

# Taglich Brothers, Inc.

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## Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

### Samaritan Pharmaceuticals, Inc.

Rating: Neutral

Luis Martins

May 6, 2005

LIV – \$0.64 (AMEX)

	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005E</u>
Revenues (Thousands)	\$0	\$250	\$0	\$100
Earnings per share	\$(0.08)	\$(0.07)	\$(0.04)	\$(0.05)

52-Week Range	\$1.40 - 0.45	Fiscal Year Ends	December
Shares Outstand (000's)	133,283	Revs/Share (TTM)	0.00
Approximate Float (000's shares)	111,700	Price/Sales(TTM)	NMF
Insider Holdings	22.8%	Price/Sales(2005)E	NMF
Tangible Book Value/Share	\$0.05	Price/Earnings(TTM)	NMF
Price/Tangible book	12.8X	Price/Earnings(2005)E	NMF

*Samaritan Pharmaceuticals, Inc. (AMEX: LIV) is a developer of innovative drugs. In collaboration with Georgetown University, LIV has proprietary compounds in pre-clinical and clinical development for the treatment of AIDS, Alzheimer's, cancer and cardiovascular disease.*

#### Key Investment Considerations:

*We are initiating coverage of Samaritan Pharmaceuticals, Inc. (AMEX: LIV) with a Neutral rating, pending further clinical and business developments.*

*The developments that we will be closely monitoring include: 1) SP-01A's progress through the later stages of the clinical and regulatory processes; 2) The ability of the Company to successfully partner with a pharmaceutical company with the sales and marketing expertise necessary to effectively market SP-01A; 3) The progress of its product pipeline currently in the early research and development stage; 4) LIV's cash burn rate; 5) New financing agreements; and 6) Dilution.*

*LIV's most clinically advanced drug, SP-01A, is currently in Phase II/III trials for the treatment of HIV/AIDS. In clinical trials, SP-01A was shown to be safe and well tolerated. Additionally, patients experienced significant decreases in viral load and enhancement of quality of life measures.*

*In the near future, pending FDA approval, LIV is planning a Phase IIb/IIIa trial for SP-01A and a larger Phase IIIb trial. Given favorable results, Management believes that the drug will be approved for marketing in the United States by early 2007. Prior to approval, LIV expects that it will enter into an agreement with a large pharmaceutical company to facilitate the marketing of the drug.*

*The Company's strategic and collaborative partners include Georgetown University, LabConnect, Pharmaplaz, and Fusion Capital. The relationship with Georgetown University is part of the Company's outlined strategy of being the partner of choice for leading universities with prime scientific investigators.*

*\* Please view our disclaimer located on page 24.*

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**Company Overview**

Samaritan Pharmaceuticals, Inc. (AMEX: LIV), based in Las Vegas, Nevada, is a developer of innovative drugs. Its proprietary compounds, backed by patents (to date, Samaritan has filed numerous patent applications in the United States, Europe, Japan, and Australia to protect its pipeline), are in pre-clinical and clinical development for the treatment of HIV/AIDS, Alzheimer's disease, cancer, and cardiovascular disease (see Product Pipeline illustration below). Samaritan's most clinically advanced drug, SP-01A, is currently in Phase II/III for the treatment of HIV.

The Company's strategic and collaborative partners include LabConnect, Pharmaplaz, Fusion Capital, and Georgetown University. Its relationship with Georgetown is part of its strategic goal of bridging the gap between scientific discovery and a patient's bedside. The details of LIV's relationships with these partners are further described in the Strategic Relationships section.

The following table illustrates the Company's product pipeline and the respective progress through the clinical and regulatory processes.

<b>Samaritan Product Pipeline</b>										
<b>Drug Candidates</b>	<b>Discovery</b>		<b>Preclinical-Prehuman Development</b>			<b>Human Clinical Trials FDA Phases I - III</b>				
	<b>Research Idea</b>	<b>Patent Filed</b>	<b>Binding and Dose Effects</b>	<b>Metabolism</b>	<b>Animal Studies</b>	<b>IND</b>	<b>I Safety</b>	<b>II Proof of Concept</b>	<b>III Efficacy</b>	<b>NDA</b>
Science Completed = <span style="background-color: #4a7ebb; color: white; padding: 2px;"> </span>						Science In Progress = <span style="background-color: #add8e6; color: white; padding: 2px;"> </span>				
<b>AIDS/HIV Program</b>										
SP-01A Entry Inhibitor										
SP-03 HIV										
SP-10 HIV										
<b>CNS - Alzheimer's Disease (AD) Program</b>										
SP-04 AD										
SP-08 AD										
SP-233 AD										
SP-sc4 Adult StemCell										
SP-sc7 Adult StemCell										

Cancer Program									
SP-C007 Breast Cancer									
Cardiovascular Program									
SP-1000 Converts LDL to HDL									
Diagnostic Candidates					In Vitro Testing	In Vivo or Human Testing			
AD Diagnostic									
AD - Blood Test Diagnostic									
Cancer Diagnostic									
BC - To Deter Unneeded Chemotherapy									
Pharmacologic Animal Model									
Rat Model - Drug Development Tool									

Source: Samaritan Pharmaceuticals

By the end of 2005 and throughout 2006, Samaritan expects to file three Investigational New Drug Applications (INDs) for new drugs, SP-10 for HIV and SP-233 and SP-04 for Alzheimer's, pending toxicology studies.

### ***HIV Pipeline***

SP-01A, the Company's most advanced drug targeted for the treatment of HIV, is an easy to take, oral, entry inhibitor (EI) tablet. SP-01A's main ingredient is procaine, a drug approved by the FDA over 40 years ago. Procaine, commonly referred to as Novocain, is used as a local anesthetic in medical and dental surgeries and procedures.

SP-01A is intended to be administered in combination with currently available antiviral therapies for the indication of HIV drug resistance. SP-01A works in the earliest stage of the HIV lifecycle by blocking the HIV virus' ability to infect a cell, thereby, protecting the cells as opposed to directly combating the virus. The blocking mechanism is achieved through the effect of SP-01A on cholesterol synthesis relative to the modification of the cholesterol content of the host cell membrane, which, in turn, reduces the HIV-1 virus replication by rendering it much more difficult for the virus to enter and infect the cell.

Research also suggests that SP-01A may block the development of drug resistance (an ever increasing problem in combating HIV is the ability of the virus to reproduce itself despite the presence of HIV drugs). Since the virus does not penetrate the cell, it does not develop resistance to SP-01A.

The Company's preclinical studies and Phase I/II trials suggested that:

- SP-01A was safe and well tolerated; and
- Patients experienced a clinically significant decrease in viral load and enhancement of quality of life measures. Values rapidly returned to baseline after discontinuing SP-01A.

Based on SP-01A's safety and efficacy, as well as the inability of the virus to resist the drug, the Company may target SP-01A, if approved, for patients that fall into the following categories:

- Treatment naïve HIV-infected patients;
- Treatment-experienced HIV-infected patients with minimal viral load on stable regimens; and
- Treatment-experienced HIV-infected patients who have failed other therapies due to viral mutations.

Rounding out LIV’s HIV pipeline is SP-10, which LIV intends to study as a stand alone antiviral. This drug discovered in collaboration with Georgetown University, blocks the entry of HIV and multi drug-resistant HIV viruses into the cells. According to product literature, SP-10 is a small molecule antiviral adjuvant indicated in the treatment of HIV-infected individuals, along with individuals suffering from HIV-associated neurocognitive disorders.

Studies suggest that SP-10 has low toxicity and combats drug resistance. In preclinical in-vivo studies, SP-10 demonstrated superior or comparable efficacy as an antiviral adjuvant when specifically compared to classic antiviral treatments. According to LIV, SP-10 repeatedly and effectively inhibited viral replication in every HIV-1 resistant mutant strain tested.

