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THE FEIGHNER RESEARCH INSTITUTE
YEARS ENDED NOVEMBER 30, 1999 AND 1998

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July 31, 2000

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, 1999 and 1998, and the related statements of income, changes in shareholders' equity, cash flows and schedules of general and administrative expenses and schedules of loss - 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 reviews, 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, 1999 AND 1998
(See Accountant's Review Report)

ASSETS

	1999	1998
Current assets:		
Cash (Note 1 and 5)	\$ 290,131	\$ 99,037
Accounts receivable (Note 1 and 5)	156,112	416,201
Government bond fund (Note 1)	36,304	218,114
Receivables/prepaid expenses (Note 5)	4,129	13,448
Income taxes refundable	<u>2,386</u>	<u>2,386</u>
Total current assets	<u>489,062</u>	<u>749,186</u>
Property and equipment: (Note 1 and 5)		
Furniture and fixtures	45,325	41,811
Equipment	106,951	93,583
Leasehold improvements	<u>21,822</u>	<u>21,822</u>
	174,098	157,216
Less accumulated depreciation	<u>126,789</u>	<u>111,147</u>
Total property and equipment	<u>47,309</u>	<u>46,069</u>
Other assets:		
Security deposits	<u>9,030</u>	<u>8,052</u>
	<u>\$ 545,401</u>	<u>\$ 803,307</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable (Note 1 and 5)	\$ 496,893	\$ 685,744
Total current liabilities	<u>496,893</u>	<u>685,744</u>
Shareholders' equity:		
Common stock, no par value, authorized 75,000 shares: issued and outstanding 1,000 shares	4,250	4,250
Retained earnings	80,282	130,685
Accumulated other comprehensive income (loss)	<u>(36,024)</u>	<u>(17,372)</u>
Total shareholders' equity	<u>48,508</u>	<u>117,563</u>
	<u>\$ 545,401</u>	<u>\$ 803,307</u>

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE
STATEMENTS OF INCOME
YEARS ENDED NOVEMBER 30, 1999 AND 1998
(See Accountant's Review Report)

	1999		1998	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Grant income	\$ 1,216,916	100.0	\$ 1,461,899	100.0
Direct costs billed and research income	<u>8,576</u>	<u>.7</u>	<u>7,800</u>	<u>.5</u>
	<u>1,225,492</u>	<u>100.7</u>	<u>1,469,699</u>	<u>100.5</u>
Direct expenses:				
Medical evaluations, physicians	224,031	18.4	284,999	19.5
Hospital expense	16,400	1.3	47,000	3.2
Research expense	10,911	.9	12,292	.8
Laboratory and scan costs	<u>6,380</u>	<u>.6</u>	<u>23,396</u>	<u>1.6</u>
	<u>257,722</u>	<u>21.2</u>	<u>367,687</u>	<u>25.1</u>
Grant income less direct expenses	<u>967,770</u>	<u>79.5</u>	<u>1,102,012</u>	<u>75.4</u>
Other income and expense:				
Interest income	8,007	.6	19,867	1.4
Loss of sale of government bond fund	(12,638)	(1.0)	(3,430)	(.3)
Other income	<u> </u>	<u> </u>	<u>19,744</u>	<u>1.4</u>
	<u>(4,631)</u>	<u>(.4)</u>	<u>36,181</u>	<u>2.5</u>
	963,139	79.1	1,138,193	77.9
General and administrative expenses	<u>992,384</u>	<u>81.5</u>	<u>1,060,572</u>	<u>72.6</u>
Income (loss) - San Diego division	(29,245)	(2.4)	77,621	5.3
Loss - London division	<u>(20,358)</u>	<u>(1.7)</u>	<u>(105,295)</u>	<u>(7.2)</u>
Loss before taxes	(49,603)	(4.1)	(27,674)	(1.9)
Income taxes, benefit			(2,386)	(.1)
Income taxes, current	<u>800</u>	<u> </u>	<u>800</u>	<u> </u>
Net loss	<u>\$ (50,403)</u>	<u>(4.1)</u>	<u>\$ (26,088)</u>	<u>(1.8)</u>

See notes to financial statements.

