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THE FEIGHNER RESEARCH INSTITUTE  
YEARS ENDED NOVEMBER 30, 1998 AND 1997

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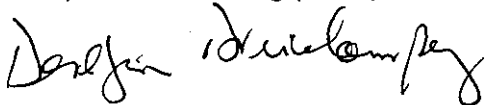
September 17, 1999

Board of Directors  
The Feighner Research Institute  
La Mesa, California

We have reviewed the accompanying balance sheets of The Feighner Research Institute (a C corporation) as of November 30, 1998 and 1997, and the related statements of income, changes in shareholders' equity, cash flows and schedules of general and administrative expenses and schedules of income - London division for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The Feighner Research Institute.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.



DEREZIN, BREIER & COMPANY

THE FEIGHNER RESEARCH INSTITUTE  
BALANCE SHEETS  
NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

ASSETS

	<u>1998</u>	<u>1997</u>
Current assets:		
Cash	\$ 99,037	\$ 242,555
Accounts receivable (Note 1)	416,201	353,591
Government bond fund (Note 1)	218,114	264,455
Other receivables and prepaid expenses	13,448	10,839
Income taxes refundable\prepaid	<u>2,386</u>	<u>9,064</u>
Total current assets	<u>749,186</u>	<u>880,504</u>
Property and equipment: (Note 1)		
Furniture and fixtures	41,811	35,031
Equipment	93,583	90,406
Leasehold improvements	<u>21,822</u>	<u>21,822</u>
	157,216	147,259
Less accumulated depreciation	<u>111,147</u>	<u>94,184</u>
Total property and equipment	<u>46,069</u>	<u>53,075</u>
Other assets:		
Security deposits	<u>8,052</u>	<u>7,982</u>
	<u>\$ 803,307</u>	<u>\$ 941,561</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 685,744	\$ 780,538
Total current liabilities	<u>685,744</u>	<u>780,538</u>
Shareholders' equity:		
Common stock, no par value, authorized 75,000 shares: issued and outstanding 1,000 shares	4,250	4,250
Retained earnings	130,685	156,773
Accumulated other comprehensive income (loss)	<u>(17,372)</u>	<u>          </u>
Total shareholders' equity	<u>117,563</u>	<u>161,023</u>
	<u>\$ 803,307</u>	<u>\$ 941,561</u>

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE  
STATEMENTS OF INCOME  
YEARS ENDED NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

	1998		1997	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Grant income	\$ 1,461,899	100.0	\$ 1,354,613	100.0
Direct costs billed and research income	<u>7,800</u>	<u>.5</u>	<u>12,373</u>	<u>.9</u>
	<u>1,469,699</u>	<u>100.5</u>	<u>1,366,986</u>	<u>100.9</u>
Direct expenses:				
Medical evaluations, physicians	284,999	19.5	215,803	15.9
Hospital expense	47,000	3.2	35,700	2.6
Research expense	12,292	.8	15,835	1.2
Laboratory and scan costs	<u>23,396</u>	<u>1.6</u>	<u>23,090</u>	<u>1.7</u>
	<u>367,687</u>	<u>25.1</u>	<u>290,428</u>	<u>21.4</u>
Grant income less direct expenses	<u>1,102,012</u>	<u>75.4</u>	<u>1,076,558</u>	<u>79.5</u>
Other income:				
Interest income	19,867	1.4	30,059	2.2
Loss of sale of government bond fund	(3,430)	(.3)		
Other income	<u>19,744</u>	<u>1.4</u>		
	<u>36,181</u>	<u>2.5</u>	<u>30,059</u>	<u>2.2</u>
	1,138,193	77.9	1,106,617	81.7
General and administrative expenses	<u>1,060,572</u>	<u>72.6</u>	<u>988,447</u>	<u>73.0</u>
Income - San Diego division	77,621	5.3	118,170	8.7
Loss - London division	<u>(105,295)</u>	<u>(7.2)</u>	<u>(162,234)</u>	<u>(12.0)</u>
Loss before taxes	(27,674)	(1.9)	(44,064)	(3.3)
Income taxes, benefit	(2,386)	(.1)		
Income taxes, current	<u>800</u>		<u>887</u>	
Net loss	<u>\$ (26,088)</u>	<u>(1.8)</u>	<u>\$ (44,951)</u>	<u>(3.3)</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

