



California Stock Report

"We Know California Stocks"

P.O. Box 81518, San Diego, CA 92138 Phone: (866) 928-2600, Fax (619) 523-6260 www.CaliforniaStocks.com

The California Top 20

Symbol	Company	Close	Business
ATVI	Activision Blizzard	\$37.24	Video Game Software
AVAV	AeroVironment	\$30.26	Aerospace: Drones
BMRN	BioMarin Pharmaceuticals	\$30.17	Biotechnology
BIO	Bio-Rad Laboratories	\$78.78	Medical: Diagnostics
CPRT	Copart	\$43.42	Auto Auctions
CYBS	CyberSource	\$14.00	Electronic Payment
DNA	Genentech	\$81.82	Biotechnology
GXDX	Genoptix	\$28.06	Medical Labs
GILD	Gilead Sciences	\$49.53	Biotechnology
HPQ	Hewlett-Packard	\$43.42	Printers, PCs
ILMN	Illumina	\$86.25	Genetic Analysis
ISRG	Intuitive Surgical	\$288.49	Medical Specialties
JEC	Jacobs Engineering	\$81.41	Engineering, Constr.
MASI	Masimo	\$36.45	Patient Monitoring
BABY	Natus Medical	\$22.65	Medical: Infant
OXY	Occidental Petroleum	\$77.59	Oil & Gas Production
QCOM	Qualcomm	\$45.19	CDMA Wireless Comm
SPWR	SunPower	\$76.70	Solar Cell Technology
TDY	Teledyne Technologies	\$53.68	Aerospace & Defense
V	Visa	\$73.40	Credit Card Process.

August 2008

In This Issue

Second Quarter Earnings Thus Far a Mixed Bag

As financial stocks rebound after a disastrous 45 day stretch, earnings for banks thus far have been weak but better than diminished expectations. After a minor bomb from **Google**, **Apple** will hold center stage on July 21. We expect positive medical earnings, troubles in tech, and continued problems in consumer and financial.

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August Pick

Arena Pharmaceuticals (ARNA)

Arena shares have plummeted in the current market but investors are overlooking the release of key Phase III trial results for weight loss treatment lorcaserin due in March 2009. Arena should be poised for big gains over the coming months.

Full Report on Page 6

About California Stock Report

California Stock Report is a publication dedicated to discovering and highlighting the top investment opportunities found in California. We use a combination of focused research, fundamental analysis and a unique institutional algorithm developed by the Report's publisher.

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California Stock Review

Monthly Review of California Stocks

July's Top Winners					
Rating	Ticker	Company	Close	\$ Gain	%
2.8	SGXP	SGX Pharmaceuticals	\$3.03	+1.65	119.6%
2.3	SQNM	Sequenom	\$21.54	+9.67	81.5%
2.7	HIRE	HireRight	\$17.18	+7.06	69.8%
2.8	CATS	Catalyst Semiconductor	\$6.45	+2.24	53.2%
2.4	HALO	Halozyme Therapeutics	\$7.82	+2.57	49.0%
2.9	ASYT	Asyst Technologies	\$5.05	+1.46	40.7%
2.3	ARNA	Arena Pharmaceuticals	\$6.26	+1.59	34.0%
2.8	AFFY	Affymax	\$21.00	+4.95	30.8%
3.0	ARST	ArcSight	\$11.45	+2.59	29.2%
2.5	FSYS	Fuel System Solutions	\$38.03	+8.28	27.8%
July's Top Losers					
Rating	Ticker	Company	Close	\$ Loss	%
-	IMB	IndyMac Bancorp	\$0.07	(1.77)	-96.2%
2.8	ACAD	Acadia Pharm.	\$3.72	(4.62)	-55.4%
2.6	NVDA	Nvidia	\$11.36	(12.70)	-52.8%
4.1	PMI	PMI Group	\$2.36	(2.63)	-52.7%
3.2	FED	FirstFed Financial	\$7.25	(7.98)	-52.4%
3.1	SCON	Superconductor Tech.	\$1.60	(1.66)	-50.9%
3.7	JMBA	Jamba	\$1.15	(1.15)	-50.0%
3.3	DIN	DineEquity	\$22.47	(19.97)	-47.1%
3.5	NOVB	North Valley Bancorp	\$4.70	(3.70)	-44.0%
2.5	VMW	VMware	\$38.89	(29.00)	-42.7%

California Stocks

California stocks rolled over in June and through the first two weeks of July. The sell-off in financial and consumer stocks spilled into technology, the heart and soul of the California market. For the period, the index of leading California companies dumped an alarming 8.3%. Gains in **Amgen** and **Genentech** were offset by steep losses in **Google**, **Apple**, **Oxy**, **Chevron**, **Leap Wireless** and **SanDisk**.

Looking into the second half of July, Q2 earnings will be in full swing. Just ahead of publication, Genentech, **Wells Fargo**, **Intel**, **Google** and **Gilead Sciences** have reported. The early read is to avoid the consumer at all costs although Wells Fargo showed that better than expected numbers can lead to significant relief rallies. Buckle up for a turbulent month ahead!

Among the winners this month, healthcare dominated as investors ran to stocks with little economic risk.

SGX Pharmaceuticals bounced after agreeing to a \$3 per share offer from Eli Lilly. SGX shares bombed earlier in the year after a clinical setback.

Sequenom captured the hearts and minds of investors after the company reported superior sensitivity and specificity data from its developmental prenatal diagnostic test. Sequenom is a member of our Golden Bulls Small-Cap portfolio and was our April selection.

Rounding out the leading healthcare winners on the month, **Halozyme** shares rebounded on positive clinical data, July stock selection **Arena Pharmaceuticals** was higher after its shares

CALIFORNIA STOCK REVIEW

hit cash value. And **Affymax** continues to climb after reporting positive Phase II clinical data of Hematide, its treatment for anemia in patients with chronic renal failure. The company also announced that it began four Phase III clinical trials to study Hematide in larger patient populations with data expected in early 2010.

Elsewhere, recent IPO drug test screening company **HireRight** agreed to be acquired by US Investigations Services for \$15.50 per share in cash. Interestingly, HireRight is trading well above this price...another bidder lurking?

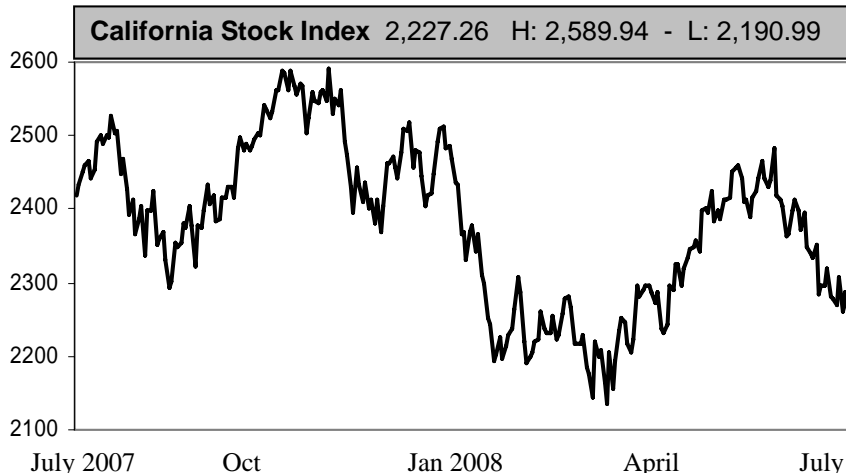
Among losers, financials and consumer stocks led the way. **IndyMac Bancorp** will likely be the first of many banks to be taken over by Federal regulators in California as the subprime fallout worsens. IndyMac shares are worthless though still trading at \$0.07 on the pink sheets.

PMI Group watched its shares get cut in half as skepticism remains high that the mortgage insurers will survive. Banks **FirstFed** and **North Valley** also fell sharply on loan loss worries.

Diners are tightening their belts impacting shares of the newly renamed "**DineEquity**," formerly known as IHOP. The disastrous timing of IHOP's purchase of Applebee's has sent its shares reeling to new lows from a high of \$71.70. **Jamba**, operator of Jamba Juice is also suffering from slower traffic and its shares plunged 50% on the month.

Two prominent names in technology hits the skids in early July on slower than expected growth. Number One video game chipmaker **Nvidia** plunged following a lower forecast. And former red hot IPO **VMware** shares were hit again on slightly lower guidance from its 50% growth trajectory. The company's CEO stepped down following the lower guidance.

Among dividend stocks it is clearly buyer beware. The first three on the list at right are a gamble and investors can likely expect a deep reduction or dividend omission in the near future. REITs **Maguire**, **Redwood Trust** and **Sunstone Hotel** are probably the best bets on the list though we would be highly cautious even of these. And don't expect a dividend from **Aldila** anytime soon...



