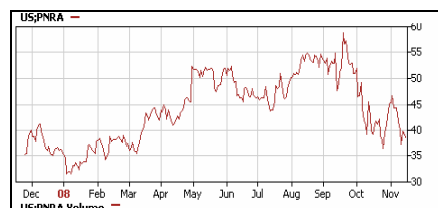


Stock Statistics

Ticker	PNRA
Exchange	NASDAQ
Financial Year End	December

Market Price *	\$37.40
Market Cap *	\$1.15 bln
52-Week Hi / Low	\$62 / \$30
Average Daily Volume	> 800,000

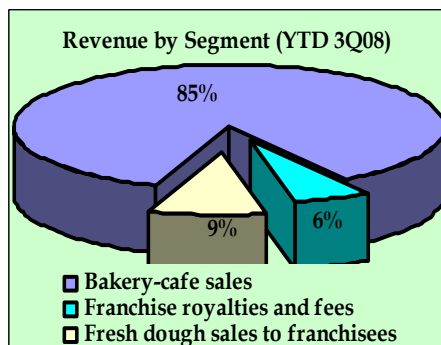
* As of previous day close



Source: Reuters

Company Description

Panera Bread Co. (PNRA), together with its subsidiaries, operates and franchises retail bakery-cafes in the US and in Canada. The company is a leader in the quick-casual restaurant business with more than 1,200 bakery-cafes in 40 states covering suburban, strip mall and regional mall locations. Approximately 43% of its locations are company operated, while ~ 57% are run by franchisees. Its locations operate mostly under the Panera Bread and Saint Louis Bread Co. banners. PNRA menu includes fresh baked goods, soups, salads, and custom roasted coffees complemented by new items introduced seasonally. PNRA operates as three business segments: Company-owned, **bakery-cafe operations** segment; the **franchise operations** segment, and the **fresh dough operations** segment. In 02-07, PNRA purchased 51% of Paradise Bakery & Cafe. During the FY ended 12-07, PNRA opened 148 bakery-cafes, acquired 36 bakery-cafes from its franchisees, and closed eight bakery-cafes.



Note: In the past we set 3-yr. price targets. Being that it remains unclear how long it will take for the recovery, and we assume that it will take 12-24 months before a rebound takes place, we would now set price targets looking out 3-5 years (where there is more visibility).

Investment Recommendation -- Buy / 3-5 year target: \$60-\$70

We added Panera Bread Co. to our portfolio on October 24, 2008. The shares are down 8% since then versus down 16% for the S&P-500. On the ten-year chart, PNRA is the best performing restaurant stock (out of 18). The market collapse has given investors an opportunity to pick up this growth stock at a value multiple. There is still risk in these shares and those concerns are detailed below. The shares are now trading at 14X estimates for 2009 and 50% below the all-time high from March 2006. In 2008, PNRA should earn \$2.20 on a store count nearing 1300, of which ~ 44% are company-owned. EPS is expected to be (conservatively) \$2.50 in 2009. PNRA will be growing their store count at a less aggressive pace going forward, and should be able to keep margins at or near current levels (now at an eight-year low). If we look out five years, PNRA should be able to get its store count near 2000 with \$4.00 in EPS. We are assuming that net profit margins will be under pressure in the near-term before rising back towards 6.5% from current levels (5.5%), but still below the 8.0%-8.5% peak in 2002-2005. PNRA has historically received a premium multiple to the market of 1.5X-2.0X. I am taking a conservative multiple of 16X \$4.00 in order to arrive at the \$60-\$70 price target. This is a relatively safe play with less downside than most stocks (and less upside). **Note:** As of 10-28-08, 32% of the PNRA float was sold short. The short interest with most restaurant chains of this size is (still) currently very high at 10%-20%.

