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## SONOMA COUNTY STOCKS: YIELDING TO BLUE CHIPS

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**August 31, 2007**

### LOCAL STOCKS LAG DOW JONES INDUSTRIALS

Despite some significant sell-offs, the **Dow Jones Industrial Average** (DJIA) managed a **7.2 percent** gain over the first eight months of 2007 while the **North Bay Stock Index** (NBSI) — a price-weighted average of 29 publicly traded companies headquartered in Marin, Sonoma and Napa counties — gave up **6.5 percent**.

For the 12-month period ending August 2007, both blue chips and local stocks gained ground, though DJIA's 18.4 percent return skunked NBSI's 3.5 percent pickup. NBSI's increase lagged that of riskless Treasury bills, chalking up a Sharpe ratio — a reward-to-risk metric favored by financial professionals — of -1.02 versus DJIA's 0.20 reading. When comparing investment alternatives, the higher, or more positive, the Sharpe ratio, the better. A Sharpe ratio of 1.00 is generally deemed "good," while a 2.00 ratio is considered "exceptional." The negative Sharpe ratio earned by NBSI clearly reflects that market's increasing volatility and negative return in 2007.

Sonoma County issues lost ground for the year, but not to the extent of the regional market. NBSI's ten-stock **Sonoma Sector** eased **0.3 percent** from January through August, but rose 8.7 percent over a twelve-month period. The sector earned a -.25 Sharpe ratio for the year-to-date period ending in August.

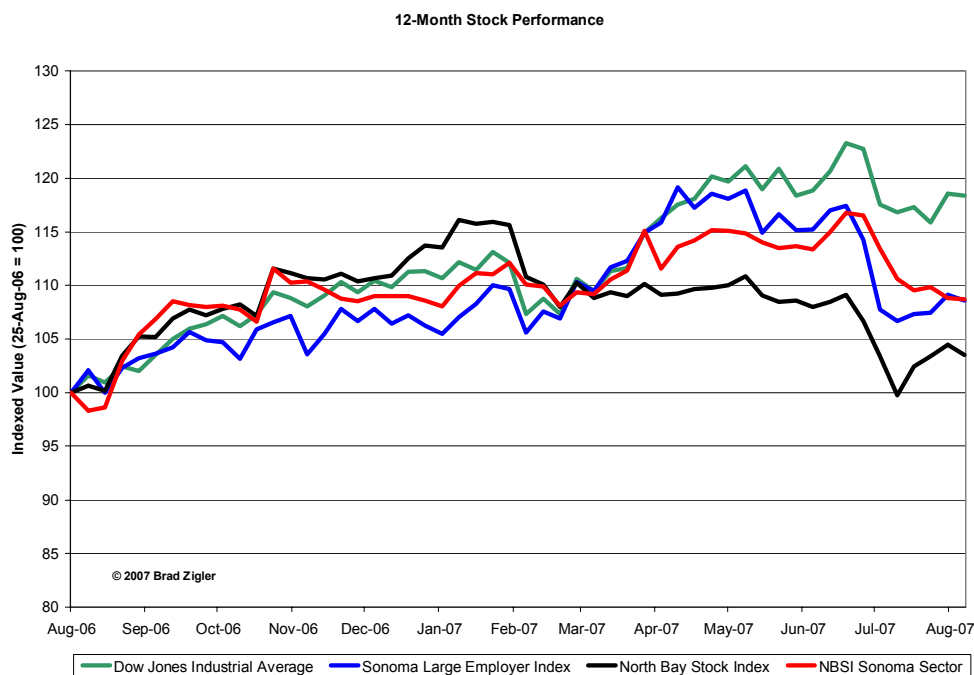
Figure 1 illustrates the 12-month performance of local stocks versus DJIA ("Dow Jones Industrial Average" in **green**). The composite performance of Sonoma County-headquartered companies ("NBSI Sonoma Sector" in **red**) is compared to that of Sonoma County's 15 largest publicly traded employers<sup>1</sup> (SLEI; "**Sonoma Large Employer Index**" in **blue**). SLEI companies are headquartered outside the county. The index is employment-weighted based upon the ratio of Sonoma County jobs to total employment. This weighting approximates Sonoma County employees' contribution to each stock's performance. The North Bay Stock Index ("North Bay Stock Index" in **black**) is also depicted.

In the first eight months of 2007, SLEI outperformed both the NBSI Sonoma Sector and NBSI itself, gaining **0.7 percent**. SLEI's returns were most closely correlated — at 83 percent — with those of DJIA over the past year.

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<sup>1</sup> SLEI is now comprised of 35 companies representing some 15,000 local jobs. The top ten employers include Agilent Technologies, Safeway, Medtronic Vascular, Home Depot, Fortune Brands, AT&T, Wal-Mart, Costco, Longs Drug Stores and Target.

Figure 1



Half of the Sonoma County stock set is in positive territory on a year-to-date basis. Not surprisingly, the median Sonoma County stock gained a barely perceptible 0.5 percent in the first eight months of 2007. Only three stocks — SonomaWest Holdings, Inc. (SWHI), Burst.com (BRST) and ZAP (ZAAP) — posted positive Sharpe ratios, however.

