

Research Report – Update

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

Samaritan Pharmaceuticals, Inc.

Rating: Neutral

Juan Noble

LIV \$0.31 (AMEX)

September 13, 2006

	FY (12/04)A	FY (12/05)A	FY (12/06)E	FY (12/07)E
Total revenues (000)	\$ - -	\$257	\$22	\$ - -
Earnings (loss) per share	(\$0.04)	(\$0.04)	(\$0.05)	(\$0.04)
52 - Week range	\$0.91 – \$0.30		Fiscal year ends:	December
Shares outstanding as of August 11, 2006	151.7 million		Revenue/shares (ttm)	NA
Trading float	132.3 million		Price/Sales (ttm)	NA
Insiders	21.4%		Price/Sales (2007)E	NA
Tangible Book value/share as of June 30, 2006	\$0.01		Price/Earnings (ttm)	NM
Price/Book	31.1X		Price/Earnings (2007)E	NM

Samaritan Pharmaceuticals, Inc. (AMEX: LIV), headquartered in Las Vegas, Nevada, is a development-stage company. R&D efforts center on biopharmaceuticals for the treatment of AIDS, Alzheimer's disease, cancer and cardiovascular disease. The company's lead product, which has absorbed most of its resources to date, is SP-01A, an oral entry inhibitor to slow the progression of AIDS.

Key Investment Considerations:

We are maintaining an investment recommendation of NEUTRAL on Samaritan Pharmaceuticals, Inc. (AMEX: LIV). SP-01A, the company's lead product, is the only one in the company's pipeline that has progressed into human trials but completion of US pivotal trials and the regulatory approval process could take a year longer.

SP-01A is an anti-HIV (human immunodeficiency virus) drug that is differentiated from most of the anti-HIV drugs currently on the market. SP-01A is an "entry inhibitor" anti-HIV drug, the type that acts against HIV before the virus has infected T cells. There is currently only one entry inhibitor on the market.

Samaritan is also developing stem-cell and neuron differentiation therapies for Alzheimer's disease, a breast cancer treatment and a HDL cholesterol enhancement agent.

In a recent acute toxicity study, Alzheimer's research compound Caprospinol (SP-233) demonstrated no toxicity in an oral-administration Acute Toxicity Study. Preclinical studies suggest Caprospinol (SP-233) exhibits neuroprotective properties that could potentially make it an effective treatment for Alzheimer's disease. Management believes that the FDA could authorize the start of SP-223 human trials shortly.

Samaritan Pharmaceuticals Europe has built a marketing infrastructure that will distribute drugs that the company develops as well as in-licensed drugs in Eastern Europe, Greece and Turkey. The first product marketed by the European organization will be Amphocil, an in-licensed anti-fungal that was cleared for marketing in Greece in April 2006 but is still awaiting pricing approval.

** Please view our disclaimer located on page 12.*

Overview

Samaritan Pharmaceuticals, Inc. (AMEX: LIV), headquartered in Las Vegas, Nevada, was established in 1994. The company's growth strategy is based on the in licensing of technology from Georgetown University, and of rights to promising pharmaceuticals being developed by other companies. The company aims to commercialize its biopharmaceuticals by bringing to bear management's expertise in the regulatory review process, managing clinical studies, securing intellectual property rights and obtaining grants from the National Institutes of Health. By management's estimates, roughly a third of its attention is devoted to in-licensing efforts.

In 2001, the company established its research collaboration with Georgetown University under an agreement that runs through 2014 and calls for \$1 million in annual R&D funding by Samaritan. The company will receive worldwide rights to any therapeutics or diagnostics developed through this collaboration. Georgetown University is not entitled to any milestone payments but under the agreement, the University will receive royalties from the sales of any developed products that are commercialized. The company has so far in-licensed 17 potential products from Georgetown University; 19 patent applications covering those in-licensed products have been filed.

Samaritan's other major collaborator is Pharmaplaz, LTD (Ireland), a pharmaceutical company with which the company has contracted for production of lead product SP-01A for use in clinical trials, and the production of other drugs in Samaritan's pipeline. Pharmaplaz is also to support the company's pipeline development, scale-up and manufacturing requirements, provide a range of drug development support services and manufacture Samaritan's in-licensed pharmaceuticals.

Samaritan's lead product is an anti-HIV drug, SP-01A, the only one so far that has been tested in humans. In addition, the company is also developing a number of compounds aimed at treating Alzheimer's disease. SP-01A is currently being evaluated in two concurrent clinical trials, a monotherapy phase II study in the US and a phase II/III study in Europe. Management expects an Alzheimer's disease drug (SP-233), currently in pre-clinical studies, to progress shortly to a level where the company can file an Investigational New Drug (IND) application with the FDA, authorization of which would authorize human clinical studies.

Strategy

Samaritan aims to grow into a fully integrated pharmaceutical manufacturer. The company plans to develop, mainly through its collaboration with Georgetown University, drugs with annual revenue potential of at least \$300 million, a level that the company believes would attract interest from large pharmaceutical companies with which it may establish licensing/distribution agreements. The company's pipeline is led by anti-HIV drugs which could potentially address a US patient population of 1.3 million patients, and drugs aimed at the Alzheimer's patient population, a US market of roughly 4 million.