	Common Stock Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, November 30, 1996	1,000	\$ 4,250	\$ 201,724	\$	\$ 205,974
Net loss for the year			(44,951)		(44,951)
Balance, November 30, 1997	1,000	4,250	156,773		161,023
Comprehensive income					
Net loss for the year			(26,088)		(26,088)
Other comprehensive income (loss), net of zero tax:					
Unrealized holding loss on government bond fund				(16,292)	(16,292)
Foreign currency translation adjustments				(1,080)	(1,080)
Total comprehensive income					(43,460)
Balance, November 30, 1998	1,000	\$ 4,250	\$ 130,685	\$ (17,372)	\$ 117,563

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Net loss	\$ (26,088)	\$ (44,951)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	16,963	23,330
Government bond cost adjustment	(13,389)	
Foreign currency loss	(1,080)	
Loss on sale of government bond fund	3,430	
(Increase) decrease in:		
Accounts receivable	(62,610)	(40,985)
Other receivables and prepaid expenses	(2,609)	992
Security deposits	(70)	(1,750)
Income taxes refundable/prepaid	6,678	(4,863)
Increase (decrease) in:		
Accounts payable	<u>(94,794)</u>	<u>(247,406)</u>
Net cash used in operations	<u>(173,569)</u>	<u>(315,633)</u>
Investing activities:		
Purchase of property and equipment	<u>(9,957)</u>	<u>(3,655)</u>
Financing activities:		
Proceeds from sale of government bond fund	<u>40,008</u>	
Net decrease in cash	(143,518)	(319,288)
Cash beginning	<u>242,555</u>	<u>561,843</u>
Cash ending	<u>\$ 99,037</u>	<u>\$ 242,555</u>
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid during year	<u>\$ 0</u>	<u>\$ 5,750</u>
Interest paid during year	<u>\$ 0</u>	<u>\$ 0</u>

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

	1998		1997	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Administrative salaries and fees	\$ 550,104	37.6	\$ 484,211	35.7
Automobile expense	1,980		1,877	
Pension plan contributions, administrative	37,290	2.5	33,642	2.5
Contract services	34,233	2.3	35,747	2.6
Contributions	980		2,325	
Depreciation	14,788	1.0	19,735	1.5
Dues and subscriptions	1,243		949	
Education and training	1,145		2,604	
Employee benefits	17,148	1.2	19,489	1.4
Equipment rental	639		634	
Insurance	58,332	4.0	49,056	3.6
Legal and accounting	17,284	1.2	10,226	
Miscellaneous	1,155		698	
Patient recruitment	103,354	7.1	118,056	8.7
Payroll taxes	39,503	2.7	45,338	3.3
Postage and supplies	22,465	1.5	23,523	1.7
Promotion	6,551		9,123	
Rent and utilities	109,580	7.5	88,592	6.5
Repairs and maintenance	5,202		6,996	
Special Events	3,967		6,042	
Storage	2,803		2,702	
Taxes and licenses	1,063		1,519	
Telephone	15,770	1.1	16,503	1.2
Travel expenses	13,993	1.0	8,860	
	<u>\$ 1,060,572</u>	<u>72.6</u>	<u>\$ 988,447</u>	<u>73.0</u>

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE  
SCHEDULES OF INCOME - LONDON DIVISION  
YEARS ENDED NOVEMBER 30, 1998 AND 1997  
(See Accountant's Review Report)

	<u>1998</u>	<u>1997</u>
Grant income	<u>\$ 185,516</u>	<u>\$ 113,372</u>
Direct expenses:		
Medical evaluations, physicians	60,679	36,440
Hospital expense	5,746	16,936
Laboratory	<u>3,030</u>	<u>          </u>
	<u>69,455</u>	<u>53,376</u>
Grant income less direct expenses	<u>116,061</u>	<u>59,996</u>
General and administrative expenses:		
Administrative salaries and fees	119,868	116,522
Automobile expense	5,164	6,041
Pension plan contributions, administrative	2,870	9,084
Contract services	9,485	13,113
Depreciation	2,175	3,595
Employee benefits	5,351	6,243
Miscellaneous	1,922	923
Office set up		8,700
Patient recruitment	22,623	8,141
Payroll taxes	7,929	7,975
Postage and supplies	8,795	10,198
Promotion	1,556	2,270
Rent and utilities	21,779	16,950
Telephone	5,904	4,659
Travel expenses	<u>5,935</u>	<u>7,816</u>
	<u>221,356</u>	<u>222,230</u>
Net Loss	<u>\$(105,295)</u>	<u>\$(162,234)</u>

See notes to financial statements.



