she-goes approach for opening up some branches in Oklahoma City and Tulsa, and they have a great management team there. Insider ownership is very high. I like their prospects and they should continue to outperform relative to the market. In Texas, my favorite idea this year has been Sterling Bancshares Inc. (NASDAQ: SBIB $18.21). Their stock has done well. From a valuation perspective, it's not as attractive as it was earlier this year, but I still think that there is probably some catalyst going forward from a profitability perspective that should drive their stock higher, particularly over the long term. And I think that, again, they will probably have some improvement in profitability as well as probably surprise analysts over the next quarter or two with better-than-expected earnings. And the Pacific Northwest has been an area of focus of mine. Frontier Financial Corp. (NASDAQ: FTBK $28.40) had been my top idea recently in this space. That stock is a little expensive here, but if that one pulls back in some, I've already got it as a "neutral" over the long term. One of my top ideas in that area is Sterling Financial Corp. (NASDAQ: STSA $32.95). The market will question how seasoned their loan portfolio is going forward. They've grown very rapidly and tangible capital there is still little high. There, a number of the things that used to give the valuation a discount continue to dissipate, and as a growth company, at some point it could be a takeout play, and so that's one, particularly on pullbacks, that looks very attractive over the long term. And then lastly, we just mentioned Glacier Bancorp Inc. (NASDAQ: GBCI $34.17). It's a great company, great management, great market. They have similar profile to the name Corey mentioned — Alabama National — and it's a growth story, but it also has some franchise in slower growth markets, so it's able to export a core funding mix into faster-growth markets. They have a very successful acquisition strategy predicated on pairing up with the small community banks and not paying too much and not putting any expense saving in the transactions. And so, those are great long-term names, but the valuations by and large are going to make it difficult for capital appreciation, probably in the next quarter or two. And then we'll just close by saying the big question is not really third quarter earnings. I think everyone is fully aware that their earnings are not going to be impressive as they have been in the past year. The big question is what '07 looks like, how much the Fed cuts, what the economy will look like, and how much the provisioning has to increase. So, assuming things play out from a soft lending perspective, the bank earnings next year should be okay, which bodes okay for stocks to not get knocked down too much. And then if M&A does increase as we've been talking about, that's certainly going to be a nice boost if you do pick a seller.

***WSR: How do you see things looking forward in your operations at Southwest Dick, and are there any other key issues that we haven't brought up that you think people should know about?***

**DRISCOLL:** We see a real bright future here for some of the reasons that I already mentioned. We think we are in that high growth area. We really think that the M&A activity, the buying and the selling, will give us an opportunity to follow our strategy which is to attract and to retain experienced bankers and build around those bankers. We have got seven current locations. We already have the bankers hired for two additional branches. They are currently in loan production offices as we find those locations and open up full service branches. I think that like a lot of banks, we talk service. We think our size is the right size. We're large enough from a loan limit to take care of our customers' needs, but small enough to be responsive and do very well competing against the large banks. One thing I would like to talk about is one of our businesses that is really a national business — we provide mortgage warehouse lines to small and medium-sized mortgage companies on a national basis, and we find somewhere from $700 million to $1 billion worth of loans quarterly. And we have a new gentleman running this for us, David Frase, and David has a solid track record of growth. We'll now be also targeting the mortgage broker who is becoming a mortgage banker, and we believe that this is going to be some real growth for our company. We have great technology, we have very competitive pricing and terms, and we think we have got the best service in the market. So, we are very excited about that. And I guess, the other thing I want to say, I think we're a little bit unique because we have a sister company, Southwest Securities. So, within our holding company, we're focusing on brokerage. Southwest Securities is, I guess, the largest Texas-based brokerage firm, and we're using that as a platform to grow the brokerage side. We have some fixed income business, public finance and stock loan business that are well established and respected, and we are also growing our retail brokerage business. We are also

> "We are coming off of record volume, especially in the home building business. So, home sales have slowed, our inventories are up, but at the same time, because we've done record volume, this will still probably be the third-best year ever."

ROUNDTABLE



the fourth-largest clearing organization in the country. And so, we are expanding our clearing business and have operating leverage where we can add capacity and add customers without additional overhead. So, we are really excited not only on the banking side but also on our sister company Southwest Securities going forward, and what we can do together and also in this geography, North Texas.

