

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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## Research Report – Update

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

### Samaritan Pharmaceuticals, Inc.

**Rating: Neutral**

Luis Martins

LIV – \$0.49 (AMEX)

June 7, 2005

|                      | <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) | 104,760       | Price/Sales(TTM)      | NMF      |
| Insider Holdings                 | 21.4%         | Price/Sales(2005)E    | NMF      |
| Tangible Book Value/Share        | \$0.03        | Price/Earnings(TTM)   | NMF      |
| Price/Tangible book              | 16.3X         | 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 maintaining coverage of Samaritan Pharmaceuticals, Inc. (AMEX: LIV) with a Neutral rating, pending further clinical and business developments.*

*The developments that we will continue to monitor 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 May 2005, Samaritan Pharmaceuticals announced it was initiating a Phase II trial to assess SP01A's safety and the effect on viral load in HIV-1 positive individuals, with evidence of increasing viral load despite treatment with other antiretroviral therapy.*

*In May 2005, Management secured a new financing agreement with Fusion Capital for up to \$40 million in equity financing over a 50-month period, subject to conditions.*

*\* Please view our disclaimer located on page 15*

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174

(800) 383-8464 Fax (631) 757-1333

[www.taglichbrothers.com](http://www.taglichbrothers.com)

## ***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 CROprofessionals, LabConnect, Sebiopharm, 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.

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.

## ***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.

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.

LIV's 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.

The Company's cholesterol recognition peptide can be used to clean the blood of excessive cholesterol in acute high cholesterol conditions. LIV is exploring a transdermal patch that transforms and binds LDL cholesterol with immediate results including an immediate response to hypercholesterolemia.

## ***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 2006;
- 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 credibility and reduce cash burn.

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

In May 2005, Samaritan Pharmaceuticals announced it was initiating a Phase II trial to assess SP01A's safety and the effect on viral load in HIV-1 positive individuals, with evidence of increasing viral load despite treatment with other antiretroviral therapy. The study, expected to occur at 4 sites, will be a double-blind, placebo controlled, multi-dose, monotherapy study in treatment-experience HIV patients. 92 patients in four treatment groups are expected to be enrolled in the study. Initial draft results are expected to be available before the end of the year.

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 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.

#### *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.

#### **Recent Results**

In May 2005, the Company reported results for its 2005 first quarter, ended March 31, 2005. For 1Q05, as compared to 1Q04:

- Net loss increased to \$1.226 million or \$(0.01) per share from \$0.829 million or \$(0.01) 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.

In comparison, Taglich Brothers' estimates called for revenues of \$25,000 and a net loss of \$1.6 million or \$(0.01) per share.

On an operating basis, LIV reported a loss of \$1.262 million, as compared to loss of \$0.829 million in the year ago period.

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

- Operating expenses increased to \$1.262 million from \$0.829 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>1Q04A</b> | <b>1Q05A</b> |
|----------------------------|--------------|--------------|
| <b>R&amp;D</b>             | 105          | 727          |
| <b>G&amp;A</b>             | 717          | 544          |
| <b>D&amp;A</b>             | 7            | 7            |

The substantial year-over-year increase in expenses was attributed to an increase in monies provided to Georgetown for R&D activities, ramp-up in activities related to the development in SP-01A, including payments to Pharmaplaz, 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 132.4 million from 108.9 million in the year ago period.

#### *Balance Sheet*

Key balance sheet items as of March 31, 2005, were as follows:

- Cash and cash equivalents of \$3.7 million;
- Working capital of \$3.6 million;
- Total assets of \$5.135 million;
- Total liabilities of \$0.198 million; and
- Stockholders' equity of \$4.938 million.

As of March 31, 2005, LIV's accumulated deficit was approximately \$29.4 million. According to our calculations, the Company burned about \$1.1 million in cash during 1Q05. Additionally, during the quarter, LIV issued \$0.49 million in stock options in exchange for services.

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 (in May 2005) a new financing agreement with Fusion Capital for up to \$40 million in equity financing over a 50-month period, subject to conditions. 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.

In its latest 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.

### Outlook

Product candidates are targeted at diseases (HIV, Alzheimer's disease, cancer, and cardiovascular disease), in which treatments, cures, and diagnostics are in great demand. Accordingly, these potential products could represent a significant revenue and profit opportunity for Samaritan.

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 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.

### **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. The Company has issued U.S. patent and pending patent applications related to Alzheimer's, Cancer, Cardiovascular, and HIV indications. In total, LIV has licensed 1 issued U.S. patent and has licensed 13 pending patent applications in the U.S. to protect its proprietary methods and processes. Its patent portfolio outside the U.S. comprises of 1 licensed issued patent and over 13 licensed pending patent applications.

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.

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 \$6.1 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.

### ***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 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 2007 is partly based on FDA granting the drug accelerated development/review status. There can be no assurance that this 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*

The HIV Treatment Market is a very competitive, rapidly evolving market. There are a number of companies involved in this market. According to industry sources, 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.

