FINAL TRANSCRIPT

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Event Transcript

**RC - RedChip at CCBN Virtual Healthcare Conference: Co-sponsored by Lippert/Heilshorn & Associates and RedChip Partners

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PRESENTATION

Jim Flanagan - *IR Strategic Advisors - President*

Welcome to the CCBN Virtual Healthcare conference co-sponsored by Lippert Heilshorn & Associates and Registered Partners. My name is Jim Flanagan and I am President of IR Strategic Advisors, a Boston area investor relations and public relations communications firm.

I am also a member of CCBN's advisory board and I'll be serving as your moderator for this Virtual Healthcare conference. For our live Web cast participants today, you may submit a question at any time by simply typing your query into the question field that you'll find in the lower left hand side of the Web cast player.

I'll present these questions during the Q&A at the end of each company's prepared remarks and should we have more questions than time allows, please be assured that we will forward all questions to the individual and company for them to respond to directly. The following presentation is by RedChip Partners.

RedChip Companies, LLC. is a well-established source of independent research and information on the small cap market. Dedicated to discovering tomorrow's blue chips today, it's analysts seek out up and coming and undiscovered small cap companies before they show up on Wall Street's radar screen.

Through RedChip review, the company's flagship (ph) publication, analysts provide a unique breadth of coverage and depth of research on relatively unknown small cap companies. RedChip Partners provides small cap companies with access to professional and individual small cap investors by holding conferences throughout the United States and producing corporate visibility programs.

Representing RedChip Partners today is Christie Guay, Vice President and Director of Research. Kristi is an experienced small cap bio-technology analyst who began her career on the buy side at Safeco Asset Management in Seattle. She was most recently the life science analyst at ICM Asset Management, Inc.

As director of research at RedChip Companies, L.L.C., Kristi is responsible for managing the research process and overseeing a team of eight equity analysts. A graduate of the University of Washington, she holds Bachelor's Degrees in geography and political science as well as a Master's in business administration.

Welcome, and Kristi, thank you for participating with us today and you may begin your presentation.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Thank you Jim and thank all of you for being with us today. RedChip is very pleased to be part of today's events and to be bringing our client companies to you throughout the balance of today. We think these companies have a very exciting story to share with you and some compelling market opportunities.

I'm very pleased to be here today to talk about investing the small cap healthcare space. We believe that healthcare is a great place to be and in a stock picker's market such as the one we find ourselves in currently, we think there are ample opportunities for sizable returns if investors can find a winning combination of opportunity and risk mitigations.

By way of introduction, I have been a healthcare analyst since the mid '90s, primarily on the buy side, that's focused primarily on the bio-tech drug delivery and specialty pharmaceutical phases, but have also done work in medical devices and healthcare services sectors. My entire career, both buy side and sell side, has been in small caps.

I continue to believe that small caps offer the most opportunity in today's market. I believe that's double true for small cap healthcare, because I believe much of the innovating in the healthcare industry is done by newer, smaller companies. Given that, I'm looking forward to talking to you today about small cap healthcare investing where we at RedChip think the big opportunities are in the future. As with all of the companies you're hearing from today, I also have to start with a number of disclosures pertaining to both RedChip Partners and RedChip Review, our independent research firm.

During this discussion, I may use specific companies as examples of things that have happened historically in the market. I'm neither discussing the company's historical results or stock prices nor am I making recommendations on these stocks for purchase or sale at the current price. Additionally, if I talk about a stock that RedChip is involved in either through the coverage as the Review or by working with RedChip Partners, I'll mentioned that fact.

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And as always, if I discuss a stock that I or someone in my household owns, I will disclose -- excuse me, I will disclose that as well. With that said, I'd like to start with a bit of historical perspective because I believe that history at least in this case will repeat itself whether or not we learn from it. So we might as well learn from it and try to use that knowledge in the future. I think there are four factors from history that are still relevant in today's market.

They are (1) boom bust cycles, a history of promising technologies, but poor timing in the market, large market opportunities and a vast unexplored frontier and great returns for patients and careful investors. Starting with the boom bust cycles. The healthcare sector follows a fairly volatile cycle and the small caps seem even more prone to both the cyclical and volatile nature of the market.

While this is true for the market at large, I think the healthcare cycles are driven by a number of identifiable market effects. If investors can recognize them and capitalize on them, there's a better chance for improved returns. The first effect is simply that stock prices and their demand supply curves. As companies start to do really interesting things, people hear about it.

The idea gets popular and the stocks trade up, not necessarily due to in-trended (ph) value, but because everybody wants a piece of the new hot thing. This is especially true with small caps where there may be a smaller float and it's harder to get the stock. This feeds into the second identifiable factor, promising technology and poor timing, which I'll discuss in a minute.

