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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

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MONEY MANAGER INTERVIEW

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Questioning Market Leaders For Long Term Investors

Improving the Paradigm of Fundamental Securities Research



D. PAUL COHEN is the President and Founder of the Cohen Independent Research Group, considered to be Wall Street's leading independent fundamental securities research company. Mr. Cohen was the founder of Bear Stearns' West Coast Institutional offices and the Senior Vice President and head of CBWL Hayden Stone's West Coast Institutional offices. He was one of the original Dirty Dozen analysts, considered by many to be one of the top 12 securities analysts in the USA. He was also tennis coach for John McEnroe, and Venus and Serena Williams.

TWST: Would you give us an overview of Cohen Independent Research Group?

Mr. Cohen: We are Wall Street's number one fundamental independent research firm. I am the President of the Cohen Independent Research Group. We have done something very special in the fundamental research business. We believe our average 147-page initiate coverage reports during the last 12 months have lifted the art of fundamental securities research to a standard that Wall Street has never seen. To the best of my knowledge, no other fundamental research firm, independent or otherwise, has ever done this. We write issuer paid research, private and public company analysis, long and short sale custom reports for institutions and hedge funds, pre-reverse merger research and PIPE company analysis, comparing, forecasting and valuing a company pre-money versus post-money.

TWST: What is the history of the Cohen Independent Research Group?

Mr. Cohen: We started our business in 1997. I believe we may have been the first truly fundamental independent research firm.

From the beginning of our business to the present, our reports are used for investment decision-making, due diligence reports, IR/PR distribution, and for any level of investor. These documents can also help in financings, valuations, bank relationships, acquisitions, PIPEs, reverse mergers, sales and marketing and other corporate purposes.

TWST: You have a famous Wall Street background. Would you tell us about it?

Mr. Cohen: I was one of the 12 original Dirty Dozen analysts. We were considered by many to be the top 12 securities analysts in Wall Street. I founded the West Coast Regional Offices of Bear Stearns & Co., and was the Vice President and Head of the West Coast Institutional Offices of CBWL Hayden Stone/American Express, which ultimately became Shearson Lehman Brothers. My fellow officers were Sandy Weill, the past Chairman of Citigroup, and Arthur Levitt, the past Chairman of the SEC. I have been writing fundamental independent research for many years. Today our firm contracts out its research to outside analysts I have trained. I used to do the work myself.

TWST: You were John McEnroe's tennis coach. I bet Arthur Levitt and Sandy Weill never played tennis with John McEnroe or Serena or Venus Williams?

Mr. Cohen: That may be true, although John has played with many celebrities.

TWST: Tell us about your firm's research performance.

Mr. Cohen: We began to measure our performance in November 2002. Within the first 30 days, after we write an initiate coverage research report, all of our stocks have been up on an average of 38.6%. From the time we write the report to the highest price of the stock after our initial coverage research report, all of our stocks are up on an average of 216.6%. Our performance from the time of initiate coverage to the highest price during our period of research coverage has been up 91.2%. We don't know of any other research firm that has done this well.

Many of our stocks have done well because we do comprehensive due diligence before we take on a client. We've had our disap-

TWST: Who are some of the other players you coached?

Mr. Cohen: I have been on the other side of the net with many of the greatest players who have ever lived. I've either given lessons, coached, played or practiced with generations of players including Don Budge, Pancho Gonzalez, Pancho Segura, Ken Rosewall, Margaret Court, Stan Smith, all the way up to McEnroe, Jimmy Connors, Pete Sampras and many other touring men and women professionals over the years. One highlight that comes to my mind was playing Ken Rosewall in the afternoon for an hour in an empty Madison Square Garden before the Shaky's Pizza Challenge that evening. It was just Rosewall, myself and the sounds of tennis balls in the Garden. For me, that hour was the ultimate zen tennis experience. It was pretty cool. I was very fortunate to learn from the best, feel their games on the other side of the net, see the evolution of the sport of tennis. While I played college tennis at Berkeley and played world class tennis, I was not a great player. My idea was to become a great coach.