In addition to pipeline products being developed through the Georgetown University collaboration, there are a number of drugs both approved and in development at other firms that Samaritan is negotiating rights to. These candidates for in-licensing are either already cleared for marketing or in late-stage development. Samaritan's growth strategy is based in part on the targeting of relatively small overseas markets that the larger pharmaceutical companies have relatively little interest in. With that in mind, the company established Samaritan Pharmaceuticals Europe as a means of penetrating the Central Asia-Eastern Europe market, which is attractive not only for the size of its AIDS patient population but also for the revenue potential it offers for the company's pipeline and in-licensed products.

According to the Population Reference Bureau (Washington DC), the Central Asia-Eastern Europe region had 1.5 million HIV-positive cases in 2005, slightly more than the 1.3 million estimated for the US. If SP-01A shows positive outcomes in clinical studies, the company may be able to secure its regulatory clearance from countries in its Central Asia-Eastern Europe market. With local regulatory approvals, SP-01A's launch in the Central Asia-Eastern Europe market could precede a US launch.

An Alzheimer's disease drug, believed to be nearing completion of preclinical work, should be the next product to be evaluated in humans, a key step towards commercialization.

Key milestones that might be achieved during the next year are the completion of human SP-01A trials in the US, FDA authorization to begin human trials of an Alzheimer's drug therapy, and the start of a European SP-01A clinical trial. Samaritan plans to begin enrolling patients in the European SP-01A trial in January 2007.

Product Line

Samaritan has the following therapeutics and diagnostics under development. The timeline chart following brief product descriptions summarizes the progress of each through development.

- HIV/AIDS** SP-01A, the company's lead product, is an orally administered anti-HIV drug classified as an entry inhibitor, one of four classes of anti-HIV drugs already on the market. SP-01A aims to lower the amount of the HIV virus in the blood by inhibiting the ability of the virus to infect CRD4+ cells, also known as T cells. The company believes that SP-01A has the potential to be effective in patients who have developed a tolerance to other anti-HIV drugs on the market. This is the only one of the company's products that is already in human trials.

Drug Candidates	Research Idea	Patent Filed	Binding and Dose Effects	Metabolism	Animal Studies	IND	I Safety	II Proof of Concept	III Efficacy	NDA	
Science Completed =						Science In Progress =					
AIDS/HIV Program											
SP-01A Entry Inhibitor											
SP-03 HIV											
SP-10 HIV											
CNS - Alzheimer's Disease (AD) Program											
SP-04 AD											
SP-08 AD											
SP-233 AD											
SP-sc4 AD Diagnostic											
SP-sc7 AD Diagnostic											
Cancer Program											
SP-C007 Breast Cancer											
Cardiovascular Program											
SP-1000 LDL w HDL											

Source: Samaritan Pharmaceuticals

- Alzheimer's disease** SP-04, SP-04m and SP-233 are therapeutics that the company believes could awaken dormant brain cells and essentially resurrect them. Management believes that all three are close to receiving FDA authorization for evaluation in humans; SP-233 could be the first. Samaritan has also developed a diagnostic blood test (SP-sc4) and an animal model (SP-sc7) that can screen and facilitate development of Alzheimer's drugs.
- Breast Cancer** SP-C007 is a therapeutic. The company is also developing a diagnostic that aims to more accurately predict the rate of a cancerous tumor's growth.
- Cholesterol** SP-1000 is a cholesterol recognition peptide that aims to reduce LDL cholesterol levels.

In addition to these pipeline products, Samaritan has in-licensed an anti-fungal, Amphocil, from Three Rivers Pharmaceuticals (Cranberry Township, PA), a manufacturer of anti-viral agents. The licensing agreement gives Samaritan distribution rights for Amphocil in Greece.

Recent Developments

Acquisition Plan On July 27, 2006, the company announced that it had signed a letter of intent to acquire all of the shares of Metastatin Pharmaceuticals, Inc., a development stage biopharmaceutical firm doing R&D on cytostatic and anti-metastatic cancer therapies. Terms and conditions of the proposed transaction were not disclosed.

SP-01A Monotherapy Trial Early Results On May 30, 2006, the company announced that preliminary 10-day results of a 28-day trial of SP-01A used alone (monotherapy), rather than in combination with other drugs, showed anti-viral activity. The 10-day results were from 32 patients organized in four groups, one given a placebo, the other three given different daily doses of SP-01A. Patients in the treatment groups were reported to show lower mean changes in viral load compared to the control group. The percentage of patients in the treatment groups (placebo group patients showed no reduction in viral load) ranged from 14% to 55%, with the proportion rising with dosage.

European Phase III SP-01A Clinical Trial Samaritan announced that its European subsidiary was initiating a late-stage Phase III trial in Europe ahead of the conclusion of the US Phase II 28-day monotherapy trial of SP-01A. The trial design calls for 411 subjects, of which 137 will be randomized to a control (placebo) group. The trial's primary endpoint will be the change in HIV viral load in the treatment vs. the placebo group 24 weeks after treatment. The European trial could speed commercialization of SP-01A by leading to an overseas launch before its US introduction. Also the data from a European trial may be useful in supporting a US New Drug Approval (NDA) application.