But before the timing issue comes into play, the demand has pushed up stock price until the company market cap is greater than the total market value for the product they're producing or trying to produce. Sooner or later investors start to notice that and take profits. If you can recognize it first, you can trade out at the top or possibly shorted on the way down.

One of my mentors has always had a hard and fast rule, that you never pay more for a company than their total market worth. It's not earth shattering advice, but it doesn't hurt to remind yourself of that rule when in the midst of the bubble, especially it was true during the 1999 and 2000 bubble. The second effect in the boom bust cycle is that investors, by and large, are very unforgiving of missteps and failures.

The small cap healthcare companies have so many opportunities to sell (ph), between drug discoveries, FDA trials, financial results, that when coupled with less liquidity, stock prices can be extremely volatile. Additionally, when products fail in trials, investors tend to feel burned and so the company knew what was going on but didn't disclose it. There are cases of that manipulation. I believe that those are truly rare however.

More often, the company is just as surprised to see investors However, when the investors feel as sense of betrayal, they tend to trade out of that stock, sometimes out of the entire sector and it's a long time before they're willing to venture back into names that have burned them before. For small caps, this can be more devastating because they don't have as many products over which to diversify the risk.

When the failures increase the time to revenues and profitability, obviously the net present value of the longer-term cash flows make the company less valuable. This is even true when the failure is not the only product, but is a product that is considered to be the value driver of the company. This happened to Bio Jets (ph) last year.

Bio Jets' (ph) a partner's client and we cover it in the RedChip review. They have a technology that's on the market and is generating modest revenue but the project that was expected to drive their profitability was suddenly dropped by their partner, resulting in a precipitous sell off in their stock. Bio Jet (ph) is by no means alone. Many companies have been the victims of failures and the resulting drastic sell off. For those of you who were around the healthcare in the late '90s, Dura Pharmaceuticals (ph) was another example.

Their drug device combo failed in late stage trials, costing a drastic sell off. There are hundreds of others. Probably each of you can name at least one company that was in your portfolio when the disappointment came and I suspect only a fraction of you ever traded back into that name. Third, and this follows from the failures discussion, is that small caps tend to have fewer products in the pipeline and certainly fewer late stage products.

So if one fails, rarely is there another to take its place and push profitability in a similar timeframe. If you find a company that has a couple or even several products at a similar stage, it may be worth a second look, especially if it's a late stage just because it offers greater diversification. The final factor in the boom bust cycle is the dependence on capital markets. This factor tends to magnify the cycle.

As the cycle peaks and starts to drop, these companies have to tap capital markets during a downturn and are more likely to drop even faster as investors realize there's an additional level of risk. As they drop faster, the cycle is amplified, the boom bust

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comes even faster and the need for capital increases the risk perpetuating the downward cycle. Watch for these factors.

They will in no way allow you to time the market but if you recognize some of the signs, then they help you get out before the cooling off period turns brutally cold. And again, small caps stocks are more susceptible to these cycles than our larger brethren and the cycles tend to be more frequent. Obviously these cycles are also a reaction to large cap markets and other fundamental and technical factors as well, but these are some points to look for.

The second key historical factor is that healthcare companies, especially biotech and device companies, promise a lot. Or perhaps it's more correct to say that the popular press tends to promise a lot, but actual events (inaudible) the technologies tends to take longer than the uninitiated expect. While many of the promising technologies tend to finally deliver, it's usually in the timeframe much longer than those investors expect at the front end.

The most recent example of this was the fervor over (inaudible) of the human gene (ph) in the late '99 and 2000, when stock prices of companies involved in patent energy (ph) and they discovered were sky high. Yet still now, at the end of 2002, while there's great promise, there are few if any revenue strands coming from the therapies using those technologies.

I have no doubt that there will be monotized (ph) results from that technology, but it will come in a timeframe longer than those investors and especially those that bought at the top were expecting. Monocle antibodies are another example. There was a great deal of interest in the early 1990s and only now is that technology starting to show financial results. From the investors that bought in, in the late '80s and early '90s near the top, they are full of benefit.

For those that waited until just a few years ago, there will be huge near term upside. I'll talk later about what disease stage and technologies I think are right for the next timing mistake. The third key historical factor is simply the expo-national (ph) growth of knowledge. While the first two factors were cautionary, I believe the unexplored frontiers of science, while true previously, and even more true today, it's a positive factor and one that should encourage you to stay in the sector as an investor.

For every new technology that's developed, there are hundreds more out there waiting, not just waiting, but also waiting for the technologies that will enable them to be discovered and for those technologies to be discovered. Scientist building blocks. It's an old clich but nonetheless true. Just like my first grader who must first learn to add, then to multiply. He can't tackle quantum physics until he has some building blocks on the simple pieces.