"Many of our stocks have done well because we do comprehensive due diligence before we take on a client. We've had our disappointing stocks just like other firms. We are proud of that record. While a company has to execute on its business model, we think our research is valuable for the price of the stock, especially over time."

pointing stocks just like other firms. We are proud of that record. While a company has to execute on its business model, we think our research is valuable for the price of the stock, especially over time.

TWST: Your tennis life is a great background and story as well as your business career in Wall Street. Would you comment on your tennis life?

Mr. Cohen: During certain years of doing fundamental independent research in Wall Street, I also had a parallel career in tennis. I was John McEnroe's tennis coach, Venus and Serena Williams' tennis coach, the Advisory Davis Cup Coach to the nation of Israel, and the Instruction Editor of *World Tennis Magazine*. I was the first coach to show up on the Men's Tour. One year a tennis magazine named me the number one tennis coach in the world. I stopped my tennis career in 1989 when John lost to Edberg in the semifinals of Wimbledon. His serving shoulder was hurt. I thought we had the big one. It was the worst day of my tennis life.

TWST: That's a fascinating double life that you had all those years. Is there a parallel in tennis and Wall Street Research?

Mr. Cohen: Yes, the parallel is similar. I brought imagination and innovation to tennis. I believe we have re-defined the paradigm and context of Wall Street fundamental research with similar innovation and imagination. In 1975 I invented, copyrighted and converted a tennis court into a colored, numbered chessboard. It created a new language for tennis, re-defined precise shot-making and strategy. It identified 228 different core shots in 11 sub games. The system is called the Paul Cohen Tactical and Strategic Tennis System, a 200-page document with graphs, pictures, charts, etc. Many of my students learned it. I brought higher mathematics to the sport of tennis. If a cross-court backhand is hit to an opponent's backhand, from your box 3 to your opponent's box 3, that shot was renamed #33. In terms of tennis strategy, its effect was similar and as powerful in many ways as was Bill Walsh's West Coast offense system in pro football.

TWST: How have you changed the paradigm of Wall Street research?

Mr. Cohen: Our template has changed and improved the paradigm of fundamental securities analysis. It has redefined the context of fundamental securities research. The template educates all investors, analyzes a company in depth, makes the complicated easy to understand, while visually giving the investor a host of pictures, graphs, tables and charts. Our Table of Contents allows a reader to pick and choose sections of interest. Most Wall Street research is pedestrian, boring, factually and academically incomplete, and difficult to understand. Some of it is excellent. Much of it leaves the

short and medium report. Any trader, retail investor, or an institutional or serious retail investor can understand the company in a quick overview or in great depth. No other Wall Street research firm has designed a similar research template. Our three- to five-page Table of Contents allows a reader to pick and choose.

Twst: Who are your analysts?

Mr. Cohen: Our reports are written by teams of contracted analysts, not just one analyst. This includes 21 analysts and others who have PhDs, MDs, CFAs, CPAs, MBAs, CFA Level I, II, III, and technical people with industry expertise. We can cover virtually all industry groups.

“Our template has changed and improved the paradigm of fundamental securities analysis. It has redefined the context of fundamental securities research. The template educates all investors, analyzes a company in depth, makes the complicated easy to understand, while visually giving the investor a host of pictures, graphs, tables and charts.”

reader confused. Businesses are oftentimes really not analyzed adequately nor understood by the average investor. Parlance of a given industry including Wall Street “speak” is confusing for many investors. Most of it is like reading a legal brief. We have brought a dimension of excellence to a field that for the most part lacks it.

TWST: You are well known and admired for your financial analysis and modeling. Would you elaborate on the structure of your research reports?

Mr. Cohen: Our research template is a precise, highly structured research culture called The Cohen Research Method. We believe our research culture has set the standard for comprehensive excellence of length, depth, and academic correctness that defines us as Wall Street’s leading fundamental independent research firm. Our template for all of our reports has more than 80 different constructs that must be addressed. This ensures that the quality of our work is maintained at an extremely high and disciplined level. We don’t have good and bad reports. They are all good. Two reports have been more than 200 pages.

TWST: How are your reports structured?

Mr. Cohen: Our research reports are divided and delivered into three separate reports that appeal to any level of investor — a short Quick View five-page report, a medium length 30-page Wall Street research report and a full report averaging 147 pages that includes the

TWST: You are especially well known for your forecasting and valuations. Would you describe your forecasting and valuations included in your financial analysis?