Figure 2

**NBSI Sonoma Sector Stocks  
2007 YTD Performance**

Company	Industry	Stock Price 31-Aug-07	2007 YTD Gain/Loss	Sharpe Ratio	Market Cap (\$mm)
Sonoma West Holdings, Inc. (SWHI)	Rental/Leasing	\$22.50	62.7%	0.73	26.7
Burst.com (BRST)	Software/Programming	\$1.75	52.2%	0.74	69.9
ZAP (ZAAP) <sup>†</sup>	Recreational & Other Vehicles	\$0.98	23.4%	0.14	47.1
Sonoma Valley Bancorp (SBNK)	Regional Bank	\$29.25	4.5%	-0.02	67.8
Tegal Corp.(TGAL)	Semiconductor Equipment	\$6.35	2.4%	-0.05	45.2
Oculus Innovative Sciences (OCLS) <sup>‡</sup>	Medical Instruments & Supplies	\$6.96	-11.8%	-0.28	82.7
Sonoma College (SNMA)	Education/Training	\$0.05	-78.3%	-0.42	3.4
Atlantic Pacific Bank (APFB)	Regional Bank	\$9.70	-31.9%	-1.07	26.7
Exchange Bank-Santa Rosa (EXSR)	Regional Bank	\$130.25	-1.5%	-1.32	223.3
Summit State Bank (SSBI)	Regional Bank	\$10.00	-21.6%	-1.40	48.4
<b>Median</b>		<b>\$8.33</b>	<b>0.5%</b>	<b>-0.17</b>	<b>47.8</b>
<b>Mean</b>		<b>\$21.78</b>	<b>0.0%</b>	<b>-0.30</b>	<b>64.1</b>

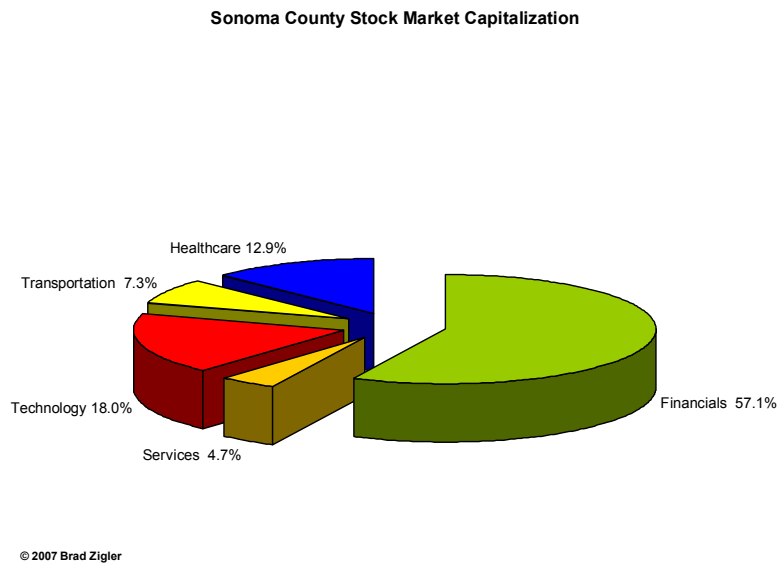
<sup>†</sup> Gain adjusted for 10% stock dividend

<sup>‡</sup> YTD gain since IPO

## BREAKDOWN BY INDUSTRY

The market risk represented by Sonoma County-based companies has greatly diversified in 2007, in large part because of Northern Empire Bancshares' merger with Washington-based Sterling Financial Corporation and the public offering of Oculus Innovative Sciences (OCLS) shares. Regional banks' share of county-wide market capitalization has dropped from 86 percent to 57 percent this year. Still, local financial institutions represent 85 percent of the Sonoma Sector's price weight due to the triple-digit share price of Exchange Bank-Santa Rosa (EXSR).

**Figure 3**



### *Services*

The services industry's 60.4 percent gain produced an aggregate Sharpe ratio of 1.05 in the first eight months of 2007.

- SonomaWest Holdings, Inc. (SWHD) - Early gains made by SonomaWest Holdings, a real estate management and rental operation, moderated as the year has progressed, but still drive this two-stock sector. Revenues have grown 25 percent over the trailing twelve months.
- Sonoma College, Inc (SNMA) - As much as SonomaWest is a sector driver, Sonoma College is a drag. The absence of a dedicated market maker and devolution to Pink Sheet status have contributed to the continuing collapse in Sonoma College's stock price.

### *Technology*

The two-issue technology sector, with a 36.8 percent uptick, earned a collective Sharpe ratio of 0.72 so far this year.

- Burst.com (BRST) - Burst, a developer of audio/video software for the Internet, won a significant ruling in a patent suit brought by Apple, Inc. A jury trial is scheduled for February 2008, but smart money is being wagered on a settlement.
- Tegal Corp. (TGAL) - Tegal Corp., a maker of deposition and etching equipment used in the manufacture of semiconductors, played cat-and-mouse by first deciding to move its headquarters operations from Petaluma to Silicone Valley, then rescinding the idea. Tegal's year-over-year net losses shrank 67 percent at last report.