As you look at new technology, it's key to think about not only the opportunities that are directly related, but also think about the things that become possible because that technology allowed the next step to be discovered. For most investors, this is academic because the long timeframes make it impossible to invest early and wait for a 10 or a 15 or a 20 or payoff.

But it's important to keep an eye out for new technologies that may make the product you're putting your retirement money into obsolete. Similarly (ph), as diseases are cured, new diseases, bugs, viruses, other complications will arise. This too is a building block problem. There's no question in my mind that there will always be something new for science to cure.

One hundred years ago, science was fighting polio, smallpox, other diseases that are virtually non-existent now. In the meantime, we're now fighting things that weren't even identified then, either because they didn't exist, because no one lived long enough to feel the effects of them, or because there wasn't a critical mass of patients. Again, as we cure what we now face, there will be other issues and problems.

As effective as we are at finding new technologies, so nature is effective at finding us targets to fight. One of the recent hypotheses to the origination of the AIDS virus is that at least in recent history, it always existed. It simply wasn't identified until individuals who came from affected areas of Africa began to live in conditions where it was easily transmitted.

From being an unknown disease from rural Africa to being a worldwide epidemic in just less than 40 years makes me wonder what else may be out there to challenge science. However morbid that thought might be, as healthcare investors, these preceding factors offer huge opportunities long term for investors that can identify factors that make the sector attractive and make products and companies successful long term.

Which brings us to the current market conditions and why we feel that the healthcare sector and especially the small cap healthcare sector is so attractive. First and foremost, it's because the sector has been so badly beat up in the last year and a half. While I believe many of the larger companies really did need an adjustment to their market caps, many of the small caps just got caught up on a crunch.

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Their valuations were crushed not because they were selling at ridiculous multiples or valuations, but because skittish investors were fully in the sector altogether. These small caps were the baby that was thrown out with the bath water. Granted, there were some that had the valuation coming, but they were relatively few and most of the drops in share prices were overdone, even for the companies that needed some tempering of investor sentiment.

I want to start with the filing (ph) negative aspects of the market because the positives really outweigh them, but there are some cautionary statements I would make to interested investors. First, disease states are more and more complicated. That means they're by and large more complicated to treat. The body's systems are more entwined in the diseased states that are current targets, mostly because the easy stuff has really already been cured.

This could result in unexpected side effects and problems, treatments that work only for certain sets of patient populations, things like that. While it's always been true, the next factor, the FDA attitude, can make it more difficult to get approval for certain sets of patients. Which brings us to the FDA. While investors tend to think of the FDA as an advisory and as an adversary to healthcare companies, something on the order of the IRS, the reality is that the FDA is required to walk a fine line at protecting patients, but still allowing promising drugs to do their jobs.

As a government agency, there are times when they get in their own way. An example of this is a company called Anesta (ph), which was acquired by Cephalone (ph) in October of 2000. Prior to the acquisition however, they had a drug, a teak (ph), that went into the FDA for approval. It was delayed as a change in FDA personnel required a new staff member to get up to date on what was going on. The approval did occur, but it came more than a year later than expected.

Perhaps there was more to the story than just a bureaucratic hassle, but clearly that was part of the issue. The FDA will continue to deny privileged products that Wall Street thinks are shoo ins (ph). That's no different than any historical results we've seen. However, especially with high profile cases such as (inaudible) on everyone's mind, those non-approval letters will be more prominent than in the past.

Additionally, there's currently a lack of venture funding. As the market drops, there are fewer and fewer investors willing to put up long-term, high risk money that is required for OHS financing of these companies. Many of the venture funds that were pouring money into early stage discoveries have closed out or stopped lending. The market is not rewarding early stage IPOs (ph) if you can even get one out and early stage companies that are public are trading at fresh low market caps. Management, by and large, are unwilling to raise money at that level of dilution.

Additionally, we're hearing it anecdotally that because of the economy and coarse (ph) buying drops in profits that there's less money available from larger drug or biotech firms for early stage investing. At this stage, we also did not recommend investing in early stage companies simply because the risk adjustment returns continue to be lackluster and the market really isn't supporting it.

With no hot opportunities on the horizon for early stage companies that need money, there's a real danger that some of these technologies will fall by the wayside. While eventually pieces of those technologies will be picked up by other companies that need them, the bigger concern is that five years down the road, the industry will have a fairly slim pipeline because no investment is still in the early end of that pipeline currently.

As the trend continues, there will be a lot of consolidation and scrambling by viable companies in four-to-five years to buy either other companies or other technologies and demand will be high for companies and products that can augment thin pipelines. Finally, in the vein of caution, I'll reiterate what I've already said. The market is unforgiving of missteps.

