



RESEARCH

Healthcare: Emerging Pharmaceuticals

Important disclosures can be found on pages 7 - 8 of this report.

Sepracor Inc. (SEPR-\$46.91*)

Underperform

Price Target: \$43.00
Company Update

March 28, 2007

David Amsellem • 703.469.1303 • damsellem@fbr.com

STOCK DATA			
52 Week Range	\$63.24-\$42.29		
3-Month ADTV	2,275,651		
Dividend Yield	0.00%		
Market Cap (mil)	\$5,169.5		
Shrs Outstanding (mil)	110.2		
5-Year CAGR	45%		
Float %	99%		

EARNINGS DATA			
EPS			
Dec	2006A	2007E	2008E
1Q	\$0.09	\$0.36	—
2Q	\$0.10	\$0.32	—
3Q	\$0.56	\$0.56	—
4Q	\$0.85	\$0.96	—
FY	\$1.60	\$2.22	\$2.80
P/E	29.3x	21.1x	16.8x

FINANCIAL DATA			
FY	2006	2007E	2008E
Total Revenue	1196.5	1377.9	1582.5

BALANCE SHEET DATA	
	4Q06
Cash & Equivalents	\$715.3
Total Assets	\$1,043
Total Liabilities	\$951
Total Debt	\$721.9
Total Stockholder Equity	\$92.2
<i>Total Debt: Reflects payment of \$440M note on 2/15/07</i>	

Gaboxadol Dropped; Does Not Change Challenging Outlook for Lunesta

Summary and Recommendation

Merck and Lundbeck announced that they are discontinuing development of gaboxadol for insomnia. The companies cited a high incidence of psychiatric side effects and noted a lack of efficacy in a recent study, though the drug did show positive results relative to placebo in other studies. We believe that the long-term competitive risks to Lunesta remain considerable. There are several insomnia drugs in late-stage development that work differently than the GABA-acting agents and appear to carry lower safety and abuse risks. Additionally, we continue to believe that Lunesta sales in the near term are at risk, with the company's 2007 Lunesta guidance of \$685M not adequately reflecting the potential disruption to Lunesta sales due to the upcoming generic availability of Ambien. We are maintaining our Underperform rating and \$43 price target.

Key Points

- **Gaboxadol discontinued due to safety/abuse risks; lack of efficacy in three-month study also cited.** Merck and Lundbeck cited a higher incidence of psychiatric side effects at a therapeutic dose of gaboxadol in a study of drug abusers as one of the reasons for the discontinuation (38% of patients on gaboxadol at 15 mg versus 15% of placebo patients). Such studies are required by the FDA to assess abuse risk. A reanalysis of data from studies in adults with insomnia also showed that these effects were observed in a handful of patients at high doses. An NDA would have taken place this summer.
- **Insomnia drug development pipeline still crowded and mostly comprised of more novel agents with lower abuse/safety risks.** Like Ambien and Lunesta, gaboxadol is an agonist of the GABA-A receptor and would have been a Schedule IV drug. We believe there is considerable appetite for new insomnia agents but not if they pose the same kind of safety/abuse risks associated with the approved GABA-acting agents. Most insomnia drugs in late-stage development do not act on GABA and will likely avoid controlled substance classifications. These include Sanofi's 5HT-2A antagonist eplivanserin (in Phase III), Somaxon's Silenor (a low-dose version of an FDA-approved antidepressant; NDA expected in 3Q07), and Vanda's melatonin agonist VEC-162 (filing possible in 1H09); refer to the table below for a snapshot of insomnia drugs in development.
- **Today's news does not change near-term outlook for Lunesta.** The Street estimate for 2007 Lunesta sales is still near the company's \$685M guidance (21% growth over 2006), which we believe is unrealistic considering that sequential prescription growth for 1Q07 is flat. One bullish argument on Lunesta is that the drug will have a larger share of voice once Ambien becomes generic in April. Even with a large share of voice, Sanofi will continue its sampling of Ambien CR, and doctors we have polled perceive that drug as better than Lunesta for sleep maintenance.

