

HEALTHSONIX, INC.

(OTC PK:HSXI)

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Recent Price: **\$1.07**  
Target Price: **\$3.50**  
(12-month)

SPECULATIVE BUY RATING

Main Headquarters

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Arthritis Pain Reduction with Sound Pressure Wave Treatment

*Company Overview*

HealthSonix, Inc. (OTC PK:HSXI) (XETRA-Frankfurt Germany:H7S) is a multi-dimensional medical technology company that develops and markets healthcare services and FDA registered medical products to treat the pain associated with arthritis; fibromyalgia; and musculoskeletal injuries. The Company's core offerings are based on proprietary, patent pending medical technologies that use sound pressure waves to administer sub-sensory micro vibration to the human body. Precisely formatted low frequency sound pressure waves are 80% effective in treating the pain of many diseases, particularly arthritis. All treatments and products are safe, non-invasive, drug free, and have no known side effects.

- Arthritis is the number one cause of chronic pain in North America. **Over 30% of the US adult population** has been **diagnosed** with **osteoarthritis**, which is a chronic disease. Arthritis pain and reduced mobility has been estimated to cost businesses, government and individuals **in excess of \$85 billion per year**. HealthSonix's breakthrough medical technology is very timely with the aging of the population.
- Encouraged by the consistent positive treatment outcomes using the **enSonix™** sound pressure waves, the company developed the **AquaSonix™** and **enSonix@home™** devices, to provide additional and targeted delivery methods to a broader audience.
- HealthSonix core offerings are based on proprietary, patent pending medical technology that uses **sound pressure waves to administer sub-sensory micro vibration** to the human body for therapeutic purposes. The first application, AquaSonix™ Therapy, is a breakthrough medical treatment for people with pain, reduced mobility and diminishing flexibility. This therapeutic water program combines, (1) sound pressure waves with (2) individualized low impact exercises in (3) warm water therapy pools.
- AquaSonix™ Therapy treatments has **no known side effects**, is **safe, non-invasive, drug-free** and can be **used on its own or in combination** with all prescription or over the counter medications. In 2006, the Company opened the AquaSonix™ Research and Treatment Centre in the therapy pool at St. Joseph's Healthcare Hospital in Hamilton, Ontario. Additional clinical research trials for AquaSonix™ Therapy will be conducted at this site. In mid-September HealthSonix announced the **successful completion of over 107,000 Sound Pressure Wave treatments**, which have proven successful in reducing the pain associated with arthritis and other diseases.
- **HealthSonix started rolling out the AquaSonix™ Therapy programs in the Toronto region in May of 2006 and expects to have in excess of 60 active territories operating within the next twelve months.** The Company expects to expand the AquaSonix™ Therapy business model to **approximately 1,500 territories and international partnerships over the next five years.**
- **To date over \$5 million has been invested in R&D testing, clinical work and regulatory compliance. The Company's medical products and therapies have a proven history in helping patients reduce pain and improve mobility. The successful implementation of the Company's medical technologies has created a positive environment for the future growth of its diverse product line. Management anticipates this growth trend will continue throughout 2006 and beyond. As a result of the negative publicity surrounding the adverse reactions from the prolonged use of some COX-2 inhibitors and other pain relieving medications, the medical community is embracing other forms of treatment that do not have any known side effects. We initiate coverage of this Company with a SPECULATIVE BUY RATING based on its future revenue projections and we set a 12-month target price of \$3.50 per share based on our valuation model. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 11-13).**



HealthSonix Incorporated	
<i>(all figures in Millions)</i>	
52 Week Hi/Lo Range	1.34/0.55
Fiscal Year End	
Shares Outstanding	51.4
Float (approximately)	14.5
Share price (09/22/2006)	1.070
Market Capitalization	55.0
Average Volume (3 months)	NA
Insider Ownership	NA
Institutional Ownership	NA
Enterprise Value (EV)	
Long Term Debt (06-30-06)	NA
Total Cash (06-30-06)	NA
<b>12/31/2005 12/31/2006</b>	
<b>FY2007 A FY2008 E</b>	
Earnings Per Share (EPS)	-0.014 0.117
Book Value (\$/share)	0.000 0.126
<b>FY2007 A FY2008 E</b>	
Total Revenue	6.800 40.000
Cost of Sales	
Gross Profit/Loss	
Operating expenditures	
Income/Loss from Operations	
Other Expenses	
Tax Items	
Net Income	-0.700 6.000
NA = Not applicable/Not Available. A = Actual Reported figures E = Estimates	
Balance Sheet & Financial Statement Extracts	
Current Assets	
Current Liabilities	
Total Assets	
Total Shareholders Equity	
Operating cashflow	
Capital Structure	
Authorized Common Stock	

## THE COMPANY

HealthSonix Inc. (**OTC PK: HSXI**) is a multi-dimensional medical technology company that develops and markets healthcare services and FDA registered medical products to treat the pain associated with **arthritis; fibromyalgia and musculoskeletal injuries**. The company's products and healthcare services are based on patent pending medical technologies that use **sound pressure waves** at the core of the treatment protocols. Sound pressure waves stimulate the mechanoreceptors located in the skin, which in turn, block pain signals to the brain.

Although the use of sound as such is not new to medicine (*high frequency ultrasound is one example currently in use*), the company's technology is based on distinct and proprietary **low frequency sound**: it has been corroborated with over 100,000 treatments to date, and continues to **yield an impressive 80 % success rate** in reducing pain. HealthSonix Inc. recently acquired the operations of KyoCare Health Co. a company that had progressed from its roots as a research and development organization into a medical technology company that provides Healthcare services and Medical products for the pain of arthritis, fibromyalgia and other musculoskeletal conditions or injuries.

The **decision to focus on arthritis** was based primarily on the following:

- Arthritis and the pain associated with this condition has created a high growth multi-billion dollar worldwide healthcare market; There is no known cure for this degenerative disease;
- the marketplace is fractured and looking for new therapies;
- existing products fail to provide consistent long term pain relief without deleterious side effects;
- a *combination of therapies* is not only the most effective approach, it is also officially recommended by the American College of Rheumatology for the management of osteoarthritis patients.

The **FDA-registered AquaSonix™ medical device** is at the core of this new therapy program. The treatment combines sound pressure waves with individualized low impact exercise programs in warm water therapy pools. The program is consistent with the published guidelines of the **American College of Rheumatology (ACR)**, which recommend non-drug therapies as the foundation of the treatment of patients with **osteoarthritis**, and then in combination with medications, if necessary. The Company has entered a commercial phase with the AquaSonix™ Therapy programs in Toronto and surrounding area and will be launching the new enSonix@home™ personal treatment device into the US market in early 2007. AquaSonix™ Therapy is currently offered at 17 locations in North America. Further Clinic expansion into South East Florida is planned for later 2006.

The company has registered with the FDA (United States Food and Drug Administration) a number of unique medical devices that deliver the sound pressure waves:

- ❑ In Swimming and Therapy Pools: sound pressure waves are delivered through a specially designed submersible transducer and combined with low impact exercise administered by certified AquaSonix™ Therapists (*AquaSonix™ Therapy*);
- ❑ At Home: sound pressure waves are delivered through the portable, compact, home-use device (*enSonix@home™*).
- ❑ In the Clinic environment: sound pressure waves are delivered in treatment chairs (*enSonix Therapy*).