Addition to IP Portfolio The company announced that it had received a notice of allowance on a European patent application covering SP-1000, a cardiovascular disease therapy. The patent will be awarded to Georgetown University, which has granted Samaritan an exclusive license. Earlier, the company had announced that SP-1000 reduces cholesterol, clears arteries of plaque, raises HDL cholesterol and reduces CK enzyme levels.

Preclinical Study of Alzheimer's Drug On August 29, 2006, the company reported that animal studies of a potential Alzheimer's disease therapy, SP-223 (Caprospinol), stopped amyloid plaque formation and resulted in the complete elimination of these plaques in rat subjects. This most recent study supports earlier preclinical study results also demonstrating that Caprospinol showed no toxicity. Management believes that results of one additional preclinical study, results of which are being audited, will enable the company to seek FDA authorization to begin human trials.

2Q06 Results

Operations In 2Q06, Samaritan Pharmaceuticals showed a loss of \$2.2 million, or (\$0.02) per share vs. a loss of \$1.5 million, or (\$0.01) per share. Results for 2Q brought the loss for 1H06 to \$3.5 million, or (\$0.02) per share vs. a loss of \$2.7 million or (\$0.02) per share for 1H05. Despite the deeper net loss for 2H06, six-month per share results were unchanged due to the anti-dilutive effect of common stock issued since June 30, 2005.

The company earned no consulting revenue and received no government grants in 2Q. The net loss for the period was up significantly due to a sharp rise in R&D costs, which practically doubled year-on-year. The increase in R&D was attributed to expenses relating to SP-01A's phase IIB clinical trial. G&A expenses for 2Q also increased, mainly as a result of expenses incurred by the company's Samaritan Europe business.

The company has not yet earned any revenue from Amphocil (marketed in the US as Amphotec), rights to which it licensed from Three Rivers Pharmaceuticals in December 2005. Samaritan already has marketing clearance for Greece but approval of pricing from the Greek government is still pending. According to the December 2004 10K filed by Intermune, Inc., which marketed Amphocil until selling the product to Three Rivers Pharmaceuticals in May 2005, worldwide annual sales of all amphotericin B-based products, of which Amphocil is one, were approximately \$350 million.

Cash Flow and Balance Sheet In line with the sharp rise in operating expenses, the company's cash burn also increased to \$2.2 million in 2Q06 from \$1.3 million in 2Q05. Cash burn for 1H06 totaled \$3.2 million, up from \$2.4 million in 1H05. Cash burn in 1H06 was offset by \$4.0 million in new equity financing (of which \$2.6 million was raised during the first quarter).

Projections

Operations We project a loss of \$6.6 million, or (\$0.05) per share, and cash burn of \$6.3 million for 2006. By our estimates, R&D, the company's most significant expense, will show a moderate rise this year due to an increase in expenses associated with the US trials of SP-01A, the Alzheimer's drug development program and clinical studies on other drug candidates. We also project an increase in G&A expenses due to costs incurred by Samaritan Europe, which was formed in 2005. The company is in the process of applying for approval to market Amphocil, an in-licensed antifungal, in Greece and is building a distribution infrastructure to service the Central Asia-Central Europe market.

By estimates, the company's loss for 2007 will widen further to \$7.2 million due to higher research and G&A costs associated with later-phase clinical studies and potentially, more activity in Samaritan Europe. However, a smaller per share loss of (\$0.04) is projected due mainly to the anti-dilutive effects of common stock issuance in connection with the sale of shares to Fusion Capital and, possibly, share-based compensation. Due to a larger loss in 2007, cash burn is projected to increase slightly to \$6.9 million.

We have not factored any consulting fees or grants into our operating projections due to lack continuity or predictability. The company has not earned any consulting fees since 2003. Of the \$266,000 in government grant revenue earned since the company's inception, all was booked in the four quarters ending 1Q06, with most (\$240,000) seen in 2H05.

Financial The company does not anticipate having access to bank borrowings until one or more of its pipeline products have been launched. For the time being Samaritan will have to satisfy its financing needs with private equity placements and the sales of common shares to Fusion Capital Partners (Chicago), currently Samaritan's only source of equity financing. Fusion Capital has agreed to purchase up to \$40 million in common stock over a 50-month period beginning February 2006. Common stock sales will be made at the option of Samaritan, who will determine the timing and amount of shares sold, and will be sold at the market price of the company's shares at the time of the sale.

Based mainly on the operating losses we project, we believe that, without additional financing, the company will run cash deficits in 2007. To maintain certain levels of cash that we believe are reasonable minimums, we have projected sales of common stock to Fusion Capital accordingly. As the company indicates that it does not currently have any underwriting or investment commitments other than that with Fusion Capital, we have, for forecasting purposes regarded Fusion Capital as the sole source of equity funding through the end of 2007 and have estimated stock sales at the current price of \$0.31 per share. At the projected level of losses and common shares issued in connection with stock sales to Fusion Capital, Samaritan's equity will have eroded by the end of 2007. At that point, however, available financing from Fusion Capital will still be ample as, by our estimates, common stock sales to Fusion will still be well under the \$40 million ceiling agreed upon.