July's Top Dollar Winners					
Rating	Ticker	Company	Close	\$ Gain	%
2.7	ARDNA	Arden Group	\$134.97	+13.42	11.0%
2.3	SQNM	Sequenom	\$21.54	+9.67	81.5%
2.9	AMGN	Amgen	\$53.19	+8.95	20.2%
2.9	ONXX	Onyx Pharmaceuticals	\$42.52	+8.68	25.7%
3.1	FSYS	Fuel System Solutions	\$38.03	+8.28	27.8%
2.1	DNA	Genentech	\$81.16	+7.47	10.1%
2.7	HIRE	HireRight	\$17.18	+7.06	69.8%
2.4	EW	Edwards Lifesciences	\$66.07	+6.40	10.7%
2.4	ILMN	Illumina	\$84.69	+5.99	7.6%
2.8	AFFY	Affymax	\$21.00	+4.95	30.8%

California's Highest Yielding Stocks					
Yield	Div.	Ticker	Company	Close	Rating
40.0%	\$0.50	BHBC	Beverly Hills Bancorp	\$1.25	3.1
18.4%	\$2.00	KFN	KKR Financial	\$10.86	3.7
17.2%	\$0.40	BLG	Building Materials	\$2.33	3.6
15.5%	\$1.60	MPG	Maguire Properties	\$10.33	3.0
13.7%	\$3.00	CHKE	Cherokee	\$21.95	3.0
13.0%	\$0.60	ALDA	Aldila	\$4.63	2.9
12.4%	\$0.48	DSL	Downey Financial	\$3.88	3.9
11.8%	\$3.00	RWT	Redwood Trust	\$25.32	2.6
11.8%	\$1.40	SHO	Sunstone Hotel Investors	\$11.85	3.1
11.3%	\$0.64	IMP	ITLA Capital	\$5.68	3.4

California Stocks to Watch

Symbol	Company	Close	Comment
AHS	AMN Healthcare	\$18.45	A turnaround in the works for the Number 1 traveling nurse provider?
ARAY	Accuray	\$7.93	There must be a bottom here somewhere, right?
AVAV	AeroVironment	\$30.26	A leading maker of aerial surveillance aircraft
ATEC	Alphatec	\$4.44	2009 could be the turnaround year for this spinal device maker
AMGN	Amgen	\$52.56	Anemia drug powerhouse is attractively valued and is finding buyers
ARTE	Artes Medical	\$1.65	Dermal filler's recent revenues tracking higher than expectations
ATVI	Activision Blizzard	\$37.24	The leading video game maker on strength of <i>Call of Duty</i>
BMRN	BioMarin Pharmaceuticals	\$30.17	FDAs approval of Kuvan has made this company a player
BRCM	Broadcom	\$28.79	Leading chipmaker is a also a key player in iPhone
CRM	Salesforce.com	\$70.74	Salesforce is the by far the leading company in the sales tracking space
DMND	Diamond Foods	\$26.49	Nut maker's earnings on a roll
DNEX	Dionex	\$64.18	Water testing services driving Dionex
ELON	Echelon	\$12.44	Our top pick as California's environmental play in
EXPO	Exponent	\$31.79	A sleeper that provides critical safety and disaster engineering services
GXDX	Genoptix	\$28.06	Hematology and oncology lab specialist IPO
ISIS	Isis Pharmaceuticals	\$15.00	Hopes run high for the company's developmental cholesterol drug
JEC	Jacobs Engineering	\$81.41	Demand for refinery construction and maintenance driving Jacobs
JOEZ	Joes Jeans	\$1.50	Rapidly being considered the next red hot blue jean line
LF	LeapFrog	\$8.30	We like the 2008 product line-up, particularly <i>Tag</i>
MASI	Masimo	\$36.45	Strong sales of pulse oximeters boosting this recent IPO
N	NetSuite	\$19.31	Ellison's competitor to Salesforce.com fading
ONXX	Onyx Pharmaceuticals	\$41.24	A disappointment of Nexavar in lung cancer may be a buying opportunity
QSFT	Quest Software	\$15.04	Business software maker Quest rising on strong earnings growth
RMD	ResMed	\$36.02	Looking for the sleep apnea leader to resume momentum following a recall
SAI	SAIC	\$18.98	We expect 2008 to be a strong year for this defense contractor
SPWR	SunPower	\$76.70	A close Number 2 to solar leader First Solar
SQNM	Sequenom	\$20.73	A promising Down's syndrome test could change pre-natal screening
V	Visa	\$73.40	An exciting newcomer to the public market. Buy on weakness.
VARI	Varian	\$51.37	Results gaining momentum on strong sales of scientific instruments
VRSN	Versign	\$34.16	A leading performer in 2007 looking to continue momentum into '08
VLCM	Volcom	\$25.23	California's hottest sportswear clothing brand versus a tough market
WFC	Wells Fargo	\$27.86	Clearly "best of breed" in a troubled banking sector

CALIFORNIA STOCKS TO WATCH

Portfolio Positioning

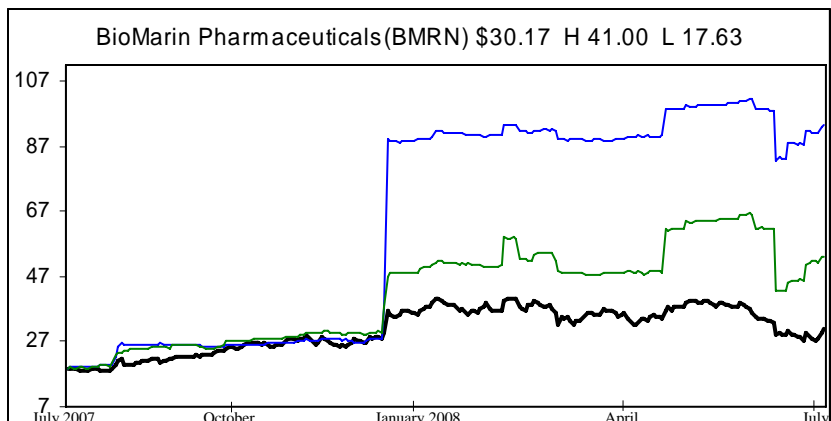
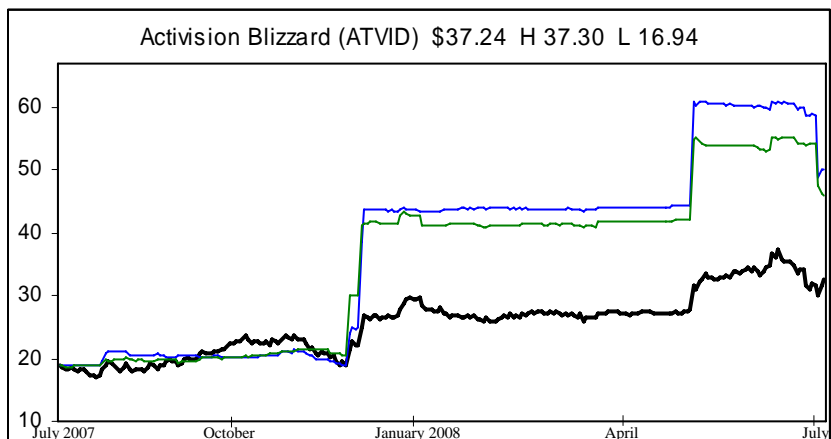
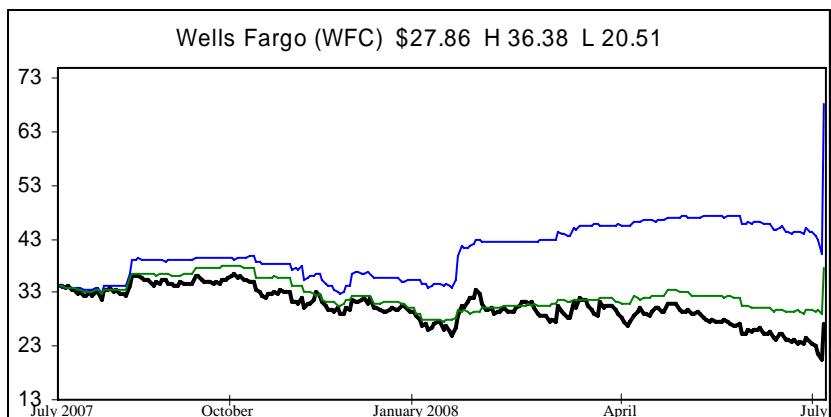
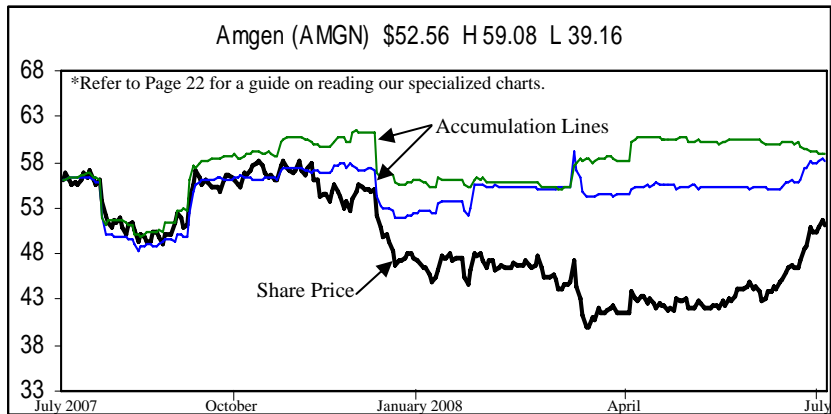
Financial stocks received a lift as we head to print this month on better than expected earnings from **Wells Fargo** and Citigroup (or, more appropriately, earnings that were not as bad as feared). The paranoia that has led to wild swings in market confidence has both created opportunities as well as traps for investors. Until investors have enough information to properly calibrate the extent of bad debt exposure we believe the financial sector will receive little long-term support. The technical insolvency of Fannie Mae and Freddie Mac underscores the damage to the nation's financial system that is just now beginning to feel weakness from prime borrowers. While we think large banks such as Wells Fargo are reaching bottom smaller regional banks such as **Downey**, **PFF**, and **Capital Corp** are dangerously close to becoming the next **IndyMac**.