Mr. Cohen: Forecasting is pretty much a lost art in Wall Street. Many valuations are kindergarten level — kind of hokey, thrown-in reports because they need the word “valuation” or “price target.” Most firms do not have the time to forecast at the level or depth of our work. All of our reports forecast five years or more of the income statement, balance sheet, and cash flow statement including five years or more of discounted cash flow analysis valuations. We do these in three cases of analysis: a Base Case, an Optimistic Case and a Pessimistic Case. Thus, we display nine Excel sheets in each of our reports, plus three Excel sheets of discounted cash flow (DCF) valuations for each case. We then chart this information for readers who do not want to spend time analyzing line items. We blend other valuations when and if appropriate.

TWST: What are the inputs of your forecasting?

Mr. Cohen: Our work requires forecasting more than 150 line items if necessary. Our driver sheets include forecasting other balance sheet line items, taxation schedules, debt schedules, all PP&E line items, all working capital accounts, WACC and cost of equity calculations for a given company’s DCF valuations — all of it. Forecasting is an art in

our research culture. This level of forecasting is non-existent in the fundamental independent research industry. We call research that short cuts the forecasting and valuation process “Short Cut Research.”

TWST: Would you tell us more about Short Cut Research?

Mr. Cohen: We believe most Wall Street research short cuts the research process. Short Cut Research defines most of what is churned out in Wall Street. This is especially true in the fundamental independent research industry. Issuing companies are seduced by the words “research coverage” that in reality is poor quality. Any research report that only forecasts an income statement, in my view, short cuts forecasting and is pretty much worthless. Our full report is extremely comprehensive and does the due diligence for any institutional or serious investor who is interested in buying a large position of a company’s stock.

TWST: Tell us about the actual Cohen Financial and Valuation Model.

Mr. Cohen: Some years ago I developed the Cohen Financial and Valuation Model. Other brilliant people on our team have added and improved it. I owe a lot to them. The model is our proprietary, in-house analytical research engine. It is extraordinarily powerful. We let our contracted analysts use it, but they prepare the substance of

200,000 different formulas that are grouped into investment conclusions and fundamental research analysis. Our PIPEs Module enables the investor to calculate, model, value and forecast the terms, conditions and construction of a new balance sheet, income statement and cash flow statement, both pre- and post-deal. Our Reverse Merger Module does the same before the company becomes public. We believe that our contracted analysts can do more sophisticated and in-depth financial analysis than any fundamental independent research firm in Wall Street today. Others who would argue that statement might read and study our Six Flags report on my Website.

TWST: You mentioned that you do Pessimistic Case scenarios as well as the Optimistic Case?

Mr. Cohen: Yes, we do Pessimistic and Optimistic scenarios because the growth and cash flow of a company is difficult to forecast over five years. The Gordon Growth Model solved the rationale for five-year forecasting. It is academically correct. We need to have various scenarios so that we can adjust our models to assume different growth rates and different amounts of cash that are generated by a company over a period of time. Today we are not involved in the substance or preparation of our reports. That is the job of our contracted analysts.

“Our model has more than 15 different valuation methods, four different cash flow methods, approximately 150 charts and graphs, about 500,000 cells in Excel, more than 200,000 different formulas that are grouped into investment conclusions and fundamental research analysis.”

our reports. The model includes important constructs and metrics included in the CFA and CPA credentials. It has other proprietary metrics that we have developed such as the Cohen Net Cash Flow from Operations Model, the Cohen Free Cash Flow/Assets Model, the Cohen Growth Drivers Model and other innovations. We believe there is no fundamental financial research model that compares to it in Wall Street today. Wall Street has developed brilliant quant models. These models are different from our fundamental securities analysis model.

TWST: What is in the Cohen Financial and Valuation Model?

Mr. Cohen: Our model has more than 15 different valuation methods, four different cash flow methods, approximately 150 charts and graphs, about 500,000 cells in Excel, more than

TWST: You are known for the colored charts and pictures in your reports. How do they fit into your total picture?