### ***Pipeline***

Samaritan's Alzheimer's disease development portfolio features four promising therapeutics (SP-04, SP-04m, SP-08, and SP-233), two neural stem cell differentiation therapies (SP-sc4 and SP-sc7), a diagnostic, and an animal model. The following table details these product candidates and key facts:

Product	Key Considerations
SP-04/SP-04m	<p>Developed under the Georgetown University-Samaritan collaboration agreement.</p> <p>Have been validated in-vitro, and in animal models, in-vivo.</p> <p>Detailed studies on the mechanism of action of SP-004 and SP-04m have been performed and the toxicity of the compound in-vitro has been studied.</p> <p>Required preclinical toxicology studies will be undertaken to apply to the FDA for an Investigational New Drug (IND).</p>
SP-233	<p>Identified based on its ability to protect neurons against beta-amyloid-induced toxicity. Investors should note that excessive accumulation in the brain of the beta-amyloid peptide, due either to overproduction and/or decreased clearance and the formation of senile plaques, is one of the hallmarks of Alzheimer disease.</p> <p>Shown to bind to beta-amyloid peptide, prevent its oligomerization and entry into neurons, protect neuronal mitochondria from beta-amyloid-induced damage, and maintain neuronal cell energy levels.</p> <p>Preclinical data suggests it is a new unique approach for Alzheimer's disease therapy. Detailed studies on the mechanism of action of SP-233, in rodent and human neurons, have been performed and the toxicity of the compound in in-vitro studies has been studied.</p> <p>Preclinicals are being readied to apply for Investigational New Drug (IND) application with the FDA.</p>

<p>SP-sc4/ SP-sc7</p>	<p>Have been shown, in cell cultures and in animals, to awaken brain dormant stem cells and to transform them into new neurons.</p> <p>May induce dormant brain neuronal stem cells to differentiate rapidly into adult neuron cells as a novel treatment for Alzheimer's disease and other neurodegenerative disorders.</p> <p>Samaritan is fast tracking the development of these drugs.</p> <p>In-vivo studies in animal models of neurodegenerative disease are in progress in order to validate the use of these compounds in regenerating the neuronal network from pre-existing stem cells in the adult.</p>
<p>Diagnostic</p>	<p>A simple blood test.</p> <p>Superior to the invasive spinal taps and MRIs currently used.</p> <p>Samaritan's inventors found that in the central nervous system in Alzheimer's patients, DHEA is increased, in contrast to decreased levels of DHEA found in the periphery (blood). Samaritan inventors have identified a distinct mechanism for DHEA formation in brain from precursors that they are able to follow in the blood; using a chemical reaction, that allows the prediction of DHEA levels in brain.</p> <p>DHEA or dehydroepiandrosterone, is a natural steroid hormone produced from cholesterol by the adrenal glands.</p>
<p>Animal Model</p>	<p>One of the limiting factors in screening for the compounds displaying neuroprotective properties is the lack of an animal model allowing for the rapid evaluation of the efficacy of the compounds under investigation.</p> <p>An animal model that mimics the human phenotype of Alzheimer's disease pathology.</p> <p>Model is being validated for use to test the efficacy of SP compounds and is due for publication. It is also expected to be validated by other academic scientists specializing in this area of research in the near future.</p> <p>Offers a model to rapidly screen and develop innovative drugs for Alzheimer's disease.</p>

Its portfolio pipeline also features a promising cancer drug, SP-C007, and a breast cancer diagnostic highlight Samaritan's cancer program. The diagnostic provides a predictive prognosis of cancerous tumor aggressiveness with more than twice the accuracy rate than that of current technologies.

Its cholesterol recognition peptide can be used to clean the blood of excessive cholesterol in acute high cholesterol conditions. A transdermal patch transforms and binds LDL cholesterol with immediate results including an immediate response to hypercholesterolemia.

### ***Strategic Research Relationships/Collaborations***

#### *Georgetown University*

Through a long-term research collaboration agreement with Georgetown University, Samaritan has in-licensed twelve technologies which have strengthened its pipeline of pre-clinical and clinical stage drugs. Most recently, LIV and Georgetown entered into an in-licensing agreement for SP-08, an early stage developmental Alzheimer's disease product candidate.

The relationship with Georgetown is part of the Company's outlined strategy. LIV seeks to be the partner of choice for leading universities with prime scientific investigators. As part of this commitment to universities, LIV provides expertise in the areas of clinical development, patent affairs, regulatory issues, and marketing expertise.

According to the specific agreement with Georgetown, Samaritan:

- Received worldwide exclusive rights to any novel therapeutic agents or diagnostic technologies that may result from the research collaboration;
- Assumed the responsibility and cost for the process of seeking any regulatory approvals and conducting clinical trials with respect to any licensed product or application of the licensed technology; and
- Assumed the financial responsibility and control for the prosecution and maintenance of any patent rights.

In exchange, Georgetown is entitled to receive royalties based on revenue from product sales and sublicenses. Additionally, as of April 1, 2004, Georgetown University will receive \$1 million per year to further develop Samaritan's pipeline. The monies will be payable in four quarterly installments of \$0.250 million.

During the last three years of affiliation, Georgetown's laboratory was able to identify and/or synthesize a series of compounds. Also, the alliance with the Georgetown University was validated by the receipt of key NIH grants (itemized below):

- On July 12, 2004, LIV and Georgetown University were awarded a National Institute of Health, Small Business Technology Transfer (NIH-STTR) grant totaling \$188,000. The grant was awarded for work on a simple blood test to predict Alzheimer's disease; and
- On October 19, 2004, LIV and Georgetown University announced that the National Institutes of Health awarded a \$100,000 NIH-STTR grant to research SP-04, a potentially new Alzheimer's disease treatment.

#### *LabConnect*

On January 27, 2005, LIV announced that it selected LabConnect to provide it with central lab services for its upcoming phase II/III trial for SP-01A. According to the Company, partnering with LabConnect will result in higher-quality, real-time data, which will allow LIV to save both time and money in its clinical activities.

#### *Pharmaplaz*

On October 5, 2004, Samaritan and Pharmaplaz disclosed a broad strategic collaboration agreement for the production and supply of Samaritan's lead compound SP-01A and other Samaritan pipeline products. Pharmaplaz, an Athlone, Ireland pharmaceutical company, based outside of Dublin, Ireland, is a fully integrated healthcare company.

As per the agreement, Pharmaplaz will collaborate with Samaritan on such activities as pipeline development, scale-up, and manufacturing requirements, drug formulation and testing, production of pilot batches, development of analytical methods, drug specifications, process validations, and drug optimization. Additionally, the companies will also work together to secure FDA regulatory approval for selected products in the U.S. market.

## **Strategy**

### *Business Strategy*

Samaritan strives to develop drugs for indications that have a potential commercial value of at least \$300 million a year to ultimately interest major pharmaceuticals in-licensing. The Company's strategy to maximize shareholder value calls for Management to do the following:

- Take its leading product candidate, SP-01A, as far along the clinical process as possible including conducting a Phase IIb/IIIa trial and a Phase IIIb trial during 2005;
- Seek out pharmaceutical companies with expert sales and marketing abilities to handle much, if not all, of the marketing and commercialization of SP-01A;
- Seek out pharmaceutical companies to license other product candidates in its portfolio in exchange for a royalty stream and milestone payments;
- Utilize its research agreements with Georgetown University and other leading universities with top scientific investigators in an effort to build its pipeline of drugs;
- Enter into and maintain relationships with third party companies (i.e. Pharmaplaz and LabConnect) that can provide LIV with expertise in a particular area needed in the drug discovery process. This will allow the Company to conserve cash and possibly reduce the time to market; and
- Seek out additional grant monies from such agencies as the NIH in order to build creditability and reduce cash burn.

### *SP-01A Clinical, Marketing, and Revenue Strategy*

In the near future (by May), pending FDA approval, LIV is planning a Phase IIb/IIIa trial for SP-01A. The trial, a multi-center, double-blind, randomized, placebo-controlled study of SP-01A, is designed to assess the efficacy and safety of SP-01A as monotherapy for HIV-infected patients with evidence of resistance to currently available antiretroviral therapy. The trial is expected to occur at 4 sites.

Following this trial, the Company plans another, larger Phase IIIb trial, which is expected to last for 48 weeks. Concurrent with this trial, Management will be seeking accelerated FDA approval for SP-01A, with data from 26 weeks. Given favorable test data and FDA approval, Management estimates that the drug will be approved for marketing in the United States by the start of 2007.

Prior to approval, LIV expects that it will enter into an agreement with a large pharmaceutical company with sales and marketing expertise to facilitate the marketing of the drug. Such an agreement may be in the form of a 50/50 marketing agreement or a royalty agreement that will pay royalties of around 10% to 12% to LIV.

## **Recent Results**

In April 2005, the Company reported results for its 2004 fiscal year, ended December 31, 2004. For 2004, as compared to 2003:

- Net loss increased to \$4.881 million or \$(0.04) per share from \$5.521 million or \$(0.07) per share; and
- No revenues were generated in either period. Since inception (September 5, 1994), the Company has only generated a total of \$0.3 million in revenues.

On an operating basis, LIV reported a loss of \$4.864 million, as compared to loss of \$5.521 million in the year ago period.