***WSR: At The Bank Holdings, anything you would like to add about where you are headed into next year?***

**GIOMI:** I think the future for us is extremely promising, and the one thing that I'm a little bit concerned about and worried about is the cost of operation due to technology and due to regulations. With Sarbanes-Oxley coming down the pike, what we are having to do to comply with that is extremely costly not only in dollar amounts, but in employee time involved. And I don't know what the extent and the magnitude of it is, but as we move into it, we have been spending a lot of money to comply. And I sort of feel sorry for the banks that are smaller than we are, because it is going to put a burden on them. When we talk about the M&A side of it, someone talked about the California banks. I just read, and probably Doug, you probably read it as well, that there are 70 new banks forming in the state of California, either selling stock now or just submitting their applications. And all those banks are raising capital to the magnitude of around $20 million. Just if you would sit down and calculate that out, and how much that has taken out of the funding side of banking, down the road that's going to be a problem I think. And we are associated so closely with the state of California that I think it is going to impact us. And our attitude is, if we stand still we are going to lose. We have to march forward. The only consideration and the forethought that we have is that, we must make very intelligent decisions. We cannot afford to make one error.

***WSR: Do you think that risk level is much significantly higher than it has been in recent years?***

**GIOMI:** Definitely, I think it is. Maybe I have been in banking a little bit too long, but when you start paying in excess of three times book for banks in some of the markets that we are in (that has happened), there is a lot of goodwill involved. And with the inverted yield curve and what I see with the funding side for banks, I don't know if it's two freight trains waiting to collide, and time will only tell. I hope that that's not the case, but I am a little bit concerned about it.

***WSR: Doug, any wrap-up comments or additional observations about your firm?***

**BIDDLE**: Just a few. With all due respects to the colleagues on the call, I will actually pick and chose a little bit of their jewels that they have mentioned, because it actually represents, albeit at a little lower scale, our strategy. Dick, in his strategy of building around that key banker in a community, is actually our strategy as well, and that's how we have been able to, for example, enter the Sacramento marketplace with a very well respected, very experienced lending team that decided to join us because of the stability that our company, 26 years, and all the positives this stable management provides has attracted them to come to us, for us to view their infrastructure, to enable them to do what they do best — and that is service their clientele on the lending side there. And so, that is what we are doing as well. We have got some feelers out in some of these other adjacent growing marketplaces in northern California, in discussions with some key bankers in those communities, and realizing that we may have to hire those folks six months before we actually get

"There are 70 new banks forming in the state of California, either selling stock now or just submitting their applications…down the road, that's going to be a problem, I think."

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**Bradley Milsaps, Sandler O'Neill & Partners, Bank Analyst**

Brad Milsaps is an Associate Director with Sandler O'Neill & Partners, L.P. His research coverage primarily focuses on small and mid-cap commercial banks located in the Midwest. Mr. Milsaps joined Sandler O'Neill in February 2005 from FTN Midwest Research, where he served as an equity analyst for three years, focusing on small and mid-cap banks in the Midwest and Southeast. In 2005, the Wall Street Journal ranked Brad #2 in stock picking for the Banking sector. Prior to joining FTN, Mr. Milsaps worked in various commercial and corporate lending roles at SunTrust Bank. Brad earned a B.S. in Business Administration with a concentration in Finance and Corporate Investments from the University of Tennessee-Knoxville in 1999.

an operation up and running, because it is so important to get that key individual. Unlike some of the other folks, our strategy is that, with the exception of the SBA lending that I mentioned, we actually stick to more of the generic banking functions, but rather look to diversification to really help us achieve our financial goals: not only commercial real estate and construction, for those that are interested in relocating to a retirement home area, vacation home, that kind of thing. We also have about 20% of our portfolios in agricultural lending in a variety of areas, mostly cattle, some row crops and things like that, and we also as well have a very robust dealer lending program, where we have actually placed technology in the hands of our dealer clientele that actually helped us process those lending opportunities a lot quicker just through technology over the Internet. So, we have actually tried to deploy technology to help drive and lower the cost to acquisition of lending to drive that kind of volume into a process that's very automated, very defined. Our credit quality standards are quite high. For example, in our $50 million dealer portfolio, our average FICO score is 720, so we are trying to go for C&D paper. We are looking for that higher-tier client, and because our costs to drive that business are lower because of the technology, it works well for us to help diversify our lending portfolio and opportunities there. So, I'd say that's really where our initiatives are to try to push out some more technology into deposit gathering world, like I mentioned: remote capture at business clienteles to provide that more customized service in that regard. And just kind of stick to our basic knitting and expanding into areas with key bankers that are very highly respected in those communities and provide a structure and a home for those folks to service their clientele.