Selected Insomnia Agents in Development

Drug	Company	Description	Status	Comments
Silenor	Somaxon	low-dose formulation of tricyclic doxepin	NDA in 3Q07	Doxepin available since 1970s; used at 75-300mg for depression; Silenor doses are 1,3, and 6mg
gaboxadol	Merck	selective GABA-A receptor, alpha-4 subunit agonist	Discontinued	Short half-life of 1.5-2 hours; Tmax of 30 minutes; Merck cited lack of efficacy in dropping program, but safety/abuse risk also played a role
indiplon	Neurocrine	selective GABA-A receptor, alpha-1 subunit agonist	NDA resubmission in 2H08	NBIX conducting new 3-month efficacy study in IR capsules; still developing FDA strategy for MR capsules
eplivanserin	Sanofi-aventis	Selective serotonin (5HT-2A) antagonist	Phase III	Mostly effective in sleep maintenance; modest efficacy in sleep onset
Provigil	Cephalon	CNS stimulant	Phase III	Stimulant effect may paradoxically have activity in insomnia; small study ongoing
VEC-162	Vanda	melatonin agonist	Phase III	Chronic insomnia Phase III to start in 2H07
Xyrem	Jazz	GHB, metabolite of GABA	Phase III	Approved in narcolepsy; Schedule III and API is Schedule I for non-medical uses; also requires middle-of-night dosing
ACT-078573	Actelion	orexin antagonist	Phase II	Oral antagonist of the neuropeptide orexin; improved sleep efficiency in single-dose Phase II study; Phase III may start in late 2007/1H08
APD125	Arena	Selective serotonin (5HT-2A) antagonist	Phase II	Possible Phase II data in 2007
casopitant	Glaxo	neurokinin-1 (NK-1) antagonist	Phase II	NK-1 is receptor for neuropeptide substance P; same mechanism as Merck's anti-emetic Emend; potential in psychiatric disorders and pain
HY10275	Hypnion/ Eli Lilly	Dual H1 agonist/5HT-2A antagonist	Phase II	Novel dual action mechanism: histamine and 5HT-2A receptors; positive Phase IIa single-dose data for WASO and LPS; recent acquisition by LLY
pruvanserin	Eli Lilly	Selective serotonin (5HT-2A) antagonist	Phase II	Possible Phase II data in 2007

Source: Industry reports and FBR estimates

Risks

Changing dynamics of insomnia market could pose challenges for Lunesta. The insomnia market is crowded, with a significant number of branded and generic players. Ambien, which is currently the most widely prescribed insomnia agent, will be available as a generic in April 2007. The availability of a cheaper generic that is widely used could adversely impact Sepracor's ability to drive prescription and market share growth for Lunesta. Additionally, new branded market entrants could further affect Lunesta's growth trajectory.

Reimbursement risks, particularly for Xopenex UDV. All of Sepracor's products can be adversely impacted by narrower reimbursement from government and/or private payors. Formulary decisions by large managed care organizations can have a significant impact on usage. In the case of Xopenex UDV, there is near-term reimbursement risk in the Medicare setting. Providers of durable medical equipment that contract with Medicare under Part B have proposed Xopenex UDV reimbursement more in line with that of albuterol, which is significantly less expensive. A decision on this matter is expected by June 20, 2007, and could have a significant impact on Xopenex UDV sales since Medicare patients account for approximately 20% of sales.

Launch risks related to new products. Sepracor's newest products include Xopenex MDI, which was launched in December 2005, and Brovana, which is expected to launch in 2Q07. Xopenex MDI is operating in a market in flux, as manufacturers are shifting from CFC-based inhalers to HFA-based inhalers. Xopenex MDI's success depends to some extent on doctors and patients switching away from albuterol as the CFC-based inhalers are phased out. Slower-than-expected adoption of Xopenex MDI could impact the drug's sales potential. For Brovana, the drug is the first long-acting beta-agonist administered via nebulization to become available for COPD, so Sepracor is essentially carving out a new market segment. There is always the risk that, in doing so, adoption could be weaker than expected.