Mr. Cohen: We are also educators. Colored charts and pictures educate an investor and bring to life the story of a business. All of our reports can include charts appropriate to a given company: the company’s evolution, business model, value drivers, industry value drivers, asset base, earnings model, flow of products, competition, its industry position. We want our readers to understand the creation of wealth in a given company — to know and visually see how a company really works, how it makes its money. We don’t know of any firm in Wall Street that does this at our level. Technology, biotechnology, energy, etc., can be very complicated. Our template is a guided tour to clarity.

TWST: Who are your typical clients?

Mr. Cohen: Our clients are issuing public companies with outstanding business models that either have no Wall Street research analyst coverage or whose coverage is minimal. We are also hired by institutions to do special research projects, short sale reports, valuations, fundamental investigation, private and public company valuations, pre-reverse merger research, PIPE forecasting and valuations and forensic accounting research.

TWST: How do you view the fundamental independent research business?

Mr. Cohen: I believe the quality is primarily poor and short cuts the research process. We review much of it. I've only seen a handful of decent pieces in five years. As an example, one recognized firm charges an arm and a leg and does no financial analysis at all. This summer, we had an outside independent analyst edit one highly visible, very expensive independent research firm's

“In the PIPE business, our PIPEs Module models, forecasts and values a company pre-money, assumes whatever the terms of the deal are, where the money will be spent, and then models and values the company post-money.”

TWST: Do you sell reports to hedge fund managers too?

Mr. Cohen: Yes. We do private studies for hedge funds. Over the years more than 20 of the top or the largest institutions in the United States have been clients of mine. The research that we do for the hedge funds for the most part is done on a customized basis and is non-distributed research. This includes very comprehensive short sale analysis.

TWST: What are the views of the SEC concerning issuer paid independent research?

Mr. Cohen: The SEC, for the first time, is actively promoting independent research. Hundreds of public companies lost analyst coverage following the investment banking research scandals that led to monitoring of research at 11 banks. On February 27, 2006, the U.S. Securities and Exchange Commission's Advisory Committee on Smaller Public Companies officially endorsed and asked the SEC to actively encourage company-sponsored analytics for their shareholders. The final report of the SEC Committee notes that 1,200 of the 3,200 NASDAQ-listed companies and 35% of all public companies on the major exchanges have no coverage at all, which equals 83% for those with market capitalizations less than \$125 million. The Committee's "final report" is at http://www.sec.gov/info/smallbus/acspc/acspc-finalreport_d.pdf.

About 4,000–5,000 listed companies have no research or inadequate research coverage. Most traditional research and investment banking brokerage firms cannot bridge the Chinese Wall that separates investment banking and securities research. Independent fundamental research coverage is a clear need and a fact of life today.

initiate coverage reports. Less than 16% of all of its initiate coverage reports forecasted any balance sheet or cash flow statement at all, while 23% of the total initiate coverage reports failed to forecast any income statement. We know of no other fundamental independent research firm that comes remotely close to the standard of excellence we set in fundamental securities analysis. I would guess that about 95% of all Wall Street research short cuts the research process in some way. I am a big fan of great research. The top 5% of research being done at non-independent firms is some of the best I have ever seen.

TWST: Would you tell us more about the reports that you provide for private companies, the pre- and post-money PIPE and Reverse Merger companies that you mentioned earlier?

Mr. Cohen: We have two models: The PIPEs Module and the Reverse Merger Module. If a company is involved in a pre-reverse merger, we will write a very comprehensive research report that can help the company raise money. At the time the company goes public we will convert that report into a public company document. In the PIPE business, our PIPEs Module models, forecasts and values a company pre-money, assumes whatever the terms of the deal are, where the money will be spent, and then models and values the company post-money. We find that in the PIPE industry the comprehensive analysis of what the post-money company will do is simply not being done today at the level we can provide — not by the hedge funds, nor by the PIPE brokers, nor the issuing companies themselves. The legal work at the law firms is outstanding.

TWST: Are you doing research reports for those companies that for whatever reason have been dropped by investment banking firms or Wall Street?

Mr. Cohen: Yes. Wall Street has dropped coverage on many companies because they can't make an investment banking fee or they can't create brokerage commissions. Some of these companies are excellent companies. If they do hire us and we like their business model, we'll initiate coverage and cover them for a year.

