



DUTTON ASSOCIATES

INDEPENDENT RESEARCH

RESEARCH REPORT

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Pluristem Therapeutics, Inc.

July 30, 2008

Symbol (Nasdaq)	PSTI	Fiscal Year Ending: June					
Industry:	Healthcare, Biotechnology & Pharmaceutical	Year	EPS	P/E	REVS	PSR	
Recent Price:	\$1.18	2006	A (\$7.67)	---	x \$0.0	---	x
52-Week Price Range:	\$2.20-\$30.00	2007	A (\$5.84)	---	x \$0.0	---	x
Target Price (12 Months)	\$6.50	2008	E (\$1.51)	---	x \$0.0	---	x
Avg. Daily Vol. (3 mo.):	9,523	2009	N/A	---	x	---	x
		2010	N/A	---	x	---	x

Balance Sheet Data (mil)	03/31/08	Ownership and Valuation (mil)	Current Rating History		
Cash Equivalent:	\$3.3	Shares Outstanding:	6.94	Date Assigned:	1/22/08
Working Capital:	\$2.9	Inside Ownership:	38%	Price at Rating:	\$2.69
Long-Term Liabilities:	\$0.2	Institutional Ownership:	0%	Original Price Target:	---
Shareholders' Equity:	\$4.1	Equity Market Value:	\$8.2	Time Frame:	12 Months

Note 1: All EPS figures have been adjusted for the November 26, 2007 1-for-200 reverse split; the per share figures in years prior to fiscal 2007 are based on substantially fewer shares than currently outstanding.

Update Report

Rating: Speculative Buy

Basis for Rating

Pluristem Therapeutics is a bio-therapeutics company dedicated to the development and commercialization of cell therapy products for the treatment of a variety of severe degenerative, ischemic, and autoimmune disorders. The cell therapy products result from the Company's proprietary system to expand mesenchymal stem cells (MSCs) from post-birth human placenta. The Company's primary therapeutic area under investigation using these cells is critical limb ischemia (CLI) secondary to peripheral vascular disease (PAD). It is also investigating the use of these cells in stroke, multiple sclerosis, and inflammatory bowel disease, and, in conjunction with hematopoietic stem cells (HSCs) from human umbilical cord blood, for bone marrow transplantation (BMT). Pluristem believes its PLX (PLacenta eXpanded) cells are also potentially useful for other indications such as organ transplantation, orthopedic injuries, and the prevention of radiation sickness.

Validation of Pluristem's technology is still in the preclinical stage, and we continue to believe that Pluristem has significant challenges to overcome before it can be successful. Its major challenge is to fully validate its hypothesis that the three-dimensional expansion of placental-derived mesenchymal stem cells in its PluriX™ 3D Bioreactor System produces therapeutic products with clear clinical benefits over existing therapies. In addition, the Company seeks to achieve 12-month milestones it has set for itself, including the initiation of its first Phase I clinical trial before the end of 2008 and the completion of the trial showing positive results.

If Pluristem's technology proves to be clinically successful, we believe that, in view of the current dearth of adequate therapies in the areas Pluristem is studying, it could have a major impact on patients and on Pluristem's shares. We therefore reiterate our rating of the shares of Pluristem Therapeutics as a **Speculative Buy** with a 12-month price target of \$6.50.

Company Description

Pluristem is a bio-therapeutics company dedicated to the development and commercialization of non-personalized (allogeneic) stem cell therapy products for the treatment of severe degenerative, malignant, and autoimmune disorders where current therapies are unavailable or inadequate. The Company currently engages in research and development of mesenchymal stromal cell production technology to be used for producing and commercializing cell therapy product using its PluriX™ 3D Bioreactor System.

This system creates an artificial physiological environment where mesenchymal stem cells, derived from human placenta (in contrast to embryonic stem cells), are expanded and stored in a readily available state for patient use. The Company projects that this new technology has the potential to participate in the approximate \$30 billion therapeutic and regenerative cellular markets.

