

# A LETTER FROM OUR FOUNDER (2006)

The benchmark Dow composite attaining 11,000 doesn't usually mean that a particular public company is going to benefit in either volume or price. Psychologically it is still perceived as an emotional factor from those still recovering from the bear market of 2000-2002. "Wind in or for the sails" as some investors' state. However, more traders and investors are attracted to the markets since the beginning of this New Year, 2006. The NASDAQ begins the New Year (2006) with a good start and investors are focusing on technology and healthcare stocks. These sectors were the previous drivers of the last bull market. NASDAQ seemed to always be giving back some of its gains in 2005. Investors in the healthcare arena are going to be looking at promising breakthroughs, partnering and business prospects; followed by some historical evidence that companies and management have set, for 2006, articulated milestones that are achievable versus the eschewed milestones of the past. Investors are also looking at momentum and liquidity. Very few investors are loyal to a single company on a long-term basis. All it takes is one thing to be out of place.

Only one in nine compounds makes it through development and receives approval. Nonetheless, drug discovery remains the foundation on which the bio-pharmaceutical industry looks for future growth.

A plethora of factors are expected to evolve the healthcare landscape in this coming year. Pharmaceutical, biotechnology, medical device and diagnostic companies rely on deals with each other to broaden product pipelines and build strategic partnerships. These partnerships strengthen the position of these companies when accessing the capital markets.

In the public markets, companies should be able to raise money for continuing development but difficulties exist in what/which financing vehicle is sensible. This is especially true for smaller companies if hedge funds continue to invest in the private investments in public equities (PIPE) segment.

All points along the continuum – from drug discovery- to clinical trials- to approval and reimbursement will be impacted by financial market forces.

Much of this will be influenced by the New Year's, 2006, financial markets that seem to be initially bullish. We expect the funding continuum to continue in 2006.

The biggest challenge to small public companies, however, will be the difficulty of obtaining adequate research coverage to stimulate investors and investment banking initiatives.

Unfortunately, most sophisticated investors will not take management's word for a company's prospects. "Companies without legitimate analyst coverage tend to be traded at a discount of 20% to 30% based on the "believability" factor".

Scimitar Equity Research, Inc. (Scimitar) provides "sponsored" equity research and objective analysis of selected segments within the healthcare industry for the institutional and investment communities. Scimitar integrates scientific and financial analyses to identify those companies demonstrating real progress towards their vision, while meeting quarterly expectations. We strive for accuracy and completeness in our research resulting from unbiased investigation.

## Equity Research is our only business!

- ⇒ We certify that the views expressed in our analysis are our own.
- ⇒ Scimitar defines itself as industry specific analysts and we select a number of healthcare stocks to provide research coverage.
- ⇒ Scimitar's code of ethics precludes investment banking transactions, money management and personal investment.

## A LETTER FROM OUR FOUNDER continued (2006)

We operate with a discipline that focuses on physical (quantitative) evidence that is cross-indexed against the logical reasoning of intangible (qualitative) values. Scimitar researches reliable as well as conflicting data, analyzing the facts to define the competitive advantage. We remain open minded to contrary information as we initiate a thorough examination of the collected evidence to develop an investment thesis. Reason and deliberation clarifies Scimitar's investment approach to identify the value proposition. Our discipline is enhanced by investigative practices honed by experience.

Scimitar restricts any review of our analysis to only factual accuracy and will not be influenced nor will respond to pressures for any "conclusions, recommendations, valuations or price targets". Scimitar's code of ethics precludes investment banking relationships, money management and personal investment in the stocks which we provide coverage or institutional sponsorship.

Scimitar certifies the views expressed in our reviews and fully support a regulatory framework that ensures "clear and prominently" displayed disclosures of issuer-paid research to maximize transparency standards. This is particularly important since we provide investment analysis on (Scimitar) selected companies for institutional advisors and asset managers. We adhere to recent guidelines defining disclosure of the "independent source, solicitation and payment by subject companies.

"The best regulatory solutions must thoroughly protect all investors on a fair and equal basis while maintaining an effective balance of unbiased reporting, objectivity and transparency. In a possible economic downturn, everything discussed in this column doubles up."

Only companies with equity research coverage will have a legitimizing voice to prove their value in the midst of a possible decline to prosper. Once again, shareholders will be looking at independent verification that such companies are meeting milestones and reaching established goals.

Recently the U.S. Securities and Exchange Commission involved in the hearings for the SEC Advisory Committee on Smaller Public Companies communicated that the SEC is very encouraging towards legitimate visibility such as provided by Scimitar Equity Research, Inc because the SEC wants to encourage legitimate market liquidity for smaller public companies as part of its Congressional mandate.

We will not squander the trust and relationships we have developed in these past twenty five years. That is our oath to our constituents!

Thank You,



Henry W. McCusker