Sepracor's pipeline is relatively early-stage and is high-risk. With the exception of Brovana, which will launch in 2Q07, Sepracor's pipeline compounds are in the relatively early stages of development, with depression drug candidates SEP-289 and SEP-162 expected

to enter Phase II trials in 2007. Although the antidepressant space is one of the largest pharmaceutical markets in terms of sales and prescriptions, it is very crowded and is increasingly characterized by generic competition.

Company Profile

Sepracor, Inc. is focused on the development and commercialization of therapeutics for the treatment of central nervous system (CNS) and respiratory diseases. The company's CNS franchise consists of Lunesta, which was approved in 2004 for insomnia, and includes a pipeline of several compounds for other CNS conditions, such as depression and Parkinson's disease (including a research collaboration with Acadia Pharmaceuticals). Sepracor's respiratory franchise consists of Xopenex UDV and Xopenex MDI for the treatment of obstructive airway diseases (asthma and chronic obstructive pulmonary disease, or COPD), and Brovana, which was approved in October 2006 for COPD and is expected to launch in 2Q07. The company also earns royalties on sales of antihistamines by large pharmaceutical companies; these include Clarinex, Allegra, and Xyzal.

Seppracor Inc. - Quarterly and Annual Income Statement

Fiscal Year Ends December 31 (\$ In millions, except for EPS)	2006A					2007E									
	2005A	1QA	2QA	3QA	4QA	2006A	1QE	2QE	3QE	4QE	2007E	2008E	2009E	2010E	2011E
Product Sales (U.S.)															
Xopenex UDV	428.3	134.1	115.6	125.4	179.9	555.0	162.3	130.3	116.2	182.6	591.3	623.8	641.6	657.1	673.0
Xopenex MDI	12.0	5.3	1.7	13.1	20.9	41.0	16.6	18.7	26.0	40.8	102.2	186.3	259.1	296.0	320.8
Brovana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	17.0	21.2	40.2	93.2	137.1	185.2	220.5
Respiratory Franchise Sales	\$440.3	\$139.4	\$117.3	\$138.5	\$200.8	\$596.0	\$178.9	\$151.0	\$159.1	\$244.6	\$733.6	\$903.3	\$1,037.7	\$1,138.3	\$1,214.2