Pluristem's pipeline of products begins as mesenchymal stromal cells (MSCs) derived from the human placenta obtained after birth. Using its proprietary PluriX™ 3D Bioreactor, Pluristem believes it can produce stem cell-based therapeutic products by improving the *ex-vivo* expansion of MSCs from the placental MSCs without the addition of growth factors or other adulterants. The Company believes that the resultant expanded cells, termed PLX cells, are multi-potent and thus able to differentiate into a variety of cell types. Recent evidence also suggests that their efficacy may be related to their secretion of cytokines or other potent immune modulators. Furthermore, PLX cells are believed to be immune-privileged and immunosuppressive, hence protecting the recipient from immunological reactions that often accompany transplantation. The PLX cells are stored "ready to use" and require no histocompatibility matching prior to use.

Therapeutic Areas of Interest and Products in Development

Peripheral Artery Disease and Critical Limb Ischemia

Peripheral artery disease affects millions of patients whose symptoms stem from a decrease in blood supply primarily to the lower extremities and is aggravated by atherosclerosis, diabetes, and smoking. Pluristem believes PAD therapies represent a \$4 billion market worldwide. PAD is caused by obstruction of large peripheral arteries (those in the arms and legs) resulting from atherosclerosis or other inflammatory processes. This obstruction can lead to acute or chronic restriction in blood supply and may result in CLI. While limb amputation may be the only treatment available to patients with severe disease, the past decade has seen substantial growth in minimally invasive endovascular therapies for CLI, including angioplasty, stent placement, and atherectomy. Most of these procedures are performed on an outpatient basis, and recovery usually takes one or two days. While minimally invasive endovascular treatment is attractive, surgical bypass and revascularization often yields more durable results in patients for whom this type of treatment is feasible. Surgical revascularization can be relatively cost-effective, lead to a better quality of life for most patients, and is associated with lower perioperative morbidity and mortality than amputation. Hospitalization after surgical revascularization varies from a few days to more than a week, and recovery may take several weeks.

PLX-PAD, Pluristem's first product under investigation, is being developed to treat CLI patients in a non-surgical manner and targets those patients where traditional medical and surgical therapies have not helped and are potentially facing continued symptoms or amputation. In animal studies PLX-PAD has shown to significantly increase the number of new blood vessels (angiogenesis) and blood flow in the involved extremity.

Pluristem announced on May 6, 2008 that the Center for Biologics Evaluation and Research (CBER), a division of the US Food and Drug Administration (FDA), approved its synopsis to conduct a Phase I clinical trial in the US utilizing PLX-PAD for the treatment of limb ischemia associated with peripheral artery disease. The Company simultaneously announced that the Paul Ehrlich Institute (PEI) in Germany approved the pre-clinical study synopsis to support a Phase I/II clinical trial of PLX-PAD in Germany. The PEI is the German federal authority granting clinical trials approvals. These approvals are precursors to Investigational New Drug (IND) submissions that are required to begin human testing. The Company expects to submit INDs this summer and to begin clinical trials before the end of 2008. The European study is

expected to be conducted in Berlin, and the U.S. study at Duke University. These events are consistent with the milestones we published in our April 15, 2008 Update Report.

Bone Marrow Transplantation

PLX-BMT is being developed to resolve the global shortfall of matched hematopoietic stem cells necessary for bone marrow transplantation. The Company estimates that approximately 60% of the 150,000 patients diagnosed annually with leukemia and other hematological malignancies are unable to find a suitable bone marrow donor match and are left with no reasonable therapeutic alternatives. In addition to diseases that damage or destroy blood components manufactured by the bone marrow, BMT is currently used to address bone marrow destruction caused by high-dose radiation and chemotherapy. BMT research is also being conducted to investigate the use of BMT in autoimmune diseases, diabetes, multiple sclerosis, and severe chest pain caused by atherosclerotic plaque in the heart. The Company estimates the annual BMT market at \$2 billion worldwide.

In animal studies, PLX-BMT cells (expanded using the PluriX technology platform) combined with umbilical cord HSCs increased engraftment of the HSCs in bone marrow by three to five times compared with standard bone marrow transplant techniques. Translated to patient care, Pluristem expects that PLX-BMT can resolve the shortfall of matched HSCs while improving the efficacy of engraftment, thus shortening patient recovery time. Pluristem expects early human trials to begin in early 2009.

