

A LETTER FROM OUR FOUNDER (2007)

Who really pays for equity research?

It is and has been harder and harder for emerging healthcare companies to obtain research coverage through I Bank firms' model since the sell-side finds it increasingly difficult to bridge the gap between the high costs of its research operations and deteriorating commissions from its cash equity sales and trading business.

As a result, some investment banks have even decided to exit the research business altogether based purely on economic rationale. Since the ties were broken between investment banking and research, there are now few incentives for Wall Street firms to cover less liquid smaller-cap stocks. This leaves an opening for Scimitar Equity's model.

In an article published 5/3/06 in the Wall Street Journal (WSJ), it was revealed that a growing number of mutual funds and brokerage firms are looking into the legal consequences of adopting "cash unbundling" to pay for execution and research services separately. Of course, paying for research with "hard dollars" is not a move that had been embraced by very many in the financial services markets. Such a move would inevitably lead to a reduction in the commissions received by investment banks for their execution services and equity research. Money managers would also not want to move to a "hard dollar" payment model, as this would reduce their profit margins, whereas paying for research with commissions means the investor is paying for it directly. Scimitar Equity covers a small universe specifically focused on healthcare research, analysis and due diligence on our selected companies without any trading or commission conflict. Another recent article published in the WSJ revealed that Lehman Brothers has moved a number of their equity analysts onto their trading desk to support institutional customers. These analysts would no longer write and publish research reports.

"Several large Wall Street firms including Goldman Sachs and Morgan Stanley are considering following Lehman Brothers' lead by having some of their equity analysts stop issuing public reports on stocks. Instead, the analysts would directly advise individual clients and in-house traders. Goldman Sachs and Morgan Stanley are also very interested but concerned about the possible regulatory implications and about creating the impression that the switch is simply a way to get around existing rules" (Financial Times 5/5/06).

Thomas Weisel, the San Francisco brokerage, is the latest Wall Street firm to charge a major client separately for stock research and trading and has "unbundled" its research and trading products -- charging separate fees for trading execution and research" (The Street.com). Pacific Growth had also overhauled the way it distributes its research late last year, restricting it only to paying clients, which are exclusively institutional investors. That involves salesmen i.e. former research analysts with expertise in a certain industry working directly with portfolio managers, providing them unpublished investment ideas.

"Hard dollars" or "sponsorship" are now offsetting the past "soft dollar" model as "paid for" research continues to gain acceptance.

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 encouraging legitimate visibility such as provided by Scimitar Equity because the SEC wants to encourage legitimate market liquidity for smaller public companies as part of its congressional mandate.

Scimitar's model and credibility as an independent equity research firm has gained a significant following as investors continue to seek cost effective investment advice from trustworthy sources. We provide "sponsored" or "company paid" research coverage of the healthcare industry for investment consideration and institutional access.

Our research and analysis has played a key role for four (4) years by providing analysis and insight to retail and institutional investors.

Scimitar has the expertise and global connections to meet a company's needs as we continue to attract and solidify cohesive groups of institutional advisors for a number of healthcare clients.

Our capabilities are differentiated through 25 years of specialized experience in the healthcare industry, sell-side and buy-side and venture/public investment fund communities resulting in an extensive and valuable network.

These synergies and our unbiased research ensure our analysis will receive serious consideration by investment professionals.

Thank You,



Henry W. McCusker

Equity Research is our only business!