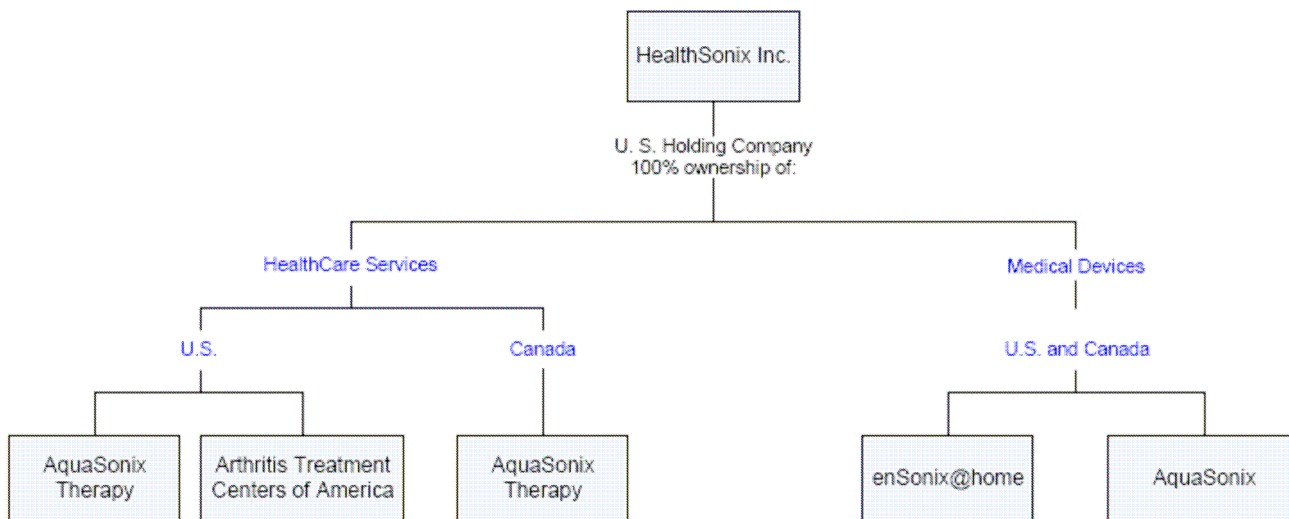
All current HealthSonix products are designated as **Class 1 (as of June 2006), the safest FDA category for medical devices**, and all are indicated for the relief of aches, pain and muscle relaxation.

The Company began research and development of its patent-pending medical technology in 2001 and began with clinical research and trials in 2003. **Since 2001, over \$5 million has been invested in research, clinical trials and regulatory compliance**. While testing prototypes and delivery systems with an array of low frequency sound waves, the R&D team observed a **significant reduction in pain and other symptoms in people with osteoarthritis**. Repeated treatment success with a broader group of arthritis patients encouraged the company to target this condition. The name enSonix was trademarked and the device was registered with the United States Food and Drug Administration (FDA). To objectively monitor the response to treatments, all patients were required to complete the WOMAC questionnaire, which assesses their levels of pain, stiffness and range of motion.

The FDA mandates the use of the WOMAC for research studies on people with arthritis. After 10 sessions, enSonix therapy yielded treatment outcomes better than comparable leading drugs therapies for arthritis, and most importantly, it did so without side effects. Additionally, many patients have reported an improvement in their sleep, reductions in anxiety and depression, and acceleration in the healing of soft tissue injuries. Concurrent with its research efforts, the company medical staff expanded the treatment protocols to include most of the non-drug arthritis therapies recommended by the American College of Rheumatology.

HealthSonix's mission is to provide innovative healthcare solutions to facilitate better living and to promote a higher quality of life, with an integrated family of products and services, including the proprietary sound pressure wave technology.

Its vision is to become the treatment of choice for the relief of pain. To be viewed by the healthcare industry as a leader in providing care for patients who suffer from the pain of arthritis and other musculoskeletal conditions. Finally, HSXI strives to be recognized by its peers for its insight, innovation and integrity.



HealthSonix has two operating divisions:

### Healthcare Services Division

The Healthcare Services Division provides treatment programs administered by licensed healthcare professionals and certified AquaSonix™ Therapists in clinic settings (Arthritis Treatment Centers of America) and in warm water swimming or therapy pools (AquaSonix™ Therapy Centers). AquaSonix™ Therapy programs are held throughout the day and early evening in warm water pools (85 degrees to 94 degrees Fahrenheit) located in hospitals, rehabilitation clinics, community centers, and retirement residences. The standard course of therapy is fifteen 45-minute sessions, ideally 2-3 times a week with a minimum of one day in between treatment sessions. All programs are led by certified AquaSonix™ Therapists. The sound pressure waves generated by the AquaSonix™ device are believed to work by stimulating mechanoreceptors in the skin, which in turn communicate with the brain and block pain messages from getting through (gate control theory of pain); and by creating an exercise effect in the muscles, which encourages the production and release of endorphins, the body's natural pain killers.

### Medical Products Division

The Medical Products Division markets medical devices and health related products for personal use (enSonix@home™, Health Supplements) and uses a variety of direct-to-consumer distribution channels.

### TECHNOLOGY & R&D EFFORTS

In January 2006, the company opened the AquaSonix R&D and Treatment Center in the therapy pool at St. Joseph's Hospital in Hamilton, Ontario. Additional clinical research trials for AquaSonix Therapy will be conducted at this site. The excellent results obtained with the enSonix treatments led to a significant increase in physician referrals. Family physicians and leading rheumatologists have also taken an active role in supporting the Company's activities and ongoing clinical research studies. In addition to clinic services, the company has developed two portable and relatively inexpensive delivery systems using the sound pressure wave technology.

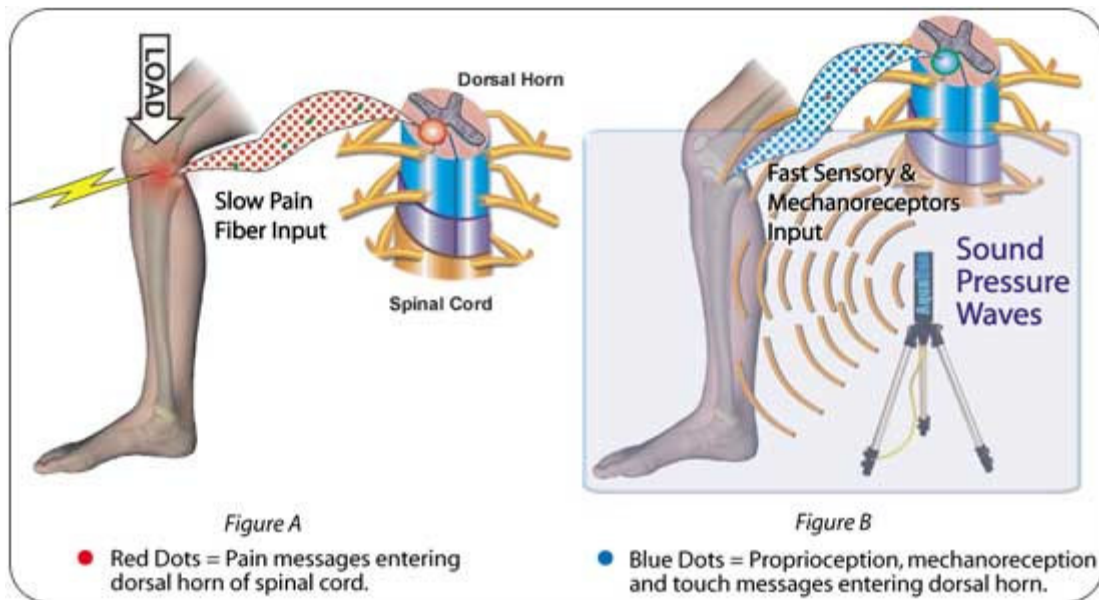


With the HealthSonix treatments, arthritis patients gain an increase in mobility, sleep better, experience a reduction in emotional disorders, and report more energy - resulting in an overall improvement in the quality of their lives. As a result of the negative publicity surrounding the **adverse reactions from the prolonged use of some Cox-2 inhibitors (such as Vioxx and Celebrex)** and other pain relieving medications, the medical community is embracing other forms of treatment that do not have any known side effects.