The Company also reported that as compared to the year ago period:

- Operating expenses increased to \$4.4864 million from \$5.771 million. Expenses were incurred in support of the Company's research and development efforts of its pipeline of products. The components of operating expenses are illustrated in the following table:

<b>Expenses (\$ 000's)</b>	<b>2003A</b>	<b>2004A</b>
<b>R&amp;D</b>	838	1,544
<b>G&amp;A</b>	4,902	3,561
<b>D&amp;A</b>	24	27

The substantial year-over-year increase in expenses was attributed to an increase in monies provided to Georgetown for R&D activities and additional expenses associated with more regulatory personnel, including the hire of a Chief Drug Development Office in June 2004.

- Average shares outstanding increased to 124.5 million from 79.8 million in the year ago period.

#### *Balance Sheet*

Key balance sheet items as of December 31, 2004, were as follows:

- Cash and cash equivalents of \$2.438 million;
- Working capital of \$3.84 million;
- Certificates of deposits (held to maturity) of \$1.491 million;
- Total assets of \$5.249 million;
- Total liabilities of \$0.17 million; and
- Stockholders' equity of \$5.079 million.

As of December 31, 2004, LIV's accumulated deficit was approximately \$28.2 million. According to our calculations, the Company burned about \$2.8 million in cash during 2004 or \$0.7 million per quarter. During 2004, LIV issued over \$1.8 million in stock and options in lieu of compensation and in exchange for services. Therefore, the real burn rate was \$4.6 million or \$1.5 million per quarter.

Investors should be aware that the Company must spend substantial amounts of money to carry out its research and development activities. Just to complete the next two clinical trials for SP-01A, Management estimates it will need to spend between \$5 million and \$6 million. Given that LIV does not have any commercial products, it may be necessary for the Company to obtain outside financing. In this pursuit, Management secured a financing agreement with Fusion Capital for up to \$10 million in equity financing.

In its latest 10K filing with the SEC, Management states that the commitment from Fusion may only provide a portion of the capital needed by the Company to execute its business plan and it may require additional monies to finance the Company's strategic plans. Therefore, LIV is exploring additional sources of capital. Nevertheless, the Company believes that it will be able to fund operations for the next 12 months with the cash on hand (as of December 31, 2004, total cash totaled \$3.929 million).

#### *Fusion Capital Financing*

On April 22, 2003, Samaritan entered into a common stock purchase agreement with Fusion Capital Fund II, LLC for up to \$10.0 million in equity financing over a 25-month period, subject to conditions. According to

the agreement, the purchase price of the shares of common stock will be equal to a price based upon the future market price of the common stock.

Subsequently, LIV received gross proceeds of \$4.82 million under its financing agreement with Fusion Capital in exchange for 13.6 million shares. In 2004, the company issued 8.758 million shares to Fusion in exchange of gross proceeds of \$3.1 million. The proceeds from these sales were used for general corporate purposes and working capital. As the Company taps this source of capital, existing investors are likely to suffer dilution. Dilution will be greater the lower the price of the stock at the time the financing is finalized.

## ***HIV Competitive Overview***

### *Background*

HIV is the virus that causes AIDS. HIV, first recognized in the United States in 1981, is now the fourth leading cause of death worldwide. More than 21 million people have died from AIDS. Although a tremendous amount of resources have been allocated over the past two decades, there is still no cure. Therefore, research continues to be conducted in order to develop therapies and slow the progression of HIV/AIDS. Accordingly, the National Institutes of Health (NIH) and other organizations have steadily increased funding for research. Total worldwide funding for HIV-related research exceeded \$6.1 billion in 2004.

According to various sources (i.e. Centers for Disease Control, NIH, United Nations, World Health Organization and other industry researchers), HIV/AIDS is a global crisis. Some have referred to it as a Pandemic. Some key statistics that investors should be aware of include:

- There are over 39 million people worldwide infected with HIV;
- About 850,000 to 950,000 people are infected in the United States;
- About 25% of infected persons in the U.S. remain unaware and undiagnosed;
- 14,000 people are infected each day;
- 50,000 people begin treatment each year; and
- Around 400,000 people in the United States are currently being treated.

### *Treatment Options*

HIV treatments generally fall into four major categories. These include: Protease Inhibitor (PI), Nucleoside Reverse Transcriptase Inhibitors (NRTI), Non-Nucleoside Reverse Transcriptase Inhibitors (NNRTI), and Fusion Inhibitors (FI).

Investors should note that existing therapies have a number of drawbacks, including toxicity, strict regimen compliance, resistance, and high cost of treatment. Additionally, certain therapies are not recommended during the early stages of infection.

According to Frost & Sullivan, a market research firm, antiretroviral drugs that prevent HIV replication are recommended in combinations guided by the principles of highly active antiretroviral therapy (HAART). This principle seeks to reduce resistance, adverse reactions, and pill burdens, while improving efficacy. In a move to address combination therapy and patient compliance, the FDA recently approved combo drugs (Truvada and Epzicom), which allow patients to take multiple drugs at the same time in one dose.

### *Competitive Position*

The Company believes that it can achieve success in the HIV treatment market due to key competitive advantages that SP-01A will be seen to hold. These advantages include: 1) compliance (i.e. orally administered versus injection), 2) cost and affordability, and 3) ability to treat various types of patients in various stages of infection, including those patients with resistance issues. Moreover, SP-01A is intended to be administered in combination with currently antiviral therapies for the indication of HIV drug resistance.

*Market Size*

There are an estimated 24 available treatments for HIV, including the first commercially available drug, Retrovir (AZT), which goes off patent in September 2005. According to our estimates, global sales of HIV treatments exceeded \$8 billion in 2004. In the United States, treatments generated sales of over \$3 billion. The following chart illustrates currently available treatments for HIV and other key data, including type of treatment, and the company that is marketing this treatment.

**Currently Available Treatments for HIV**

<b>Drug</b>	<b>Type</b>	<b>Company</b>
Agenerase	PI	GlaxoSmithKline
Combivir	NRTI	GlaxoSmithKline
Crixivan	PI	Merck
Emtriva	NRTI	Gilead
Epivir	NRTI	GlaxoSmithKline
Fotovase	PI	Roche
Fuzeon	FI	Roche/Trimeris
Hivid	NRTI	Roche
Invirase	PI	Roche
Kaletra	PI	Abbott
Norvir	PI	Abbott
Rescriptor	NNRTI	Pfizer
Retrovir (AZT)	NRTI	GlaxoSmithKline
Reyataz	PI	Bristol-Myers Squibb
Sustiva	NNRTI	Bristol-Myers Squibb
Trizivir	NRTI	GlaxoSmithKline
Videx	NRTI	Bristol-Myers Squibb
Viracept	PI	Pfizer
Viramune	NNRTI	GlaxoSmithKline
Viread	NRTI	Gilead
Zerit	NRTI	Bristol-Myers Squibb
Ziagen	NRTI	GlaxoSmithKline

\*Source: Gerard Klauer Mattison and company reports

The top selling drugs in 2004, included: Combivir, Viread, Trizivir, Sustiva, and Epivir. According to Marketresearch.com, top selling HIV drugs achieve annual market revenues of between \$250 million and \$1 billion.

*Growth Potential*

Frost & Sullivan forecasts that by 2007 the global and domestic markets will generate sales of over \$13 billion, respectively. Other forecasters, such as Friedman, Billings, & Ramsey (FBR) and Thomas Weisel, also point to increased growth. It is believed that a number of factors will contribute to growth, including:

- A significant number of drugs currently under development will become available in the future. According to Frost & Sullivan, drugs under development in new categories such as entry inhibitors, immune-based therapies, zinc finger inhibitors, and integrase inhibitors have the potential to transform the HIV Treatment Market;
- Several multinational pharmaceutical companies are researching and marketing several different drugs and may therefore be able to market their own combination drug therapies;

- Better and rapid testing will lead to increased diagnosis, as well as enhanced awareness and greater demand for treatments; and
- More effective therapies will reduce mortality rates increasing the number of persons living with AIDS and seeking continual treatment.