Lunesta	329.3	138.1	139.1	141.6	148.0	566.8	151.4	147.4	149.2	157.3	605.3	640.2	678.4	718.5	753.8
Total Product Sales	\$769.6	\$277.5	\$256.4	\$280.1	\$348.8	\$1,162.8	\$330.3	\$298.4	\$308.3	\$402.0	\$1,338.9	\$1,543.5	\$1,716.1	\$1,856.8	\$1,968.0
Other revenue	51.2	8.2	8.0	9.2	8.4	33.8	9.0	9.5	10.0	10.5	39.0	39.0	39.5	40.0	40.5
Total revenue	\$820.9	\$285.7	\$264.4	\$289.3	\$357.2	\$1,196.5	\$339.3	\$307.9	\$318.3	\$412.5	\$1,377.9	\$1,582.5	\$1,755.6	\$1,896.8	\$2,008.5
Cost of sales	67.4	25.7	21.0	24.9	33.2	104.7	31.2	28.0	28.6	37.1	125.0	142.4	158.0	170.7	180.8
Gross Profit	\$753.5	\$260.0	\$243.4	\$264.4	\$324.0	\$1,091.8	\$308.1	\$279.9	\$289.6	\$375.3	\$1,252.9	\$1,440.1	\$1,597.6	\$1,726.1	\$1,827.7
Research & development	144.5	49.3	36.4	35.5	42.3	163.5	54.3	55.4	54.1	57.7	221.6	237.4	245.8	265.6	271.1
Sales and marketing	586.2	190.0	182.6	151.2	167.9	691.6	196.8	177.1	156.0	185.6	715.4	775.4	825.1	872.5	883.7
General and administrative	39.4	14.3	17.9	19.3	20.3	71.8	20.4	21.6	22.3	22.7	86.9	99.7	110.6	119.5	126.5
Total expenses	\$770.1	\$253.5	\$236.8	\$206.0	\$230.5	\$926.8	\$271.4	\$254.0	\$232.3	\$266.0	\$1,023.8	\$1,112.5	\$1,181.5	\$1,257.6	\$1,281.4
Operating Income	(\$16.6)	\$6.4	\$6.6	\$58.5	\$93.5	\$164.9	\$36.6	\$25.9	\$57.3	\$109.3	\$229.1	\$327.6	\$416.1	\$468.5	\$546.3
Total other income (expense), net	3.4	4.2	5.2	6.8	8.0	24.1	8.4	14.4	14.9	15.9	53.6	62.5	64.5	66.5	68.5
Income (loss) from investments	(0.7)	(0.3)	(0.1)	(0.2)	0.1	(0.4)	0.1	0.1	0.1	0.1	0.4	0.5	0.5	0.5	0.5
Income (loss) before taxes	(\$13.9)	\$10.4	\$11.7	\$65.0	\$101.6	\$188.6	\$45.1	\$40.4	\$72.3	\$125.3	\$283.1	\$390.6	\$481.1	\$535.5	\$615.3
Income tax provision	(0.2)	(0.1)	(0.4)	(0.6)	(2.5)	(3.7)	(2.3)	(2.0)	(3.6)	(6.3)	(14.2)	(39.1)	(72.2)	(80.3)	(123.1)
Net income (loss)	(\$14.0)	\$10.3	\$11.2	\$64.4	\$99.0	\$185.0	\$42.9	\$38.3	\$68.7	\$119.0	\$268.9	\$351.5	\$408.9	\$455.2	\$492.2
EPS, basic	(\$0.13)	\$0.10	\$0.11	\$0.61	\$0.94	\$1.76	\$0.41	\$0.36	\$0.65	\$1.12	\$2.54	\$3.20	\$3.67	\$3.86	\$4.12