The sound pressure waves generated by the enSonix medical device are believed to **work in three ways** to provide pain relief and relax muscles.

- ✓ Sound pressure waves stimulate mechanoreceptors in the skin which in turn communicate with the brain thus blocking any other message from getting to the brain - including pain. This is referred to as the pain gate control theory.
- ✓ They also create an exercise effect in the muscles by gently vibrating the muscle fibers: this effect encourages the production and release of endorphins, the body's natural pain killers.
- ✓ Finally, sound pressure waves can increase cell membrane flow and blood circulation, resulting in further pain reduction, muscle toning and relaxation.

The illustration below shows how the sound waves block the pain message from an arthritic knee:



With its proprietary, centralized patient management and scheduling software and control systems, the Company is well positioned to provide the following healthcare products and services to this fast growing market:

1. **AquaSonix™** Therapy is a safe, enjoyable low cost therapy. The AquaSonix™ treatments combine the Arthritis Foundation's recommended low impact aquatic exercise program with the therapeutic benefits of sound pressure waves in warm water pools. The AquaSonix Therapy equipment can be set up as a permanent installation in a swimming or therapy pools, or in its portable format, can easily be transported to existing swimming pools in community and recreation Centers, high rise dwellings, and hospitals. The therapy is administered to groups of 10 to 20 patients by certified AquaSonix Therapists. Warm water and buoyancy encourage free joint movement and muscle stretching, augmenting the effectiveness of the treatments. The AquaSonix Therapy Research and Treatment Center is now open in the St. Joseph's Hospital in Hamilton, Ontario. Additional clinical research studies under the direction of leading rheumatology researchers are currently planned.
2. The **enSonix@home™** is a hand-held portable medical device, developed for patient use in the comfort of their home or while traveling. This product is effective, safe, convenient and at \$250, economical. Sound pressure waves are delivered directly to the affected joint. The enSonix@home™ will be sold through a multitude of direct to consumer marketing channels.
3. The **enSonix™** medical device is the foundation of the arthritis treatments administered in hospitals and dedicated clinics, such as the Arthritis Treatment Centers of America. It is also an ideal addition to the current treatment armamentarium provided in rehabilitation facilities. Each Arthritis Treatment Center will have 6 enSonix treatment stations and will be staffed by a multidisciplinary team of medical professionals. It is important to note that the medical treatments administered in the Arthritis Treatment Centers of America, fall under a physical therapy billing and as such have unlimited Medicare coverage in the United States: Medicare covers 80% of the Center billings, with private insurance plans covering the balance.

The Company markets a **proprietary line of natural health supplements**, which includes a topical analgesic cream, Glucosaplex™ (a proprietary blend of Glucosamine and anti-inflammatory herbs), Essential Minerals, Essential Vitamins, and OMEGA 3 Fish Oils.

These products provide essential supplementary health benefits and pain relief to patients between treatments. These supplemental and other products will be primarily distributed through its online presence through its website that can be found at [www.MyArthritisStore.com](http://www.MyArthritisStore.com). HealthSonix products are manufactured to the highest quality manufacturing standards. They conform to the FDA's current Good Manufacturing Practice (cGMP) program. These products provide essential health benefits to patients with little or no side effects. The products are priced from \$14.97 to \$29.97 retail and yield an average 74% gross margin to the Company.

The Company has held preliminary discussions with leading multi-national pharmaceutical companies regarding clinical research studies and marketing programs.

**The over-riding goal of HealthSonix is to establish the combination of HealthSonix treatments and selected pharmaceuticals as the "treatments of choice" for a variety of arthritis conditions (including fibromyalgia), other musculoskeletal conditions, and injuries.** Each product was designed to enable rapid national and international distribution and adoption by medical professionals and patients alike.

## INDUSTRY

**Arthritis** (from Greek *arthro-*, joint + *-itis*, inflammation) is a group of conditions where there is damage caused to the joints of the body. **Arthritis is the leading cause of disability over the age of 65.** There are over 100 different forms of arthritis, each of which has a different cause. **Rheumatoid arthritis** and **Psoriatic arthritis** are autoimmune diseases in which the body is attacking itself. Septic arthritis is caused by joint infection. Gouty arthritis is caused by deposition of uric acid crystals in the joint and subsequent inflammation. The most common form of arthritis is osteoarthritis.

**Osteoarthritis (OA)**, also known as **degenerative arthritis** or **degenerative joint disease**, and sometimes referred to as "arthrosis" or "osteoarthrosis" or in more colloquial terms ("wear and tear"), is a condition in which low-grade inflammation results in pain in the joints, caused by wearing of the cartilage that covers and acts as a cushion inside joints. As the bone surfaces become less well protected by cartilage, the patient experiences pain upon weight bearing, including walking and standing. There is no known cure of arthritis.

**OA affects nearly 21 million people in the United States**, accounting for 25% of visits to primary care physicians, **and half of all NSAID (Non-Steroidal Anti-Inflammatory Drugs) prescriptions.** It is estimated that **80% of the population will have radiographic evidence of OA by age 65**, although only 60% of those will be symptomatic (Green 2001). Treatment is with NSAIDs, local injections of glucocorticoid or hyaluronan, and in severe cases, with joint replacement surgery.