### Competition

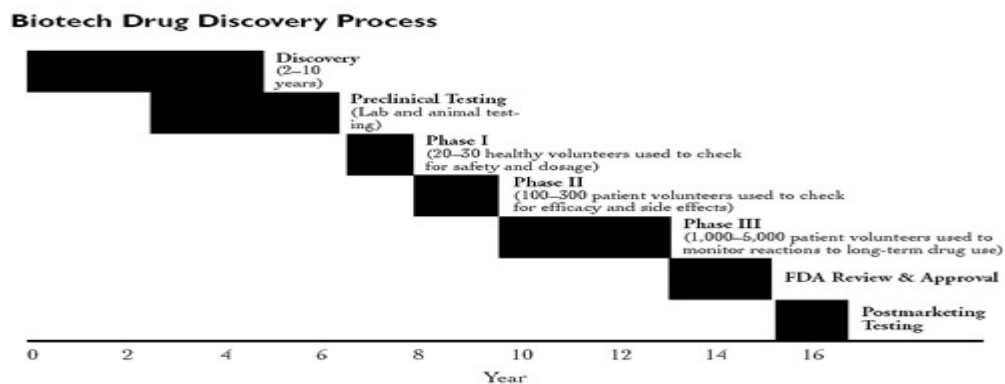
The HIV Treatment Market is a very competitive, rapidly evolving market. There are a number of companies involved in this market; however, according to FBR, GlaxoSmithKline (NYSE: GSK), Bristol-Myers Squibb (NYSE: BMY), and Abbott Laboratories (NYSE: ABT) hold a substantial market share. These three companies hold a cumulative market share in the United States of approximately 74%. Additionally, there are many other public and private companies (including major pharmaceutical and specialized biotechnology firms), universities, and other research institutions engaged in developing pharmaceutical and biotechnology products. Additionally, there are a number of companies and organizations that also developing entry inhibitors, which may compete directly with products that LIV may develop. Some of these companies include, AnorMed (OTC PK: AORMF), GlaxoSmithKline, Progenics (NASDAQ: PGNX), Schering (NYSE: SGP), Tanox (NASDAQ: TNOX), and Pfizer. Many of above organizations have substantially greater financial, technical, research and development, and human resources than LIV.

### Outlook

If SP-01A is approved and seen as an effective treatment for HIV, it will likely achieve some market share. For our analysis, we estimate that SP-01A may be able to capture \$250 million in market revenues by 2007.

Our assumptions include:

- LIV successfully navigating the regulatory approval process and launching SP-01A at the start of 2007. This timeframe is based on Management’s belief that it may possibly be able to gain approval from regulators for the commercialization of SP-01A by early 2007, balanced by the guidelines of the Pharmaceutical Research and Manufacturers of America and Biotechnology Industry Organization for products currently in Phase II/III. The following chart illustrates the typically drug discovery process:



Source: Biotechnology Industry Organization

- SP-01A achieving 50% of peak sales in the first year of commercialization. According to Gerard Klauer Mattison and marketresearch.com, HIV therapies have a history of rapid uptakes and adoption. Drugs such as Sustiva and Combivir achieved 50% to 75% of peak sales during first year of commercialization;

- SP-01A achieving peak sales of \$500 million based on a conservative estimate for top selling HIV drugs;
- LIV achieving a royalty stream of 12% under a license agreement with a major pharmaceutical company; and
- The Company achieving EBITDA and profit margins of 14% and 10%, respectively. These figures are based on the Biotech's Industry EBITDA and pre-tax profit margins, as compiled by Reuters.

The following table illustrates a potential 5-year ramp up scenario (based on our assumptions illustrated above) for SP-01A and the associated impact on the Company's financial statements:

\$ Millions	2007	2008	2009	2010	2011
Sales of SP-01A	250	375	425	475	500
Royalties to LIV	30	45	51	57	60
EBITDA (LIV)	4.2	6.3	7.1	8.0	8.4
Net Income (LIV)	3.0	4.5	5.1	5.7	6.0

\*Taglich Brothers estimates and Company projections

We would caution investors that these figures are subject to SP-01A successfully addressing all clinical (i.e. proving its efficacy), regulatory, and pre-marketing requirements (see Risks section). The FDA approval process is long, arduous, and costly. Companies spend an average of 12 to 15 years at an average cost of \$500 million with no assurance of success. Investors should note that if our inputs (i.e. time to market, revenues to the Company, margins, and/or shares outstanding) fluctuate unfavorably, the Company's equity value and valuation may be adversely impacted.

### ***Competitive Overview – Early Stage Pipeline***

Since the Company's leading drug candidate, SP-01A, is targeted for the treatment of HIV/AIDS and its other drug candidates are in early clinical and pre-clinical, we will primarily focus our attention on the HIV treatment markets and the potential for LIV to succeed in this arena with SP-01A. This is not to say there is no value in the Company's product pipeline. Product candidates are targeted at diseases (HIV, Alzheimer's disease, cancer, and cardiovascular disease), in which treatments, cures, and diagnostics are in great demand, as illustrated below. Accordingly, these potential products could represent a significant revenue and profit opportunity for Samaritan.

#### *Alzheimer's Disease*

According to AFP, around 4.5 million Americans currently suffer from Alzheimer's, which is the 8<sup>th</sup> leading cause of death. By 2050, 16 million Americans are expected to suffer from the progressive brain disorder that gradually destroys a person's memory and ability to communicate and carry out daily activities. According to the Alzheimer's Association (AA), there is no cure for Alzheimer's disease. However, there are several drug treatments, including: Pfizer's (NYSE: PFE) Aricept and Cognex, Novartis' (NYSE: NVS), Exelon, and Johnson and Johnson's (NYSE: JNJ) Reminyl, and Forest's (NYSE: FRX) Namenda, that may improve or stabilize symptoms and several care strategies and activities that may minimize or prevent behavioral problems. Researchers continue to look for new treatments to alter the course of the disease and other strategies to improve the quality of life for people. A number of biotechnology and pharmaceutical companies are developing new products to treat Alzheimer's disease.

According to a report commissioned by the Alzheimer's Association, Alzheimer's disease costs American business \$61 billion a year. Of that figure, \$24.6 billion covers Alzheimer health care and \$36.5 billion covers costs related to caregivers of individuals with Alzheimer's, including lost productivity, absenteeism, and worker replacement. By 2010, Medicare costs for beneficiaries with Alzheimer's are expected to increase 54.5%, from \$31.9 billion in 2000 to \$49.3 billion. Medicaid expenditures on residential dementia care will increase 80%, from \$18.2 billion to \$33 billion in 2010.

Complicating matters is the fact that there is no one diagnostic test that can detect if a person has Alzheimer's disease. According to the AA, the process involves several kinds of tests and may take more than one day. Diagnostic tools and criteria make it possible for physicians to make a diagnosis of Alzheimer's with an accuracy of about 90%.

### *Cancer*

According to the American Cancer Society (ACS), cancer is the second leading cause of death, killing over 570,000 Americans each year. In 2005, ACS estimates that there will be over 1.372 million cases of cancer in America.

According to the American Cancer Society, breast cancer is the leading cancer found in women. In 2005, over 212,000 American women are estimated to develop breast cancer. Women have a 1 in 7 chance of developing breast cancer. The five year survival rate is between 75% and 89%.

According to the CDC, many deaths from breast cancer could be avoided by increasing cancer screening rates among women at risk. Deaths from this disease occur disproportionately among women who are uninsured or underinsured. In 1990, Congress passed the Breast and Cervical Cancer Mortality Prevention Act, which created CDC's National Breast and Cervical Cancer Early Detection Program (NBCCEDP). This program, funded with \$210 million in fiscal year 2004, provides both screening and diagnostic services, including diagnostic testing for women whose screening outcome is abnormal.

### *Cardiovascular disease (CD)*

According to statistics, cardiovascular disease (CD) principally heart disease and stroke, is the Nation's leading killer for both men and women among all racial and ethnic groups. According to the CDC, almost 1 million Americans die of CD each year. This amounts to one death every 33 seconds. Almost 6 million hospitalizations each year are due to cardiovascular disease. The economic effect of cardiovascular disease on the U.S. health care system grows larger as the population ages. In 2003, the cost of heart disease and stroke is projected to be \$351 billion: \$209 billion for health care expenditures and \$142 billion for lost productivity from death and disability.

Proper ranges of cholesterol are important in the prevention of the disease, particularly LDL cholesterol above 130 mg/dl, HDL. Drugs known as statins are the most successful drugs for lowering LDL cholesterol levels, with annual drug sales of over 15 billion dollars a year. Thirty million prescriptions are issued each year for cholesterol-lowering drugs. However, some drugs have not been proven to extend a person's life span and have been associated with increased non-cardiovascular mortality and had increased death rates from some other cause (not cardiovascular), and died sooner.

## ***Industry Peers***

The Biotechnology and Pharmaceutical Industries are characterized by rapidly evolving technology and intense competition. There are many public and private companies (including major pharmaceutical and specialized biotechnology firms), universities, and other research institutions engaged in developing pharmaceutical and biotechnology products.