EPS, diluted	(\$0.13)	\$0.09	\$0.10	\$0.56	\$0.85	\$1.60	\$0.36	\$0.32	\$0.56	\$0.96	\$2.22	\$2.80	\$3.22	\$3.41	\$3.65
Shares outstanding, basic	104.8	104.3	104.6	105.0	105.3	104.9	105.5	105.7	105.9	106.1	105.8	109.9	111.4	117.9	119.4
Shares outstanding, diluted	107.9	115.5	115.4	115.7	116.0	115.5	118.0	120.0	122.0	124.0	121.0	125.5	127.0	133.5	135.0
Expenses (% of sales):															
COGS	8.8%	9.3%	8.2%	8.9%	9.5%	9.0%	9.2%	9.1%	9.0%	9.0%	9.3%	9.0%	9.0%	9.0%	9.0%
R&D	18.8%	17.8%	14.2%	12.7%	12.1%	13.7%	16.0%	18.0%	17.0%	14.0%	16.1%	15.0%	14.0%	14.0%	13.5%
Sales and marketing	76.2%	68.5%	71.2%	54.0%	48.1%	57.8%	58.0%	57.5%	49.0%	45.0%	51.9%	49.0%	47.0%	46.0%	44.0%
General and administrative	5.1%	5.2%	7.0%	6.9%	5.8%	6.0%	6.0%	7.0%	7.0%	5.5%	6.3%	6.3%	6.3%	6.3%	6.3%
Margins (% of revenue):															
Gross margin (% of sales)	91.2%	90.7%	91.8%	91.1%	90.5%	91.0%	90.5%	90.6%	90.7%	90.8%	90.7%	90.8%	90.8%	90.8%	90.8%
Operating margin	NM	2.3%	2.5%	20.2%	26.2%	13.8%	10.8%	8.4%	18.0%	26.5%	16.6%	20.7%	23.7%	24.7%	27.2%
Net income	NM	3.6%	4.3%	22.3%	27.7%	15.5%	12.6%	12.5%	21.6%	28.9%	19.5%	22.2%	23.3%	24.0%	24.5%
Income Tax	NM	1.1%	3.7%	0.9%	2.5%	1.9%	5.0%	5.0%	5.0%	5.0%	5.0%	10.0%	15.0%	15.0%	20.0%
Y-Q-Y growth rates:															
Xopenex franchise US sales	37.6%	30.8%	41.0%	49.7%	27.0%	35.3%	28.3%	27.0%	2.6%	11.3%	16.4%	16.8%	11.2%	5.8%	4.3%
Brovana US sales												131.8%	47.1%	35.1%	19.1%
Lunesta US sales			66.6%	40.3%	2.1%	72.1%	9.6%	6.0%	5.3%	6.3%	6.8%	5.8%	6.0%	5.9%	4.9%
Total revenue	115.5%	140.1%	42.9%	40.6%	14.8%	45.8%	18.8%	16.5%	10.0%	15.5%	15.2%	14.8%	10.9%	8.0%	5.9%
R&D	-9.7%	72.5%	-2.1%	-7.4%	4.7%	13.1%	10.2%	52.4%	52.3%	36.4%	35.5%	7.1%	3.5%	8.0%	2.1%
Sales and marketing	63.8%	103.9%	40.3%	-7.1%	-16.1%	18.0%	3.6%	-3.0%	3.2%	10.5%	3.4%	8.4%	6.4%	5.7%	1.3%
General and administrative	29.8%	68.8%	81.7%	77.4%	98.9%	82.2%	42.2%	20.5%	15.5%	12.0%	21.1%	14.8%	10.9%	8.0%	5.9%
Operating profit											38.9%	43.0%	27.0%	12.6%	16.6%
Net income											45.4%	30.7%	16.3%	11.3%	8.1%
EPS											44.2%	25.8%	14.8%	5.2%	6.8%