Investment Summary

- **Intro of new products to drive growth** -- Despite being hit by cost pressures and the weaker economy, PNRA initiatives (pricing strategies, product mix and new products) generated positive results. 3Q08 operating margins were 130bp higher Y/Y. PNRA category management steps include plans such as *you pick two*, introduction of new tomato mozzarella Panini, re-introduction of seasonal favorites at higher prices and increases in the lunch menu price. PNRA is able to raise prices as they cater to a higher-income customer base.
- **Solid assumptions for 4Q08 results** -- PNRA recent reiteration of 4Q08 targets is encouraging. This guidance is based on forecasts of improvement in margins, higher return on invested capital (ROIC) and new unit development. **The recent declines in diesel gasoline and wheat prices will also provide support for 4Q08 guidance.** PNRA new unit average weekly sales (AWS) are a key driver for its ROIC growth, and the company is quite bullish on the opening of new stores. PNRA expects new unit AWS to be in the range of \$36,000 to \$38,000 for 4Q08 and FY08 should end with an AWS of ~ \$37,000. These measures and others should support PNRA 4Q08 (and early FY09) results.
- **FY09 should benefit from the decline in wheat and gasoline prices** -- Taking cue from FY08 wheat prices of \$14 per bushel, PNRA finished locking 100% of its 2009 wheat requirement at approx \$9 per bushel. Current prices have declined to \$6, with analysts' wheat price consensus to remain at \$6 for FY09. An increase in the wheat crop and slowing wheat demand world wide should keep prices in the single-digits. We expect that the decline in wheat expense (along with lower gasoline prices) will work in PNRA's and will further add to its margins or at the very least stabilize margins at current levels.
- **PNRA taking advantage of the recession** -- Unlike its peers, PNRA expects that the challenging environment in 2009 will work in its favor in 2010 and beyond. While other players are forced to take the cost-cutting moves because of the severe short-term pressure from investors and banks, **PNRA supported by its debt-free balance sheet and strong cash flow** can concentrate on improving the quality of food and service experience. Apart from this, PNRA management estimates the weakening commercial real estate market will help in striking better deals for its store expansion plans and will ultimately improve its ROIC going forward.

Investment concerns (continued on Pages 2 & 3)

- **Increasing menu price off-setting transaction fall off** -- Volatile commodity markets, increasing costs and competition can disrupt PNRA performance. Increasing menu price coupled with inconsistent consumer behavior and the economic downturn can impact transaction growth, a most uncertain area of the company. PNRA guided negative 2%-4% for 2009 transaction growth.
- **Credit crisis impacting franchise backlog** -- Total franchise backlog is impacted by the present credit crisis in the market. This makes PNRA increasingly dependent on company-operated unit development which in-turn may negatively impact its profitability.
- **Increasing labor cost** -- The Obama administration signaled its intent of increasing labor costs -- hourly (minimum) wages could rise by 20% (or more) between now and 2011-2012.

Peer Benchmarking -- Additional comparisons on Page 4

Tick / Mkt Cap	5-Yr. ROE	P / E (fwd)	P / Sales	EV/EBITDA
PNRA / \$ 1.2B	16.8%	14.5 X	0.92 X	6.8 X
CMG / \$ 1.4B	12.1%	16.4 X	1.02 X	6.3 X
SBUX / \$ 6.4B	21.7%	10.0 X	0.55 X	4.6 X

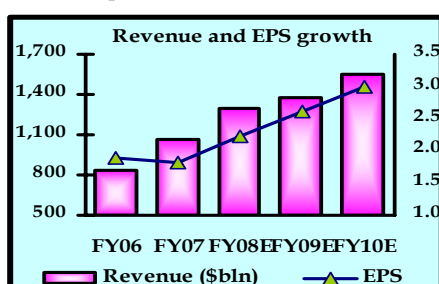
Financial Analysis

Management guidance - PNRA management reiterated Q4 FY08 EPS in the range of \$0.82-\$0.86 while full year FY08 EPS is projected at \$2.20-\$2.24. For FY2009, PNRA guides EPS to be in the range of \$2.55-\$2.71 with comparable PNRA bakery-cafe sales growth of 0%-2.0%. PNRA is targeting comparable company-owned bakery-cafe sales growth of 1.0%-3.0% in the 4Q08.

Reuters estimates - Reuters estimates FY08 revenue at \$1.29 bln, EBITDA at \$181.6 mln, net income at \$68.0 mln and EPS at **\$2.24**. For FY09, consensus estimates revenue at \$1.36 bln, EBITDA at \$199.7 mln, net income at \$79.1 mln and EPS at **\$2.60**. In FY10, revenue is estimated at \$1.46 bln, EBITDA at \$219.3 mln, net income at \$84.2 mln and EPS at **\$3.01**. Annual capital expenditures are estimated at \$88.5 mln, \$86.8 mln and \$87.6 mln for FY08, FY09 and FY10, respectively.