This is truer today than ever as investors are already gun shy and willing to believe the worst in company management, (inaudible) analysts and anyone else they believe is guilty of lying or misleading them. We're seeing even now small or immaterial blips causing large sell offs. This will mitigate when investor confidence returns, but we don't look for that in time in the near term.

Therefore, any missteps will cause volatility and generally a larger (inaudible) it can sell off. The next slide is a continuation of current market conditions, but with a more positive spin. And really, the same factors only presented in a way that acknowledges the opportunities. They are really the other side of the risks. The only factor I want to reiterate is it's a stock picker's market. That's true all the time.

You have to pick your winners, but I think it's particularly true with the current volatility. And although this might be overstating, the irrationality in a market that comes from the investors' lack of confidence. There are a number of small cap

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healthcare companies out there that are poised to do great things and make a lot of money. If you can find those, they'll survive the risks inherent within a sector and the current market conditions.

The environment that made healthcare an interesting sector in the late '1990s really hasn't changed. We think many of the factors that were in play there are still valid, making the sector even more interesting now at lower valuations. The first of those is in the demographics. It's commonly known that the aging population will drive demand for health services and products.

The ability for providers to meet these demands in a cost-effective way is really pushing new technologies, both in treatments and in back office areas. Additionally, with the aging of baby boomers, for the first time, there's really a vocal group of well informed patients expecting top care. As more and more people demand more and more expensive procedures, the industry will have to adapt and brace new technologies and new treatment paradines (ph).

This is great news for service companies and other providers of streamlining technologies. It is a danger for service providers such as hospitals which will be squeezed between demanding patients and thinning margins. The second is the number of drugs in trial currently. The last figure I saw, which I'm sure is old, is that there were more than 350 therapies in trials for cancer alone.

When you consider new chemical entities, bio-therapies, improvement on previously approved drugs, et cetera, there are hundreds of candidates in clinical trials currently. With that level of activity, there's a huge opportunity in the space. Finally, the chronic treatment of diseases that previously were considered either terrible or fatal. There's really a new space for treatments to be used long-term.

Five-to-ten years ago, and in some cases only a couple of years ago, clinical trials were designed to show a cure rate. This is especially true in cancer. Treatments have evolved now however to the point that end points of many cancer trials is the arresting of progression of the disease. Both the medical community and the FDA are beginning to realize that diseases as dire as cancer can be treated chronically, allowing patients to survive with the disease but without significant erosion of quality of or length of life. This is a significant change and it's significant from an investor perspective for several reasons.

First, it opens the gate of new opportunities for drugs that can control diseases, even if they can't cure them, which leads to additional possible drug candidates, less likelihood that the drug will be denied approval because the cure rates are not high enough, even if the control rates are high. And because there's exponentially more hope that patients will find therapies that can help them, regardless of whether the cure them.

Again, on the next slides, are the risks that continue to be valid in today's market. There's nothing on this list that should come as a big surprise to any investor with interest in this market. Government intervention was a big scare in the 1990s, with Clinton's health-care initiative, and then with the overhanging question regarding Medicare and drug benefits. While this is an issue that's clearly been put on the back burner, it still lingers. And I believe it will again rare it's ugly head when it is politically advantageous for someone to bring up after the forefront. I don't think it's coming in, but I do believe they are not, by any means, finish with the issue. Investors should keep and eye out for rumblings to begin again. When it does return, I don't think it's going to hurt anyone stock in particular, as any policy will be much further reaching than that. But the threat of a new initiative will put a damper on most of the stocks in the industry. If you can time it right, it'd be a good time to take a hiatus from the sector. This will be another famous sell on the rumor, buy on the news, as the threat of any policy will undoubtedly have a worse effect on the sector than any actual action.

As we've talked before, there will continue to be limited early stage funding. For those of you who have money that is patient enough, risk tolerance enough and large enough to encompass a portfolio approach to health-care investing, some early stage investments will certainly pay off big, however, for the majority of investments that pick there companies carefully, and aren't as interested in waiting for five to ten years for a payoff, I recommend that you stay away from the early stage opportunities. Companies that are late into phase two trials, or more preferably companies in phase three trials, a most prudent for those investors. The current market is not really paying early and patient investors, often because of the reliance on capital markets. So there is little benefit in this environment in trying to get in on the ground floor.

Finally, there's always the risk of new technology hype. I talked about it before, and I think it'll be a factor going forward. Some other sectors I think will be vulnerable in the near future are stem-cell therapies and personalized medicine. I think aid vaccines would be a prime candidate right now, except for the fact that the current investing environment is keeping all exuberance out of the market. With stem cells and personalized medicines getting pressed currently, I think -- excuse me -- that, as interest grows, science in the trial process will have the

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difficulty keeping up with the expectations put out by the popular press.