Many of these organizations have substantially greater financial, technical, research and development, and human resources than LIV. In order to successfully compete with other companies, LIV must be able to obtain, maintain, and defend its intellectual property, including but not limited to patents, trade secrets, and proprietary rights.

Investors should be aware that there are many microcap (market caps under \$250 million) biotech companies in the development and early stage in varying stages of the clinical/regulatory stage and limited revenues. The chart below shows such companies with development stage products that are targeted at indications for which LIV's pipeline also targets:

Company	Ticker	Includes Pipeline Products targeted at:	Revenues (TTM) (Thousands)	Market cap (millions)
ADVENTRX	ANX	Cancer	103	143
Aeolus	AOLS	Alzheimer's disease	367	7
Aethlon Medical	AEMD	HIV	0	4
Alfacell	ACEL	Cancer/HIV	96	7
AVI BioPharma	AVII	Cancer	430	124
CelSci	CVM	Cancer	328	37
Cytrx	CYTR	HIV	428	50
Hollis-Eden	HEPH	HIV	63	139
Immune Response	IMNR	HIV	323	33
Nymox	NYMX	AD diagnostic	322	65
Spectrum Pharmaceuticals	SPPI	Cancer	258	90
Titan Pharmaceuticals	TTP	Cancer	31	77
Vion Pharmaceuticals	VION	Cancer	275	183

\* Source: Yahoo Finance

**Sophisticated biotech investors may wish to evaluate LIV's product pipeline in relation to the above microcap companies and their respective pipelines.**

### **Projections**

Through the end of 2005, LIV will need to continue to allocate significant corporate resources (monetary and otherwise) on the development of its products. Just to complete the next two clinical trials for SP-01A, Management estimates it will need to spend between \$5 million and \$6 million. Increased clinical and research activities may cause the Company's cash burn rate to increase. Therefore, we are projecting that its cash burn rate will increase above the current quarterly \$0.7 million per quarter to around \$1 million.

For fiscal 2005, we are projecting revenues of \$0.1 million and a net loss of \$6.6 million or \$(0.05) per share.

Revenues are only expected to be generated by grants given to the Company and its research partners (i.e. Georgetown University). We believe that for the foreseeable future, the Company will not see revenues from the commercialization of its product pipeline.

Our projections are based on our expectations through 2005 and Management's public comments (as disclosed in its SEC filings). In its latest SEC filings, Management's indicated the following:

- The Company will not derive revenues from the sale of its development stage products for the foreseeable future; and

- Research and development expenses are likely to increase through 2005 to support its business activities. However, research and development expenses may fluctuate from period to period depending upon the stage of certain projects and the level of pre-clinical testing and clinical trial-related activities.

## ***Management***

**Dr. Janet Greeson is the Chairman, President and CEO of the Company.** She led the initiative that transformed Samaritan from a one drug Company to an innovative Drug Development Pipeline Biopharmaceutical Company, including creating the Samaritan/Georgetown University collaboration. Dr. Greeson has over 20 years of experience in the healthcare industry. She is a public speaker, best selling author, and frequently appears on radio and television talk shows. Dr. Greeson developed "Addiction Rehab Programs" for the US Navy and went on to develop, grow and sell her privately held "impatient treatment program model" to Columbia/HCA. Dr. Greeson holds a BA, from Florida Technological University 1978; an MA from Rollins College 1979; a PhD from Columbia Pacific University 1987.

**Dr. Vassilios Papadopoulos is the Consulting Scientific Advisor to the Board of Directors of the Company.** He is also head of the Division of Hormone Research and professor of Cell Biology, Pharmacology and Neuroscience at Georgetown University Medical Center. Dr. Papadopoulos has over eighteen years of experience and over 130 peer review article publications in the Biopharmaceutical field and numerous patents in the field of cholesterol chemistry. His previous achievements include winning various industry awards and being a member and reviewer of various industry organizations.

**Eugene Boyle is the Chief Financial Officer, Chief Operations Officer, and a Director of the Company.** Mr. Boyle received a BSE in Computer Engineering and Applied Mathematics from Tulane University, an MBA from Babson College, and a JD from Concord University. He served in the US Navy as a Lieutenant during the Gulf War. Mr. Boyle is a registered patent agent and admitted to practice before the United States Patent and Trademark Office (USPTO) in all matters relating to patents. He has extensive experience in all aspects of innovation and technology transfer. He also served on Nevada Gold & Casino's Advisory Board from 1999 to 2003.

**Tom Lang, Ph.D. is the Chief Drug Development Officer of the Company.** Dr. Lang has over twenty-five years of experience in the pharmaceutical and biotech industry. Previously, he was the CEO and President of Strategic Development Consulting and the former Vice Chairman and President of Serono Inc., (the U.S. Company of Serono, S.A., the world's third largest biotech company). Dr. Lang held increasingly senior executive level positions within Serono while successfully guiding the company's short and long-term tactical and strategic planning for overall product development and commercialization of its traditional and advanced biotech products in the therapeutic areas. This resulted in the commercialization of seven products, five of which were recombinant products. Dr. Lang holds technical degrees in Chemistry and Pharmacy, an MBA degree, a Ph.D. degree, and is a registered pharmacist in the State of New Jersey.

## ***Risks***

### *The Product Approval Process*

LIV's lead product is currently still in the clinical stage process, while its other product candidates have yet to reach this stage. Typically, biopharmaceutical products require significant research and development, as well as regulatory approval by governmental agencies prior to commercialization. The agency responsible for this regulatory process is the Food and Drug Administration (FDA).

The FDA approval process is long, arduous, and costly. Before beginning human clinical testing of a potential new drug, a company must file an Investigational New Drug Application (IND) and receive

clearance from the FDA. Thereafter, clinical trials are typically conducted in three sequential phases (Phase I, Phase II, and Phase III), but these phases may overlap.

In Phase I, trials are conducted with a small number of patients to determine the early safety profile, the pattern of drug distribution, and metabolism. In Phase II, trials are conducted with small groups of patients afflicted with a target disease in order to determine preliminary efficacy, optimal dosages, and expanded evidence of safety. In Phase III, large scale, multi-center comparative trials are conducted with patients afflicted with a target disease in order to provide enough data for statistical proof of efficacy and safety required by the FDA and others. There is no assurance that clinical trials will be completed successfully within any specified time period, if at all. During the past five years, only 30 new drugs each year, on average, have been approved by the FDA.

Additional considerations in the regulatory approval process include:

- The FDA may suspend clinical trials at any time, if it believes that the subjects or patients are being exposed to an unacceptable health risk or that the investigational product lacks any demonstrable efficacy;
- Clinical trial results are frequently susceptible to varying interpretations by scientists, medical personnel, regulatory personnel, statisticians and others. This may delay, limit, or prevent further clinical development or regulatory approvals;
- There can be no assurance that any approval will be granted on a timely basis, if at all. The Food and Drug Administration may deny a New Drug Application (NDA), if applicable regulatory criteria are not satisfied. The FDA may require additional testing or information. The FDA may ultimately decide that the application does not satisfy its regulatory criteria for approval;
- According to Pharmaceutical Research and Manufacturers of America (PRMA), research and development of new drugs is very costly, time-consuming and highly risky. Companies spend an average of 12 to 15 years at an average cost of \$500 million; and
- According to PRMA, only five in 5,000 compounds that enter pre-clinical testing make it to human testing and only one of these five is approved.

#### *Miscellaneous Regulations*

In addition to regulations enforced by the Federal Drug Administration (FDA), biotech companies are subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and other federal, state, or local regulations. Various federal statutes and regulations also govern or influence the manufacturing, safety, labeling, storage, record-keeping, and marketing of such products.

#### *Regulatory Environment*

Recently, the FDA has been under a great deal of scrutiny as a result of the safety concerns of such drugs as Vioxx, Celebrex, Crestor, and others. According to a BusinessWeek article in January 2005, industry watchers believe that the FDA will become more risk averse and stringent when it comes to safety and new drugs approvals. As a result, companies may be required to spend more monies, take more time, and conduct more trials to get new drugs to market. Additional regulation and monitoring of approved drugs may also be mandated by the FDA. Recently, the FDA announced that it will establish a new independent Drug Safety Oversight Board to monitor FDA approved medicines.

#### *Commercialization Risk*

For the foreseeable future, we do not expect the Company to record significant product revenues. LIV, itself, does not expect to develop commercial products for some time. Any products that may result from LIV's research and development efforts may take several years to be commercially available or may never achieve market acceptance. Additionally, new technical developments or scientific discoveries may lead to rapid product obsolescence.