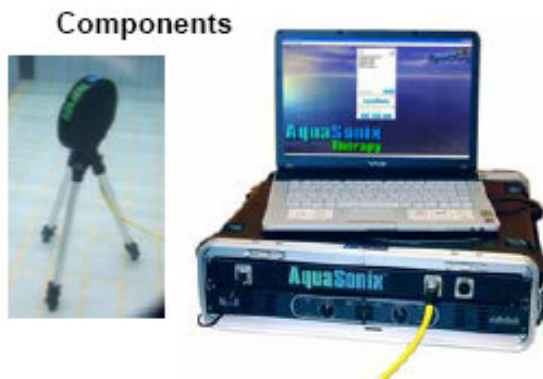
In 2002, WHO (World Health Organization) estimated the **worldwide number of people with arthritis at 350 million.** According to WHO, this **number is expected to double by the year 2022.** The Arthritis Foundation estimates the **cost of arthritis to the United States economy to be \$64.8 billion per year** in medical care and lost wages. By **2020**, this figure is expected to **exceed \$100 billion.** According to the Center for Disease Control (CDC), there were 38.9 million arthritis related visits to doctors' offices, 2.9 million visits to outpatient Centers, and 2.2 million visits to emergency rooms in 1997. For 2005, it is estimated that 70 million people in North American suffer from some form of arthritis and its number one symptom: pain

The Arthritis Foundation in the United States, the Arthritis Society of Canada, and The American College of Rheumatology recommend the use of a combination of therapies for the treatment of arthritis. The American College of Rheumatology in their official treatment guidelines "Recommendations for the Medical Management of Osteoarthritis of the Hip and Knee" stipulates that non-pharmacologic therapies are the cornerstone of the management of the arthritis patient. This non-drug treatment protocol includes specific exercise programs, healthy eating habits, and the prevention of fatigue on the joints, emotional and psychological assistance, stress reduction and relaxation techniques, patient education and the use of complementary therapies. Of most importance in the recommended program is the involvement of a multidisciplinary team from the fields of physiotherapy, kinesiology, occupational therapy, stress management, sleep disorders, and complementary therapies. If these procedures cannot reduce the arthritis pain to tolerable levels, the addition of pharmaceuticals is recommended. And if these don't help, the **only remaining option is artificial joint replacement surgery.**





EnSonix@home



AquaSonix kit

**AquaSonix™**  
Therapy

## MARKETING & BUSINESS MODEL

**Worldwide, the arthritis treatment market** is estimated to be **in excess of \$15 billion**. The company intends to market arthritis related treatment products and services on a national and international basis. With an estimated 250 million people worldwide suffering from arthritis and that number growing at 2.9% per year, the potential market for the company's products and service is substantial.

Based on publicly available data from **Merck and Pfizer**, the makers of **Vioxx** and **Celebrex**, the revenues from these two COX-2 inhibitors alone **exceeded US\$7.5 billion in 2003**. Industry estimates place the value of all arthritis related drug sales at US\$15 billion in that same year.

The Company's marketing campaign will be expanded to cover North America and selected International markets. Marketing programs include the detailing of physicians and insurance providers, radio and magazine advertisements directed at the elderly and arthritis patients, television infomercials, public relations, brochures for doctor's waiting rooms, seminars to physicians and patients, trade shows, and websites. These sales and marketing programs are also being tied into fund raising programs for organizations like the American Arthritis Foundation and the Arthritis Society in Canada.

HealthSonix's **marketing strategy is to capture a significant share of the fractured arthritis market** by providing an **integrated approach** to the treatment of people with arthritis pain. This will be accomplished with effective and safe therapies administered in medical Centers, aquatic classes, and with products for home use. Health Sciences branded products and services will be cross marketed using a variety of marketing channels, a centralized customer service operation, and state-of-the-art communications network. The **enSonix** brand name will be promoted in the healthcare field as being the treatment of choice for arthritis.

The Healthcare Services Division, provides direct personal contact with the patient and treatment programs by healthcare professionals and certified AquaSonix Therapists. As part of the treatment protocol, this division also sells all Health Sciences branded products. The Medical Devices Division uses a variety of media and distribution channels to market enSonix@home™ for home use, the branded Health Sciences health supplements, nutritional products, and topical creams. This division sells and ships products directly to consumers. The new, direct to consumer web store ([www.myarthritisstore.com](http://www.myarthritisstore.com)) is currently being finalized and will provide 24 hour access to arthritis sufferers and offer them some of the best products on the worldwide web.

There are a large number of underutilized aquatic facilities that can be used to administer AquaSonix Therapy programs. The Company doesn't have to build infrastructure such as swimming pools and intends to rent, partner or barter pool time from those facilities. There are tens of thousands of indoor pools across Canada and United States. AquaSonix Therapy program, due to its low initial capital cost, can be easily implemented in small communities that typically would not have this type of therapy available due to economics. If the community has a warm water swimming pool, the therapy can be administered. Significant market penetration in a specified region can be achieved within weeks. An AquaSonix Therapy system can be implemented and be financially viable with a community base of as little as 5,000 residents. **The business model allows the Company to quickly expand AquaSonix Therapy programs, both nationally and internationally working with distributors in specific markets.**

Each AquaSonix Therapist is assigned a specific geographic territory, hence the title Territory Manager. The AquaSonix Territory Managers are registered Kinesiologists or Physical Therapists that have been further certified for aquatic therapy by Accreditation organizations, such as WaterART International and CALA in Canada and ATRIC in the United States. In addition to conducting classes, the AquaSonix Therapists are also responsible for grass roots marketing programs in their community. Assisting the Territory Managers are Area Managers. This structure insures continuity in training, promotion, and implementation of consistent marketing strategies at all times. Specific sales and marketing programs are deployed 30 days before a specific territory is expected to open. Based on the business model, by the *second* year of operation, each AquaSonix Territory Manager will conduct, on average, three classes of 15 patients per day, in a five day week. At this rate, each system is expected to generate \$332,691 in total revenue.

*See Appendix A-1 for Analyst Certification and Important Disclosures*

Arthritis Treatment Centers of America will be geographically located in metropolitan areas with a surrounding population of 300,000 to 500,000 people. Based on the current incidence of arthritis at 30% of the adult population, each Center will draw patients from a potential market of 80,000 people. Each Center will be housed in approximately 1,700 sq. ft. and will have a reception area, assessment and treatment rooms, staff offices, and six enSonix™ treatment chairs. A Center manager oversees the medical staff from a variety of disciplines. An initial assessment and treatment service fee of \$85 is followed by treatment sessions costing \$55. Operational experience has demonstrated that a client base of 1,500, or 1.8% of the arthritis patient population surrounding a Center, can be achieved by the second year of operation. With these patients receiving two \$55 treatments per month, treatment revenues alone of \$1.3 million will be attained by year 3. Additional revenue is obtained from sales of the HealthSonix health supplements, topical creams and the enSonix@home™ device within the Centers.

The Healthcare Services Division provides hands-on pain and wellness therapy administered by competent and caring professionals. Programs are based on the core procedure, the sound pressure wave treatments, in combination with the non-invasive modalities as recommended by the American College of Rheumatology. Additional clinical trials are scheduled to be conducted this year. Results from these trials are expected to be published in select medical journals. The new clinicals are expected to provide additional scientific data for expanded claims and therapeutic value of sound pressure wave treatments. These positive results from these trials will also enable HealthSonix to consummate potentially lucrative joint marketing efforts with certain pharmaceutical companies. The Healthcare Services Division has an integrated, cross marketing strategy focused on creating awareness for its treatment programs. HealthSonix creates awareness by detailing doctors in the surrounding area of the Treatment Centers and/or the AquaSonix Therapy venues. Sales professionals call on general practitioners, family physicians, and rheumatologists to detail the value of the Treatment Centers and AquaSonix services to gain patient referrals. Participating physicians are given referral pads and patient brochures, which are displayed in the waiting rooms. Physicians are kept abreast of their patients' treatment program and progress through scheduled "patient progress reports". The company targets people over 50 years of age by advertising on radio and in print in magazines and newspapers that focus on this demographic. A public relations program, consumer and professional health shows, and public seminars on arthritis pain management are included in the marketing mix. HealthSonix sales professionals also present to the insurance companies and human resources and management staff of large corporations that self-insure their employees. Since arthritis is a leading cause of absenteeism, making these companies aware of our documented successes can reduce their overall costs. The insurance companies have embraced the low cost of AquaSonix as a prerequisite in many cases, to other therapies.