Ischemic Stroke

PLX-STROKE is being developed as a treatment for the functional recovery from ischemic stroke, which Pluristem estimates to be an annual \$4 billion market. On April 7, 2008, Pluristem announced positive results from a preclinical study using an animal model in ischemic stroke. This study, conducted at the Fraunhofer Institute in Leipzig, Germany, showed that using PLX cells to treat ischemic stroke (known as PLX-STROKE cells) in a commonly accepted ischemic stroke mouse model resulted in statistically significant functional and anatomic endpoints over non-treated mice. In this study PLX-STROKE cells were systemically injected into these mice. Functional endpoints (improvement in beam walking and neurological severity score) and an anatomical endpoint (reduction in infarct size) reached statistical significance when compared with the non-treated animals. The Fraunhofer Institute, a member of the Fraunhofer Life Sciences Alliance, is dedicated to finding solutions to specific problems at the interfaces of medicine, life sciences, and engineering, for partners active in medicine-related industries and businesses. The Institute's core competency involves the use of tissue engineering to develop regenerative medicine.

Multiple Sclerosis

PLX-MS is being developed for the treatment of Multiple Sclerosis, an autoimmune disorder in which the immune system attacks the central nervous system, leading to axon demyelination resulting in a block in nerve conduction. Cumulative axonal damage (which may occur in the brain, brain stem or spinal cord) is considered to be the major cause of progressive and irreversible neurological disability in MS. MS is characterized by physical and mental symptoms including weakness and/or spasticity of the limbs, eye symptoms ranging from visual blurring to decreased vision, and sensory symptoms which may result in pain, as well as symptoms of cognitive dysfunction and depression. MS, itself, is not believed to be fatal; death usually results from complications of MS. The World Health Organization estimates that over 2.5 million people globally suffer from MS, which Pluristem believes represents a current market of approximately \$5.4 billion for disease-modifying agents to treat MS.

On April 14 of this year, Pluristem announced positive results from a pre-clinical study designed to evaluate PLX-MS for the amelioration of functional deficiencies in a standard MS mouse model. Researchers at Pluristem utilized the Experimental Autoimmune Encephalitis (EAE) animal model for the study, the paradigm for MS in humans. After EAE was induced, one group of animals was given PLX cells intravenously while the other served as a control. The Company reported a statistically significant reduction in the EAE score throughout the 25-day duration of the study in the group given PLX cells compared with the control group. EAE score is a measurement of functional outcomes in the EAE-

afflicted animal and correlates closely with a histological improvement in EAE-induced lesions. The results of this study corroborate results from a similar study conducted independently in Italy using MSCs that were non-placental in origin in the EAE animal model.

Inflammatory Bowel Disease

PLX-IBD is being developed for the treatment of ulcerative colitis and Crohn's Disease — known collectively as Inflammatory Bowel Disease (IBD) — a functional bowel disorder characterized by abdominal pain or discomfort and altered bowel habits in the absence of detectable structural abnormalities. IBD affects approximately 5 million people globally; Pluristem estimates treatment approaches \$2 billion annually.

On May 28, 2008, the Company announced that PLX cells demonstrated *in vivo* efficacy for the treatment of IBD in mice and rats in which IBD was experimentally induced. One group of these animals was administered intravenous injections of PLX-IBD cells and the other a saline solution. Macroscopic and microscopic anti-inflammatory effects were evaluated in both groups. Pluristem found that PLX-IBD cell therapy significantly reduced the experimentally-induced colon lesions both in the macroscopic and microscopic evaluations compared to the control animals.

We are heartened by these recent preclinical results as well as those in stroke and MS. While there is no certainty in the development of medicines that preclinical work translates into clinical success, we believe that success in any of Pluristem's areas of therapeutic focus can impact greatly on both the Company and on the large numbers of patients with unmet medical needs.