By most accounts, we have heard that June was a horrible month for retailers. From autos to apparel, shoppers shied from buying and we expect Q2 numbers for retail, restaurant and other consumer sectors to be disappointing.

Not is all doom and gloom, however, as healthcare stocks (health, medical and biotechnology) have prospered during the recent market weakness. A flight to safety in healthcare intersected in early July with an exodus from overheated energy and commodity stocks. We expect strong Q2 earnings from healthcare with **Genentech** having already posted a solid report.

As Q2 earnings approach we remain overweight healthcare and technology in our Golden Bull portfolios. Energy appears poised for a further pullback but the long-term run is certainly not finished. Financials still have further downside in 2008 although we expect the overdue near-term bounce to continue.

Among stocks to watch, bargain priced **Amgen** is on the buy list of institutions in July ahead of Q2 earnings. **Wells Fargo** shows the recent spike in accumulation. **Activision** appears to have stolen the thunder from game leader **Electronic Arts** with *Call of Duty* and the addition of Blizzard. And shares of **BioMarin** are rebounding.



AUGUST STOCK SELECTION

Arena Pharmaceuticals, Inc.

RECOMMENDATION

Our August selection is Arena Pharmaceuticals, a biotech company focused on indications such as weight loss, insomnia, diabetes and heart.

The company's shares have traded off sharply in the tough market environment having recently touched a new low equal to the company's cash per share of \$4.55. However, investors are clearly neglecting the highly impressive data reported by the company in December 2005 of its weight loss drug lorcaserin. With data from Arena's Phase III for lorcaserin scheduled for release in March 2009, these shares appear poised for a run.

Arena shares are not for the faint of heart and we would advise extreme caution in investing in unapproved biotechnology companies. Risk tolerant investors, however, should find a major opportunity here with a cheap share price relative to cash and a potential blockbuster drug in the treatment of weight loss.

OPPORTUNITY

Arena Pharmaceuticals is a biotechnology company focused on diseases in cardiovascular, inflammation, metabolic and of the central nervous system. The company's technology targets "G protein-coupled recep-

Arena Pharmaceuticals (NDQ-ARNA)

Share Price	\$6.28	Market Cap (Mil)	\$462.2
52-Week High	\$14.78	Total Assets (Mil)	\$464.5
52-Week Low	\$4.55	Net Worth (Mil)	\$295.6
Dividend	-	Book Value/Share	\$4.02
Dividend Yield	-	Long-Term Debt (Mil)	\$71.3
PE Ratio	-	Cash & Equiv. (Mil)	\$333.6
Average Volume (000)	1,200,000	Enterprise Value (Mil)	\$182.2
Shares Outstanding (Mil)	73.6	EBITDA (Yr., Mil)	(\$168.3)
Short Interest	20.5%	Op. Cash Flow (Mil)	(\$137.2)
Insider Ownership	9%	Fiscal Year End	Dec. 31
Institutional Ownership	89%	Website:	www.arenapharm.com

6166 Nancy Ridge Drive, San Diego, CA 92121 (858) 453-7200

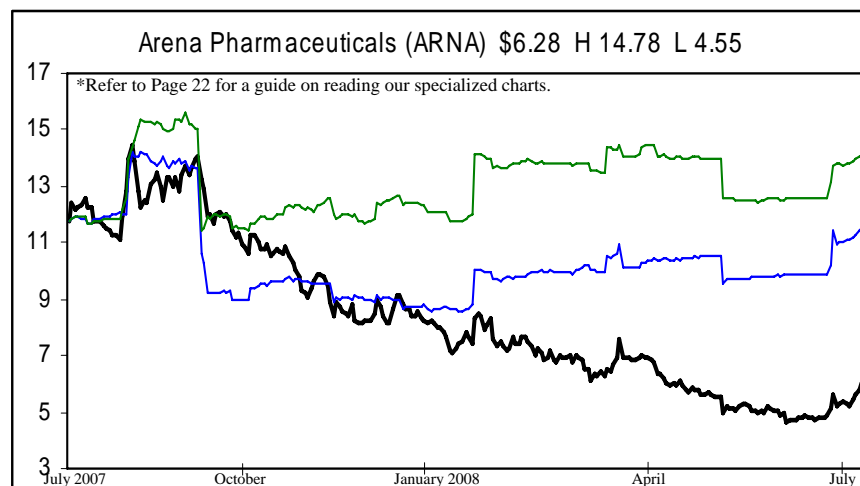
tors" (GPCRs). GPCR targeted drugs are among the most common and successful on the market and include Zantac, Clarinex, Zyprexa and a host of other top selling drugs. GPCRs "communicate" chemical signals to different cell types and these receptors are the source of much promise in targeted disease treatment.

Among the host of drugs in development at Arena, lorcaserin is furthest along and in Phase III clinical trials for weight loss. Lorcaserin is a

drug which targets a specific serotonin receptor located in the hypothalamus region of the brain.

Arena shares jumped 18% on December 14, 2005 after announcing Phase IIb results for lorcaserin that showed a statistically significant average weight loss for patients and impressive reductions in body mass index and waist and hip circumference. Results from the highest dosage of 20 mg produced a mean weight loss of 7.9 pounds versus 0.7 pounds for the placebo group. Importantly, follow-up echocardiograms on study patients showed no effect on heart valves or pulmonary artery pressure that have plagued other weight loss drugs such as Redux.

Arena currently has three Phase III studies for lorcaserin ongoing to measure the proportion of patients with a 5% or greater weight reduction from a baseline at one and two years and at dosages of 10 and 20 mg. The company expects to report top line results from one of these trials (the two-year, 3,000 patient "BLOOM" study) in March 2009. Other clinical results for



AUGUST STOCK SELECTION-Page 2

lorcaserin are expected in the second half of 2009 and the company said it is on track to file a New Drug Application with the FDA by the end of 2009 (assuming a positive outcome).

Based on the impressive results from December 2005, there is a strong case for approval of lorcaserin and the drug could become a potential \$1 billion blockbuster if approved.

Arena is also advancing a large pipeline of GPCR targeted drugs independently and in conjunction with partners such as Ortho-McNeil Pharmaceutical and Merck.

Arena began a Phase IIb study of APD125 in April 2008 for the treatment of insomnia. Trial results are expected by year-end 2008. The company also began a Phase Ia clinical trial for APD791, an anti-thrombotic drug. Among partners, Merck initiated a Phase I trial of a receptor discovered by Arena.

RECENT RESULTS & GUIDANCE

Arena management confirmed its drug programs and timelines as outlined above during its May 1Q08 conference call. There continues to be a large degree of concern from the analyst community about the lack of an announced partner for lorcaserin given the late stage trial results. Management maintains that interest from potential partners is high and that it is purposely not rushing to complete a deal. We are obviously siding with management in our outlook. With \$333.6 million in cash, we believe Arena has sufficient funds to proceed with development programs through 2010.

BUSINESS

Arena Pharmaceuticals is a clinical-stage biopharmaceutical company focused on the discovery, development and commercialization of oral drugs in four major therapeutic areas: cardiovascular, central nervous system, inflammatory and metabolic diseases. The company's drug pipeline is based on novel compounds that selectively target known and orphan G protein-coupled receptors.