Proprietary to Friedman, Billings, Ramsey & Co., Inc. March 28, 2007
SEPR: David Amsellem (703) 469-1303

Sepracor Inc. - Annual Cash Flow Statement

(\$ in millions)

	2004A	2005A	2006A	2007E	2008E	2009E	2010E	2011E
Beginning Cash & Equivalents	\$705.8	\$435.9	\$178.1	\$415.4	\$361.2	\$559.9	\$771.3	\$1,003.4
Operating Activities								
Net Income (Loss)	(\$295.7)	\$5.0	\$184.6	\$268.9	\$351.5	\$408.9	\$455.2	\$492.2
Depreciation & Amortization	\$18.8	\$17.2	\$20.7	\$1.5	\$9.0	\$15.0	\$20.0	\$20.0
Investment losses (gains)	\$1.5	(\$17.7)	\$0.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other	\$77.3	\$2.9	\$45.3	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)	(\$5.0)
Net Change in Assets and Liabilities	\$14.8	(\$30.0)	(\$72.1)	(\$21.1)	\$20.7	\$3.0	\$2.4	\$1.9
Cash from Operations	(\$183.3)	(\$22.6)	\$178.9	\$244.3	\$376.2	\$421.9	\$472.6	\$509.2
Investing Activities								
Capital Expenditures	(\$11.4)	(\$13.7)	(\$15.9)	(\$8.0)	(\$12.0)	(\$20.0)	(\$25.0)	(\$30.0)
Short-Term Investments	(\$265.3)	(\$381.0)	\$53.3	\$150.0	(\$175.0)	(\$200.0)	(\$225.0)	(\$250.0)
Acquisition of Tangible Assets	(\$4.0)	\$0.0	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Intangibles	\$0.0	\$0.0	\$0.0	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)	(\$0.5)
Other Investment	\$1.0	(\$6.2)	(\$8.9)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash from Investing Activities	(\$279.7)	(\$400.9)	\$28.6	\$141.5	(\$187.5)	(\$220.5)	(\$250.5)	(\$280.5)
Financing Activities								
Debt Issuance	\$650.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Repayments ⁽¹⁾	(\$434.9)	(\$2.2)	(\$2.0)	(\$450.0)	\$0.0	\$0.0	\$0.0	\$0.0
Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Share Repurchases	(\$100.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances	\$42.1	\$44.0	\$31.7	\$10.0	\$10.0	\$10.0	\$10.0	\$10.0
Other, Net	\$36.3	\$123.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash from Financing Activities	\$193.1	\$165.6	\$29.7	(\$440.0)	\$10.0	\$10.0	\$10.0	\$10.0
Currency Translation Differences	\$0.1	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change in Cash	(\$269.9)	(\$257.8)	\$237.3	(\$54.2)	\$198.7	\$211.4	\$232.1	\$238.7
Year-end Cash & Equivalents	\$435.9	\$178.1	\$415.4	\$361.2	\$559.9	\$771.3	\$1,003.4	\$1,242.0

(1) Reflects repayment of \$440M convert (out of the money) in 2007

SEPR: David Amsellem (703) 469-1303

Proprietary to Friedman, Billings, Ramsey & Co., Inc. March 28, 2007

Sepracor Inc. - Annual Balance Sheet

(\$ in millions)

	2004A	2005A	2006A	2007E	2008E	2009E	2010E	2011E
Current Assets								
Cash & Equivalents	\$435.9	\$178.1	\$415.4	\$361.2	\$559.9	\$771.3	\$1,003.4	\$1,242.0
Marketable Securities ⁽¹⁾	\$398.0	\$798.1	\$750.9	\$600.9	\$775.9	\$975.9	\$1,200.9	\$1,450.9
Accounts Receivable, net	\$68.9	\$140.5	\$175.1	\$207.6	\$216.8	\$240.5	\$259.8	\$275.1
Inventories	\$13.1	\$39.0	\$37.1	\$42.8	\$48.8	\$54.1	\$58.5	\$61.9
Other Current Assets	\$18.7	\$22.4	\$25.4	\$30.4	\$35.4	\$40.4	\$45.4	\$50.4
Total Current Assets	\$934.6	\$1,178.0	\$1,403.9	\$1,243.0	\$1,636.8	\$2,082.2	\$2,568.0	\$3,080.4
Property, Plant & Equipment, Net								
Property, Plant & Equipment, Net	\$70.9	\$72.5	\$72.8	\$79.3	\$82.3	\$87.3	\$92.3	\$102.3
Investment in Affiliate	\$5.5	\$5.8	\$5.1	\$5.6	\$6.1	\$6.6	\$7.1	\$7.6
Other Assets	\$28.1	\$18.2	\$12.0	\$14.4	\$17.2	\$20.7	\$24.8	\$29.8
Total Assets	\$1,039.1	\$1,274.5	\$1,493.8	\$1,342.2	\$1,742.4	\$2,196.8	\$2,692.2	\$3,220.1
Liabilities & Equity								
Current Liabilities	\$204.1	\$277.9	\$239.7	\$256.9	\$292.7	\$324.7	\$350.8	\$371.4
Long-Term Debt ⁽²⁾	\$1,163.3	\$1,162.1	\$1,161.9	\$711.9	\$638.9	\$638.9	\$490.9	\$490.9
Other Liabilities	\$2.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Equity	(\$331.1)	(\$165.5)	\$92.2	\$373.5	\$810.9	\$1,233.2	\$1,850.6	\$2,357.8
Total Liabilities & Equity	\$1,039.1	\$1,274.5	\$1,493.8	\$1,342.2	\$1,742.4	\$2,196.8	\$2,692.2	\$3,220.1