Overview of Anti-HIV Drugs

The Infection Process Unchecked, the HIV virus can, by destroying T-cells, lead to AIDS (acquired immunodeficiency syndrome), compromising the immune system to a point where resistance is so weakened that opportunistic infections and some cancers prove fatal to infected persons. The HIV virus binds to the receptors of CD4, or T, cells, a type of white blood cell that alerts the immune system to the presence of invaders. CD4 cells are "helper" cells that lead the attack against infections. The other main type of T cell, CD8, is a "suppressor" that can kill cancer cells and cells infected with a virus.

Once the virus binds to the cell, a process begins that leads to the replication of HIV-bearing T cells and the destruction of normal ones. As the body's T-cell count diminishes, the patient becomes increasingly vulnerable to infections that can ultimately be fatal. A normal body has a T-cell count of 1,000 or more. When an HIV-infected person's count drops to less than 200, the patient, by CDC definition, has AIDS. Some patients, however, can be asymptomatic even when their T-cell counts are low.

Anti-HIV drugs can intervene in the processes that destroy healthy T-cells, thereby preventing or delaying the onset of AIDS. Proteins on the outer layer of the HIV virus are strongly attracted to the receptors on the outside of a T-cell. On contact, the HIV virus activates proteins on the T-cells' surface, enabling the virus to bind to the outside of the T-cell, a process called fusion.

After fusion, the virus makes a DNA copy of its gene-bearing ribonucleic acid (RNA) through a process of reverse transcription and releases that DNA into the host T-cell. The virus' DNA is carried to the infected T-cell's nucleus, where another viral enzyme, integrase, conceals the viral DNA within the T-cell's DNA. From that point on, when the T-cell attempts to produce new proteins, the concealed viral DNA directs the infected T-cell to produce new HIV viruses, a process known as transcription.

Subverting the Process The FDA has cleared almost 30 anti-HIV drugs, each of which aims to block one or another of the processes that lead to infected T-cells' production of new HIV viruses. So far, only one entry inhibitor (also known as a fusion inhibitor), the type of drug developed to prevent the HIV virus from binding to T-cell receptors, is on the market.

Samaritan's SP-01A is an entry inhibitor, a type of anti-HIV drug that is believed likely to benefit HIV-positive patients who have developed resistance to or have not benefited from the anti-HIV drugs already on the market. Entry inhibitors attach themselves to the surface of either the HIV virus or the T-cell. If they are able to block certain proteins on the either the virus or the T-cell, binding cannot take place. Although the Trimeris/Hoffman-La-Roche drug Fuzeon® is the only entry inhibitor on the market, others are being developed by Pfizer, Schering-Plough and Tanox.

Several drugs on the market are designed to prevent reverse transcription, the process by which the virus makes a DNA copy of its RNA; these are nucleoside/nucleotide and non-nucleoside reverse transcriptase inhibitors. Another class of anti-HIV drugs, protease inhibitors, can prevent the of HIV viruses by infected T-cells. In practice, protease inhibitors, NRTIs and NNRTIs are each used in combination with two other anti-HIV drugs to improve drug therapy's chances of preventing replication of the HIV virus.

	US Approved Anti-HIV Drugs			
	Protease Inhibitors	Entry Inhibitors	NRTIs	NNRTIs
Abbott Laboratories	2			
Boehringer Ingelheim	1			1
Bristol-Myers Squibb	1		4 ⁽¹⁾	2 ⁽¹⁾
Gilead Sciences			3	
GlaxoSmithkline	2		6	
Hoffman La Roche	1	1 ⁽²⁾	1	
Merck	1			
Pfizer	1			1
Tibotec	1			
Total	10	1	10	2

⁽¹⁾ One developed jointly with Gilead Sciences ⁽²⁾ developed jointly with Trimedia

Source: aidsmeds.com

SP-01A Clinical Trials

In a continuation, or second segment, of the monotherapy trial, SP0-1A is being evaluated in a multi-center, double-blind, placebo controlled study of HIV-positive patients who have shown resistance to currently available anti-HIV drug therapy. 60 patients divided into four groups, one of them a (placebo) control group, will be evaluated in a 28-day study, during which the patients' viral load and general health will be evaluated at five intervals. On the 43rd day, patients will receive a post study evaluation.

The primary endpoint of the study is reduction in viral load as measured during the first 22 days of treatment vs. viral load at the end of the treatment period. The secondary endpoint is reduction in viral load compared across the three treatment groups, each of which will be administered a different dose of SP0-1A. On June 15, 2006, the company announced that 21 patients had been enrolled in this study. Enrollment is ongoing and we believe that by now, more than half of targeted patient sample of 60 has been enrolled. Management believes that enrollment will be completed in October 2006.

In June 2006, announced plans to initiate a European phase III clinical trial evaluating SP-01A as a treatment for patients whose anti-HIV drug treatments had failed, leaving them no options. When this trial, which is scheduled to begin before the US 60-patient monotherapy study is concluded, the company hopes to accelerate development of SP-01A. The European double-blind trial will enroll 411 patients of whom 137 will be randomized to a control group which will receive a placebo plus "optimized background" of approved anti-viral therapy. The treatment arm patients will be given 800mg of SP-01A plus the same anti-viral therapy administered to the control group. The trial's primary endpoint will be mean change after 24 weeks in HIV RNA viral load in SP-01A-treated patients in the treatment group vs. patients in the control group.