All patient enquires are channeled into either the centralized Patient Call Center or the company's website which has extensive medical information on arthritis conditions and the Company. Call Center staff answer questions on the treatments and enters key information into the database, then either schedule an appointment on line or arrange for the caller to receive additional brochures and information at home. All enquires are entered into the database for follow up and future communications, such as the Company newsletter and special product offers. HealthSonix newsletters are sent to all patients in the database. These newsletters contain latest news and trends in arthritis therapies, positive stories from our existing patients, information on new HealthSonix products or services, tips on managing arthritis pain, and other medical topics. On a broader scale, HealthSonix is actively involved with the Arthritis Foundation and organizations for retired people and those over 50 years of age, like the AARP, (the American Association of Retired Persons), CARP (Canadian Association of Retired Persons) and the United Seniors Association of Ontario. The company is constantly making these institutions aware of the Company's progress, uses their advertising vehicles and is willing to introduce any new therapies or treatment supported by quality clinical research studies. One of the Company's objectives is to have these institutions actively endorse the HealthSonix therapy programs.

The marketing strategy of the Medical Device Division is consistent with the corporate strategy of promoting the HealthSonix name brand in the health field as synonymous with "effective quality products" and the "treatment of choice". In North America, the Healthcare Products Division targets its advertising directly to consumers and physicians. Various advertising and promotional vehicles are employed such as **magazines, newspapers, radios, the Internet, brochures, seminars, and trade shows. Also, physicians will be detailed** on the attributes of the products.

Since the gross margins on all Health Products are relatively high at between 60% and 84%, the incremental sales of these items provide a sizable financial contribution. Revenue generation will be dependent on the amount of advertising undertaken. **The annual marketing budget for the enSonix@home™ alone is \$1,000,000 in year one and it goes up to \$3,600,000 by year 5.** The majority of the expenditures will be incurred in publications and websites focused on the arthritis market and on the elderly population. The Company will also distribute its products through authorized dealers and retailers in North America. In overseas markets, the product line will be sold to healthcare companies and equipment distributors. An International Sales Manager will be responsible for establishing a distribution network outside North America.

## STRATEGY & OUTLOOK

**HealthSonix started rolling out the AquaSonix Therapy programs in the Toronto region in May of 2006 and expects to have in excess of 60 active territories operating within the next 12 months.** The Company expects to expand the AquaSonix Therapy business model to more than 1,500 territories and international partnerships over the next five years.

The combination of the Company's treatment methods, healthcare services and products give HealthSonix a unique opportunity to capture a share of the large and growing arthritis market.

HealthSonix's marketing strategy is to **capitalize on the fractured market for arthritis treatments by introducing new therapies based on the sound pressure wave technology and by positioning them in combination with widely prescribed prescription pharmaceuticals** and over-the-counter medications.

The **HealthSonix plan is to open 1512 AquaSonix Therapy Regions and 46 Arthritis Treatment Centers over the next five years**. The Products Division is expected to generate a 74% gross profit margin with direct sales to consumers. The company has a comprehensive marketing campaign for North America. Local medical distributors will be selected for international markets. Total revenues are forecasted to expand from \$4,281,848 in the first year to \$24,601,097 by year three. EBITDA will grow from \$1,181,211 to \$12,963,120 in the same period.

## FINANCIAL STATEMENTS & PROJECTIONS

Due to the brevity of its tenure as a public entity, the company has not yet made any filings with the SEC with regards to financial performance. Financial information for KyoCare Health Co. is not useful or indicative of financial performance we can expect from the combined company going forward. The Company expenses all research and development and business development costs as they are incurred which has represented the majority of the activities to date. **Total business development costs (losses) of more than \$5 million to date** include costs to develop and Clinically test the enSonix family of products, FDA registrations, development of Clinical protocols, development and creation of state-of-the-art communications and scheduling software, development, certification and testing of the AquaSonix™ equipment and programs, development and formulation of complete line of health supplements and topical ointments under the HealthSonix brand name.

HealthSonix has been financed to date by funds provided by **Atlantic Capital Partners Inc., Frankopan Partners Inc., DuCorp Capital Inc., and Company's Senior Management**. The funding requirements for AquaSonix™ Treatment, Arthritis Treatment Center & the Medical Devices Division is discussed below:

### Funding Requirements

A qualified AquaSonix Therapist/Territory Manager is trained and given a specific geographic territory. The company's investment is \$5000 for the equipment and training plus the ongoing base salary and operational bonuses. The Company is expected to generate in excess of \$240,000 in EBITDA from each ongoing AquaSonix Therapy territory, by the third year of operation.

The **first new Center to be built will be in Boca Raton, Florida** and is being funded by the company. The funds will provide for the planning, construction, and other capital costs to open the facility as well as necessary working capital for operations. The Center requires an initial investment of approximately \$350,000 for capital costs and working capital for start up expenses and for the funding of accounts receivable owed by insurance providers. The Center is expected to become cash positive and self-funding after the 6th month of operation. Revenues from each Center will increase from \$462,000 in the first year to \$1.8 million by the 5th year of operation. A break-even takes place in the first year with profitability increasing to over \$1 million by year five. Cash break-even occurs in month six using a conservative scenario in which accounts receivable are collected from insurers 90 days after invoicing.

The Medical Device Division revenues, the majority of which are expected to be the enSonix@home™ device, are forecasted to grow from \$4.3 million in year one, to \$47 million by year five. Projected EBITDA is \$27 million by the fifth year. To rollout the marketing plan, a substantial investment is required for inventory and advertising. Since sales are made directly to consumers, these revenues are cash based. Given the relatively large financial cost to launch the program, HealthSonix will aggressively pursue this opportunity.

### Projections

The company projects that each AquaSonix Therapy territory will **yield EBITDA of \$301,386 annually by year 5**. Each Arthritis Center is expected to generate sales of **\$1.8 million and EBITDA of \$1.125 million** in the same time frame. The rollout program includes the implementation of **1500 AquaSonix Therapy Systems** and the opening of **50 Arthritis Centers** within those five years.

The Medical Device Division sells HealthSonix branded products, providing an average **74% gross margin** on direct sales to consumers. A comprehensive marketing campaign undertaken in North America will promote the products and the HealthSonix name. The enSonix@home™ which retails for \$249 will be the largest revenue generator of the existing products. **Unit sales of 464,886 are forecasted for North America and overseas markets in the first five years**. The company has conservatively estimated sales of 15,383 units in the first year of operation.

In overseas markets, local distributors will be selected to market in their designated trading areas. Revenues are forecasted to expand from \$4.3 million in the first year to \$47 million by year five. EBITDA will grow from \$ 1.2 million to \$27 million in the same period. On a corporate basis, HealthSonix Inc. is forecasted to achieve the following revenues and net income.