(1) Includes long-term investments

(2) Reflects repayment of \$440M convert (out of the money) in 2007; reflects conversion of \$73M and \$148M converts into common shares in 2008 and 2010, respectively

SEPR: David Amsellem (703) 469-1303

Proprietary to Friedman, Billings, Ramsey & Co., Inc. March 28, 2007

*Closing price of last business day immediately prior to the date of this publication.

IMPORTANT INFORMATION CONCERNING FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

Company Specific Disclosures

For up-to-date company disclosures including price charts, please click on the following link or paste url in a web browser:
www.fbrcorp.com/disclosures.asp ..

General Disclosures

Information about the Research Analyst Responsible for this report:

The primary analyst(s) covering the issuer(s), David Amsellem certifies(certify) that the views expressed herein accurately reflect the analyst's personal views as to the subject securities and issuers, and further certifies that no part of such analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the report. The analyst(s) responsible for this research report has received and is eligible to receive compensation, including bonus compensation, based on Friedman, Billings, Ramsey & Co. Inc.'s ("FBRC") overall operating revenues, including revenues generated by FBRC's investment banking department.

Information about our investment banking department:

In the normal course of its business, FBRC seeks to perform investment banking and other services for various companies and to receive compensation in connection with such services. As such, investors should assume that FBRC intends to seek investment banking or other business relationships with the companies.

Information about our recommendations, holdings and investment decisions:

Our brokers and analysts may make recommendations to their clients, and our affiliates may make investment decisions that are contrary to the recommendations contained in a research report. Such recommendations or investment decisions are based on the particular investment strategies, risk tolerances, and other investment factors of that particular client or affiliate. From time to time, FBRC, its affiliated entities, and their respective directors, officers, employees, or members of their immediate families may have a long or short position in the securities mentioned in this report.

Information about our rating system:

FBRC instituted the following three-tiered rating system on October 11, 2002 for securities it covers:

- Outperform — FBRC expects that the subject company will outperform similar companies within its industry over the next 12 to 18 months. We recommend that investors buy the securities at the current valuation.
- Market Perform — FBRC expects that the subject company will perform in line with similar companies within its industry. We recommend that investors maintain their current positions and add on weakness as the valuation or fundamentals become more favorable.
- Underperform — FBRC expects that the subject company will underperform similar companies within its industry. We recommend that investors reduce their positions until the valuation or fundamentals become more compelling.

A description of the five-tiered rating system used prior to October 11, 2002, can be found at <http://www.fbrcorp.com/disclosurespre10702.asp>.

Rating	FBRC Research Distribution ¹	FBRC Banking Services in the past 12 months ¹
BUY [Outperform]	47.36%	15.11%
HOLD [Market Perform]	46.85%	7.64%
SELL [Underperform]	5.79%	2.94%

(1) As of midnight on the business day immediately prior to the date of this publication.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. This report should not be construed as advice designed to meet the particular investment needs of any investor, nor as an offer or solicitation to buy or sell the securities mentioned herein, and any opinions expressed herein are subject to change. These securities may be sold to or purchased from customers or others by FBRC acting as principal or agent. This publication has been issued and approved by FBRC under a compliance routine approved by Friedman, Billings, Ramsey, International Ltd., its U.K.FSA Regulated affiliate, for distribution to U.K. and European non-private clients. Commentary regarding the future direction of financial markets is illustrative and is not intended to predict actual results, which may differ substantially from the opinions expressed herein. References to "median," "consensus," "Street," etc., estimates of economic data refer to the median estimate of economists polled by Bloomberg L.P. If any hyperlink is inaccessible, call 800.846.5050 and ask for Editorial.