Market Opportunity

Samaritan's growth potential rests mainly on SP-01A, for which there could be a substantial, well-defined market where entry inhibitors do not yet have much of a market presence. A report by the Population Reference Bureau (Washington DC) placed the number of HIV-positive cases worldwide at around 39 million, of which 1.3 million were in the US.

Estimates of the worldwide market for anti-HIV drugs range from \$3.5 billion to \$5.0 billion. As there is only one entry inhibitor with regulatory approval, the current market for this type of anti-HIV drug is defined by sales of Fuzeon. An earnings release by Trimeris, the developer of the entry inhibitor Fuzeon, reported worldwide Fuzeon revenue of \$55 million (half of that in the US), up 31% year-on-year, for the quarter ending March 31, 2006. That figure suggests that Fuzeon's run rate is well over \$200 million and rising, a rough estimate of the size of the entry inhibitor market segment that SP-01A would very likely compete in.

According to the Alzheimer's Association, a Chicago-based advocacy group, there are an estimated 4.5 million Americans with Alzheimer's disease, a figure that could range as high as 16 million by 2050. The annual US cost of Alzheimer's disease is estimated at \$100 billion, including healthcare costs and the productivity lost by persons who serve as caregivers to Alzheimer's patients. Espicom Business Intelligence, a private research organization, estimates worldwide Alzheimer's drugs sales at \$3 billion, roughly 50% of that in the US. Despite the size of the market, medical opinion on the effectiveness of currently approved Alzheimer's drugs is mixed, suggesting that there is ample revenue potential for new drugs that demonstrate their effectiveness.

Competition

SP-01A, if commercialized, would compete within the broad market for anti-HIV drugs. However, its direct competition is likely to be other entry inhibitors on the market at the time of its launch. Fuzeon, produced by Trimeris and marketed by Hoffman-La-Roche outside of North America, is presently the only entry inhibitor approved in the US. It was launched in the US in 2003. However, there are others being developed by, among

others, Pfizer, Schering Plough and Tanox, so the field could become much more competitive by the time SP-01A is approved by the FDA.

As our table on US-approved anti-HIV drugs shows, their distribution is largely controlled by the large pharmaceutical firms. To secure adequate distribution for SP-01A, it is likely that Samaritan will have to establish a partnership with a large firm in the same way that Trimeris has with Hoffman-La-Roche. If SP-01A is approved by the FDA and secures a distribution channel, it may be able to partly offset Fuzeon's first-to-market advantage in the entry inhibitor segment, possibly through competitive pricing (Fuzeon is priced at roughly \$20,000 for a year's supply) and more convenient dosing. SP-01A, administered twice daily, is more convenient than Fuzeon's twice-daily injections. Also, SP-01A involves no dietary restrictions and can be taken at anytime during the day.

According to Trimeris, Fuzeon, like most anti-HIV drugs, is taken in combination with two other drugs. Fuzeon was one of the anti-HIV drugs administered together with Johnson & Johnson's PREZISTA, which received accelerated approval from the FDA in June, 2006. PREZISTA is indicated for previously treated (with protease inhibitors, NRTIs and NNRTIs) adult patients infected with HIV strains that are apparently resistant to certain HIV drugs. Two trials evaluated PREZISTA in combination with other anti-HIV drugs in the treatment of patients who exhibited HIV-1 replication despite ongoing treatment with anti-HIV drugs.

Trimeris takes credit for Fuzeon's role, in combination with PREZISTA, in reducing viral loads in treatment-experienced patients and believes that the PREZISTA trial results will enhance the uptake of Fuzeon. If SP-01A is launched, it could benefit from the expanded role that Fuzeon hopes to play in antiretroviral treatment. If proven effective in clinical trials, SP-01A could potentially, on the basis of more convenient dosing, be able to compete with Fuzeon provided Samaritan has a strong marketing collaborator in the pharmaceutical industry.

Potential Intervening Technology On August 21, 2006, the Wall Street Journal cited studies published in the journals Nature and Nature Medicine which discussed preliminary testing of the PD-1 molecule, which can interact with another molecule to affect "killer" T-cells, also known as CD8 cells, such that they become dysfunctional and secrete much less of the cytokines that combat the HIV virus. Experiments with an antibody that blocked the interaction between PD-1 and its partner molecule demonstrated that the T-cells can revive and resume production of the cytokines, potentially reversing HIV virus activity. Studies also show that the PD-1 molecule acts on the CD4 molecule, the "helper" T cell that leads the attack on the HIV virus.

An antibody that blocks the interaction of the PD-1 with a partner molecule could potentially revive the immune system and enable it to effectively combat HIV. An experimental antibody that might achieve this is being developed by Medarex, Inc. and Ono Pharmaceutical Co. (Japan). If this antibody proves effective and is commercialized, it might make the HIV drugs currently in use obsolete.