Again, that's a generalization. Then maybe individual companies that beat the odds. Also, if you can spot that run up, there's certainly money to be made, if you know to get out in time.

So, given all that setup, and the frame within the environment, what do we really look for, when we're screening for attractive companies? The biggest thing is large market opportunities. We are really bullish on hepatitis C. right now and companies that are looking at that market. Companies such as SciClone (ph), which is a company we cover at the review. It's also a partner's client and it will be presenting this afternoon. They have a drug in phase three trials as an adjunct therapy for hepatitis C. we think it's very interesting and we think hepatitis C. will reach epidemic proportions. There are no good alternatives available, and any drug that can address that market should have a very good opportunity. We also the vaccine technologies are really interesting. Not necessarily traditional vaccines but cancer and other disease vaccines that enhance the body's ability to fight. We also like rheumatoid arthritis and asthma therapies, as they are larger in markets. And we think anything linked to diabetes and obesity, where the growth rates there have exponential (ph) possibilities.

Second, as a general rule, we like platforms over single drugs. A platform that can work with more than one drug, or in more than one indication, provides some measure of diversification. Additionally, it can leverage research and development dollars over more than one revenue opportunity, offering better margins.

Finally, as I mentioned before, we really tend to lean toward late stage opportunities. With the time to market and the risk of failures through the troll process, we think the risk-adjusted returns are more attractive in late stage, given the current depressed state of late stage company evaluations. What's not on the slide but it's also very attractive to us are, obviously, companies that have actual earnings. I haven't really touched on this yet, partly because so few small Health care stocks have earnings and cash flows. But in this market, those are really the stocks that are holding up the best. In this category, I've put most of the specialty and generic pharmaceutical companies -- Katie pharmaceuticals and Bentley, both of which we covered at the review, and other companies like them. They've really attracted niches, at least somewhat differentiated products and strong business franchises that produce cash -- enough cash to keep them independent of the capital markets.

Again, that held up really well in this market, so do your homework. If you think the market will continue to drop, these are probably could defensive move. If you think there'll be a turn, these stocks tend to be closer to fully valued than others in the sector, simply because they've held the value better, and rightly so, given their attributes.

Opportunistic investing. These are the attributes or events to look for as opportunistic entry points in beaten down health-care stocks. First, look for companies who have taken a hit to their stock price, the cause they took a short-term hit for long-term gain. Usually, this is a short-lived blip. It's well worth it in the long run. Additionally, it signals that management is looking for a bigger payoff in the long run versus a quick return that will cost big later. That's the kind of management you want to have your long-term money behind.

Second, look for companies that have stumbled and paid the price. Maybe they missed a quarter on earnings, maybe they're making changes that cause short-term slowdowns, but if the market sells off, it may be a good place to start. A caveat however. Whatever the blip was, be certain that it is finite problem that's easily identifiable and easily fixed. Additionally, make sure the fix is clearly transparent to the market. Unless investors can identify and prove to themselves the fix is done and over, the confidence won't return in time to make you any money.

The third bullet point is really the key to the first two. Take advantage of market overreactions. If a problem costs the company $2 million, and market cap drops 22 million in reaction, it's probably a good place for an opportunistic trade. Beware that the overreaction is just that -- a overreaction to a simple and transparent problem. If a problem is merely a symptom of something else, the sell-off could be warranted and you don't want to get caught in the stock. The market may not forgive in time for you to get out whole. If you're looking to capitalize on this, don't jump in if you don't have a sense of history with the company. The sell-off may be because it's a third or fourth small blip that's happened, not necessarily because it's an overreaction. History is key. It can bog you down but it can also save you.

Finally, if you're looking for great opportunities, I can't reiterate enough that this is -- that in this market, look for companies that won't need money in any time in the near future. Or, if they do, look for companies that have the option of signing a partner or some other supporter that can provide cash. Now is not the time to be dependent on public offerings.

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Given all the background, I'd like to move into specifics for each space. I want to start with the specialty pharmaceuticals, simply because they've done so well thus far. These companies tend to be profitable, cash flow positive, some paid dividends, they're hardy companies, weathering the downtrends well. In the spring of 2000, First Horizon Pharmaceuticals manage to get an IPO out as the market was melting down. I believe the IPO came out at around $8 and it appreciated almost 100 percent over that year. as the markets continue to decline, I think Bentley and KV pharmaceuticals, which I mentioned previously, have weathered the storm better than most companies in my coverage list, again, for the reasons stated previously.