Note: The estimates in this Reuters section will not always match estimates on the right side, as those are from an independent forecasting service.

Strong revenue growth - PNRA reported total revenue of \$1.06 bln for FY07 versus \$829 mln for FY06. This represented Y/Y growth of 21.3%, largely driven by the opening of new stores, acquisition of new bakery-cafes and the increase in comparable bakery café sales by 1.6% for FY07.



PNRA reported 3Q08 and FY08 year-to-date total revenue of \$315.2 mln and \$941.0 mln respectively. Three-month revenue was up by 15.4% while the nine-month total was up by 22.9% versus \$765.8 mln for the same period last year. The improvement was supported by the opening of 134 new bakery-cafes and the increase in comparable bakery-cafe sales in 3Q08. Bakery café sales reported growth of 15.6% and 25.7% Y/Y for the three months and nine months ended September 2008.

Comparable and average weekly sales -- For FY07, PNRA reported comparable bakery-café sales growth of 1.6% -- 1.9% for company owned bakery-cafes and 1.5% for franchise-operated bakery-cafes. System wide AWS declined 1.2% to \$38,668 in FY07 versus \$39,150. For 3Q08, comparable bakery-cafe sales increased to 3.3% -- 3.0% for company-owned bakery-cafes and 3.5% for franchise-operated bakery-cafes. System-wide AWS increased 1.5% to \$38,633 versus 3Q07. Year-to-date (3Q08), PNRA reported increased comparable sales of 3.7% and AWS of \$38,939 (1.9% increase over the same period last year).

Improving margins – In each of the last three years PNRA is continuously showing a reduction in its gross profit margin. For FY07, Gross margin was 21.0% versus 24.2% in FY06 impacted by increases in the cost of food and paper products (up 31% in FY07). Gross profit margin for 3Q08 and year-to-date FY08 improved slightly and ended at 19.1% and 19.8%, respectively. This improvement was due to category management strategies. EBITDA margin for the three months and nine months ended 3Q08 was 12.5% and 11.4% respectively.

Zero debt provides financial flexibility – As of the end of 3Q08, PNRA reported cash and cash equivalents of \$24.5 mln, down 65% versus \$68.2 mln at the end of FY07. This significant decrease was primarily a result of funds used for repayment of long-term debt, share repurchases and capital expenditures. The zero debt levels coupled with back-up credit facilities provides PNRA ample financial flexibility for its future store expansion activities and additional share repurchases next year.

Strong Free Cash Flow -- For 3Q08, PNRA reported (a nine-year high) positive FCF of \$8.2 mln, versus negative FCF of \$5.9 mln in 3Q07. PNRA has generated four consecutive quarters of positive FCF – year-to-date (3Q08) was \$78 mln versus \$3.44 mln in the same period last year.

Financial Summary

	FY2007 A	FY2008 E	FY2009 E	FY2010 E
Summary Income Statement				
Revenue	1,066.7	1,294.9	1,371.4	1,548.6
Gross Profit	224.4	270.5	298.8	337.9
EBITDA	147.2	177.4	201.5	228.0
Interest Expense	0.5	2.8	3.9	1.6
Pre-tax Income	88.5	105.7	123.9	143.0
Net Income	57.5	67.4	79.1	91.2
EPS	\$1.81	\$2.22	\$2.60	\$3.00

	FY2007 A	FY2008 E	FY2009 E	FY2010 E
Summary Balance Sheet				
Cash and equivalents	91.4	62.2	62.2	62.2
Long-term Debt	75.0	18.0	18.0	18.0
Total Debt	75.0	121.5	59.2	32.5
Net Debt	(16.4)	59.2	(3.0)	(29.7)
Shareholders Equity	446.2	471.5	555.9	652.5
Total Assets	698.8	798.5	834.5	929.9

	FY2007 A	FY2008 E	FY2009 E	FY2010 E
Summary Cash Flow				
Cash from Operations	154.0	100.9	101.1	125.5
Capex	(124.1)	(187.5)	(108.3)	(172.0)
Capex, net	(122.3)	(135.4)	(45.1)	(105.1)
Free Cash Flow	31.7	(34.5)	56.0	20.4
Cash Dividends	0.0	0.0	0.0	0.0

	FY2007 A	FY2008 E	FY2009 E	FY2010 E
Key Ratios				
Revenue Growth Y/Y	28.7%	21.4%	5.9%	12.9%
EPS Growth Y/Y	-3.7%	22.7%	17.1%	15.4%
Gross Margin	21.0%	20.9%	21.8%	21.8%
EBITDA Margin	13.8%	13.7%	14.7%	14.7%
Debt/EBITDA	0.51x	0.68x	0.29x	0.14x
EBITDA/Interest exp.	306.63x	62.91x	52.33x	139.85x

\$ million, except EPS

NM: Not Meaningful

Significant Developments

(11/5/08) **Restaurant shares dropped** -- Restaurant shares largely fell (on Wednesday) along with the overall market a day after Democrat Barack Obama secured the Presidency.