THE FEIGHNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 1998 AND 1997

1. Summary of Significant Accounting Policies:

Operations:

The Company performs drug studies for various pharmaceutical manufacturers directly or indirectly through subcontractors. Grant income is taken into account as earned in the performance of the various drug studies by evaluating the level of completion of the individual study. The Company generally receives payments in advance of services that it performs. These prepayments are included in accounts payable.

Pension Plan:

The Company has a noncontributory defined contribution pension plan covering all full-time employees with one or more years of continuous service. Contributions are made in accordance with the provisions of the pension plan. The Company's policy is to fund pension plan costs accrued. Pension expense for the years ended November 30, 1998 and 1997, was \$40,160 and \$42,726, respectively.

Cash Equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company had no cash equivalents at November 30, 1998 and 1997. Cash consists of cash on hand and cash in banks, including money market funds, as of November 30, 1998 and 1997.

Accounts Receivable:

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. The Company grants credit to customers, substantially all of whom are located in the U.S. and U.K. The Company generally requires no collateral.

Investments:

The government bond fund is classified as available-for-sale and may be sold in response to changes in interest rates, liquidity needs and for other purposes. Available-for-sale securities should be carried at fair value. The government bond fund is at fair value at November 30, 1998. It was being carried at cost which approximated fair value at November 30, 1997.

THE FEIGHNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 1998 AND 1997

1. Summary of Significant Accounting Policies: (Continued)

**Compensated Absences:**

Employees of the Company are entitled to paid vacations, sick days and other time off depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when paid to employees.

**Property and Equipment and Depreciation:**

Property and equipment are stated at cost. Depreciation or amortization is provided on a straight-line or an accelerated declining balance method, as appropriate, over the estimated useful lives of the assets.

**Concentration of Credit Risk:**

The Company places its cash and temporary cash investments with high credit quality institutions. At times such cash and temporary cash investments may be in excess of FDIC insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**London Division:**

Net assets of the London Division are \$74,402 and \$35,722 at November 30, 1998 and 1997, respectively.

THE FEIGNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 1998 AND 1997

1. Summary of Significant Accounting Policies: (Continued)

New Accounting Pronouncement:

Effective December 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS-130), "Reporting Comprehensive Income." SFAS-130 establishes reporting and display requirements with respect to comprehensive income and its components. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It also requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital. The adoption of SFAS-130 did not have a material effect on the Company's financial statements, but did affect the presentation of the accompanying balance sheets and statements of changes in shareholders' equity.

2. Income Taxes:

Deferred income taxes are immaterial at November 30, 1998 and 1997. They are related to the following net operating loss carryforwards at November 30, 1998:

<u>Federal</u>	<u>Expiration Date</u>	<u>California</u>	<u>Expiration Date</u>
<u>\$ 17,622</u>	November 30, 2018	\$ 20,728	November 30, 2002
		<u>16,364</u>	November 30, 2003
		<u>\$ 37,092</u>	

3. Commitments:

The Company has commitments under noncancellable operating leases pertaining to the rental office and consulting rooms. Rents aggregated \$106,743 in 1998 and \$106,000 in 1997. The total lease commitment is as follows:

<u>Years Ending November 30,</u>	<u>Amount</u>
1999	\$ 105,000
2000	109,000
2001	91,000
2002	<u>61,000</u>
	<u>\$ 366,000</u>

THE FEIGHNER RESEARCH INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 1998 AND 1997

4. Year 2000 (Y2K) Issue:

Like other organizations and individuals around the world, The Feighner Research Institute could be adversely affected if the computer system it uses and those used by significant third parties (e.g. vendors, customers, third party administrators, etc.) do not properly process and calculate date-related information and data. This is commonly known as the "Year 2000 issue." The Management is assessing its computer systems and business processes and has initiated actions to address the Y2K needs identified. The Management is also assessing the actions being taken by significant third parties that interface with The Feighner Research Institute. At this time the Management is not able to determine the impact, including costs of remediation, of the "Year 2000 issue" on the Company.