Revenue Growth (\$Mil)						
	2006	Change	2007	Change	2008	Change
Q1	12.1	-	4.9	-	2.6	
Q2	9.3	-	4.8	-		
Q3	4.4	-	5.0	-		
Q4	4.7	-	4.6	-		
Year	30.6	-	19.3	-		
EPS Growth						
	2006	Change	2007	Change	2008	Change
Q1	(0.30)	-	(0.53)	-	(0.75)	-
Q2	(0.40)	-	(0.64)	-		
Q3	(0.43)	-	(0.54)	-		
Q4	(0.73)	-	(0.60)	-		
Year	(1.89)	-	(2.31)	-		
Recent EPS Performance						
Quarter	Actual	Estimate	Difference			
Mar '08	(0.75)	(0.67)	(0.08)			
Dec '07	(0.81)	(0.60)	+0.20			
Sept '07	(0.73)	(0.54)	+0.19			
Jun '07	(0.64)	(0.64)	-			
Mar '07	(0.67)	(0.53)	+0.14			
Dec '06	-	-	-			
Analyst Consensus Estimate Trends						
Period	Current Estimate	June	May	Apr	June 2007	
2Q08	(0.75)	(0.75)	(0.75)	(0.75)	(0.77)	
3Q08	(0.75)	(0.75)	(0.75)	(0.75)	(0.72)	
FY08	(2.98)	(2.98)	(2.97)	(2.97)	(2.59)	
FY09	(2.03)	(2.03)	(2.03)	(2.03)	(1.68)	

INITIAL PUBLIC OFFERINGS REVIEW

Recent IPO Performance

Ticker	Company	Current Price	IPO Price	IPO Date	Performance
ERII	Energy Recovery	\$11.01	\$8.50	7/1/2008	29.5%
BEAT	CardioNet	\$29.00	\$18.00	3/19/2008	61.1%
V	Visa	\$72.23	\$44.00	3/18/2008	64.2%
ARST	ArcSight	\$11.55	\$9.00	2/14/2008	28.3%
IPCM	IPC-The Hospitalist	\$20.12	\$16.00	1/25/2008	25.8%
N	NetSuite	\$18.86	\$26.00	12/20/2007	-27.5%
ENTR	Entropic Comm.	\$4.06	\$6.00	12/7/2007	-32.3%
SFSF	SuccessFactors	\$11.21	\$10.00	11/20/2007	12.1%
PAR	3PAR	\$8.03	\$14.00	11/16/2007	-42.6%
INET	Internet Brands	\$6.09	\$8.00	11/16/2007	-23.9%
ENSG	Ensign Group	\$11.58	\$16.00	11/9/2007	-27.6%
ARYX	ARYx Therapeutics	\$5.01	\$10.00	11/7/2007	-49.9%
BFRM	BioForm Medical	\$4.92	\$8.00	11/7/2007	-38.5%
GXDX	Genoptix	\$28.06	\$17.00	10/30/2007	65.1%
NBY	NovaBay Pharm.	\$2.00	\$4.00	10/25/2007	-50.0%

California IPO News

The IPO market is dead. The slow-down that began in December of last year came to a grinding halt in April. **Energy Recovery**, a company that makes efficiency products for water desalination, has been the only IPO since **CardioNet** on March 19.

Among IPO filings, **Metropark USA** is a 43 store mall-based retailer run by the founder of **Hot Topic**. Metropark is focused on fashion conscious club go'ers aged 20-35. The company generated FY08 revenue of \$71.6 million for the period ending February 2 with operating income of \$526,000. This will likely be a tough sell under current market conditions.

Among the other two filings this month, **Acclarent** is a medical device company focused on the ear, nose and throat. It's proprietary Balloon Sinuplasty device to treat chronic sinusitis began sales in the U.S. in September 2005 generating 1Q08 revenue of \$10.2 million and a sizable loss. **NextG Networks** sells distributed antenna systems to wireless carriers such as AT&T, Verizon, Sprint and **Leap**. Revenue remains small though losses are light.

USING OUR STOCK RATING SYSTEM

Our unique Ratings System is designed to provide an easy to read "window" on a company's standing in the marketplace. Each company is individually rated "1" through "5" according to LSI (a proprietary institutional accumulation/distribution measure), EPS (operational growth) and Valuation. These individual ratings are averaged on a weighted basis to produce an "Overall Rating" whereby: 1.0-Highest (most timely stock), 3.0-Neutral, 5.0-Lowest (underperform). LSI is weighted heaviest and Valuation is weighted lowest in the Overall Rating. These figures may show a slight variation according to industry group and other lesser metrics.

RATINGS SUMMARY

LSI -1: Stocks showing the highest level of accumulation based on our proprietary charts (multiple and consistent upward notches, particularly near-term), 2: Positive accumulation trend, 3: Neutral, choppy trend, 4: Negative activity/institutional distribution, 5: Multiple large downward distribution notches on the chart.

EPS-A range of 0 (positive) to 1 (negative) is assigned to the following financial measures: Revenue history (three years), EPS history (three years), Analyst Estimates: a) Meeting estimates (0-1), b) beating and raising estimates (0-1) and results for the latest quarter. These are added together for the overall EPS rating.

Valuation-A PE range is calculated for each year over the past four years and divided into five percentile brackets. The valuation is based on the range in which the PE falls with some adjustment for market conditions. "1" for lowest percentile bracket of PE range, "5" for the highest.

EXAMPLE

Hewlett-Packard-overall rating of 1.3 (March 2006): LSI of "1" based on very strong LSI pattern, EPS of "1" due to the fact that the company is consistently beating estimates and raising guidance, had a strong recent quarter and a good history of revenue and EPS growth, Valuation of 4 as its PE is in the second highest percentile range.

INITIAL PUBLIC OFFERINGS REVIEW

Recent IPO Filings						
Proposed Ticker	Company	Filing Date	Rating (1-5)	Offering Size (\$mil)	Business	Region/HQ
MTPK	>Metropark USA	6/13/2008	3	\$100.0	Retail Apparel	LA-City of Industry
-	>Acclarent	6/6/2008	3	\$86.3	Medical Device-Sinus	SF-Menlo Park
NXTG	>NextG Networks	6/5/2008	3	\$150.0	Distributed Antenna Sys.	SV-San Jose
NXSN	Nexsan	4/25/2008	3	\$80.5	SATA-Based Disk Storage	LA-Woodland Hills
EPOC	Epocrates	4/17/2008	2	\$75.0	Software: Medical	SF-San Mateo
CDXS	Codexis	4/14/2008	4	\$100.0	Biofuels	SF-Redwood City
FLDM	Fluidigm	4/14/2008	4	\$86.3	Genetic Analysis	SF-S. San Francisco
ZGNX	Zogenix	3/20/2008	3	\$86.3	Specialty Pharma-Pain	SD-San Diego
CRTM	Current Media	1/28/2008	3	\$100.0	Media-Current TV	SF-San Francisco
PHMX	Phenomix	1/25/2008	4	\$86.3	Pharma	SD-San Diego
BHTX	Bayhill Therapeutics	1/9/2008	4	\$86.3	Biotechnology: Autoimmune	SV-Palo Alto
SRSE	Source Photonics	12/26/2007	3	\$130.0	Optical Networking	LA-Chatsworth
ANDA	ANDA Networks	12/21/2007	4	\$86.3	Network Equipment	SV-Sunnyvale
-	Prometheus Labs	12/19/2007	4	\$100.0	Pharma-GI	SD-San Diego
DNGR	Danger	12/19/2007	3	\$100.0	Software: PDA/Web	SV-Palo Alto
DTWO	Digital Domain	12/12/2007	3	\$100.0	Film: Special Effects	LA-Venice
CCXI	ChemoCentryx	11/9/2007	4	\$57.5	Biotechnology	SV-Mountain View
XDXI	XDx	10/23/2007	4	\$86.3	Medical Testing	SF-Brisbane
EMPH	Emphasys Medical	9/21/2007	3	\$86.3	Medical: Lung Disorders	SF-Redwood City
-	BlueArc	9/7/2007	3	\$103.5	Data Storage Systems	SV-San Jose
ANAC	Anacor Pharm.	8/31/2007	3	\$57.5	Pharmaceuticals: Skin	SV-Palo Alto
SNCS	Sonics	8/24/2007	3	\$80.0	System-on-a-Chip Connect.	SV-Mountain View
RLNT	Reliant Technologies	8/16/2007	3	\$95.0	Medical Devices: Skin	SV-Mountain View
PLIN	Peplin	8/9/2007	4	\$75.0	Biotech: Skin Cancer	SF-Emeryville
EYON	eyeonics	7/27/2007	4	\$86.3	Corrective eye surgery	LA-Aliso Viejo
OMNE	Omneon Video Network	12/29/2006	2	\$115.0	Digital TV Solutions	SV-Sunnyvale

CALIFORNIA STOCKS TO WATCH

AMN Healthcare (Rating: 2.2)

AMN Healthcare is regaining momentum following a strong Q1 that saw earnings beat estimates on sharply higher demand for the company's travel nurses. AMN has been struggling with sluggish hospital admissions over the past year and skeptics claim the stronger Q1 results were the result of a more robust flu season. We disagree and see the demand for travel nurses as more lasting due to an aging nurse population, minimum nurse-to-patient ratio mandates and the acute shortage of nurses in the workforce.