(10/29/08) **Consumer spending favors fast food** -- Many people are spending more at restaurants despite the recent economic crisis. Customers visiting fast food restaurants (Dunkin Donuts, Panera and McDonald's) have increased their average monthly outlays by more than 10% from March through September, according to the new Main Street Spending Index.

(10/22/08) **S&P rating changed** -- S&P equity research raises PNRA rating to hold from strong sell.

(10/22/08) **PNRA reports Q3** -- Net income of \$14 million (\$0.45 per share), up nearly 17% percent from \$12 million, or \$0.37 per share, a year earlier. Total revenue was \$315 million in the third quarter, up from \$273 million a year ago. *In spite of considerable consumer headwinds, comparable bakery-cafe sales in the third quarter of 2008 increased 3% in company-owned bakery-cafes and 3.5% in franchise-operated bakery-cafes*, the company said in its press release.

(10/21/08) **Reiterating 4Q08 earnings guidance** -- PNRA re-affirmed its EPS target for 4Q08 at \$0.82-\$0.86.

(10/06/08) **First Canadian bakery** – PNRA franchisee Millennium Bread, Inc. has opened its first bakery-cafe in Toronto, Ontario. The first Greater Toronto bakery-cafe is in Richmond Hill and two additional bakery-cafes are expected to open in Q1, 2009.

(09/29/08) **Hurricane Ike hurts restaurants** -- gas shortage in the SE following Hurricane Ike may hurt earnings for restaurant operators.

Standpoint Research 155-Variable Model / Quantitative Analysis with Fundamental & Subjective Overlay

This recommendation was generated from the 09-20-08 Chain Stores report (272 stocks). We added this to our portfolio of open recommendations on 10-24-08. On 11-08-08 we ran 2000 stocks through our model and Panera PNRA ranked # 1000 (even). Please refer to the "Legend" sheet in our Excel reports for the color code and description of all 155 variables used in our model. The 155-variable scoring is summarized in the 32 categories below (from roe through peg). The number in each of the cells, is the rank out of **2000** stocks from the November 8th report in the respective category. The seven cells to the right of the peg cell are coded and for internal use. A weak score on P/S (ps) can be offset by a strong score in Net Profit Margin (npm). A weak score on Return on Equity (roe) can be offset by a strong score on P/B (pbk). A weak score on technical indicators (especially at the extremes), is looked at positively if it is combined with strong scores on fundamentals and valuation.

rank	ticker	roe	roa	roc	ebitda	npm	acct	eps m	rev gr	eps gr	beta	debt	stab gr
1000 / 2000	PNRA	1134	358	817	1370	1456	650	1308	226	850	1118	1	446

div I	pbk	base	rel-ma	inside	safe	pcf I	pcf II	fcf	div II	rel str	pr mo	ps	rel ps	off hi-lo
1402	1509	775	1761	1977	677	1648	855	594	1216	98	158	1003	568	1705

pred	pertix	perhis	blend	peg	deducts	t val	t fund	t prop	t misc	t tech	t score
159	1108	852	1653	1240	70187	27774	19029	11267	10100	2017	52.58%

PNRA management feels confident that margins will bounce off their multi-year lows, but in my analysis, valuation and price forecast I am being more conservative (so there will be an upside surprise as opposed to a downside surprise). The company ended the most recent quarter with \$23.4 mln in cash excluding the \$8.1 mln of NAV in the Columbia Strategic Cash Portfolio, so cash and short-term investments together total \$31.5 mln. While most restaurants are seeing high-single digit transaction declines (in percentage terms), PNRA has seen only (about) 2%-4% declines even though PNRA has been raising prices. PNRA caters to an upper-end customer base and that will be a *relative* positive in an environment with a struggling middle class. PNRA now serves new grilled breakfast sandwiches, and is adding a new yogurt parfait to the menu made with low fat organic yogurt, fresh cut strawberries and a proprietary granola. I never heard that term before -- *proprietary granola!* Additionally, PNRA is launching its new coffee program featuring two new blends.