If you're looking for a safe port in the storm, these companies are a great option. Choose your entry points carefully, as they've held up well, they've traded at high valuations than a lot of the health-care companies. Great for current owners but not as much a value play as in previous times for people looking for new entry points. Additionally, any company with a rich valuation has more at risk if they have a hiccup. The higher the valuation, the less forgiving the market is. The upside is that most of these companies are steady performance, rarely do they hiccup.

In the drug and biotech space, looking for therapies -- look for therapies that our patient centric. Easy to use, chronically prescribed, that have a compelling reason to be taken. Chronically prescribed treatments provide a revenue stream that's both constant and predictable. A nice trade in any company, but even better since it's so rare in this space. To that end, look for therapies that make it easy for the patient to comply with chronic treatment. Drugs with little to no side effects, that have easy dosing schedules, such as once a day versus three or four times a day, and that are easy to take. Transdermals, once a day pills, for example, versus injections or infusions. Additionally, a big key is that they're really necessary. Best is something that a patient can feel if they don't take it. Statins (ph), for example, one of the largest drug categories, and drugs that can produce -- patients from life and in heart problems. They have a very low instance of patient compliance. People don't like to take drugs of any type, by and large. The high cholesterol and heart problems don't hurt. There's no effect, there's no immediate feeling until the heart attack, so people, in the absence of feedback, tend to drop usage. Be sure that when you look at what seems to be a promising therapy, keep in mind that the patients are human and humans don't like to be inconvenienced, all held to something absolutely have to do.

Healthcare services. This term encompasses so many divergent companies. It's hard to distill down the key thesis for the sector. Leaving aside the drug distributors and hospitals or other providers, and focusing on technology and other providers of services to institutions, we think enabling technologies are really the key. Any company or technology that can increase the time providers spend with patients, and decrease the amount of time they spend on administrative duties will be a plus. Additionally, any technology that can provide institutions with ways to do what has to be done in a more cost-effective manner or less time is also benefit. Healthstream (ph), for example, is a company you'll hear this afternoon, and is a partner's client, provides hospitals with a more time efficient way to provide mandatory training to their workers. The training is required, it's not an option for the hospital, but the product allows it to be done at a lower cost and in less time and resources. As hospitals see their margins squeezed by higher demand and lower reimbursement rates, these types of technologies will be in great demand.

Another point to this is HEPA. HEPA was expected to drive technology sales amongst health-care providers because the new systems were going to be needed to meet the requirements of the Act. While that was true in some cases, this ended up being a health-care version of Y2K. While some providers found it useful to upgrade, fewer than expected actually did any significant wholesale buying. It's not clear that everyone has upgraded yet, but the demand for the new products and quantum leaps forward in the technology never occurred on the scale that many pundits expected. There may yet be demand to come out of HEPA, but I think the bulk of the opportunity there has passed.

Finally, the caveat to anyone new to this space. Health-care workers and institutions tend to be early adopters when it comes to therapies and new device technology. However, the health-care industry is notoriously slow to adapt and adopt new IT infrastructures, technologies or products. The new products are eventually adopted but it's far more of an evolution than of a wholesale change.

In medical device technologies we tend to look for companies with incremental improvements over existing technologies, primarily for two reasons. First, brand-new and radically different technologies are really do and far between. Second, when the new technologies do occur, the rate of adoption is rarely immediate because of training issues and current treatment paradigms. Sonasite (ph), by way of disclosure, they're a company we cover in the review. I personally own shares and our parent company owns more than one percent of the outstanding shares. Sonasite (ph) brought a new ultrasound machine to the market in the late '90s, with a large benefit of being able to take ultrasound to the patient rather than having to take all the

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patients to the radiology department. It's a huge benefit in time and cost. It's a great concept. I believe Sonasite (ph) will succeed greatly in this market. But after several years, they're still fighting to gain acceptance and growing market share. Changing a treatment paradigm is slow work. Often, the big winners in the space of the incremental improvements that draft up the evangelical work that's done by the first to market company.

Further, we really think boring technologies can be the most profitable. Diagnostics, for example, which can be part and parcel of devices, are a commonly overlooked sector. They're rarely upfront with the new sexy story but many of these companies, such as Meridian Biosciences, which we covered in the review, continue to put out large array of tests in other products. Many of these small companies are profitable, have easy to understand technologies, but the stories simply don't get pressed because they are generally new hot ideas. They're worth looking at for investors looking for medical companies with strong earnings.

The last thing I want to cover today is where we think the markets are really going, in terms of new technologies that will be the next hot thing. Some of these technologies are on the verge. Some are still a few years away, and therefore subject to the risks discussed previously. But they are the future of the industry, and will be the value generators over the next many years.