Current Status of Research and Development and Projected Milestones

On June 25, 2008 Pluristem announced that it received Good Manufacturing Practices certification for its manufacturing facility in Haifa, Israel. This site will manufacture PLX cells for use in the Company's U.S. and European PLX-PAD clinical trials which are expected to begin before the end of 2008. Certification was awarded by Biotec Distribution Wales, Ltd., the designee of the Paul Ehrlich Institute, the EU equivalent to the FDA, which is responsible to monitor the import, certification, labeling, storage, and distribution of PLX cells into the EU for clinical trials.

In a May 1, 2008 open letter to shareholders, the CEO, Zami Aberman published a list of event or milestones Pluristem expects to achieve by December 31, 2008.

- The Company expects to have operating GMP manufacturing facilities in preparation for clinical trials and eventual product commercialization
- Pluristem expects to initiate its first clinical trial in Europe and the USA involving PLX-PAD
- Pluristem will submit an additional investigational new drug (IND) application for a second clinical indication.
- The Company will investigate the use of our PLX cells to treat additional disorders and broaden its pipeline of products in development.
- The Company will generate cooperative agreements with strategic partners.

In addition to these newly-stated milestones, Pluristem continues to move forward on previously-announced goals.

- Pluristem continues to work to achieve commercial production capacity for its proprietary PluriX 3D Bioreactor System. According to the Company, it has successfully implemented processes which achieve a higher number of bioreactor runs per placenta and significantly reduced bioreactor production time, which together produce a higher yield of PLX over time.
- The Company is currently working to improve the analytical methods of its technology and processes.

Update on 2007 Private Placement Agreement

On May 15, 2007, Pluristem removed the restrictive legends on 3.9 million shares of common stock of a total of 4.4 million shares and warrant shares sold in its PIPE private placement in May 2007. Under the original agreement, purchasers agreed not to sell shares and warrants purchased in the placement in excess of 125% of their purchase price in the second year following the closing, with an increasing percentage in the third and fourth year. The Company removed the restrictive legends on a portion of the shares in order to facilitate the ability of the PIPE shareholders to sell shares.

March 2008 Quarter Highlights

Net loss for the three months ended March 31, 2008, was \$2,618,000, or \$0.39 per share, basic and diluted, compared to net loss of \$3,922,000 (included \$1,963,000 know-how write off), or \$2.93, basic and diluted, for the same period in 2007. Net loss per share decreased as a result of the issuance of additional shares in a private placement described above.

Net research and development expenses increased by 43% to \$1,186,000 for the three months ended March 31, 2008, from the three months ended March 31, 2007. The increase was due to increased salary and subcontractor expenses incurred by the Company's stepped-up research activity.

General and administrative expenses increased by 38% to \$1,563,000 from \$1,136,000 over the same period in 2007. This resulted from increased stock-based compensation to employees and consultants and from increased legal and investor relations expenses.

Net financial income rose to \$131,000 for the three months ended March 31, 2008, compared with \$6,000 for the same period in 2007, as a result of the sale of additional shares in a private placement.

Net cash used in operations during the March 2008 quarter was \$687,000 as compared to \$897,000 in the December 2007 quarter.

Table 1. Statement of Income
(Dollars in thousands, except per-share figures)

	Nine Months Ended		Three Months Ended		5/11/2001 (Inception to 3/31/08)
	3/31/08	3/31/07	3/31/08	3/31/07	
Research and Development Costs	\$ 3,741	\$ 1,816	\$ 1,213	\$ 1,021	\$ 11,029
Less Participation by the Office of the Chief Scientist	(684)	(438)	(27)	(192)	(1,599)
Research and Development Costs, Net	3,057	1,378	1,186	829	9,430
General and Administrative Expenses	4,648	1,998	1,563	1,136	12,568
Know-How Write-Off	-	1,963	-	1,963	2,474
	7,705	5,339	2,749	3,928	24,472
Financial Income, Net	277	450	131	6	1,526
Net Loss	7,428	4,889	2,618	3,922	22,946
Basic and Diluted Net Loss Per Share	\$ 1.19	\$ 5.14	\$ 0.39	\$ 2.93	
Weighted Average Number of Shares	6,261,829	950,648	6,695,257	1,339,093	

* Share data is reported after the effect of the 1 for 200 reverse split that occurred on November 26, 2007.