\$ USD

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Revenue	\$ 6.8 M	\$ 40.2 M	\$ 111.9 M	\$ 227.4 M	\$ 395.0 M
Net Income	\$ (.7) M	\$ 6.0 M	\$ 24.8 M	\$ 56.0 M	\$ 107.0 M

**Other noteworthy financial and per share statistics are listed in the table found on page 1 of this report.**

## RISK FACTORS / CONCERNS

The business model, and longer-term consistency of revenue and income potential, remain uncertain and is not fully proven. HealthSonix's business development is substantially dependent on the expertise of its management team and directors and advisory board of medical specialists, the loss of which could materially adversely affect future anticipated results. The company is still considered to be a **development stage company** and generated limited reported revenues and limited financial history void of financial reporting. The company's continuation as a going concern, however, is dependent upon, among other things, its ability to obtain additional financing when and as needed and to generate sufficient cash flow to meet obligations on a timely basis. No assurance can be given that HSXI will be able to obtain such financing on acceptable terms.

**Gross margins** albeit projected to be relatively lofty are **sensitive to changes in reimbursement rates** set by Medicare for medical products and **supplier prices charged to manufacture these products, which are currently considered attractive**. A major adverse adjustment to one or both of these variables will severely impair profitability. The **FDA may make new rulings in future** which mandate a suspension or a recall of production or sales of products or devices sold by HealthSonix, and result in HSXI losing sales and incurring expenses for a period until the company is in compliance with the regulations specified by the FDA or other regulatory body.

On **Federal level, any reduction in Medicare** or other government programs or private plan reimbursements currently available for these products would reduce the company's future projected revenue stream. The company may not be able to generate or obtain sufficient funds to operate its business, which could harm results, and force the company to curtail or cease planned operations. Due to the lack of quarterly or other financial statements we are unable to assess the liquidity position of HealthSonix. Shareholders and potential investors need to be aware that the risk exists that the **company's liquidity may be insufficient to support the expansion**, business and marketing plan(s) of HSXI. There can be no assurance the company will be successful in its effort to secure additional financing for the marketing campaign that lie ahead or funding required. New technologies that focus on finding more convenient less intrusive and more effective arthritis treatment than the existing HealthSonix suite of products, devices and treatments, can negatively affect HealthSonix's market.

The sale of medical products entails the risk that patients may **institute product liability claims, which** could be expensive. The company may not have insurance cover, or if it has such cover it may not provide adequate coverage against such potential claims. Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices around \$1.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of HSXI shares that would result in demand outstripping supply and result in an upward squeeze in the price given the low liquidity and daily trading volume.

**We caution that historical volume activity on HSXI has been noticeably light**, and we are unable to forecast the direction of trading volumes over the coming months with any degree of certainty. Major dilution of common stock can occur if company issues large blocks of common stock or convertible debt are converted/warrants exercised (should such instruments exist) into common stock, that can negatively impact on the value of the shares either theoretically or if sold in the open market. HSXI's common stock is listed on the OTC Pink Sheets. NASD and SEC Regulations covering rules on Penny Stocks apply for HSXI, subjecting NASD broker-dealers to additional sales practice and disclosure requirements.

The company's success will depend, in part, on its **ability to market its safe, effective, non-intrusive arthritis treatment technology to patients and medical practitioners, create brand awareness in an effort to become the leading choice of treatment in the market** and ultimately its success will also depend on its ability to compete with rival forms of arthritis treatments. The company has produced little revenue to date. Reliance on laws covering trademark rights, U.S. federal registration rights and trade secret laws to protect its technology and trademarks may not be sufficient to protect this intellectual property and could have a material adverse effect on its competitive position.

Further elaboration on these above-mentioned and other additional risk factors not cited in this section of our report are likely to be contained in future **SEC filings or Form 10-KSB or 10-QSB.**

*See Appendix A-I for Analyst Certification and Important Disclosures*

## MANAGEMENT

The management team of HealthSonix has extensive experience in senior management, healthcare, medical research, marketing, sales, finance, strategic planning, and operations. This group consists of individuals who have gained management skills and competencies in large multi-national corporations as well as having successfully grown a number of early stage companies. The Company also has a Medical Advisory Board of practicing physicians, rheumatologists, a psychologist and a pharmacologist, all of whom are distinguished in their field.

### **Ivan de Souza, MBA – Chairman**

Ivan de Souza brings over 25 years of investment banking experience, including Senior Vice President and major shareholder of McLeod Young Weir, now Scotia McLeod. Ivan founded Investcan Inc., a TSE regulated firm. Ivan has for many years dedicated himself to serving the Toronto community with a number of significant philanthropic commitments. As a Board member of The Brazilian Ball, his efforts have included significant funding for arthritis research. Ivan graduated from Cambridge University (UK), has an MBA from the Université Laval (Quebec, Canada), and has furthered his studies in technology management at MIT.

### **Michael Ivezic – Interim President & CEO**

Michael Ivezic has over 15 years experience with start-up companies. He has applied his unique entrepreneurial skills to turn early stage companies into successful international organizations. Mr. Ivezic is a partner in Frankopan Partners, a merchant bank, which specializes in providing early stage capital and business development expertise. He restructured Lectronic Kaddy and turned it into a global firm. He successfully took LuminArt and Centraxx from invention-stage to a public company status. These companies had international operations in over 20 countries. At HealthSonix, Mr. Ivezic is involved with the overall direction of the company.

### **Larry Phillips, B.Com – Executive Vice President**

Larry has a 25 year career focused on strategically growing and managing early stage consumer goods companies on an international scale. Mr. Phillips has a broad business and operations background and has quickly spearheaded the required positive change and direction in all aspects of an organization. He has been instrumental in formulating strategic plans and then effectively assembling, implementing, and managing the resources required for success.

### **Dieter Doederlein BA, MBA – Vice President Corporate Development**

Mr. Doederlein has over 30 years of management experience with companies in the consumer and healthcare sectors, many of which he served as President, including a public health and beauty aid company. He also developed growth strategies for healthcare companies like Colgate, Smith Kline French, Warner-Lambert, Glaxo, and Carter Wallace.

### **Gerry Hruby, BCom – Vice President Marketing**

Mr. Hruby brings to the company over 20 years of consumer and professional marketing experience with leading international healthcare companies including Pfizer and Cooper Laboratories. His expertise covers prescription drugs and over-the-counter pharmaceuticals, medical devices and consumer healthcare products. His proven ability in successfully penetrating markets and his exposure to a wide variety of medical disciplines and international markets provides a critical resource necessary to build global marketing programs and achieve international distribution.

## Medical Advisory Board

### **Dr. Edward C. Keystone, M.D., FRCP(C) – Honourary Chairman**

Dr. Keystone obtained his Doctorate of Medicine degree from the University of Toronto in 1969, and received his specialty degrees in both Rheumatology and Internal Medicine in 1974. He then carried out his research training at the Clinical Research Center in Harrow, London, UK until 1976. He was on staff as a consultant rheumatologist at The Wellesley Central Hospital, Toronto, Canada from 1976 to 1998 before taking up his current position as Senior Consultant in Rheumatology at Mount Sinai Hospital, Toronto.

Dr. Keystone is also professor of Medicine at the University of Toronto, Chairman of the Canadian Rheumatology Research Consortium (CRRC), and Associate Clinical Director of the Canadian Arthritis Network. Dr. Keystone recently established The Rebecca Macdonald Center for Arthritis and Autoimmune Disease - a Center devoted to research into genomics, therapeutics, and outcomes in autoimmune inflammatory joint disease and osteoarthritis. He is Director of the Center and heads the Advanced Therapeutics Division which focuses on novel therapeutics in both rheumatoid arthritis and osteoarthritis. He is also a consultant to the pharmaceutical and biotechnology industry both in the USA and abroad, and is a member of numerous biopharmaceutical advisory boards. He is the author of more than 145 peer-reviewed papers, reviews, and book chapters and has been the recipient of numerous teaching awards and honors, including the Senior Investigator Award of the Canadian Rheumatology Association.