Cepheid (Rating: 2.2)

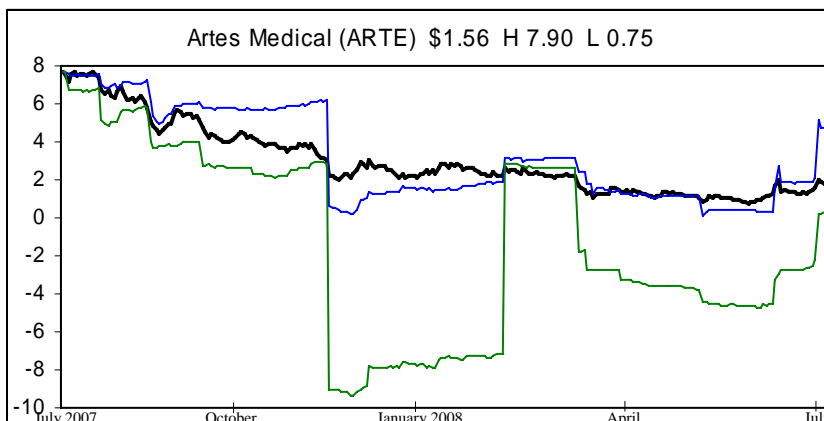
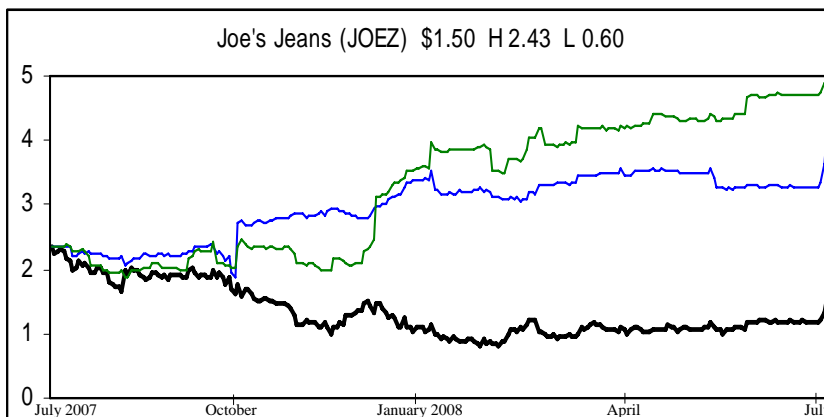
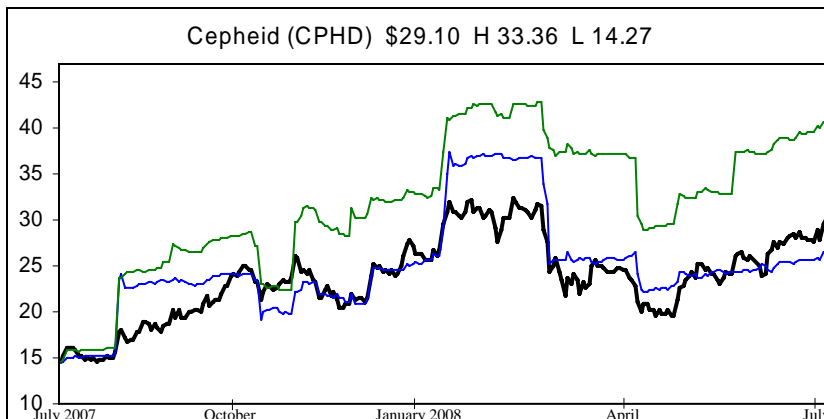
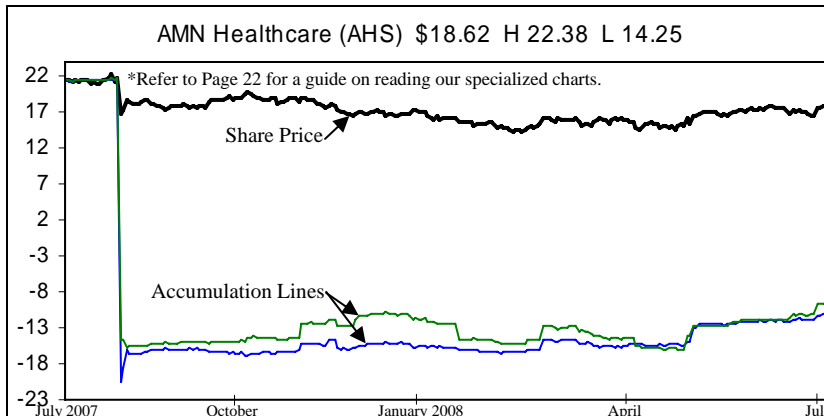
Cepheid continues to impress Wall Street with sales of its molecular based DNA detection tests. The company's tests are designed to rapidly identify infectious diseases and cancer as well as bioterror threats such as anthrax. Revenue surged 76% in Q1 to \$44.8 million and we believe the company will reach profitability in Q2 to be reported on July 24.

Joe's Jeans (Rating: 2.3)

Denim maker Joe's is taking the market by storm in a tough retail environment. The company reported 18% overall revenue growth in the recently reported Q2 with 43% growth in the international market. Joe's posted a profit of \$2 million, or \$0.03 per share. Retailers Macy's West, Bloomingdale's, Nordstrom and Neiman Marcus are expanding door counts with Joe's and the company has sharply reduced costs with a shift in manufacturing to Mexico. The company also reported that overall backlog is up 136% in the third and fourth quarters. Joe's looks to be a strong turnaround in the making.

Artes Medical (Rating: 2.6)

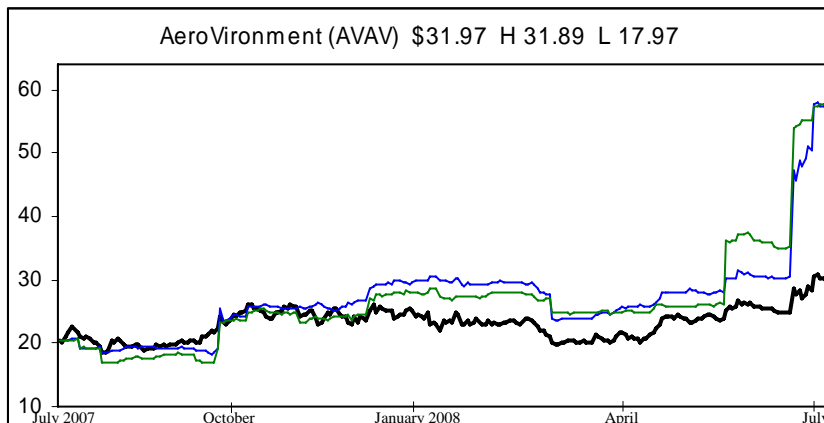
Artes has been seemingly left for dead following an abysmal Q1 and the removal of the company's CEO. With a renewed focus on marketing, however, the dermal filler company preannounced Q2 revenue of \$3.2 million, well in advance of Q1 revenue. These shares are worth keeping an eye on as a turnaround in the aesthetics market.



CALIFORNIA STOCKS TO WATCH

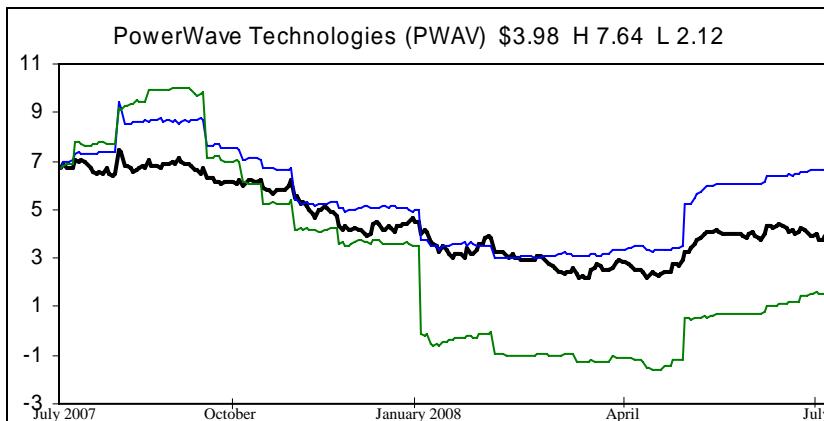
AeroVironment (Rating: 2.1)

AeroVironment shares are beginning to lift off as the leading maker of drones for the U.S. military posts strong revenue and EPS growth. The company continues to develop smaller form factors with its hand delivered Wasp III boasting a wingspan of only 28 inches and weight of less than a pound. Following a stronger than expected fourth quarter, AeroVironment shares have come under significant accumulation activity from institutional investors as an emerging growth story.



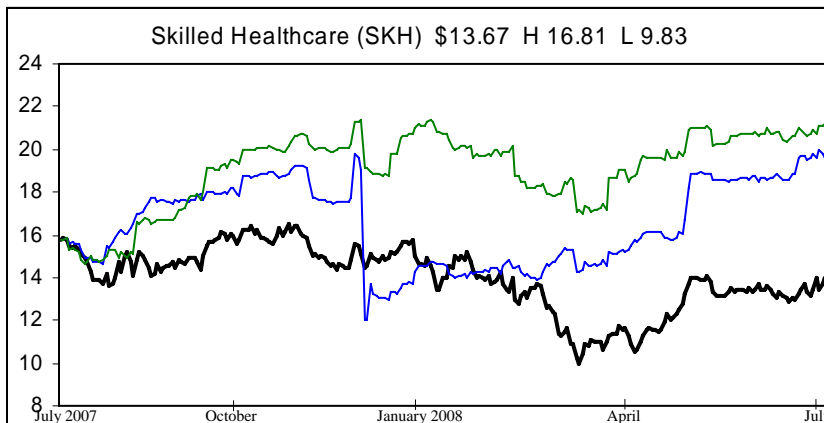
PowerWave (Rating: 2.3)

Wireless products provider PowerWave Technologies appears to be righting its ship after a horrible couple of years. On a pro forma basis, the company was actually able to manage a slight profit in the first quarter on a 38% jump in revenue to \$226 million. PowerWave is a major player in 3G and the growing adoption of this new wireless standard should provide a further boost to revenue. Accumulation is beginning to build.