The first category is really pharmaco economics, or pharmaco genomics. One of the companies, Genoconce (ph) pharmaceuticals, the company that I've personally own shares in, Genoconce (ph) studies very abilities and responses to different drugs. It provides that information to the owners of the drugs, those pharmaceutical companies. For example, if a drug partners with Genoconce (ph) would review the genetic code of patients and identify genetic patterns of patients that would have adverse reactions to the drugs, or that might not respond to the drug. The owner of the drug would find this interesting because they can identify patients that won't respond. They can exclude those patients from trials, resulting in smaller, less costly trials. And would also result in a lower likelihood of failure in trials, due to statistically insignificant results. Companies that provide these kinds of benefits will -- can have unlimited partners, and they offer better product diversification. As margins are squeezed in the large drug companies, this will be a real benefit.

Second is genomics and gene therapy. I talked about that a little bit previously. This needs no introduction to anyone who is in the markets or, frankly, anywhere but in a cave in the late '90s or the early 2000. this burst of research will eventually produce some amazing technologies, although I think we're a decade away from monotizing (ph) it in those cases.

Aid vaccines. This is still one of the Holy Grail's of research. Most people, including many, believe it will be the only way to stop the current epidemic. However, as with all viruses, and even more so with this one, fighting smart bugs is difficult. Work is already being done on a number of vaccines. I expect setbacks on many fronts before we actually make these therapies work. When we do, it'll be interesting to see whether the profits follow the fame and glory that will surely arise. While the majority of patients are in the poorest parts of Africa, payments sufficient to cover years of failure may fail to materialize. However, with the threat to public health, there will be some payback. Personalized medicine is another new opportunity. There have been several attempts at this, many of which succeeded on a small-scale but which haven't really been unable to ramp up to major production. Technology continues to lag and it's really more the manufacturing process than anything else. Manufacturing processes for personalized batches is really not cost efficiently available yet. It will be, and I think as viable personalized therapies begin to show promise, money will flow to manufacturing technologies and that when money is available to fund it, it'll all come together.

Finally, stem cell research. There's been a lot of press on it. I think little will come out of it in the short-term, as this country and the world really assess the ethical and moral issues. The popular press has already heralded this as the cure all, but science has not yet shown whether or not it agrees. I would guess that this is still as far away as two decades, although it may be sooner, if technologies evolve that speed the process of development. It certainly holds promise, but we wait to be convinced that there's a way to monitize it any time in the foreseeable future.

So in summary, we really believe there's a great opportunity in the small Cap health-care space. And it's an ideal market to find an entry point. To reiterate our views, we look forward technologies that are easily adapted, show a recognizable benefit, whether three patients outcomes, reduced costs, lower risk, or better patient care. Look for technologies that address large markets with few alternatives. And, if possible, with chronic use. And if you look, beware of the timing issues regarding technology adoption and maturity.

Enjoy the rest of the presentations. There are a lot of companies presenting today that fit this criteria that have attractive valuation. Thank you very much.

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QUESTIONS AND ANSWERS

Jim Flanagan - *IR Strategic Advisors - President*

This is Jim Flanagan, the moderator. We'll now turn to the question and answer section. We thank you, Kristi, for a very interesting and insightful presentation.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Thank you, Jim.

Jim Flanagan - *IR Strategic Advisors - President*

I remind our live listeners participating today that you may submit a question at any time by simply typing your inquiry into the question field that you'll find in the lower left-hand side of the Web cast player. Kristi, the first question you identified, I think, for market segments, especially Pharma drugs and biotech health-care services -- a broad market there -- and medical device. Which sectors do you think is the most attractive for appreciation in the near-term?

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Well, I really think it's a stock pickers market more than a market that's going to support a sector wide rally in any of those. I think any companies that have late stage products that will translate into profitability in a relatively short term will do the best, along with companies that currently profitable. In terms of sectors, I still think that specialty pharmaceuticals will continue to do well. They tend to do well in volatile markets, but watch the valuations of any company's if you're looking to get in. Choose your entry points.

Jim Flanagan - *IR Strategic Advisors - President*

That's good advice. On the liquidity front, for small cap investors, we've seen an increase -- especially in those institutionally oriented small cap investors, the traditional people who are used to investing in small cap and microcap companies talk about the liquidity issue more so to date on the side of getting out of the market because of world events. You have any insights for our investors out there as far as how they should handle the liquidity issue and the investing in small cap companies?

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Well, I think the liquidity issue is really -- you know, it's true across the small cap sector at large in healthcare as well. My concern would be more if you're trading out now because of world events, I think with healthcare, they're a little bit insulated from that. They're going to have and effect from the larger market, but the trade more on what's going on, and the trade more on events really been on the broader market, so if you can pick your spots and be patient, I think the volatility really gives you some nice spots to take some profits and get out. And, frankly, the volatility allows you, if you miss one spot, you can usually really find another one that comes along.