*See Appendix A-I for Analyst Certification and Important Disclosures*

**Dr. David Venturi, M.D., B.Sc., M.A.Sc. – Medical Director**

As Medical Director of HealthSonix, Dr. Venturi oversees the medical and technical aspects of all treatment programs. He provides professional and informed counsel to the company with regards to its overall scientific direction, opportunities and discoveries. Specifically, he provides input on the safety and effectiveness of medical services and health supplements; provides counsel on the protocols for the devices; reviews treatment results; and acts as spokesperson to the medical and academic communities. Dr. Venturi is a licensed physician and surgeon in both Canada and in the State of Michigan. He is a practicing physician in a large medical practice in Mississauga. In addition to being a medical doctor, Dr. Venturi is an accomplished biophysicist and has developed and patented a new functional food supplement. He has also initiated many commercial and Clinical programs, has authored or co-authored 10 publications and has participated in 22 Clinical abstracts. Dr. Venturi graduated from the University Of Toronto Faculty Of Medicine in 1984 after having earned his Bachelor of Science degree (Honours Physics - Gold Medal) from the University of Windsor (1974) and his Master of Applied Science (Aerospace Studies) degree from the University of Toronto Faculty of Applied Science and Engineering (1976).

**Dr. Gordon Chang B.Sc. M.Sc. Ph.D**

Dr. Chang received his education at the University of Toronto where he earned his Bachelor of Science degree (Physiology and Pharmacology) in 1981; followed by his Master degree in 1984 where his research area was gastrointestinal physiology; and finally in 1989, his Doctorate from the Department of Physiology and Institute of Biomedical Engineering. Dr. Chang was the recipient of the Research Fellowship award from the Hospital for Sick Children and his research area was cellular adhesion, biomaterials, and blood material interactions. From 1989 to 1992 Dr. Chang was a Post-Doctoral Fellow, Department of Clinical Biochemistry at the Toronto General Hospital, funded by the Canadian Medical Research Council: his main research areas were antioxidants, free radical chemistry, and oxidative injury. Since 1992, he has served as founder and President of Omega Alpha Pharmaceutical Inc.

**Dr. Harold T. Earle M.D. B.Sc. BEd.**

Dr. Earle earned his B.Sc., BEd. and M.D. degrees from Memorial University in Newfoundland, where he practiced family medicine until 1988. While In Newfoundland, he was on staff at the Western Memorial Hospital, acting as Chief of Staff 1982-1983 and Chairman of the Medical Records Committee 1984-1985.

In 1988, Dr. Earle moved to Brampton, Ontario to practice family medicine, including Emergency and Obstetrics. He also joined the staff of Peel Memorial Hospital/William Osler Health Center and was Chairman of Medical Records committee at Peel Memorial Hospital in 1989-1990. He currently serves as Medical Director of Peel Manor LTC facility and of Tall Pines LTC facility. In 1996 he became CEO of the Doctor's Help Line, an on-call service that provides medical advice by telephone. He is a Medical Consultant for the Region of Peel since 1994 where he deals with Occupational Health and Safety reviews, as well as the management of insurance and disability claims.

**Dr. Don Fitz-Ritson BA (Hons.), DC., FCCRS(Canada),DACRB(USA).**

Dr. Fitz-Ritson graduated from the University of Waterloo in 1974 with an Honours BA degree, majoring in Psychology and Kinesiology. He became a Doctor of Chiropractic (CMCC) in 1979 and armed with a F.C.E.R. bursary, he pursued post graduate courses in Neurophysiology at the University of Toronto until 1983. In 1996, Don became a Fellow of the College of Chiropractic Rehabilitation Specialists Canada (FCCRS), and in 2000, he earned his Diplomat of the American Chiropractic Rehabilitation Board (DACR) in the United States. As an Assistant Professor at CMCC, Dr. Fitz-Ritson has demonstrated his love of lecturing, and his penchant for research and has published 17 scientific papers and 3 definitive chapters on the assessment, treatment and rehabilitation of spinal injuries. Recently, he has concentrated on the effects of Low Energy Laser therapy on acute and chronic patients. He is currently President of Advanced Laser Sciences Corp..

**INVESTMENT THESIS AND RECOMMENDATION**

**Our analysis suggests that HealthSonix, Inc. is an interesting speculative play among micro-cap companies offering exposure to the investor on strong medical services demand amongst the North American and world markets consisting of more than 350,000,000 arthritis sufferers. HealthSonix Inc. is expected to become a major force in the Healthcare industry. HealthSonix's strategy is to actively promote and sell its proprietary enSonix™ products and healthcare services into the United States. The US represents the largest market potential for HealthSonix, particularly since Medicare covers 80% of the clinic treatment costs.**

**The company will also grow its revenues, operations and industry presence by joint ventures to open more locations that provide greater access to its AquaSonix™ Treatment that reduces and in some cases eliminates arthritis pain and restores joint mobility.**

The decision to focus on arthritis was based on its multi-billion dollar market size and the forecasted growth rate over the next two decades as a result of the aging population; the fractured arthritis marketplace; the absence of any known cure for this degenerative disease; the inability of existing products to provide consistent long term pain relief without side effects; and the growing recognition of the need for combination therapy in the management of arthritis. HealthSonix anticipates that its growth will be accomplished through aggressive marketing programs promoting its unique technology and services, by being patient-focused, promoting the HealthSonix brand name, cross marketing innovative products and services, and through a state-of-the-art, company developed communications system. The experienced HealthSonix management team has successfully proven their ability to grow early stage companies into international organizations.

Both operating and financial risk involved in investing in a young healthcare company are typically high and should be considered by investors. In this case the risks are tied to the uncertainty surrounding changing legislation or changing patient treatment preferences, and its ability to compete with rival drug and non-drug treatment options that could harm its revenue outlook and profitability. Marketing and regulatory compliance costs associated with its developmental phase in the company life cycle will initially result in negative cash flow in FY2006 and is expected to turn positive in FY2007. Readers should understand that there can be no assurance that the company will be able to fast-track its intended path towards diversifying the product mix and penetrating the arthritis market with its sound pressure wave technology that is the cornerstone of its products and services that will flow through directly to the top and or bottom line to build a consistent longer term profitable track record that will build shareholder value.

We therefore only recommend investors that have a high tolerance for risk that are able and willing to forfeit either most or all of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to HSXI should do so with absolute minimum 2 year investment horizon, but preferably longer, to allow ample opportunity for growth to emerge until broader price discovery can materialize within the investment community that will allow the value behind the current novel proprietary technology to be unlocked as more arthritis patients opt for treatment in group format, at Arthritis Centers or in a home setting (enSonix@home™). Short term we see a more sideways price action ahead, to allow HSXI shares to consolidate and build a base of support before starting an advance that is likely to be fuelled by future positive reporting events. In the medium term a major risk factor of delays in receipt of additional funding that may be required to open new locations, conduct marketing, manufacture products and expand operations, may hinder further improvement in the rating of the shares until adequate funding is secured that will satisfy concerns that may be present, or resurface in the investor community. Secondly the market may take a wait-and-see approach to allow more time for investors to assess the interest of patients and medical practitioners towards its products and the speed and extent of the penetration of HealthSonix to capture a part of the huge Arthritis market. Investor interest and upside in the price of HSXI stock may be curtailed until the company releases audited or unaudited financial statements and reports on its financial performance to shareholders.