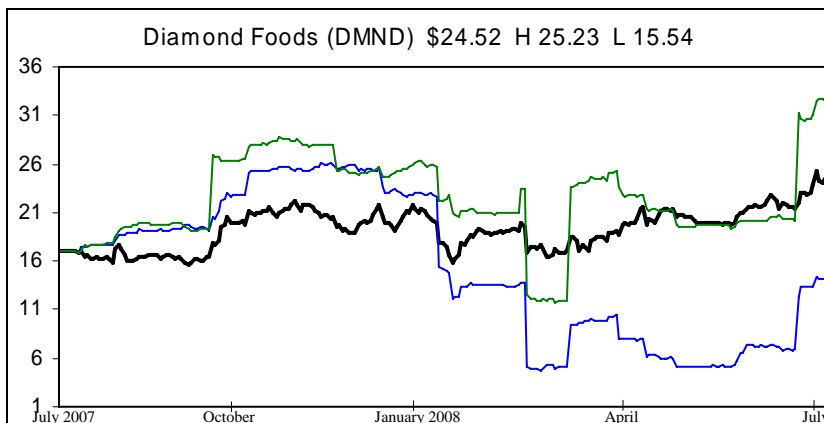
Skilled Healthcare (Rating: 2.3)

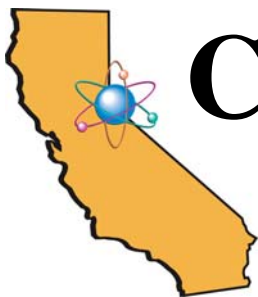
2007 IPO Skilled Healthcare has been a bust in the market despite results that have kept pace with expectations. The operator of 74 nursing homes and 13 assisted care living facilities has been the subject of concern as falling home values are suspected of leading to delayed admissions. Thus far, there have been no signs of admission weakness and we see these shares as attractively priced with strong growth potential. Skilled Healthcare reports its Q2 on August 5.



Diamond Foods (Rating: 2.2)

Pardon the bad pun but consumers are going nuts over nuts. Diamond markets an assortment of nuts and mixes under the Emerald and Diamond brands. Strong demand, new product launches and positive pricing trends have combined to drive significant gains in EPS on relatively flat sales. Accumulation has picked up of late and Diamond shares continue to set new 52-week highs.





California Technology Review

Ratings and Analysis of California-Based Technology Stocks

Top 25 California Technology Stocks				
Rating	Ticker	Company	Close	Business
2.1	HPQ	Hewlett-Packard	\$43.23	Printers, PCs
2.2	CYBS	CyberSource	\$14.21	Electronic Payment
2.3	ALTR	Altera	\$21.51	Semiconductors
2.3	ATHR	Atheros Comm.	\$33.04	Wireless Comm. Products
2.3	DNEX	Dionex	\$65.00	Scientific Instruments
2.3	WDC	Western Digital	\$32.50	Computer Storage
2.4	RVBD	Riverbed Tech.	\$15.69	Wide Area Dist. Computing
2.4	TRMB	Trimble Navigation	\$32.32	Global Positioning
2.4	VMW	VMware	\$38.89	Virtualization Software
2.4	VLTR	Volterra Semi.	\$15.30	Semiconductors
2.4	AAPL	Apple	\$171.81	PCs, iPod
2.4	BRCM	Broadcom	\$29.07	Semiconductors
2.4	INTC	Intel	\$21.99	Semiconductors
2.5	GOOG	Google	\$533.44	Internet Search
2.6	BRCN	Brocade Comm.	\$8.30	Data Storage Networking
2.6	CSCO	Cisco Systems	\$21.52	Computer Networking
2.6	ELX	Emulex	\$11.14	Computer Storage Solutions
2.6	IDTI	Integrated Device	\$10.32	Semiconductors
2.6	JNPR	Juniper Networks	\$23.16	Computer Networking
2.6	MXIM	Maxim Integrated	\$19.60	Semiconductors
2.6	MXWL	Maxwell Tech.	\$12.99	Ultracapacitors
2.6	NVDA	Nvidia	\$11.36	Semiconductors: Video
2.6	SMTX	Semtech	\$14.77	Semiconductors
2.6	SYNA	Synaptics	\$42.63	Device Interface Solutions
2.6	A	Agilent Technologies	\$35.14	Electronic Test/Instruments

California Technology Stocks

California technology stocks are a troubled lot heading into second quarter earnings. While **Intel** reported solid demand for PCs, particularly in the international market, most tech stocks remain highly dependent on domestic revenue. **Google** bombed as we head to publication on lower EPS.

Heading into the prime of earnings season, consumer spending woes are likely to lead to several disappointments although we do not expect **Apple** to be one of them. Business IT spending has also weakened over the first half of 2008 which could lead to delayed hardware purchases such as **Cisco** routers. Many chip and chip equipment makers are trading at lows leading many to believe the group will see a lift as value investors take positions. **Lam Research** and **KLA-Tencor** are two to watch.

Among our favorites, **H-P** continues to lead the list largely by default. While PC growth has certainly come into question to the detriment of its shares, H-Ps successful cost cutting and growth beyond the PC has buoyed our opinion.

Elsewhere, electronic payment processor **CyberSource** is very interesting based on the recent stock pull-back and track record of earnings growth. Programmable logic maker **Altera** reported yet another strong quarter and provided inline guidance. And chipmaker **Atheros** continues to flirt with 52-week highs benefitting from the move to 802.11n chipsets and demand for Bluetooth.

Leading wide area networker **Riverbed Technology** is one to watch ahead of earnings on July 24.

TECHNOLOGY STOCKS TO WATCH

Apple (Rating: 2.4)

Apple will hold center stage on July 21 with its third quarter earnings report. Consensus estimates call for revenue of \$7.35 billion and EPS of \$1.08. While iPod growth has taken a slight hit following the release of iPhone the company has been hitting on all cylinders with Mac. Based on recent business customer wins, we believe Mac is becoming a more powerful force in the PC market. In addition, most observers are now handicapping the magnitude with which iPhone sales will surpass 10 million units in 2008 as opposed to questioning the assertion. The July 11 release of Apple's 3G iPhone has put RIM's Blackberry squarely in its cross-hairs and provided the company with ample lead time ahead of the release of Blackberry Bold later in the month. With a PE of 33 on FY08 EPS estimates of \$5.21, Apple is priced for nothing less than perfection.

Google (Rating: 2.5)