***WSR: Anyone else have any additional wrap-up comments?***

**RABATIN:** I wanted to make a few follow-up comments on some of the comments that the CEOs just made here. I would certainly very much concur with the bankers that the acquisition pricing in some of these markets is ridiculous. For instance, Dick is from Dallas. The bank over in Fort Worth, Summit Bancshares Inc. (NASDAQ: SBIT $27.06), sold for about five times tangible book and about a 40% core deposit premium. And you would think that would be by some large regional banks that didn't care about the earnings dilution and the margin, but it was actually by Cullen/Frost Bankers Inc. (NYSE: CFR $53.81), who usually does a great job and is well respected. In many of the Texas markets, it is one of the best banks around. The problem is that those large regional banks in a lot of cases are going to pay slightly dilutive pricing to get into new markets. So, that's one thing that's the interesting aspect of the market right now. Then the other is on the de novo banks, and the calculation I made on that number about California: 70 banks with $20 million of capital each, that would be about $17 billion of leverageable assets and that's a lot for the market to soak up. And the problem with those institutions typically is in the first several years, there is no compunction for these institutions to be profitable anytime soon, and so they are very aggressive and trying to go out and grow their deposit, and that's typically very high-rate CDs, and so they are just trying to go out and balloon their capital up quickly, and it leads to a lot of strange decision making in some markets. I know that has to be terribly frustrating for good bankers that are around seeing other community banks doing what would be considered dumb things for profitability in their market. I just wanted to make those two sidebar comments.

> "The problem with those [new] institutions typically is in the first several years, there is no compunction...to be profitable any time soon, and they are aggressive and trying to go out and grow their deposit and that's typically with very high CD rates."

**BIDDLE:** Just one follow-up on Brad's comment. Hal explained it very well also about the proliferation of all these de novo banks in the California marketplace. I think for those companies that have a proven track record of patience and steady earnings and stability and have focused balance sheets, we understand that this business goes in cycles, and I think in some ways I might view that activity that seems to be exploding in our marketplace in the form of de novo banks being created as being foolhardy. It actually opens us some opportunities for us I think in the next five- to seven-year timeframe. I agree with Hal, there is just no way that the promise that the organizing groups made to those that were investing and to those that they acquired in the form of key banking individuals — especially in the form of stock options and such — would really come to fruition. There will be some talent out there for us to acquire and really bring back into a solid banking franchise that they can really say, "hey, this is one that has been proven. I can join this, I can grow with it, I can prosper and contribute," rather than "I did my thing, put my high-flyer in on this new startup and that didn't work." And "I've got an attractive place to go that can really be a home for me in the long term."

***WSR: So, you are looking farther into the future to see the opportunity.***

**BIDDLE:** We always have to.

*Specific disclosures regarding each issue discussed can be found in the analysts' recent reports, available upon request.*

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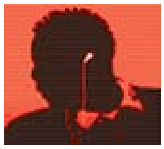
"And particularly, if you look outside the U.S., where broadband to the home is not so available, the penetration is low, especially in developing countries like India and China, parts of South America, as the alternatives to the ways to deliver broadband to the home is either fiber-to-the-home or copper and DSL to the home," said Sunhedar. "If new communities are being built and there is not fiber-to-the-home, or existing ones, or enough copper, then the one way to deliver broadband very quickly is WiMAX. I think you will see a lot of WiMAX deployment and WiMAX CPE as a way to deliver broadband to the home."

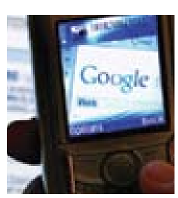
The delivery of information to cellphones is also evolving as the technology improves, he says. For example, Storm invested in Cellfire, which delivers coupons via the cell phone. "All of us like to get a good deal and like to get two for ones or 10% off or 50% off, but we are not clipping coupons, we never seem to have them when we need them or when we think about them," he said. "Wouldn't it be great that instead of getting coupons in the mail, where most of which are thrown away or are not there when you need them, is to have them delivered to your cell phone, so that when you are doing whatever you are doing, you can easily look for that coupon and enjoy the savings that the coupon offers."

Another interesting allied idea is Ad Infuse, which is going to do dynamic ad insertion in mobile cell phones, Subhedar said. Still another wireless play is Mobio, doing the equivalent of mobile 2.0, or allowing you to do a highly-contextual, highly-targeted search, so that the information you get is very relevant to what you are trying to do, he said.

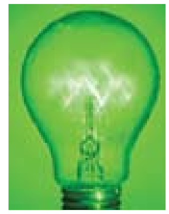


We have done a very good job over the last decade or so of building big fat pipes, and we have done a very good job of building web servers and applications and lots of web services available. The online connected under broadband world is becoming richer, and as a result, individuals are doing more stuff online, whether it is shopping, browsing, reading, reviewing, sharing, and that will continue. Extending that experience from the PC to other areas would be our areas of investment and interest," Subhedar said.