Physicians, patients, or the medical community in general may not accept or utilize any products that LIV or its corporate partners may develop. The degree of market acceptance of any products will depend on a number of factors, including potential advantage over alternative treatment methods and competing products, reimbursement policies of government and third-party payors, and ability to market and promote the products effectively.

There may be delays in obtaining regulatory approvals or clearances. This could stall the marketing, selling, and distribution of any products that the Company or its corporate partners develop. This may also result in additional costs, diminish any competitive advantages, and decrease its ability to receive royalties and generate profits. Even a small variation in time to market could adversely impact the Company's financial result and liquidity, as well as our valuation model.

Once a product is approved for sale, FDA regulations govern the production, process, and marketing activities. Product approvals may be withdrawn, if compliance with regulatory standards, labeling, and current good manufacturing practices are not maintained. There can be no assurance that the Company or its partners will meet these requirements.

#### *Accelerated Development/Review*

The Company's strategy to commercialize SP-01A by early 2007 is partly based on FDA granting the drug accelerated development/review status. There can be no assurance that this will status will be granted.

According to the Company and the Federal Register, this status is a highly specialized mechanism for speeding the development of drugs that promise significant benefit over existing therapy for serious or life-threatening illnesses for which no therapy exists. This process incorporates several novel elements aimed at making sure that rapid development and review is balanced by safeguards to protect both the patients and the integrity of the regulatory process. Accelerated development/review can be used under two special circumstances:

- 1) When approval is based on evidence of the product's effect on a surrogate endpoint; and
- 2) When the FDA determines that safe use of a product depends on restricting its physical sign that may not be a direct measurement of how a patient feels, functions, or survives, but is still considered likely to predict therapeutic benefit for the patient.

The fundamental element of this process is that the manufacturers must continue testing after approval to demonstrate that the drug indeed provides therapeutic benefit to the patient. If not, the FDA can withdraw the product from the market more easily than usual.

#### *Competition*

Commercially viable products will compete with drugs and therapies manufactured and marketed by major pharmaceutical and other biotechnology companies. These products may be more effective than any of those being developed by LIV or its partners. The Biotechnology and Pharmaceutical Industries are characterized by rapidly evolving technology and intense competition. There are many public and private companies (including major pharmaceutical and specialized biotechnology firms), universities, and other research institutions engaged in developing pharmaceutical and biotechnology products. There are a number of companies and organizations that also developing entry inhibitors, which may compete directly with products that LIV may develop. Some of these companies include, AnorMed, GlaxoSmithKline, Progenics, Schering, Tanox, and Pfizer. In order to successfully compete with other companies, LIV must be able to obtain, maintain, and defend its intellectual property, including but not limited to patents, trade secrets, and proprietary rights.

The Company may face competition from such biotechnology and pharmaceutical competitors as: Abbott Laboratories (NYSE: ABT), Aethlon (OTC BB: AEMD), Amgen (NASDAQ: AMGN), Bristol-Myers Squibb (NYSE: BMY), Chiron (NASDAQ: CHIR), Cytrx (NASDAQ: CYTR), Forest Labs (NYSE: FRX), GlaxoSmithKline (NYSE: GSK), Genentech (NYSE: DNA), Genzyme (NASDAQ: GENZ), Gilead (NASDAQ: GILD), Immune Response (NASDAQ: IMNR), Invitrogen (NASDAQ: IVGN), Merck (NYSE: MRK), Medimmune (NASDAQ: MEDI), Novartis (NYSE: NVS), Roche (OTC PK: RHHBF), Pfizer (NYSE: PFE), Serono (NYSE: SRA), and Trimeris (NASDAQ: TRMS).

According to marketresearch.com and clinicaltrials.gov, there are more than 100 biopharmaceutical companies with a combined HIV drug portfolio of over 300 projects, from pre-clinical to Phase III. Many of these organizations have substantially greater financial, technical, research and development, and human resources than LIV. Investors should be aware that companies that complete clinical trials, obtain required regulatory approvals, and commence commercial sales of their products before their competitors may achieve a significant competitive advantage.

#### *Collaborations*

The Company may seek a strategic partner to commercialize its product pipeline. However, there can be no assurances that LIV will be successful in securing a partner arrangement or obtain favorable financial terms. Future product revenue stream may likely depend on its partners' sales/marketing capabilities and ability to execute proposed marketing plan; matters outside of the control of LIV.

#### *Lack of Recurring Revenues*

Since inception only \$0.3 million in revenue was generated from non-recurring sources (i.e. grants). Management does not anticipate significant recurring operating revenues will occur until either one or more of the Company's currently out-licensed products are commercialized. If LIV is unable to generate recurring revenues, it will likely become dependent on third party financing to continue to meet its obligations and maintain current operations.

#### *Funding Risk*

LIV may likely be required to raise additional equity capital in order to continue with its near-term research efforts. More extensive financing will likely be needed for future clinical trials. Although the Company has shown an ability to obtain financing to fund operations, there is substantial risk that it may not be able to secure sufficient financing to fund its clinical activities and bring its product to market. There is no assurance that financing, if obtained, will be available on favorable terms.

#### *Financing Arrangements/Dilution*

If the Company obtains additional sources of funds through equity, current shareholders will suffer dilution. Substantial dilution may adversely impact LIV's equity value. As part of its recent financing efforts, the Company has executed an equity financing agreement with Fusion Capital, which is set to expire in late 2005. Investors should note that currently, the Company has no commitments from third parties to provide it with additional debt or equity financing.

Samaritan has already authorized the sale and issuance of up to 18.125 million shares to Fusion Capital under the existing financing agreement. Samaritan estimates that the maximum number of shares Samaritan will sell to Fusion Capital will be 15 million shares.

Fusion Capital is not obligated to purchase shares in the event that the stock price is less than \$0.10 per share. This may adversely the Company's financial results and/or may require Management to delay, curtail, or scale back some or all of its operations and/or strategic plans.

During 2004, the Company issued an aggregate of 2.081 million shares of common stock in consideration of services rendered or to be rendered to the Company. Such shares were valued at an aggregate of \$1.79 million ranging from \$0.16 to \$1.19 per share, representing the fair value of the shares issued. The issuances were recorded as non-cash compensation expense. During 2004 the Company exchanged 11.427 million shares of the company stock for \$4.301 million.

As of December 31, 2004, there were 20.925 million options outstanding with an weighted average strike price of \$0.56 per share under an employee stock option plan.

#### *History of Operations*

The Company has and is likely to continue to incur significant losses. Losses were generated primarily due to expenditures for research and development and general and administrative expenses. Losses are likely to continue until significant recurring revenues are generated; therefore, an investor should be aware that an investment in an early stage biotechnology company assumes all the risks of developing and marketing a product, as well as the potential benefits.

As of December 31, 2004, the accumulated deficit was \$28.2 million. Since inception, the Company has accumulated over \$15.2 million in net operating loss carryforwards.

#### *Growth Management*

As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted.

#### *Corporate Governance*

Wall Street has recently increased its focus on corporate governance and placed increased emphasis on the accountability of Management and Directors to shareholders. These events have brought about the passage of the Sarbanes-Oxley Act of 2002 by Congress and signage by the President. Corporate governance may be an issue facing the Company in light of new rules and regulations being issued by government regulatory agencies. This could mean that the Company will eventually be required to hire additional personnel in order to diversify various operational, management, and compliance functions, as well as spend monies to comply with the various aspects of the Act.

#### *Federal Reserve/FOMC*

After its last eight meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 points after each meeting. Such a monetary policy is theoretically and empirically bad news for equity prices and valuations, particularly for smaller cap stocks.

#### *Microcap Concerns*

Shares of LIV have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. The Company has approximately 111.7 million shares in the float. On average, approximately 86,000 shares are traded daily.