Jim Flanagan - *IR Strategic Advisors - President*

We've seen a number of the discovery-based companies trying to move into the Pharma, especially Pharma space. Shifting and changing of business models, what would you look at in this particular companies, in order to make a decision as far as how you would invest in looking at these companies.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

I think that there' -- I definitely think that that's true and there's a lot going on. The discovery companies are finding it's really hard to monitize the stuff that they do early. They're trying to move their products to a later stage and to the specialty and drug development stages. I would look for companies who, really, are showing some -- my personal tendency is to look for companies who can move that along organically. Companies who tend to start in discovery and buy late stage products and immediately leap into the late stage. It's really a different set of abilities, and you want to be careful with that, that they can make those transitions. The companies that move smoothly from discovery take and early stage product, and move with it as they grow into later stage, I think, is more attractive.

Jim Flanagan - *IR Strategic Advisors - President*

Do you have any examples or illustrations of companies that either have done it successfully or ones that have some of these elements that you've identified that may be successful?

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Kristi Guay - *RedChip Companies - Vice President and Director of Research*

One that really comes to mind is Curixa (ph). And this was more late '90s and early 2000. They were basically a drug discovery and opportunity discovery company. They tried to move to later stage, they had a cancer vaccine that they had moved to, I think, phase two trials, and then I went out and bought Colter (ph), which provided them with Bexar (ph). it was a huge jump to a late stage company that was into the FDA already for approval. For those of you another story, they failed to get approval, had to go back around -- failed to get approval and had to go back around again, and it's been -- it just -- whether or not it was a bad acquisition or whether it was just a timing issue and they are -- and what they had going on, you know, it's anybody's guess. I haven't followed them that closely since then. I'm trying to think of an example of companies that have done that. The specialty pharmaceutical companies, I will say, that have -- are a nice piece of that because they -- not only do they have some marketing abilities, but they also have that development in clinical trial ability, so companies that can do that are nice way to make that transition as well.

Jim Flanagan - *IR Strategic Advisors - President*

That's great. I'm also familiar with Curixa (ph) in the past, like they were a client of mine.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

OK.

Jim Flanagan - *IR Strategic Advisors - President*

You talk in your presentation about HEPA. And that it has not realized the potential and everybody thought was there. What's happened? Why not? There seemed to be a lot of opportunity, especially in the health-care services information technology side to that.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Well, I think there really was -- when HEPA was first passed, in really the mid '90s and then adjustments were made in the late '90s, everybody thought this is it, this will be a way to get the industry to really make wholesale changes in the way they do business with IT technology. Sort of in the way that they thought there would be some of that with Y2K. As we've gone on through HEPA problems, you know, they first said, you know, here's the date that everything has to be in place and then they pushed it back. And then they pushed back. And I think that really just pushed it out so long that they've really diluted that one big bang point. Everybody really is upgrading for the pieces they need but it's been six years and still it's not completely implemented. And I think people have really drawn it out. So instead of getting one big opportunity it's diluted it out over several years.

Jim Flanagan - *IR Strategic Advisors - President*

In the Genomics (ph) area, do you expect to see more consolidation in that? It became the rage in the last two years for everybody to be a Genomics (ph) company. There seems to be a plethora of companies out there.

Any drivers of consolidation do you expect?

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

I think they really have to. Genomics (ph) has - everybody wanted to be a Genomics (ph) company in '99. Even if you weren't doing Genomics (ph) you pretended you were just because it was the hot topic.

I think now that nobody really wants to pay for that anymore with the drastic drop off in early 2000 of those they - there's not money out there. Everybody's been burned. They don't want to get - they don't want to get back in.

And I think there has to be consolidation because there's a finite amount of money that's going to support that.

The bigger companies I think will buy the smaller companies. It's a good move for them. And most of them really did some offerings before the big market drop so they've got some cash to sit on.

And I think the small companies - either they'll be acquired or they'll go out of business because there's simply nothing there to fuel their cash needs.

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Jim Flanagan - *IR Strategic Advisors - President*

Kristi, that was a great presentation - very informative, very insightful. We thank you for your time today as well as the Ritchert Companies (ph) for being a co-sponsor of today's CCBN Virtual Healthcare Conference.

For our listeners in our audience we greatly appreciate your questions and your time. For those of you who wish to continue to listen to the next Webcast, please close your media player and return to ww.ccbn.com, www.ritchert.com (ph) or www.lahi and click on the agenda URL.

Thank you very much.

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Thanks, Jim

Jim Flanagan - *IR Strategic Advisors - President*

Bye-bye now

Kristi Guay - *RedChip Companies - Vice President and Director of Research*

Bye-bye.

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