PNRA Q3 was ahead of expectations and management guided Q4 in-line. FY09 EPS guidance was also in-line. Q3 EPS was \$0.45 per share, \$0.02 better than the First Call consensus. PNRA has beaten estimates in the last four quarters. Revenues were up 15.4% y/y to \$315.2 mln versus the \$317.9 mln consensus. PNRA confirmed in-line guidance for Q4, with EPS at \$0.82-\$0.86 versus the \$0.85 consensus. Management issued in-line guidance for FY09, seeing EPS of \$2.55-\$2.71 versus the \$2.63 consensus. **Consensus estimates have been stable during the last 90 days** -- estimates for 2008 are even at \$2.22 versus 90 days ago, while estimates for 2009 are now at \$2.60 (down from \$2.64).

Panera Bread seems to be holding up well relative to its competitors. In the last 60 days, the share price is down 34.7% versus 34.8% for the S&P-500. There are 14 restaurant chains with market capitalization in the \$250 mln -- \$2.5 bln range -- PNRA is under-performing only CMG (-32%). Most of the restaurants are down 41%-65%. PNRA customers are still showing up and PNRA (through its creative strategies) is managing to keep average receipt per customer at a healthy level. The strategy to focus on higher-margin sales versus growing the customer count is paying off.

PNRA posts double-digit quarterly and annual sales growth consistently. In the most recent quarter, the company was able to show double-digit growth in earnings per share as well, reversing an earlier (short-term) trend. Panera is a bit (but not totally) immune from a significant slowdown because of its higher-end customer base. Panera focuses on breakfast and lunch options, and depends less on the less stable dinner crowd. PNRA is at the mid-price point -- more expensive than fast-food and less expensive than restaurants such as *PF Chang's*, *Friday's* and *Applebee's*. On a personal note for whoever has not been to a PNRA before -- I used to work near one of their Long Island locations and was there several times per week. It is quite a fine place.

Panera has significant earnings potential, but we are in recession, store-count growth will slow and multiples have contracted. The situation may get worse before it gets better so I would advise against jumping into this stock with both feet -- especially if you are already overweight in the consumer discretionary sector. The beta on PNRA is 1.17X so it is not expected to do well in a declining market. I want to reiterate my note from the top of this report -- As of 10-28-08, 32% of the PNRA float was sold short. The short interest with most restaurant chains of this size is (still) currently very high at 10%-20%.

PNRA is now trading at 1.6X the market multiple and that is low relative to what it has historically traded at (1.4X -- 2.4X from 1997-2006). Earnings should rise by at least 10% Y/Y from 2009 to 2010. PNRA closed trading on Friday (November 21) at \$37.40 and is now trading at < 15X estimates for 2009. Earnings are relatively predictable at PNRA, but there are many volatile moving parts that can cause both positive and negative surprises, mainly commodities prices. If the new administration succeeds in raising the minimum wage significantly, that would be an additional issue to deal with.

PNRA has been quite consistent, delivering ROE near 15% in each of the past seven years in-line with the S&P, but behind several restaurant chains (JBX, DRI, CBRL and YUM are all at or above 20%). 3-year and 5-year historical revenue growth has been 26% and 29% respectively, while 3- and 5-year historical EPS growth was 5% and 13% respectively. PNRA has done very well on revenue growth, with a double (100%) in just three years. With regards to EPS it has taken PNRA five years to post the 100% gain. I am looking for a 75% gain in the next five years on EPS (versus 100% in the prior five-years). This would get us to near \$4.00 in EPS, and I feel PNRA should get at least a multiple on earnings of 16X.

PNRA does not score particularly well on our computer model relative to the market, but it does score well relative to its industry and it is a special situation. On valuation it is still a bit expensive, but that is because it is an excellent company commanding premium multiples. EV/EBITDA is 6.8X and PNRA trades at 8.9X cash flow. Trailing twelve months, PNRA is actually up 9% versus down 46% for the S&P-500. PNRA is the only stock in the restaurant group to post a gain trailing twelve months (but it is 42% off its high).