Source: Company Filings

**Table 2. Statement of Cash Flows
(Dollars in thousands)**

	Nine Months Ended		5/11/2001 (Inception)
	3/31/08	3/31/07	to 3/31/08
Cash Flows from Operating Activities			
Net Loss	\$ (7,428)	\$ (4,889)	\$ (22,946)
Depreciation and Amortization	89	39	332
Know-How Write-Off	-	-	2,474
Amortization of Deferred Issuance Costs	-	168	604
Stock-Based Compensation	3,869	1,510	7,843
Shares Compensation to Consultants	190	-	982
Decrease (Increase) in Accounts Receivable	287	(190)	(287)
Decrease (Increase) in Prepaid Expenses	(164)	6	(116)
Increase in Trade Payables	251	70	606
Increase (Decrease) in Other Accounts Payable and Accrued Expenses	(33)	2,100	(146)
Change in Fair Value of Warrants Granted to Investors	-	(716)	(2,696)
Fair Value of Warrants Granted to Investors	-	-	651
Other Adjustments	72	179	982
Net Cash Used in Operating Activities	\$ (2,867)	\$ (1,723)	\$ (11,717)
Cash Flows from Investing Activities			
Purchase of Property and Equipment	(738)	(217)	(1,271)
Investments in Long-Term Deposits	(83)	(23)	(207)
Purchase of Marketable Securities	-	-	(3,784)
Purchase of Know-How	-	-	(2,062)
Proceeds from Sale of Available for Sale Marketable Securities	1,911	-	1,911
Other Investing Activities	6	1	87
Net Cash Used in Investing Activities	1,096	(239)	(5,326)
Cash Flows from Financing Activities			
Issuance of Common Stock and Warrants, Net of Costs	1,838	4,200	15,889
Exercise of Warrants	-	608	1,022
Issuance of Convertible Debentures, Net of Costs	-	(440)	2,144
Repayment of Know-How Licensors	-	(219)	(300)
Receipt of Long-Term Loan	48	-	48
Repayment of Long-Term Loan	(4)	-	(4)
Other Financial Transactions	-	-	8
Net Cash Provided by Financing Activities	1,882	4,149	18,807
Increase (Decrease) in Cash and Cash Equivalents	\$ 111	\$ 2,187	\$ 1,764
Cash and Cash Equivalents: Period Beginning	\$ 1,653	\$ 2,374	-
Cash and Cash Equivalents: Period End	\$ 1,764	\$ 4,561	\$ 1,764

Source: Company Filings

As of March 31, 2008, the Company had cash and cash equivalents and marketable securities of \$3,335,000 (\$1,764,000 and \$1,571,000, respectively) compared to \$3,881,000 (\$462,000 and \$3,419,000, respectively) as of December 31, 2007. Net working capital declined to \$2,877,000 as of March 31, 2008, from \$4,292,000 three months earlier.

**Table 3. Balance Sheet
(Dollars in thousands)**

	<u>3/31/08</u>	<u>12/31/07</u>	<u>9/30/07</u>	<u>6/30/07</u>
Current Assets				
Cash and Cash Equivalents	\$ 1,764	\$ 462	\$ 562	\$ 1,653
Marketable Securities	1,571	3,419	3,693	3,758
Prepaid Expenses	206	251	253	60
Accounts Receivable from OCS	113	519	733	-
Other Accounts Receivable	<u>205</u>	<u>401</u>	<u>429</u>	<u>582</u>
Total Current Assets	3,859	5,052	5,670	6,053
Long-Term Assets				
Long-Term Restricted Deposit	199	118	124	125
Severance Pay Fund	108	123	102	81
Property and Equipment, Net	<u>1,111</u>	<u>979</u>	<u>611</u>	<u>468</u>
Total Long-Term Assets	1,418	1,220	837	674
Total Assets	5,277	6,272	6,507	6,727
Liabilities and Stockholders' Equity				
Current Liabilities				
Trade Payables	616	454	532	365
Accrued Expenses	100	95	106	157
Other Accounts Payable	<u>266</u>	<u>211</u>	<u>177</u>	<u>211</u>
Total Current Liabilities	982	760	815	733
Long-Term Liabilities				
Long-Term Loan	36	35	36	-
Accrued Severance Pay	<u>130</u>	<u>147</u>	<u>120</u>	<u>97</u>
Total Long-Term Liabilities	166	182	156	97
Shareholders' Equity				
Common Stock*	-	-	12	10
Additional Paid-In Capital	27,321	25,870	23,406	21,068
Other Comprehensive Loss	(246)	(212)	(84)	(30)
Accumulated Deficit	<u>(22,946)</u>	<u>(20,328)</u>	<u>(17,798)</u>	<u>(15,518)</u>
Total Shareholders' Equity	4,129	5,330	5,536	5,897
Total Liabilities and Shareholders' Equity	\$ 5,277	\$ 6,272	\$ 6,507	\$ 6,727