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.

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.

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. Investors should note that currently, the Company has no commitments from third parties to provide it with additional debt or equity financing.

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. During the first quarter, LIV issued \$0.49 million in stock options in exchange for services.

As of December 31, 2004, there were 20.925 million options outstanding with a 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 March 31, 2005, the accumulated deficit was \$29.4 million. Since inception, the Company has accumulated over \$15.2 million in net operating loss carryforwards.

### *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 105 million shares in the float. On average, approximately 122,000 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 maintaining coverage of Samaritan Pharmaceuticals, Inc. (AMEX: LIV) with a Neutral rating, pending further clinical and business developments.**

**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.**

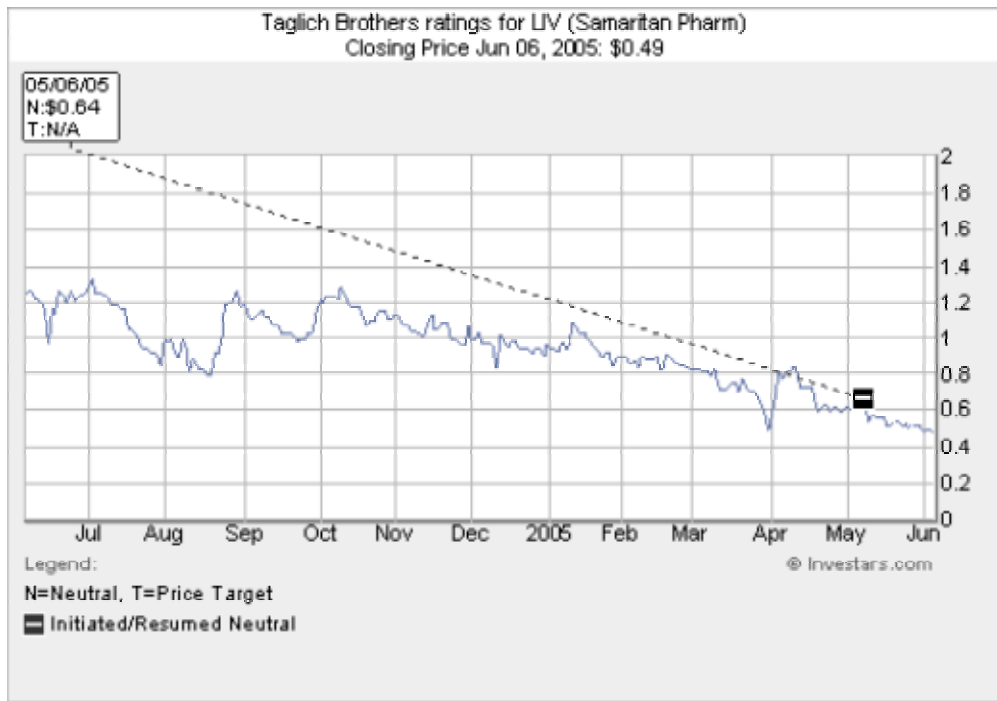
The developments that we continue to monitor include:

- 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.

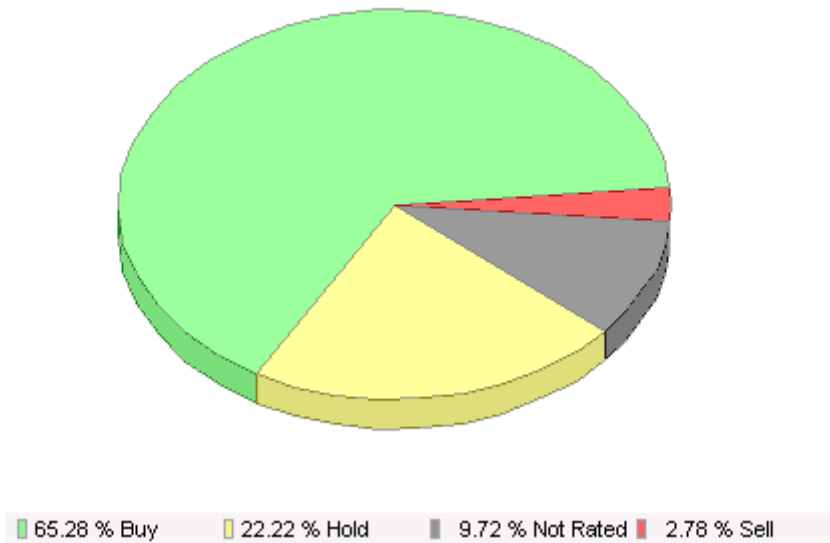
Our Neutral rating also stems from our belief that the shares of LIV already reflect the potential for SP-01A and investors are not likely to focus their attention on the Company's developmental and early stage product candidates until there is significant progression along the development and regulatory tracks. 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 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.