PNRA is an American company with nearly 8,000 full-time employees. Panera was founded in 1981 as Au Bon Pain Co., Inc. and changed its name to Panera Bread Company in 1998. Panera is based in Richmond Heights, Missouri. PNRA is near the top of its industry on many measures including but not limited to Earnings Purity (97%), Revenue Growth, Relative Strength and Earnings Predictability. Debt-to-Capital is at 0%. During the past six months, less than 2% of insider shares were sold (38,000 out of 2,200,000).

Continued on next page ...

Weekly Investment Research: Panera Bread (PNRA)

We currently have 13 open positions in the Consumer Discretionary sector out of **95** overall. This is a 13.6% weight versus 7.9% in the S&P-500. As the market declines, we have been making a gradual shift from *defense* (where we were since Q2, 2007) to *offense*. In recent months we added Cheesecake Factory **CAKE**, Panera Bread **PNRA**, Toyota Motors **TM** and Chipotle Mexican Grill **CMG** bringing us from 9 open positions in the sector to 13. These positions were added on 9/18, 10/24, 11/21 and 9/17 respectively. Our other open recommendations in this sector include COH, KSS, NKE, HOG, CHS, ANF, AEO, BBY and LOW. This is an industry where we have chosen to concentrate some of the risk in our portfolio. I think there is extraordinary upside in some of these smaller names (growth stocks trading at value multiples) and prefer to be early than late with this group.

I must reiterate what I have been adding to my latest reports – In the past, we set **three**-year price targets. Because it is still unclear how long it will take for the economy to recover, and because we assume that it will take 12-24 months before a rebound takes place, we would now set price targets looking out **3-5** years where there is a bit more visibility than there is now with the short-term time horizon.

Below is a table listing ten of the stocks in this 18-stock industry (minimum market capitalization is \$250,000,000). BOB, CEC, PZZA, CBRL, BWLD, SONC, CKR and THI are not shown. Six of the stocks in this industry are currently showing dividend yields greater than 1.5% and those are CBRL (6.9%), DRI (5.6%), BOBE (4.7%), CKR (4.5%), MCD (3.6%) and YUM (3.1%). Although these are consumer discretionary names, their betas (surprisingly) are not that high. CEC, CBRL, SBUX and DRI are at 1.25X-1.35X, while our three recommendations CAKE, PNRA and CMG are at 1.22X, 1.17X and 0.98X respectively. BKC (0.82X) and MCD (0.69X) are lowest in the group.

			REVENUE	EARNINGS	ROE	PRICE	E'PRICE	% OF LT	P/E
		MKT	5 YR HIST	5 YR HIST	5 YR	TO	VAL TO	DEBT TO	FWD
COMPANY NAME	TICK	CAP	GR RATE	GR RATE	AVG	BK	EBITDA	CAPITAL	4 QTR
MCDONALD'S	MCD	62026	7.0%	17.0%	16.5%	4.7	10.34	43.0%	14.9
YUM! BRANDS	YUM	11353	5.0%	12.0%	60.9%	30.6	7.89	91.0%	12.3
STARBUCKS	SBUX	5721	19.0%	17.0%	21.7%	2.3	4.67	18.0%	10.0
BURGER KING	BKC	2776	N	N	12.8%	3.0	8.12	52.0%	12.9
DARDEN REST	DRI	2008	7.0%	15.0%	26.2%	1.4	4.51	54.0%	5.5
CHIPOTLE MEX GRILL	CMG	1296	N	N	12.1%	2.0	6.32	0.0%	16.4
PANERA BREAD	PNRA	1139	29.0%	13.0%	16.8%	2.5	6.81	0.0%	14.5
JACK IN THE BOX	JBX	797	7.0%	17.0%	19.6%	1.9	4.15	53.0%	6.4
P F CHANGS BISTRO	PFCB	378	16.0%	5.0%	12.5%	1.0	5.40	38.0%	12.2
CHEESECAKE FACTORY	CAKE	324	15.0%	5.0%	13.1%	0.7	3.77	42.0%	6.8

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Contact Us:

Standpoint Research

Parker Towers
104-60 Queens Blvd., Suite 8K
Forest Hills, NY 11375

Web: www.standpointresearch.com
E-mail: ronnie@standpointresearch.com
Tel: 718.896.4841 Cell: 212.752.0330

Prepared by Ronnie Moas