

11 Church Road
Great Bookham
Surrey, UK
KT23 3PB
Telephone: +44 (0) 207 788 7775
www.equitycapitalmanagement.co.uk

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Hard to Treat Diseases, Inc.

Follow Up Report - October 4, 2009

On September 21, we reported that a Pink Sheet stock, Hard to Treat Diseases, Inc. (HTDS), was a player in the Swine Flu space and compared it favorably to the other public companies with swine flu vaccine prospects.

Background

HTDS has two divisions, Slavica and Mellow Hope. Slavica is in Serbia and is making great strides in researching the use of combinations of existing drugs to treat Multiple Sclerosis and brain damage. Apparently HTDS stock was up on that news this year.

The other division, Mellow Hope is in China and is China's largest exporter of biological vaccines. Our excitement was caused when Mellow Hope's swine flu vaccine was approved in the huge market of China. We are eager about the stock because HTDS entire market cap is a small fraction of the increase in market value caused by swine flu vaccine excitement in other public companies, as we discussed in our earlier report.

Swine Flu Vaccine Opportunity

We find swine flu vaccine exciting for many reasons. First, this is a large market – health authorities seem to want to vaccinate everyone. As unrealistic as that idea is, it is still a huge market. Second, the demand reportedly exceeds the supply – this is like selling water in the desert. Third, because this is an emergency situation,

unlike most drug products, the approval of the vaccine and its sale is going to be on a fast track.

Swine flu vaccine by HTDS is especially exciting because we have a situation of investment leverage – we have probably the hottest investment theme in stocks today hitting a small company, creating enormous leverage. In business terms, it is an opportunity for HTDS to reach into new markets worldwide, moving fast at the highest levels.

What HTDS Needs to Show

Nonetheless, this is still a speculative stock – high risk, high reward – only for the brave who can afford the risk. HTDS needs to show fast marketing efforts. Fortunately for HTDS, it is already an export company, giving it access to large markets. The biggest marketing barrier for HTDS is probably overcoming the stigma attached to faulty Chinese products in the past. They have to sell the vaccine rapidly in many markets worldwide and then produce quality and deliver rapidly. These are challenges for any company, but all this is within reach.

Skull and Bones

An interesting note on the market for HTDS stock. At a time when HTDS probably needs to raise more capital to expand and should start attracting the interest of institutional investors in its space, the Pink Sheets has seen fit to place it on the “Caveat Emptor” list, with a big black skull and crossbones on the HTDS front page. This is the same skull and cross bones you see on a bottle of poison to warn you away. According to the Pink Sheets explanation, stocks are basically placed on this list for fraudulent or suspicious activities.

Pink Sheets originally put HTDS on that list because of a spike in volume on the swine flu announcement. That’s right folks, you have to disclose all material events, and when you have really good news that causes your stock to jump, you can be blacklisted on the Pink Sheets!

But here is the real joke: the Pink Sheets has refused to take HTDS off its blacklist only because – hold on to your chair – HTDS itself is investigating the possibility of naked short selling in HTDS stock. In other words, Pink Sheets has labeled HTDS poison because someone else might possibly be shorting the stock. Pink Sheets has no proof that someone else is shorting the stock; they just know the HTDS is investigating short selling.

It is important to note that not only is this reason laughable, it is impossible to justify. If Pink Sheet were to blacklist all stocks it has with short positions, hardly any stock of interest would be left on Pink Sheets. HTDS is being singled out for unique and special treatment without any good reason.

It almost looks like Pink Sheets was desperate to find some reason, any reason, to keep the company on the blacklist and they couldn't find anything better.

In response, HTDS says it is seeking legal counsel. A damage award of tens of millions of dollars or much more in lost market value is easy to envision. Causes of action that jump into mind for a class-action lawsuit by shareholders range from simple defamation to intentional interference with business relations to classic Rule 10b5 securities fraud. But don't buy HTDS as a litigation play. Pink Sheets entire shareholders equity is only \$4.3 million at the end of 2008 so even a full recovery would not mean much to HTDS shareholders. Why would Pink Sheets intentionally risk everything they have on such a stupid action? We find it impossible to believe that the management or someone working there is on the take from short sellers or short market makers, but we are at a loss to explain their actions. Such an action smears the integrity of the Pink Sheets market to its core. Why would you list your company on a market that without good reason slams your stock in a negative way?

Will all this impact the stock? It already has, but ultimately the sources of finance for sales of swine flu vaccine to countries and large companies probably do not depend on raising money in the stock market.

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14

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