Risks

In our view, these are the principal risks underlying the stock:

Regulatory None of the company's pipeline products have been cleared for marketing. Anti-HIV drugs as a class are relatively well established so trial protocols and regulatory review requirements are well understood. The company's lead product, SP-01A has progressed through small-scale clinical trials and preliminary results have been encouraging but so far inconclusive.

Intervening Technology The experimental antibody being developed by Medarex and Ono Pharmaceutical, which could potentially revive immune systems compromised by the HIV virus, might obviate the need for many of the HIV drugs currently on the market or in development.

Continuing losses The company has yet to show a profit and anticipated commercialization timelines suggest that profitability (and positive cash flow) is out of reach in the near term. Operating losses drained cash by \$3 million

in 2004 and \$5 million in 2005. By our estimates, “cash burn” for 2006 will exceed \$6 million. From its inception through 2Q06, Samaritan has incurred losses of \$34 million and burned cash of \$21 million. During the same period, the company has been funded with \$19 million in proceeds from equity financing. If the promise of commercialization of major pipeline products dims, fresh financing might prove difficult to obtain and the company could face solvency problems.

Dilution In the three and a half years through 2Q06, the company has issued more than 57 million common shares in connection with equity financing, adding, in combination with shares issued as options were exercised and in connection with share-based compensation, significantly to the 65 million shares outstanding at the end of 2003. As additional equity financing is obtained, there will be further dilution.

Restrictions on Major Financing Source The company presently has no commitments for continued investments or underwriting other than the agreement with Fusion Capital. The availability of equity financing from Fusion is currently capped at \$40 million over a 50-month period beginning May 2005. By our projections, if the company draws down on that available equity financing to the extent necessary to fund operations and maintain a certain level of cash, the Fusion equity financing through 2007 should be ample.

Competition The large pharmaceutical companies dominate the anti-HIV market. Two large firms, Pfizer and Schering Plough are also developing anti-HIV fusion inhibitors. Their larger R&D budgets and more far-reaching distribution capability could pose a threat to SP-01A’s commercialization and acceptance. In the market segment for fusion inhibitors, only Trimeris’ Fuzeon has been commercialized, leaving some potential for other fusion inhibitors that may be launched.

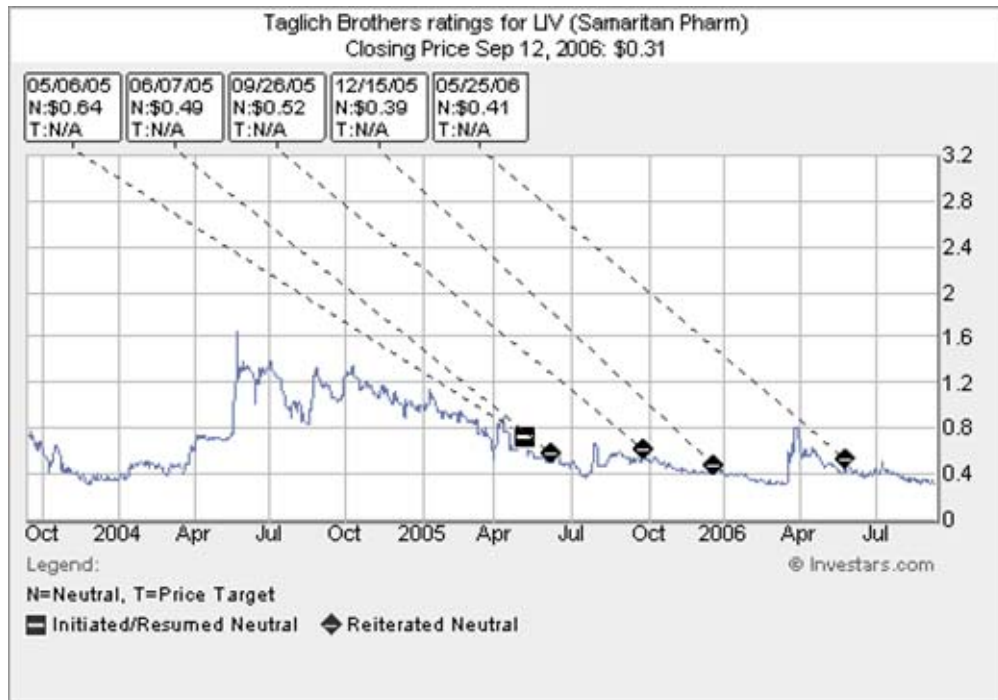
Microcap Concerns Shares of LIV have risks common to the stocks of other microcap (which we define as market capitalizations of \$250 mil or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The Company has approximately 132 million shares in the float. On average, approximately 312,100 shares are traded daily.

Federal Reserve/FOMC Prior to August 8, 2006, when the Federal Reserve decided to hold the Discount Rate and its target rate for Fed Funds unchanged, the Fed had raised those rates 17 times since mid-2004. To the extent that further rate increases may lie ahead, equity valuations, particularly those of smaller capitalization stock, could suffer.