THE FEIGNER RESEARCH INSTITUTE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED NOVEMBER 30, 1999 AND 1998
(See Accountant's Review Report)

	Common Stock Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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
Comprehensive income					
Net loss for the year			(50,403)		(50,403)
Other comprehensive income (loss), net of zero tax:					
Unrealized holding gain on government bond fund			10,883		10,883
Foreign currency translation adjustments			(29,535)		(29,535)
Total comprehensive income					(69,055)
Balance, November 30, 1999	1,000	\$ 4,250	\$ 80,282	\$ (36,024)	\$ 48,508

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE
STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 1999 AND 1998
(See Accountant's Review Report)

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net loss	\$ (50,403)	\$ (26,088)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	15,642	16,963
Government bond cost adjustment		(13,389)
Foreign currency loss	(29,535)	(1,080)
Loss on sale of government bond fund	12,638	3,430
(Increase) decrease in:		
Accounts receivable	260,089	(62,610)
Other receivables and prepaid expenses	9,319	(2,609)
Security deposits	(978)	(70)
Income taxes refundable/prepaid		6,678
Decrease in:		
Accounts payable	<u>(188,851)</u>	<u>(94,794)</u>
Net cash provided by (used in) operations	<u>27,921</u>	<u>(173,569)</u>
Investing activities:		
Purchase of property and equipment	<u>(16,882)</u>	<u>(9,957)</u>
Financing activities:		
Proceeds from sale of government bond fund	<u>180,055</u>	<u>40,008</u>
Net increase (decrease) in cash	191,094	(143,518)
Cash beginning	<u>99,037</u>	<u>242,555</u>
Cash ending	<u>\$ 290,131</u>	<u>\$ 99,037</u>

Supplemental disclosures of cash flow information:

Income taxes paid during years	<u>\$ 800</u>	<u>\$ 0</u>
Interest paid during years	<u>\$ 0</u>	<u>\$ 0</u>

As a non-cash financing activity, there was an unrealized holding gain of \$10,883 and an unrealized holding loss of \$16,292 on the government bond fund booked through other comprehensive income during the years ended November 30, 1999 and 1998, respectively.

THE FEIGHNER RESEARCH INSTITUTE
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED NOVEMBER 30, 1999 AND 1998
(See Accountant's Review Report)

	1999		1998	
	Amount	Percentage of Grant Amount	Amount	Percentage of Grant Amount
Administrative salaries and fees	\$ 465,641	38.3	\$ 550,104	37.6
Automobile expense	2,875		1,980	
Pension plan contributions, administrative	32,364	2.7	37,290	2.5
Contract services	31,519	2.6	34,233	2.3
Contributions			980	
Depreciation	14,336	1.2	14,788	1.0
Dues and subscriptions	1,056		1,243	
Education and training	1,125		1,145	
Employee benefits	8,322		17,148	1.2
Equipment rental	637		639	
Insurance	54,645	4.5	58,332	4.0
Legal and accounting	32,735	2.7	17,284	1.2
Miscellaneous	3,144		1,155	
Patient recruitment	130,909	10.8	103,354	7.1
Payroll taxes	33,371	2.7	39,503	2.7
Postage and supplies	17,865	1.5	22,465	1.5
Promotion	5,275		6,551	
Rent and utilities	126,644	10.4	109,580	7.5
Repairs and maintenance	2,796		5,202	
Special events	1,210		3,967	
Storage	3,358		2,803	
Taxes and licenses	1,141		1,063	
Telephone	15,013	1.2	15,770	1.1
Travel expenses	6,403		13,993	1.0
	<u>\$ 992,384</u>	<u>81.5</u>	<u>\$ 1,060,572</u>	<u>72.6</u>

See notes to financial statements.