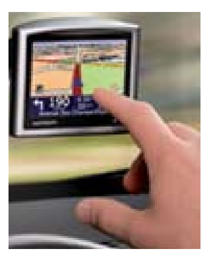
Intellectual property spinoffs from established tech companies will be more common this year and beyond, said Bart Schachter, managing director of Blueprint Ventures, a San Francisco-based venture capital firm. He cites the example of LANDesk, the No. 2 M&A deal last year ($500 million) behind Google's purchase of YouTube and an investment by his firm. LANDesk came out of Intel, which in years past might have just written off or swept such technology under the rug.




"The reason we are seeing a lot of interest by major corporations in monetizing their unused assets is because there are now examples of the monetization capabilities of such technology; this windfall to Intel is but the latest example," Schachter explained in an interview. "That's one reason why corporations are quite interested, in that they are seeing the possibility of making money from their assets. The second reason is the continuing churn in the technology sector, and we find every company goes through an up and down cycle where they continuously revaluate what is core and not core in their intellectual property and R&D portfolio."



Uses of the GPS (Global Positioning Satellite) system are also ripe for monetization, he said. "Over the last few months and increasingly into 2007, we are seeing that technology go mainstream. It started with automotive applications and car rentals; many new cars now have GPS mapping systems included. As the semiconductor technology for GPS receivers has improved dramatically, both in terms of size and power, we are seeing a lot more handheld applications from phones to watches and other GPS technologies."



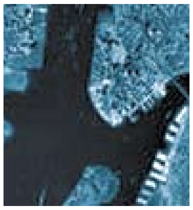
This, he says, gives rise to two major opportunities. "In the public markets, it gives a great amount of interest to some of the publicly-traded components and GPS infrastructure companies like Garmin, perhaps TomTom in Europe, and SIRF, which is one of the semiconductor companies. In the venture-backed space, we are seeing some very interesting Web 2.0-type deals where people are using GPS technology to enable a community of users linked not only through their email or instant messaging or SMS infrastructure, but allowing people to connect physically should they be at the same ballpark, should they be walking down the street, at the mall, in school or anywhere else at the same time; so really this has almost brought back the virtual world of the Internet and communities based on Internet presence to communities based on physical presence again."

Investors also need to be clued into the emergence of technology-enabled services, said Brian Jacobs, general partner with Emergence Capital Partners in San Mateo, California, which has funded 25 such companies. The idea is that tech firms are increasingly integrating their software and services into full solutions that can be provided as a service.

"One of the major categories of technology-enabled services is software-as-a-service," Jacobs said in an interview. "These are software companies providing an application that is accessed over the Internet by their customers. Salesforce.com has been a leader in this category, and they are continuing to grow at a very healthy rate. Wall Street has recognized the value of their stable recurring revenue, their high margins, strong growth rates and rewarded them with a high multiple. They are a clear innovator in the software-as-a-Service category and have set the pace for other startups."

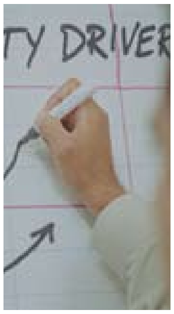

Examples of technology-enabled services firmss are NetSuite and SucessFactors, each of which are expected to go IPO this year or next, and ADP, already a public company buy very active in this arena, he said.

Finally, one of the exciting developments in the consumer space is mash-ups, or the ability to take different applications residing on the Internet and stitch them together in new and interesting ways that provide value above and beyond the value of the underlying applications, Jacobs said. "For example, there are new consumer applications that tie into Google Maps and allow people to map data that comes in from another source. We believe that trend could take hold in the enterprise as well, as business users are able to stitch together data and applications that they don't own or create themselves. It is possible to extract insights from corporate information in the same way consumers are getting insights from public information."



Many web technologies get started in the consumer space and migrate back into the enterprise realm., Jacobs noted. "That's not the traditional trajectory for new technology. Often when technologies are initially launched, they are very expensive; that means price-sensitive consumers are not good initial customers for them. Traditionally, innovations start in the enterprise and migrate down.

The availability of vast information on the web has spurred a lot of creativity among individual entrepreneurs, according to Jacobs. "When a low-cost approach works for consumers, corporate customers become quite interested and start to figure out how to use those technologies for their own purposes. One example of that would be the idea of collective intelligence. There have been a number of consumer applications leveraging the fact that millions of consumers have all contributed information. By looking at that data on a collective basis, you can glean insights that were not available prior to the web. We'll be seeing more of that in the enterprise, with applications that look across an employee base or a sales force and extract insights you could only find by having broad participation in an application. "



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