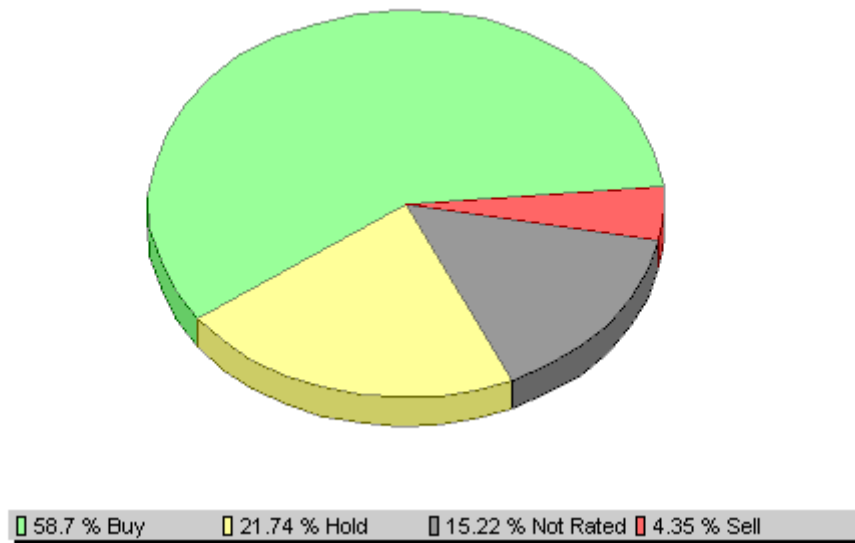
Miscellaneous Risks The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected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

Investment Recommendation

We remain Neutral on Samaritan Pharmaceuticals. SP-01A clinical trial results have been encouraging but limited. As there is only one fusion inhibitor cleared for US marketing at the moment, SP-01A, if commercialized could be a competitive product. However, the product has to clear hurdles in larger, more rigorous studies before it can file for FDA approval. Until, based on substantive indications of efficacy and potential for successful commercialization of Samaritan’s lead product and, preferably, the Alzheimer’s disease therapy, we will be neutral on the stock.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.57%
Hold	0	0
Sell	0	0
Not Rated	1	6.67%

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.

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)	Merck	(NYSE: MRK)
Bristol Myers Squibb	(NYSE: BMY)	Ono Pharmaceutical	(Nasdaq OPHLF.PK)
Gilead Sciences	(NasdaqGS: GILD)	Pfizer	(NYSE: PFE)
GlaxoSmithKline	(NYSE: GSK)	Roche	(Nasdaq: RHHBY.PK)
Intermune	(Nasdaq: ITMN)	Schering-Plough	(NYSE: SGP)
Johnson & Johnson	(NYSE: JNJ)	Tanox	(Nasdaq: TNOX)
Medarex	(Nasdaq: MEDX)	Trimeris	(Nasdaq: TRMS)

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I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this 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 this report.

Samaritan Pharmaceuticals, Inc.
Quarterly Income Statements
2006 – 2007E
(\$ Thousands, Except Per Share Amounts)

	2	0	0	6	2006E	2	0	0	7	2007E
	1QA	2QA	3QE	4QE	2006E	1QE	2QE	3QE	4QE	2007E
Revenues										
Consulting										
Government research grants	21.8				21.8					
Total	21.8				21.8					
Expenses										
Research and development	589.2	1,510.5	1,100.0	900.0	4,099.7	1,000.0	1,100.0	1,250.0	1,250.0	4,600.0
General and administrative	597.1	719.6	653.4	535.6	2,505.7	600.0	625.0	625.0	650.0	2,500.0
Depreciation and amortization	34.8	35.0	27.1	27.5	124.4	26.9	27.3	27.7	28.1	109.9
Total	1,221.1	2,265.1	1,780.5	1,463.1	6,729.9	1,626.9	1,752.3	1,902.7	1,928.1	7,209.9
Operating loss	(1,199.4)	(2,265.1)	(1,780.5)	(1,463.1)	(6,708.1)	(1,626.9)	(1,752.3)	(1,902.7)	(1,928.1)	(7,209.9)
Other income (loss):										
Interest, net	9.0	7.6	12.4	11.7	40.6	7.7	5.7	8.6	9.9	31.9
Other income (exp)	(3.2)	0.0	0.0	0.0	(3.2)	0.0	0.0	0.0	0.0	0.0
Unrealized gain - marketable securities	3.9	0.0	0.0	0.0	3.9	0.0	0.0	0.0	0.0	0.0
Foreign translation adjustment	0.1	43.6	0.0	0.0	43.7	0.0	0.0	0.0	0.0	0.0
Total	9.8	51.2	12.4	11.7	85.1	7.7	5.7	8.6	9.9	31.9
Net loss	(1,189.5)	(2,213.9)	(1,768.1)	(1,451.4)	(6,622.9)	(1,619.1)	(1,746.6)	(1,894.1)	(1,918.2)	(7,178.0)
Loss per share, basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)	(0.05)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Avg shares out - basic & diluted outstanding:	137,247	143,533	148,371	153,210	145,590	158,049	164,500	170,952	174,178	166,920