THE FEIGHNER RESEARCH INSTITUTE
SCHEDULES OF LOSS - LONDON DIVISION
YEARS ENDED NOVEMBER 30, 1999 AND 1998
(See Accountant's Review Report)

	<u>1999</u>	<u>1998</u>
Grant income	\$ 71,383	\$ 185,516
Direct expenses:		
Medical evaluations, physicians	20,180	60,679
Hospital expense	4,236	5,746
Laboratory	<u>3,184</u>	<u>3,030</u>
	<u>27,600</u>	<u>69,455</u>
Grant income less direct expenses	<u>43,783</u>	<u>116,061</u>
General and administrative expenses:		
Administrative salaries and fees	32,716	119,868
Automobile expense		5,164
Pension plan contributions, administrative	1,327	2,870
Contract services	2,238	9,485
Depreciation	1,306	2,175
Employee benefits		5,351
Miscellaneous	246	1,922
Patient recruitment	7,966	22,623
Payroll taxes	2,313	7,929
Postage and supplies	2,096	8,795
Promotion	368	1,556
Rent and utilities	10,392	21,779
Telephone	2,152	5,904
Travel expenses	<u>1,021</u>	<u>5,935</u>
	<u>64,141</u>	<u>221,356</u>
Net Loss	<u>\$ (20,358)</u>	<u>\$ (105,295)</u>

See notes to financial statements.

FEIGHNER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 1999 AND 1998

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.

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, 1999 and 1998. Cash consists of cash on hand and cash in banks, including money market funds, as of November 30, 1999 and 1998.

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.

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. (See Note 6)

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 was at fair value as of November 30, 1999 and 1998. The cost for the securities sold is the average cost.

Foreign Currency:

The ending balance of translation adjustments is \$30,615 at November 30, 1999, which is listed by year incurred on the Statements of Changes in Shareholders' Equity under accumulated other comprehensive income (loss).

THE FEIGHNER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 1999 AND 1998

1. Summary of Significant Accounting Policies: (Continued)

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. Net book value of the assets held in London was \$1,958 and \$3,264 as of November 30, 1999 and 1998, respectively. (See Note 5)

Accounts Payable:

As of November 30, 1999, accounts payable includes accrued expenses of \$56,448, which includes unpaid salaries of \$28,336.

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.

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, 1999 and 1998, was \$33,691 and \$40,160, respectively.

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.

THE FEIGNER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 1999 AND 1998

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:

The valuation allowance on the deferred income tax asset increased by \$10,000 to approximately \$16,000 as of November 30, 1999. It is related to the following net operating loss carryforwards at November 30, 1999:

<u>Federal</u>	<u>Expiration Date</u>	<u>California</u>	<u>Expiration Date</u>
\$ 17,622	November 30, 2018	\$ 20,728	November 30, 2002
<u>21,807</u>	November 30, 2019	16,364	November 30, 2003
		<u>21,007</u>	November 30, 2004
<u>\$ 39,429</u>		<u>\$ 58,099</u>	

3. Commitments:

The Company has commitments under non-cancelable operating leases pertaining to the rental office and consulting rooms. Rents aggregated \$124,422 in 1999 and \$106,743 in 1998. The total lease commitment is as follows:

<u>Years Ending November 30,</u>	<u>Amount</u>
2000	\$ 109,000
2001	91,000
2002	<u>61,000</u>
	<u>\$ 261,000</u>

THE FEIGHNER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 1999 AND 1998

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." At this time, management does not believe there has been or will be a material impact on the company due to the "Year 2000 Issue". Therefore, no material, if any, costs of remediation are expected to be incurred.

5. London Division and Contingency:

Net assets of the London division are presented as follows at November 30:

	<u>1999</u>	<u>1998</u>
Cash	\$ 23,079	\$ 29,149
Accounts receivable	54,835	48,373
Prepaid expenses	<u>2,546</u>	<u>4,503</u>
	80,460	82,025
Accounts payable	<u>(21,692)</u>	<u>(7,623)</u>
	<u>\$ 58,768</u>	<u>\$ 74,402</u>

However, the 1999 amounts above are as of April 30, 1999. Additionally, the net loss of \$20,358 as shown in the Schedule of Loss – London Division is essentially for the five months ended April 30, 1999. The estimated contingent loss for activities after April 30, 1999, ranges from \$60,000 to \$80,000. The effect of this contingent loss is not reflected in the attached financial statements. (See Note 1 on property and equipment and depreciation)

Also, there has been no or minimal costs as of November 30, 1999 to close the division.

6. Major Customers:

The Company earned a substantial portion of its revenue from two customers. Income from these customers accounted for 16 percent and 12 percent of total income for the year ended November 30, 1999. Accounts receivable from these customers totaled \$77,998 and \$62,355 as of November 30, 1999, respectively. (See Note 1)