*Less Than \$1 at 12/31/07

Source: Company Filings

Financial Outlook

As Pluristem continues to develop its innovative cell therapy technology to expand placental MSCs as treatment in several therapeutic areas, development expenses are expected to climb. Recently, Pluristem announced it received US and German approvals of regulatory submissions in support of first-in-man trials of PLX-PAD for peripheral artery disease. These approvals are precursors to Investigational New Drug submissions that the Company expects to submit this summer.

The Company predicts that it has sufficient funds to support operations for at least two quarters, and we expect the Company will provide guidance regarding funding strategies in the near future.

Management Update

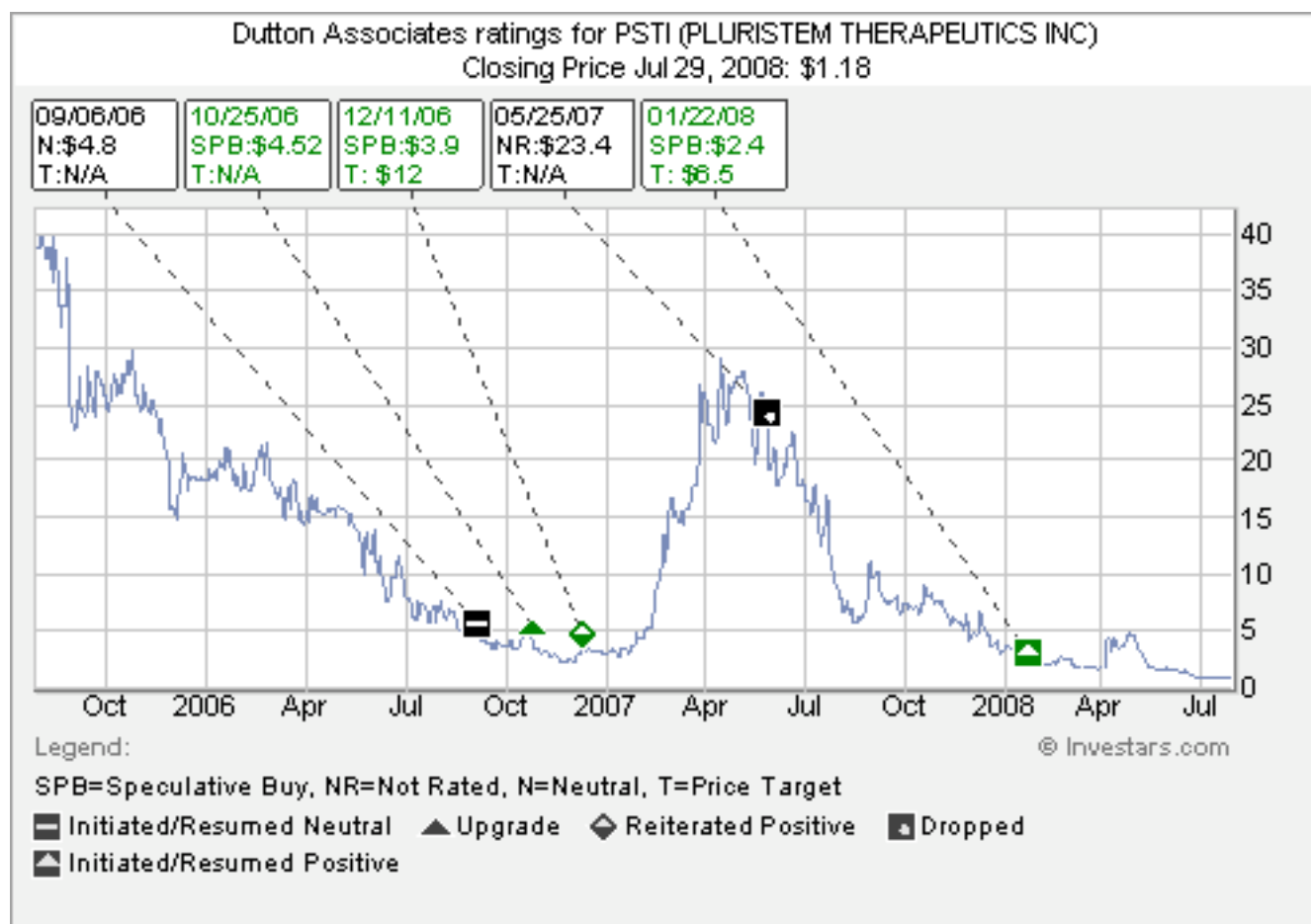
On July 29, 2008, Pluristem appointed Brian H. Annex, MD to the Company's Scientific Advisory Board. Dr. Annex was recently appointed Chief, Division of Cardiovascular Medicine, Department of Medicine, at the University Of Virginia School Of Medicine. Dr. Annex previously served as Professor of Medicine in the Division of Cardiovascular Medicine at the Duke University School of Medicine and as Vice-Chief, Division of Cardiovascular Medicine, and Director of Vascular Medicine at the Durham Veterans Administration Medical Center. Dr. Annex received his medical degree from the Yale University School of Medicine, completed his residency in internal medicine at Tuft's-New England Medical Center in Boston, and completed fellowships in cardiology at Duke University Medical Center and in interventional cardiology at William Beaumont Hospital in Royal Oak, MI. The Company anticipates Dr. Annex's addition to the Scientific Board to significantly enhance the Board's expertise in vascular disease and to provide synergies to the knowledge and expertise of the current members.