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

GlaxoSmithKline (NYSE: GSK)

Bristol-Myers Squibb (NYSE: BMY)

Abbott Laboratories (NYSE: ABT)

AnorMed (OTC PK: AORMF)

Progenics (NASDAQ: PGNX)

Schering (NYSE: SGP)

Tanox (NASDAQ: TNOX)

Pfizer (NYSE: PFE)

\* 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>F2003A</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            | 3,177            |
| G&A                          | 2,419            | 4,902            | 3,561            | 3,044            |
| D&A                          | 520              | 24               | 27               | 28               |
| Operating Expensess          | 4,036            | 5,764            | 5,132            | 6,249            |
| <b>Operating Income</b>      | <b>(4,036)</b>   | <b>(5,514)</b>   | <b>(5,132)</b>   | <b>(6,149)</b>   |
| <i>Operating Margin</i>      | <i>NMF</i>       | <i>NMF</i>       | <i>NMF</i>       | <i>NMF</i>       |
| Interest Expense(Income)-net | 20               | 6                | (37)             | (17)             |
| Other                        | -                | -                | (214)            | 5                |
| <b>Pre-Tax Income</b>        | <b>(4,056)</b>   | <b>(5,520)</b>   | <b>(4,881)</b>   | <b>(6,137)</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>(6,137)</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          | 136,205          |
| <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>            | <u>\$ (638)</u>  | <u>\$ (657)</u>  | <u>\$ (647)</u>  | <u>\$ (3,578)</u> | <u>\$ (5,520)</u> |
| <b>EPS-fully diluted</b>     | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> | <u>\$ (0.04)</u>  | <u>\$ (0.07)</u>  |
| Avg Shares Out-fully diluted | <u>66,635</u>    | <u>75,940</u>    | <u>83,469</u>    | <u>85,000</u>     | <u>79,767</u>     |
| <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)A</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               | \$ -             | \$ -             | \$ -             | \$ 100            | \$ 100           |
| Costs of Goods Sold          | -                | -                | -                | -                 | -                |
| <b>Gross Profit</b>          | -                | -                | -                | 100               | <b>100</b>       |
| <i>Gross Margins</i>         | <i>NMF</i>       | <i>NMF</i>       | <i>NMF</i>       | <i>100.00%</i>    | <i>100.00%</i>   |
| R&D                          | 727              | 750              | 800              | 900               | 3,177            |
| G&A                          | 544              | 750              | 750              | 1,000             | 3,044            |
| D&A                          | 7                | 7                | 7                | 7                 | 28               |
| Operating Expensess          | 1,278            | 1,507            | 1,557            | 1,907             | 6,249            |
| <b>Operating Income</b>      | (1,278)          | (1,507)          | (1,557)          | (1,807)           | (6,149)          |
| <i>Operating Margin</i>      | <i>NMF</i>       | <i>NMF</i>       | <i>NMF</i>       | <i>NMF</i>        | <i>NMF</i>       |
| Interest Expense(Income)-net | (17)             | -                | -                | -                 | (17)             |
| Other                        | 5                | -                | -                | -                 | 5                |
| <b>Pre-Tax Income</b>        | (1,266)          | (1,507)          | (1,557)          | (1,807)           | (6,137)          |
| <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>            | \$ (1,266)       | \$ (1,507)       | \$ (1,557)       | \$ (1,807)        | \$ (6,137)       |
| <b>EPS-fully diluted</b>     | \$ (0.01)        | \$ (0.01)        | \$ (0.01)        | \$ (0.01)         | \$ (0.05)        |
| Avg Shares Out-fully diluted | 132,440          | 134,940          | 137,440          | 140,000           | 136,205          |
| <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.  
Consolidated Balance Sheet  
For Fiscal Period Ended  
(in thousands)

|   | <u>F2004A</u>   | <u>1Q05A</u>    |
|---|-----------------|-----------------|
| <b>Assets</b>                                 |                 |                 |
| Current Assets                                |                 |                 |
| Cash & Equivalents                            | \$ 3,929        | \$ 3,773        |
| Prepaid Expense & Other                       | <u>76</u>       | <u>84</u>       |
| <b>Total Current Assets</b>                   | <b>4,005</b>    | <b>3,857</b>    |
| Plant, Property, & Equipment-net              | 37              | 42              |
| Marketable securities                         | 493             | 492             |
| Deposits & other                              | 253             | 253             |
| Intellectual property                         | <u>461</u>      | <u>491</u>      |
| <b>Total Assets</b>                           | <b>\$ 5,249</b> | <b>\$ 5,135</b> |
| <b>Liabilities &amp; Shareholders' Equity</b> |                 |                 |
| Current Liabilities                           |                 |                 |
| Accounts Payable & Accruals                   | <u>170</u>      | <u>198</u>      |
| <b>Total Current Liabilities</b>              | <b>170</b>      | <b>198</b>      |
| <b>Total Shareholders' Equity</b>             | <u>5,079</u>    | <u>4,938</u>    |
| <b>Total Liabilities &amp; Equity</b>         | <b>\$ 5,249</b> | <b>\$ 5,135</b> |
| SHARES OUT                                    | 132,030         | 133,258         |