#### *Miscellaneous Risks*

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

## **Conclusion**

**We are initiating coverage of Samaritan Pharmaceuticals, Inc. (AMEX: LIV) with a Neutral rating, pending further clinical and business developments.**

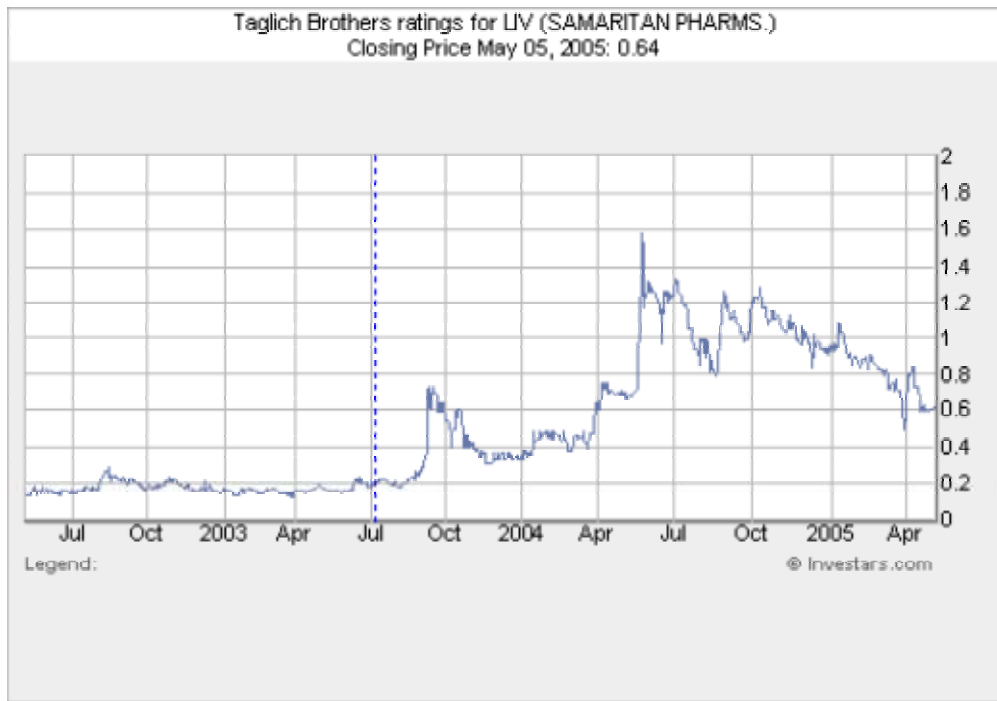
The developments that we will be closely monitoring include:

- SP-01A's progress through the later stages of the clinical and regulatory processes;
- The ability of the Company to successfully partner with a pharmaceutical company with the sales and marketing expertise necessary to effectively market SP-01A;
- The progress of its product pipeline currently in the early stages of development;
- LIV's cash burn rate;
- New financing agreements; and
- Dilution.

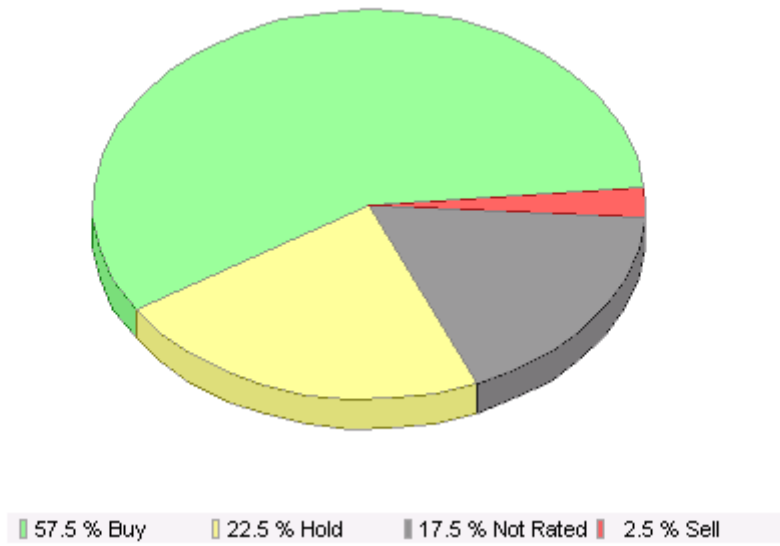
Our Neutral rating also stems from our belief that the shares of LIV already reflect the potential for SP-01A and investors are not likely to focus their attention on the Company's developmental and early stage product candidates until there is significant progression along the development and regulatory tracks. To arrive at this conclusion, we utilized the scenario illustrated in the Outlook section of this report and a valuation model based on a discounted flow model that values the shares of LIV at around \$0.60 per share, solely on the prospects of SP-01A. Our DCF assumes a discount rate of 12%, terminal value multiple of 26X (based on the Biotech Industry's multiple as compiled by Reuters of 43X, risk adjusted), and 180 million shares outstanding.

We have not factored any potential for its other product candidates in our valuation model due to the early stage nature of these products and the tremendous uncertainty evolved in the clinical and regulatory process. However, it is fair to say that at current stock prices, the shares of the Company provide investors with a limited risk on the success of any of these potential products. Sophisticated biotech investors may wish to evaluate the Company's product pipeline in relation to other microcap companies and their respective pipelines. A sample list of such companies was provided in the Industry Peer section. The table illustrated a few revenue challenged microcap biotech companies that are in varying phases of the clinical and regulatory processes.

**The Company faces considerable risks, including limited financial resources, an increasingly competitive HIV Treatment Market, a development stage product pipeline, regulatory concerns, and the probability of significant dilution. An investment in LIV is an investment in a development stage biotech opportunity with all the risks and benefits. Shares of LIV are only suitable for high-risk tolerant investors seeking exposure to an emerging biotech company.**



Taglich Brothers Current Ratings Distribution



## Meaning of Ratings

### *Buy*

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

### *Speculative Buy*

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

### *Neutral*

We will remain neutral pending certain developments.

### *Underperform*

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

### *Sell*

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

## **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies Mentioned in this report

Abbott Laboratories (NYSE: ABT)  
Aethlon (OTC BB: AEMD)  
Amgen (NASDAQ: AMGN)  
Bristol-Myers Squibb (NYSE: BMY)  
Cytrx (NASDAQ: CYTR)  
Chiron (NASDAQ: CHIR)  
Forest Labs (NYSE: FRX)  
GlaxoSmithKline (NYSE: GSK)  
Genentech (NYSE: DNA)  
Genzyme (NASDAQ: GENZ)  
Gilead (NASDAQ: GILD)  
Immune Response (NASDAQ: IMNR)  
Invitrogen (NASDAQ: IVGN)  
Merck (NYSE: MRK)  
Medimmune (NASDAQ: MEDI)  
Novartis (NYSE: NVS)  
Roche (OTC PK: RHHBF)  
Pfizer (NYSE: PFE)  
Schering (NYSE: SGP)  
Serono (NYSE: SRA)  
Trimeris (NASDAQ: TRMS)  
AnorMed (OTC PK: AORMF)  
Progenics (NASDAQ: PGNX)  
Tanox (NASDAQ: TNOX)  
ADVENTRX (AMEX: ANX)  
Aeolus (NASDAQ: AOLS)  
Alfacell (NASDAQ: ACEL)  
AVI BioPharma (NASDAQ: AVII)  
CelSci (AMEX: CVM)  
Hollis-Eden (NASDAQ: HEPH)  
Nymox Spectrum Pharmaceuticals (NASDAQ: SPPI)  
Titan Pharmaceuticals (NASDAQ: TTP)  
Vion Pharmaceuticals (NASDAQ: VION)

\* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the Company mentioned in this report. All research issued by Taglich Brothers, Inc. is based on public information. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company and was not a manager or co-manager of any offering for the company within the last three years. The company paid for the creation and dissemination of research reports for the first year a monetary fee of \$19,500 (USD) on January 2005, and after the first year of publication will pay a monthly monetary fee of \$1,625 (USD) to Taglich Brothers, Inc., for the creation and dissemination of research reports.