Conclusion

While we find the technology Pluristem is developing intriguing, we reiterate our concerns regarding the Company's progress toward commercial success. Pluristem must still prove to the scientific/medical community that expansion of mesenchymal stem cells from placenta in Pluristem's PluriX™ 3D Bioreactor System causes not only a statistical improvement in engraftment in the recipient, but also clear clinical benefits. When the Company is able to show benefit to both the medical/scientific community and the regulators, we believe the shares will respond favorably.

We are impressed by the Company's ability to move forward with its PLX-PAD product and look forward to its beginning Phase I clinical trials before year-end. We are also heartened to see that preclinical research has identified other potential therapeutic areas that might benefit from this technology.

As Pluristem continues to expand the potential of PLX into different therapeutic areas, we believe a product pipeline will be developed and that this will support improved performance for the Company's shares. Accordingly, we are reiterating our rating of the shares of Pluristem Therapeutics as a **Speculative Buy** with a 12-month price target of \$6.50.



Dutton Associates	
Current Ratings Distribution	
Rating	% Total
Not rated	1.61
Strong Buy	11.29
Buy	8.06
Strong Speculative Buy	35.48
Speculative Buy	25.81
Neutral	15.32
Avoid	2.42

Analyst: Denise T. Resnik, M.S.

Denise Resnik's career in the pharmaceutical industry has spanned over 30 years. For the past 24 years, she has consulted to large, global pharmaceutical companies and emerging biotechnology companies in the area of new drug development. She co-developed a training program for physicians entering the field of clinical research and has taught the program to physicians around the US and abroad. Most recently she is liaising between a large pharmaceutical company and government health agencies to develop public-private partnerships to the benefit of both entities. Prior to her consulting activities she worked in pre-clinical research at Harvard Medical School and subsequently in pre-clinical and clinical research for large pharmaceutical companies. Ms. Resnik holds a master's degree in pharmacology and a bachelor's degree in biology.

Analyst Certification:

I, Denise T. Resnik, M.S. hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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