We believe that these factors may act as a short-term headwind in the absence of other positive news. Based on recent the company's business plan, positive clinical trial results, Added AquaSonix Treatment locations, its FDA designated Class 1 products and projections of its expansion plans over the coming 5 years we expect financial performance to continue to improve. A significant ramp in revenues is expected from FY2007 into FY2008. Under the assumption that capital raising activity is achieved and expecting revenue of \$6.8 million in FY2007 followed by close to \$40 million by FY2008, positive cash flow from operations to be generated in FY 2007 as more progress is made to bring additional products and services to its targeted market, we are of the opinion that HSXI stock has major upside potential. Given management comments, and taking into account cost assumptions we are of the opinion that the company will report a net loss of \$0.7 million Using a weighted average share count of 51.4 million, we estimate a FY 2007 EPS loss of 1.4c. For FY 2007 we are expecting EPS to come in at least at 11.7c, followed by +23c EPS in FY2008.

In order to make a valuation call on the security, we have looked at medical instruments and Supplies peer comparatives such as Sonosite Inc. (NASDAQ:SONO) among others. SonoSite, Inc. engages in the development, manufacture, and distribution of hand-carried ultrasound (HCU) systems for use in medical specialties and in a range of treatment settings Worldwide. The HSXI business model is not a close fit to that of other listed counterparts. We have decided however to value HSXI on a forward PE basis using a forward PE basis of 21.5x. This metric was chosen as a function of the forward PE of the Medical Instruments and Supplies group that is trading on a 12 month forward price-to-earnings multiple of 21.5x. We have not allowed for any discount or premium to the industry average in this specific case to take neither a conservative or liberal stance in our measure valuation theory. As HSXI grows and achieves its milestones along its 5-year business plan, and starts to enjoy more brand recognition, we expect that the rating can improve. Using our FY 2007 and FY 2008 EPS forecasts and applying a forward 15 and 27 month PE multiples of 21.5x respectively, (PE ratios chosen based on peer comparatives and relative risk), we arrive at future share values of 251c and 495c going out 15 and 27 months.

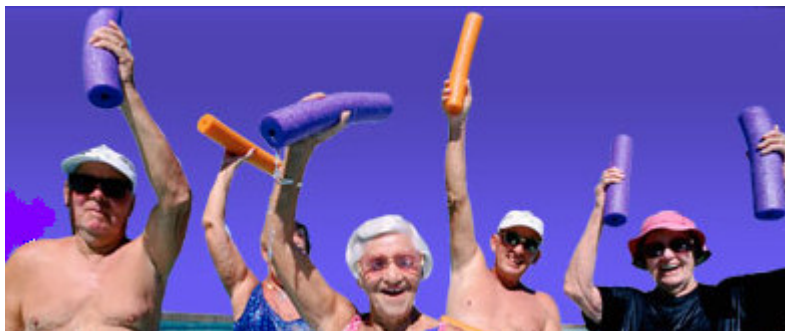
We have chosen a discount rate of 9% and calculated a present value of these two future values and determining the average between these two present values using the discount rate (SEE TABLE BELOW). This process yields a result of 315c. Given these calculations we set a 12-month target price for the security of \$3.50. Using a Free Cash Flow (FCF) Model yields and intrinsic value of closer to \$4.20 per share. All factors considered, we anticipate a stake in HSXI still has compelling upside potential in the coming 12 months.

		Forward PE multiple	EPS Growth	PEG Multiple	Forward Price	Discount Rate (k)	Present Value
FY 2007 EPS	0.117	21.5	NA		2.51	9%	2.248
FY 2008 EPS	0.230	21.5	97%	0.222	4.95	9%	4.057
Average							3.1521

		Assumptions	
Price to Book		Beta	1.30
Price to Sales	8.09	R <sub>f</sub>	4.00%
Current PE	NA	R <sub>m</sub>	8.0%
Forward PE	9.17	k	9.2%
(FY 2007 EPS)			
EV		$k=R_f+(R_m-R_f)*Beta$	

We HIGHLIGHT to the reader that this forecast is made under the assumption that the company can attain our FY2007 and FY2008 revenue expectation of \$6.8 million and \$40 million and a minimum of \$6 million after tax income in FY2007, followed by net income in FY2008 of \$24.8 million. Moreover, we believe that the present market for HSXI shares is far from efficient, does not fully reflect the leverage possible from its multi-dimensional approach and offerings targeted toward the massive arthritis market that is expanding at an annual pace of 2-3%. We regard the present market capitalization as modest in light FY2008 revenues of \$40 million that puts the stock on a forward price to sales multiple of 1.34x compared to just under 3x for its industry, which is not demanding. Under these assumptions we initiate coverage on HSXI with a SPECULATIVE BUY rating.

Risk to our recommendation include amongst other, failure of new marketing campaign to increase sales for new patient shipments of enSonix@home™, a slowdown in revenue growth from product sales and treatments that will lead to a contraction in forward PE multiple assumptions, any changes in favorable terms with suppliers, new competition, a change to Medicare reimbursement procedures/policy changes or unforeseen regulatory changes impacting adversely on the medical supplies direct-to-consumer market focusing on Arthritis fibromyalgia; and musculoskeletal injury markets. Also, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, are some additional factors that will counteract price appreciation potential or cause shares to decline in value. Any failure to retain qualified staff and talented management and medical advisory board skills can restrict future business activity and hurt operations and financial performance, the inability to achieve revenues in the future that depends in significant part upon managements ability to build upon marketing and adoption of its patented technology that has received FDA approval, and low penetration of the arthritis market can hamper share price performance. As a result, any cancellation, reduction or delay in the pursuit of future scheduled plans may materially adversely affect the business, financial condition and results of operations and additional risk factors that could adversely affect the attainment of our share price target include: general economic conditions and a variety of factors that is outside the control of the company. Reduced demand for its products and treatments by patients due to changing preferences or an unanticipated industry downturn or a major/minor contraction in the medical equipment & supply industry in general, albeit unlikely can lead to soft demand for HSXI's products, which can resulted in decreased revenues, earnings levels or growth rates. We would caution that given the size of the company (micro-cap security) and risks involved, overall we advise private client positions be limited below 5% of the client's total portfolio size.



**AquaSonix™**  
Therapy

Arthritis Treatment  
Centers of America™

**ANALYST CERTIFICATIONS****APPENDIX A-1**

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report. PS Pearlstar Communication Ltd. paid Tri-State Capital \$7,000 in compensation for work on the subject company.

Based on the facts that were provided, the industry trends present and sources of information used to produce this report, it is my best opinion and reflection of what the companys rating and share appreciation potential could be once research coverage is widely adopted. Investors are urged to consider this report as only a single factor in making their investment decision. Information, opinions or recommendations contained in this report or research note are submitted solely for advisory and information purposes and we also do not accept any obligation to provide updates to this report in future.

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