**I, Luis Martins, the research analyst of this report, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.**

Samaritan Pharmaceuticals, Inc.  
Annual Income Statement Model  
For Fiscal Year Ended December 31  
(in thousands)

	<u>F12/2002A</u>	<u>F12/2003A</u>	<u>F12/2004A</u>	<u>F12/2005E</u>
Total Revenues	\$ -	\$ 250	\$ -	\$ 100
Costs of Goods Sold	-	-	-	-
<b>Gross Profit</b>	<b>-</b>	<b>250</b>		<b>100</b>
<i>Gross Margins</i>	<i>NMF</i>	<i>100.00%</i>	<i>NMF</i>	<i>100.00%</i>
R&D	1,097	838	1,544	2,650
G&A	2,419	4,902	3,561	4,000
D&A	520	24	27	28
Operating Expenses	4,036	5,764	5,132	6,678
<b>Operating Income</b>	<b>(4,036)</b>	<b>(5,514)</b>	<b>(5,132)</b>	<b>(6,578)</b>
<i>Operating Margin</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Interest Expense(Income)-net	20	6	(37)	-
Other	-	-	(214)	-
<b>Pre-Tax Income</b>	<b>(4,056)</b>	<b>(5,520)</b>	<b>(4,881)</b>	<b>(6,578)</b>
<i>Pre-Tax Margins</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Taxes (Benefit)	-	-	-	-
<i>Tax Rate</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>
<b>Net Income</b>	<b>(4,056)</b>	<b>\$ (5,520)</b>	<b>\$ (4,881)</b>	<b>\$ (6,578)</b>
<b>EPS-fully diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.07)</b>	<b>\$ (0.04)</b>	<b>\$ (0.05)</b>
Avg Shares Out-fully diluted	50,789	79,767	124,566	137,000
<u>Percent of Revenue</u>				
SG&A	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Net Margin	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
<u>YEAR / YEAR GROWTH</u>				
Total Revenues	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>

Samaritan Pharmaceuticals, Inc.  
Quarterly Income Statement Model  
For Fiscal Year Ended December 31, 2003  
(in thousands)

	<u>Q1A</u>	<u>Q2A</u>	<u>Q3A</u>	<u>Q4A</u>	<u>F2003A</u>
Total Revenues	\$ -	\$ -	\$ -	\$ 250	\$ 250
Costs of Goods Sold	-	-	-	-	-
<b>Gross Profit</b>	-	-	-	250	250
<i>Gross Margins</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>100.00%</i>	<i>100.00%</i>
R&D	188	199	201	250	838
G&A	440	450	438	3,574	4,902
D&A	6	6	6	6	24
Operating Expenses	634	655	645	3,830	5,764
<b>Operating Income</b>	(634)	(655)	(645)	(3,580)	(5,514)
<i>Operating Margin</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Interest Expense(Income)-net	4	2	2	(2)	6
<b>Pre-Tax Income</b>	(638.00)	(657.00)	(647.00)	(3,578)	(5,520)
<i>Pre-Tax Margins</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Taxes (Benefit)	-	-	-	-	-
<i>Tax Rate</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>
<b>Net Income</b>	\$ (638)	\$ (657)	\$ (647)	\$ (3,578)	\$ (5,520)
<b>EPS-fully diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.07)</b>
Avg Shares Out-fully diluted	66,635	75,940	83,469	85,000	79,767
<u>Percent of Revenue</u>					
SG&A	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Net Margin	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>

Samaritan Pharmaceuticals, Inc.  
Quarterly Income Statement Model  
For Fiscal Year Ended December 31, 2004  
(in thousands)

	<u>Q1(3/04)A</u>	<u>Q2(6/04)A</u>	<u>Q3(9/04)A</u>	<u>Q4(12/04)A</u>	<u>F12/2004A</u>
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Costs of Goods Sold	-	-	-	-	-
<b>Gross Profit</b>	-	-	-	-	-
<i>Gross Margins</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
R&D	105	315	475	649	<b>1,544</b>
G&A	717	700	476	1,668	<b>3,561</b>
D&A	7	7	7	6	<b>27</b>
Operating Expenses	829	1,022	958	2,323	<b>5,132</b>
<b>Operating Income</b>	(829)	(1,022)	(958)	(2,323)	<b>(5,132)</b>
<i>Operating Margin</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Interest Expense(Income)-net	50	-	-	(87)	<b>(37)</b>
Other	-	-	-	(214)	<b>(214)</b>
<b>Pre-Tax Income</b>	(879)	(1,022)	(958)	(2,236)	<b>(4,881)</b>
<i>Pre-Tax Margins</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Taxes (Benefit)	-	-	-	-	-
<i>Tax Rate</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>	<i>0.00%</i>
<b>Net Income</b>	<b>\$ (879)</b>	<b>\$ (1,022.0)</b>	<b>\$ (958)</b>	<b>\$ (2,236)</b>	<b>\$ (4,881)</b>
<b>EPS-fully diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>	<b>\$ (0.04)</b>
Avg Shares Out-fully diluted	108,952	127,561	130,749	131,000	124,566
<u>Percent of Revenue</u>					
SG&A	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
Net Margin	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>	<i>NMF</i>

Samaritan Pharmaceuticals, Inc.  
Quarterly Income Statement Model  
For Fiscal Year Ended December 31, 2005  
(in thousands)

	<u>Q1(3/05)E</u>	<u>Q2(6/05)E</u>	<u>Q3(9/05)E</u>	<u>Q4(12/05)E</u>	<u>F12/2005E</u>
Total Revenues	\$ 25	\$ 25	\$ 25	\$ 25	\$ 100
Costs of Goods Sold	-	-	-	-	-
<b>Gross Profit</b>	25	25	25	25	100
<i>Gross Margins</i>	100.00%	100.00%	100.00%	100.00%	N/A
R&D	600	600	700	750	2,650
G&A	1,000	1,000	1,000	1,000	4,000
D&A	7	7	7	7	28
Operating Expenses	1,607	1,607	1,707	1,757	6,678
<b>Operating Income</b>	(1,582)	(1,582)	(1,682)	(1,732)	(6,578)
<i>Operating Margin</i>	NMF	NMF	NMF	NMF	NMF
Interest Expense(Income)-net	-	-	-	-	-
Other	-	-	-	-	-
<b>Pre-Tax Income</b>	(1,582)	(1,582)	(1,682)	(1,732)	(6,578)
<i>Pre-Tax Margins</i>	NMF	NMF	NMF	NMF	NMF
Taxes (Benefit)	-	-	-	-	-
<i>Tax Rate</i>	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Net Income</b>	\$ (1,582)	\$ (1,582)	\$ (1,682)	\$ (1,732)	\$ (6,578)
<b>EPS-fully diluted</b>	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.05)
Avg Shares Out-fully diluted	133,500	136,000	138,500	140,000	137,000
<u>Percent of Revenue</u>					
SG&A	NMF	NMF	NMF	NMF	NMF
Net Margin	NMF	NMF	NMF	NMF	NMF
<u>YEAR / YEAR GROWTH</u>					
Total Revenues	NMF	NMF	NMF	NMF	NMF

Samaritan Pharmaceuticals, Inc.  
Consolidated Balance Sheet  
For Fiscal Period Ended  
(in thousands)

	<u>F2003A</u>	<u>F2004A</u>
<b>Assets</b>		
Current Assets		
Cash & Equivalents	\$ 371	\$ 3,929
Prepaid Expense & Other	<u>21</u>	<u>76</u>
<b>Total Current Assets</b>	392	4,005
Plant, Property, & Equipment-net	36	37
Marketable securities	-	493
Deposits & other	3	253
Intellectual property	<u>244</u>	<u>461</u>
<b>Total Assets</b>	<u>\$ 675</u>	<u>\$ 5,249</u>
<b>Liabilities &amp; Shareholders' Equity</b>		
Current Liabilities		
Accounts Payable & Accruals	388	170
Common stock to be issued	<u>13</u>	<u>-</u>
<b>Total Current Liabilities</b>	401	170
<b>Total Shareholders' Equity</b>	<u>274</u>	<u>5,079</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$ 675</u>	<u>\$ 5,249</u>
SHARES OUT	106,215	132,030

Samaritan Pharmaceuticals, Inc.  
Consolidated Cash Flow Statement  
For Fiscal Period Ended  
(in thousands)

	<u>F2003A</u>	<u>F2004A</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ (5,521)	\$ (4,864)
Depreciation & Amortization	24	267
Stock based comp	2,860	1,246
Stock options for services	145	568
Other	<u>-</u>	<u>(231)</u>
	(2,492)	(3,014)
<i>Changes In:</i>		
Receivables	(18)	(55)
Inventories	13	-
Deferred revenue	(250)	-
Accrued Expenses & Payables	<u>513</u>	<u>(218)</u>
Net Changes in Working Capital	<u>258</u>	<u>(273)</u>
<b>Net cash Provided by Operations</b>	<b><u>(2,234)</u></b>	<b><u>(3,287)</u></b>
<i>Cash Flows from Investing Activities</i>		
Capital Expenditures	(14)	(17)
Purchase of CD	-	(2,250)
Patent costs	<u>(5)</u>	<u>(228)</u>
<b>Net cash used in Investing</b>	<b><u>(19)</u></b>	<b><u>(2,495)</u></b>
<i>Cash Flows from Financing Activities</i>		
Proceeds from stock/warrants	2,410	7,851
Other	13	-
Payments of loans	<u>(157)</u>	<u>-</u>
<b>Net cash provided by Financing</b>	<b><u>2,266</u></b>	<b><u>7,851</u></b>
Net change in Cash	13	2,068
Cash Beginning of Period	<u>358</u>	<u>371</u>
Cash End of Period	<b><u>\$ 371</u></b>	<b><u>\$ 2,438</u></b>