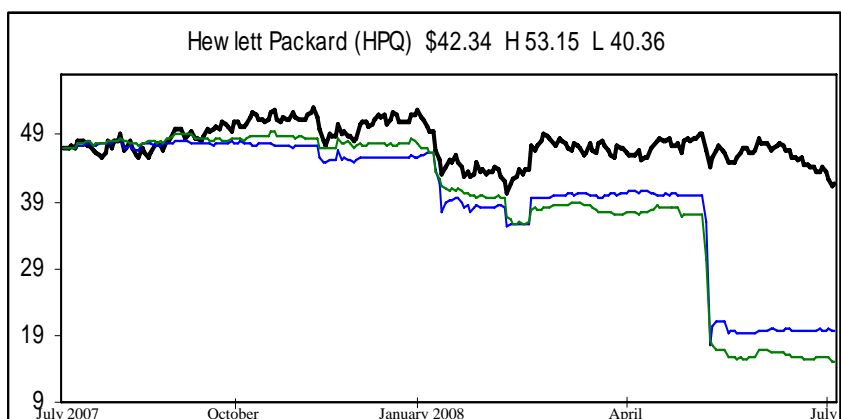
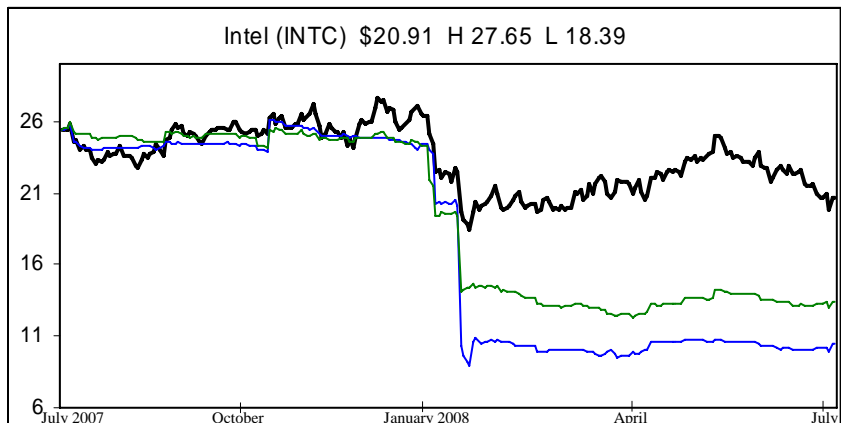
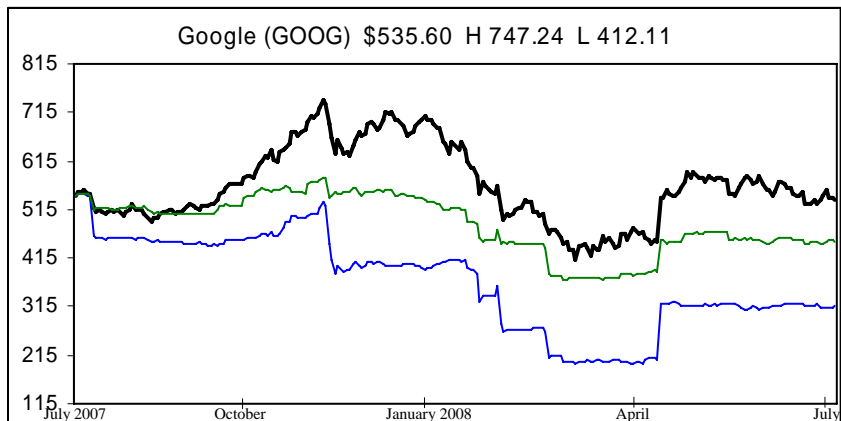
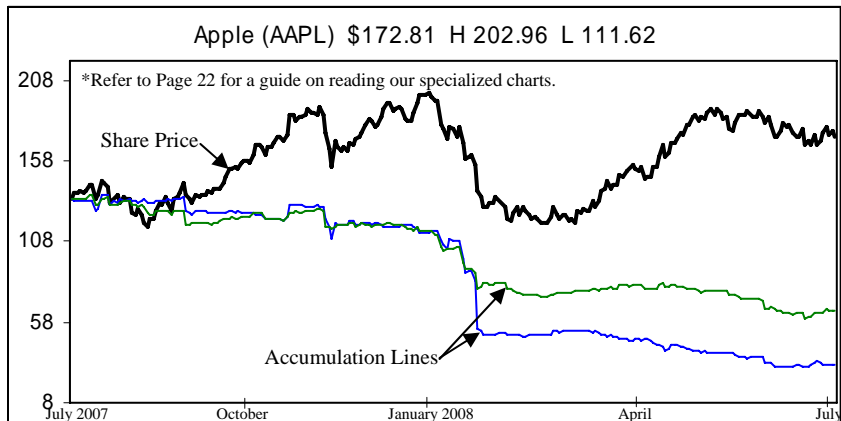
As opposed to Apple, we are a bit concerned about Google heading into earnings. While the company has eaten Yahoo's lunch over the past several years with its overwhelming growth and innovation in search, the all important advertising dollar is clearly being rationed in the current economic environment. Google is not immune to an ad slowdown and the company reports its Q2 as we head to publication.

Intel (Rating: 2.4)

Intel beat the market with Q2 earnings yet its shares did little following the report despite a big day in the market. While gross margins were slightly on the weak side we were surprised with the market's lack of interest in the positive report. The company's dependence on the consumer driven PC market is likely one reason investors are avoiding the stock but strong guidance bodes well for 2008.

Hewlett Packard (Rating: 2.1)

While HP doesn't report until August 19 investors are watching competitors to gauge results. While we like the stock, PCs remain a concern here too.





San Diego Review

Ratings and Analysis of San Diego Area Stocks

Top 25 San Diego Stocks				
Rating	Ticker	Company	Close	Business
1.9	ILMN	Illumina	\$84.69	<i>Genetic Analysis Products</i>
2.0	IVGN	Invitrogen	\$40.05	<i>Biotech Tools</i>
2.1	GXDX	Genoptix	\$29.33	<i>Medical Labs</i>
2.1	QCOM	Qualcomm	\$45.56	<i>CDMA Wireless Comm</i>
2.2	AHS	AMN Healthcare	\$18.58	<i>Traveling Nurses</i>
2.2	GPRO	Gen-Probe	\$51.69	<i>Medical: Diagnostics</i>
2.2	NUVA	NuVasive	\$46.94	<i>Medical Device: Spine</i>
2.2	QDEL	Quidel	\$19.40	<i>Medical: Diagnostics</i>
2.3	ARNA	Arena Pharm.	\$6.26	<i>Biotechnology: Weight Loss</i>
2.3	PACW	Pacific West Bncp.	\$17.12	<i>Regional Bank</i>
2.3	PSMT	PriceSmart	\$24.21	<i>Retail: Intl. Warehouse</i>
2.4	HALO	Halozyme Ther.	\$7.82	<i>Biotechnology: Drug Delivery</i>
2.4	ISIS	Isis Pharmaceuticals	\$15.21	<i>Biotechnology: Antisense</i>
2.4	SQNM	Sequenom	\$20.00	<i>Genetic Analysis Products</i>
2.4	WBSN	Websense	\$17.79	<i>Internet Software</i>
2.6	DXCM	Dexcom	\$7.21	<i>Medical Device: Diabetes</i>
2.6	ATEC	Alphatec Holdings	\$4.50	<i>Medical Device: Spinal</i>
2.6	ARTE	Artes Medical	\$1.51	<i>Medical: Dermal</i>
2.6	BMR	BioMed Realty Trust	\$25.27	<i>REIT: Medical Properties</i>
2.6	CUB	Cubic	\$24.26	<i>Defense, Fare Collection</i>
2.6	INO	Inovio Biomedical	\$1.09	<i>Medical Device: MedPulser</i>
2.6	MXWL	Maxwell Tech.	\$12.99	<i>Ultracapacitors</i>
2.6	SAI	SAIC	\$19.05	<i>Defense, Engineering</i>
2.6	SRE	Sempra Energy	\$53.81	<i>Utility</i>
2.7	LEAP	Leap Wireless Intl.	\$40.14	<i>Wireless Communications</i>

Stocks of San Diego

San Diego is still trying to shed its image as a biotech town...rather unsuccessfully. The Internet bubble that burst in 2000 slowed the pace of technology companies hitting the public market and led to the ultimate exit of high-flyers such as MP3.com. The development of other sectors in San Diego such as telecom due to the success of **Qualcomm** have been disappointingly slow to emerge. Conversely, biotech and medical IPOs have flourished despite adverse market conditions and several new companies have been added to the market.

With this as a backdrop, it should be no surprise that biotech and medical stocks dominate the list of top local companies. Among our favorites, highflying **Illumina** is a leader in DNA sequencing. Genetic tools provider **Invitrogen** continues to make bold acquisitions such as the blockbuster deal to acquire rival Applied Biosystems for \$6.4 billion. And recent IPO **Genoptix** is a leader in specialized lab testing for hematologists and oncologists with a substantial growth opportunity.

Qualcomm remains a long-term favorite of ours as a leading force behind the 3G cellular standard.

Several more medical stocks follow including **AMN Healthcare** profiled on page 16, blood test leader **Gen-Probe**, spinal fusion phenom **NuVasive**, diagnostics company **Quidel** and August stock selection **Arena Pharmaceuticals**.

We wonder if long suffering **Isis Pharmaceuticals** can finally achieve success with its highly publicized cholesterol drug Mipomersen.

REGIONAL OVERVIEW: SAN DIEGO

SAIC (Rating: 2.6)

Trials and tribulations continue for one of San Diego's most recognized company's. We were ready to tout the increasingly positive trend of institutional accumulation taking place in the shares of SAIC until a Cowen downgrade just prior to publication took the wind from our sails. Defense stocks have not fared well in the market of late as concern over budget cuts have hurt the group. SAIC has recently put together a couple of strong quarters after a rather forgettable start following the company's IPO. We believe SAIC is best served spinning out unrelated divisions such as its medical business to shareholders to make this story far less complex to investors. Until then, flattish share prices are likely to remain.