### *Transportation*

This single-stock sector's 0.14 Sharpe ratio was derived from a 23.4 percent year-to-date gain.

- ZAP (ZAAP) - ZAP's stock price volatility owes much to its low price. Lately, ZAP shares have struggled to hold above \$1. ZAP distributed a 10-percent stock dividend in February.

### *Healthcare*

A Petaluma-based medical supplier went public in January, diversifying the Sonoma County equity market and earning a -0.28 Sharpe ratio for its 11.8 percent loss.

- Oculus Innovative Sciences (OCLS) - Brought public at \$8, OCLS shares have yo-yo'ed from \$6 to \$11 while the company awaits U.S. Food and Drug Administration approval for its flagship Microcyn wound care product

### *Financials*

Collectively, financial institutions lost 27.1 percent through August, earning a -2.13 Sharpe ratio.

- Sonoma Valley Bancorp (SBNK) - The three-branch bank holding company recently posted a 10.7 percent year-over-year increase in first-half EPS. Net income growth exceeds industry averages. A year-over-year decrease in net operating cash flow was less than Sonoma Valley's industry peers.
- Exchange Bank-Santa Rosa (EXSR) - Sonoma County's largest bank continues to look afield as it opened its third branch outside its traditional territory. The bank's Rocklin branch is the second opened in Placer County. A Sacramento County branch was opened in 2004.
- Summit State Bank (SSBI) - Summit's search for support at the \$10 level has been aided by an announced buyback of up to 100,000 shares. Summit's second quarter earnings dipped 41 percent since last year.
- Atlantic Pacific Bank (APFB) - Sonoma County's newest bank continued to tread water just under its \$10 IPO price. After an October 2006 debut, Atlantic Pacific shares peaked at \$15.50 then ratcheted down to find support at \$9.

### DIVIDENDS

Three bank stocks — EXSR, SBNK and SSBI — offer cash dividends. The median annual dividend yield is now 3.10 percent. Comparatively, the market yield on three-month Treasury bills has averaged 4.74 percent.

## LIQUIDITY

For Sonoma County stocks, the median liquidity index — the size of a transaction necessary to move a stock's price by one percentage point — is 3,656 shares. ZAAP continues to be the Sonoma Sector's most liquid issue with an index of 74,418. SNMA, at four shares, is the sector's least liquid stock (see Figure 4).

Figure 4

Company	Average Daily Volume	Shares Out (mm)	Price/ Earnings <sup>†</sup>	Price/ Book	Dividend Yield	Liquidity Index	
						\$	Shares
ZAP (ZAAP)	196,075	48.0	--	12.3	--	\$72,930	74,418
Burst.com (BRST)	37,756	27.0	--	--	--	\$18,257	10,598
Tegal Corp. (TGAL)	24,804	7.1	--	3.1	--	\$52,623	8,287
Oculus Innovative Sciences (OCLS)	60,300	11.8	--	--	--	\$76,546	5,778
Sonoma West Holdings, Inc. (SWHI)	6,065	1.2	18.6	3.0	--	\$105,624	4,694
Summit State Bank (SSBI)	3,700	4.8	5.4	6.4	3.60%	\$26,174	2,617
Exchange Bank-Santa Rosa (EXSR)	254	1.7	10.4	1.7	3.10%	\$83,232	639
Sonoma Valley Bancorp (SBNK)	920	2.3	17.0	2.5	2.10%	\$17,515	584
Atlantic Pacific Bank (APFB)	364	2.8	--	--	--	\$5,366	553
Sonoma College (SNMA)	112	68.1	--	--	--	<\$1	4
<b>Median</b>	<b>4,883</b>	<b>5.9</b>	<b>13.7</b>	<b>3.0</b>	<b>3.10%</b>	<b>\$52,623</b>	<b>3,656</b>
<b>Mean</b>	<b>33,035</b>	<b>17.5</b>	<b>12.9</b>	<b>4.8</b>	<b>2.93%</b>	<b>\$50,919</b>	<b>10,817</b>

<sup>†</sup> P/Es based on trailing 12-month period

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## INSIDER TRANSACTIONS

Insiders have been busy at ZAP and Sonoma Valley Bancorp this year. Sonoma Valley officers and directors were net sellers, taking out gross profits of \$360,554. Insider sales of SBNK shares outpaced purchases by a 1.9 margin. The selling ratio racked up by ZAP insiders was 1.4 as \$124,476 in gross profits were taken.

**Note:** The foregoing information and discussion on Sonoma County stock performance was obtained by the County of Sonoma from Mr. Zigler and is presented for the convenience of the reader. Any opinions expressed are solely those of Mr. Zigler and not of the County of Sonoma. The information provided here is not intended to replace other stock performance reports, investment publications, and the like and should not be used as the sole source for investment decisions. You should perform your own research and evaluation before making any investment decisions. Although the information presented here is believed to be accurate, the County of Sonoma does not guarantee its accuracy and assumes no liability for investment results that may occur following your use of the information provided herein.