“Wall Street has dropped coverage on many companies because they can't make an investment banking fee or they can't create brokerage commissions. Some of these companies are excellent companies. If they do hire us and we like their business model, we'll initiate coverage and cover them for a year.”

TWST: If you are contracted to write a report about a technology company or a biotechnology company, the knowledge of course is very difficult to understand. Is that when you contract particular experts in the field?

Mr. Cohen: Yes. Over the years, we have people who I have trained in various disciplines and various industry groups. We have learned to make the complicated simple to understand for everyone. It is an art we have learned over the years. As an example, in biotechnology, our reports are written by teams of people, and at the science level, most of the reports are written at the PhD and/or the MD level. We have specialists in cancer research, ophthalmology, neuroscience, cardiovascular sciences, genomics, proteomics, biochemistry. We've done research reports that cover most of the disciplines in biotechnology.

In technology, I have people who are extremely knowledgeable — electrical engineers, mechanical engineers, people who have the in-depth knowledge of both hardware and software that we use as well.

TWST: You mentioned that you also write those short sale reports for the fund managers that are quite different. Would you tell us more about writing for shorts?

Mr. Cohen: For many years I've been one of the leading contracted short sale analysts in Wall Street. Very few people know that because the shorts, for the most part, are written on a contracted, non-distributed basis with a given hedge fund. Fund managers come to me and ask me to do a report on a company. I will

tell them, “Don't tell me whether it is a long or short and we'll do that.” We take companies apart and put them back together again. We will do it on an accounting basis and on an industry specific/company specific basis. The fundamental research is investigative reporting at the deepest levels. The reports are extremely detailed and in great depth. The Cohen Short Sale Matrix predicts various scenarios. The Six Flags report on our Website is an example of a short sale report.

TWST: How do you distribute your reports?

Mr. Cohen: Our reports are distributed to 98% of all institutions and over 5 million retail investors. We use a third-party that provides the client with a 1.5 million opted in e-mail blast, four times within two months. Our clients can contract directly with the third party. I also invite client companies and prospective companies to public events where I am invited to be a guest speaker. Our Website, we believe, has more financial content on it than any independent fundamental research firm. Our traffic is growing all the time. One of our reports generated 25,000 hits and 4,600 downloads of an 80-page report, which created an enormous amount of volume. Distribution is very important. Many issuing companies think that if someone writes a research report on them, they get a ticket to the big game. Nothing could be further from the truth. Much of this short cut research ends up on a statistical database without notoriety, follow-up or adequate distribution.

TWST: Do you do continuing research on the companies that you have analyzed?

Mr. Cohen: Yes. Our contracts are with the companies directly and we cover them for a year. We do quarterly updates. I have an analyst who calls each of our companies twice a month. We follow our companies very carefully. If there is a need to do an update or an important event on the company, we'll do that.

TWST: What gives Cohen Independent Research Group its edge? Would you summarize the defining features that distinguish you from all the other independent research firms that are cropping up?

Mr. Cohen: We are a brain trust. We've set a standard of excellence that we believe no other fundamental independent research firm can touch. Our people and intellectual capital are unique. The depth of the financial analysis, forecasting and valuations that we do does not exist in the fundamental independent research business.

TWST: Do you think that the Wall Street firms themselves will start doing independent research at your level?

Mr. Cohen: No, I don't think so. Because most traditional analysts have so many companies to cover, they don't have the corporate purpose of doing in-depth independent research at the level that is required in our research reports.

TWST: Do you have a few summary points?

Mr. Cohen: Our corporate purpose is all about excellence, to continue to innovate, to be the best fundamental research firm in Wall Street, independent or otherwise. We think we've reached that level. Our future goal is to get better, always.

We've done something really special. We're the best in the business. Very few businesses can make this statement. We make this statement and we can back it up.

TWST: Do you ever find that you have too many requests for doing these contracted research reports?

Mr. Cohen: No, we don't. We don't have 8,000 companies knocking on our door. We work very hard. We market our services just like any other firm. If an issuing company or an institution is sharp and wants to hire a fundamental independent research firm, we believe they should hire the best. That is us.

TWST: Thank you.

Note: Opinions and recommendations are as of 12/27/07.

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