Illumina (Rating: 1.9)

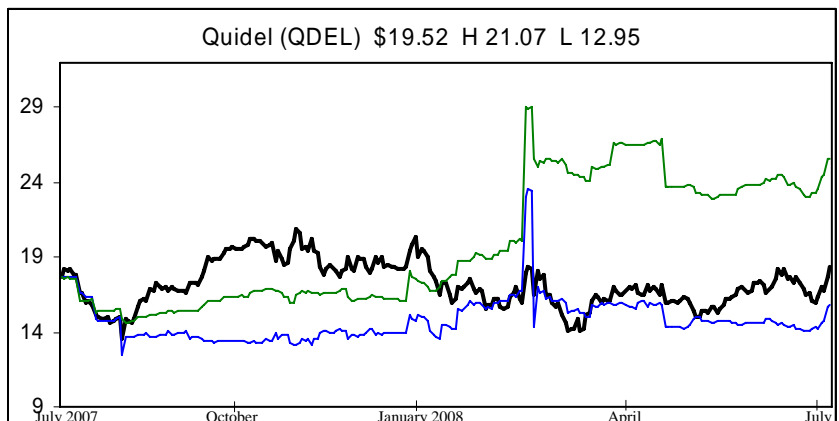
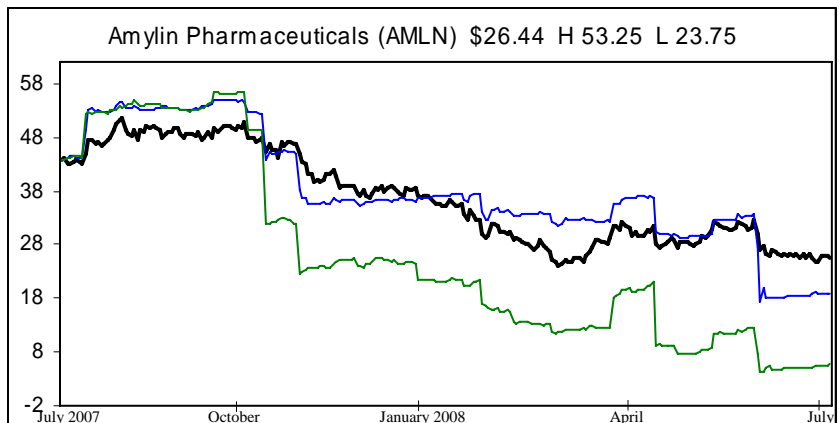
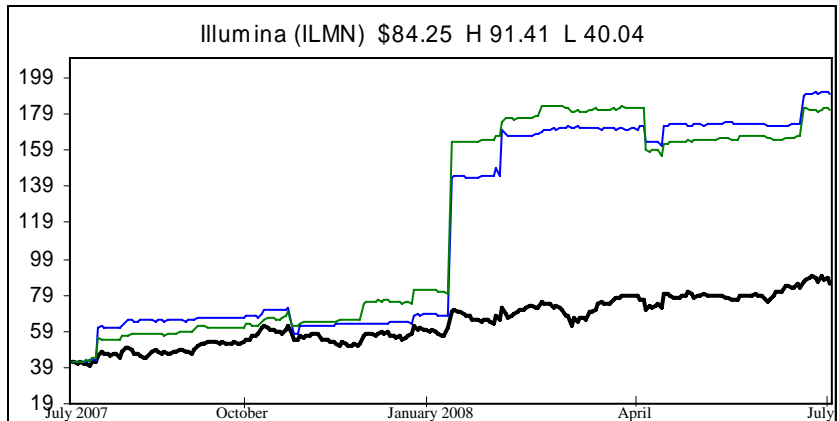
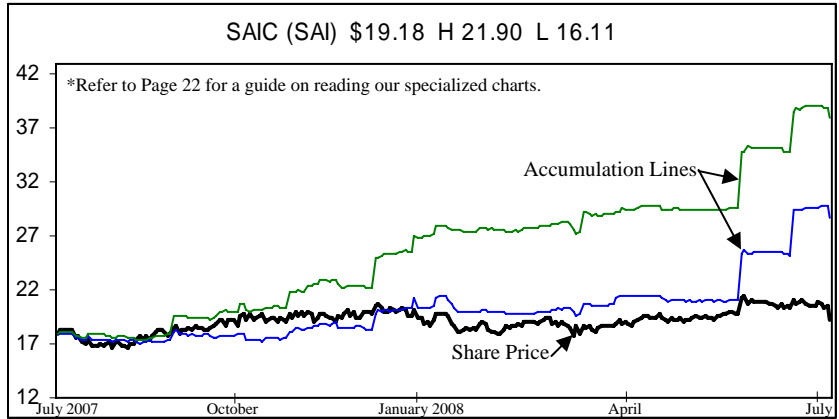
Illumina is one of San Diego's hottest and most consistently performing stocks. Key to this success has been the company's lead in DNA sequencing which has kept it from spending uncertainties that have hurt competitors **Affymetrix** and **Sequenom**. Expectations will be again running high when Illumina reports its second quarter on July 22.

Amylin Pharmaceuticals (Rating: 2.8)

Business has not gone according to plan for Amylin since successfully winning approval for Byetta in the treatment of diabetes. Despite being first to market, competitors such as Merck have aggressively entered the market with rival formulations like Januvia. In addition, though revenue for Amylin is expected to top \$900 million this year, the company has posted huge losses as it develops new products such as a long acting version of Byetta. July 21 earnings will likely be mixed.

Quidel (Rating: 2.2)

Perennial underperformer Quidel has come into its own over the past couple of years with new management and growing sales of its diagnostics including a home pregnancy test. The company is also a notable play in avian flu. We expect further gains for Quidel.



Leedom Charts-The Core of Our Analysis

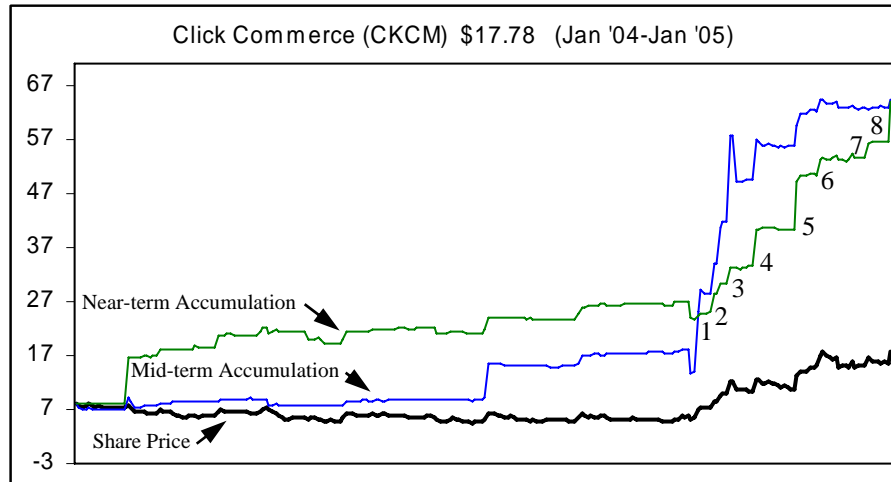
Leedom Charts

The *California Stock Report* uses a proprietary technique called Leedom Charts that detects secretive institutional buying and selling activity. Leedom Charts are produced using a proprietary algorithm developed 12 years ago by Bud Leedom, a former fund manager and noted Wall Street analyst. The significance of Leedom Charts are their ability to provide investors with a unique thumbprint of institutional activity for any given stock. This information provides a rare glimpse into the market's "institutional thinking" and can be used to make timely buy and sell decisions.

The engine of the Leedom Chart is the creation of an analytical supply/demand equation for each stock. Institutionally driven imbalances create upward or downward "spikes" on the near-term and mid-term accumulation lines (points 1-10 on both charts). The magnitude indicates the degree of buying or selling pressure. Multiple positive spike activity indicates a pattern of institutional buying, with the opposite true during institutional selling.

Click Commerce Example

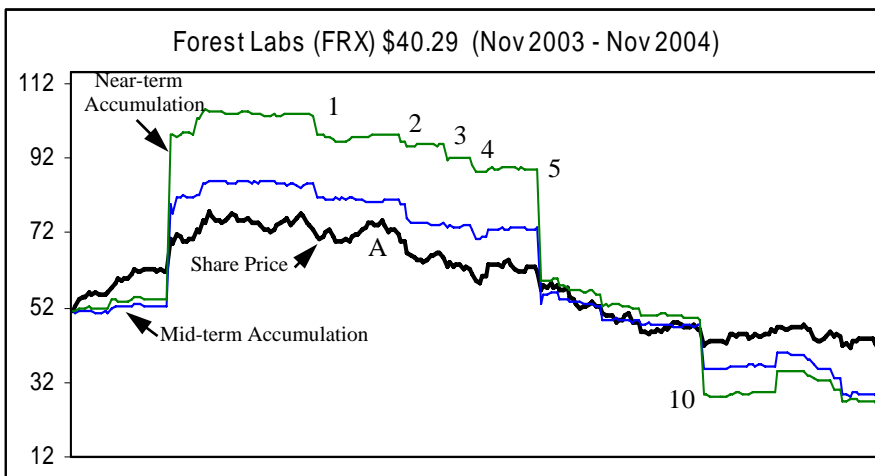
The Leedom Chart of Click Commerce (above) is a prime example of institutional accumulation. A stock under accumulation typically exhibits consistent, multiple upward spikes in accumulation even during intermittent periods of declining share prices. In this example, both the near-term



"green" accumulation line (shorter-term moving average of accumulation) and mid-term "blue" accumulation line (longer-term moving average of accumulation) confirm heavy buying of shares. The example provided above is a classic buy pattern that we seek to identify in this report.

Forest Labs Example

Forest Labs (below) is an example of consistent institutional selling over a period of nine months. In contrast to the example above, negative institutional activity is seen as multiple downward spikes on both the green and blue accumulation lines. Under Leedom Chart analysis, investors should look to avoid stocks with these downward spike patterns. A short sale position can be taken after an advance in share price against a flat or negative accumulation trend.



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