Source: Company reports & Taglich Brothers estimates

Samaritan Pharmaceuticals, Inc.
Annual Income Statements
(\$ 000)
2004 – 2007E

	<u>2004A</u>	<u>2005A</u>	<u>2006E</u>	<u>2007E</u>
Revenues				
Consulting				
Government research grants		256.8	21.8	
Total		256.8	21.8	
Expenses				
Research and development	1,543.9	3,456.3	4,099.7	4,600.0
General and administrative	3,561.3	2,320.0	2,505.7	2,500.0
Depreciation and amortization	27.2	98.1	124.4	109.9
Total	5,132.4	5,874.4	6,729.9	7,209.9
Operating loss	(5,132.4)	(5,617.6)	(6,708.1)	(7,209.9)
Other income (loss):				
Interest, net	(36.7)	(60.0)	40.6	31.9
Other income	231.4	0.0	(3.2)	
Unrealized gain - marketable securities	(16.6)	12.6	3.9	
Foreign translation adjustment		(20.5)	43.7	
Total	214.8	(7.9)	85.1	31.9
Net loss	(4,917.7)	(5,625.5)	(6,622.9)	(7,178.0)
Loss per share, basic and diluted	(0.04)	(0.04)	(0.05)	(0.04)
Avg shares out - basic & diluted	124,483	134,561	145,590	166,920

Source: Company reports & Taglich Brothers estimates

Samaritan Pharmaceuticals, Inc.
Balance Sheets
(\$ 000)
2004 – 2007E

Assets	FY2004A	FY2005A	2Q06A	FY2006E	FY2007E
Current assets					
Cash and cash equivalents	2,438	456	1,679	1,722	1,359
Grant receivable	0	51			
Marketable securities	1,491	496			
Note receivable	0	250	250	250	250
Interest receivable	23	43	56	34	36
Prepaid expenses	53	11	29	44	58
Total	4,006	1,307	2,013	2,049	1,703
Fixed assets	37	207	169	175	153
Other assets					
Patent registration costs	430	701	716	695	656
Purchased technology rights	31	20	15	9	0
Marketable securities	493				
Note receivable	250				
Organization costs - Samaritan Europe			4		
Deposits	3	3	3	3	3
Total	1,206	724	737	707	659
Total assets	5,249	2,237	2,918	2,931	2,515
Liabilities & shareholders' equity					
Current liabilities					
Accounts payable	148	268	140	219	289
Accrued officers' salaries	22	248	402	400	400
Common stock to be issued		46			
Total	170	562	542	619	689
Shareholders' equity	5,079	1,675	2,376	2,312	1,826
Total liabilities & shareholders' equity	5,249	2,237	2,918	2,931	2,515
Quick ratio	23.1	1.7	3.1	2.8	2.0
Current ratio	23.5	2.3	3.7	3.3	2.5

Source: Company reports & Taglich Brothers estimates

Samaritan Pharmaceuticals, Inc.
Cash Flow Statements
(\$ 000)
2004 – 2007E

	<u>FY2004A</u>	<u>FY2005A</u>	<u>2Q06A</u>	<u>FY2006E</u>	<u>FY2007E</u>
Cash flows from operating activities					
Net loss	(4,864.4)	(5,557.6)	(2,213.9)	(6,622.9)	(7,178.0)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	27.2	98.1	35.0	124.4	109.9
Stock based compensation	1,246.1	69.2			
Stock options issued for services	567.8	65.1	(12.1)	30.0	60.0
Amortization - deferred comp	240.0	392.4	7.4	106.0	132.0
Foreign currency loss		(20.5)	43.6		
Other income	(231.4)	0.0	0.0		
Net change in working capital	(273.2)	317.4	(1.3)	130.7	53.9
Net cash used in operating activities	(3,287.9)	(4,635.9)	(2,141.3)	(6,184.9)	(6,822.3)
Cash flows from investing activities					
Purchase of technology					
Purchase of furniture and equipment	(17.3)	(222.5)	(1.7)	(23.8)	(40.0)
Organization costs - Samaritan Europe			0.4	(4.2)	
Note receivable	(250.0)	0.0			
(Purchase) liquidation of marketable securities	(2,000.0)	1,500.0	0.0	496.8	
Patent registration costs	(227.9)	(305.0)	(34.6)	(36.6)	
Net cash used in/provided by operating activities	(2,495.2)	972.5	(35.9)	432.1	(40.0)
Cash flows from financing activities					
Proceeds from warrants/options	450.0	31.5	64.5	64.5	
Proceeds from debentures	0.0	0.0			
Proceeds from stock issued for cash	4,300.9	0.0		3,000.0	6,500.0
Proceeds from equity financing	3,100.0	1,603.7	980.0	2,308.5	
Common stock to be issued		46.3	345.0	1,645.0	
Short-term loan repayments		0.0			
Short-term loan proceeds		0.0			
Net cash used in/provided by financing activities	7,850.9	1,681.5	1,389.5	7,018.0	6,500.0
Change in cash	2,067.9	(1,982.0)	(787.7)	1,265.3	(362.3)
Cash - beginning	370.6	2,438.5	2,514.2	456.5	1,721.7
Cash - end	2,438.5	456.5	1,726.4	1,721.7	1,359.4

Source: Company reports & Taglich Brothers estimates