

WALL STREET RESEARCHNew York City, Los Angeles
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OTC BB: MODM

CURRENT PRICE: \$0.70

52-WEEK RANGE: \$0.06 - \$0.75

AVERAGE DAILY VOLUME (50-DAY): 12,000

FLOAT: 7.0 million

OUTSTANDING SHARES: 16.0 million

MARKET CAPITALIZATION: \$11.2 million

INITIATING COVERAGE: SPECULATIVE BUY**COMPANY PROFILE**

Modern Medical Modalities Corp., incorporated in 1989 and headquartered in Union, New Jersey, is a diagnostic imaging services (DIS) company providing leading technologies and innovative procedures to medical patients through contractual arrangements with hospitals, clinics, physician groups and other healthcare professionals. As of September 30, 2006, the Company owned, operated and managed three diagnostic imaging centers in Union, New Jersey, with its ownership interest ranging between 50% and 100%. The Company's comprehensive range of cutting edge diagnostic imaging services include magnetic resonance imaging (MRI), computerized axial tomography (CT scan), positron emission tomography (PET) and other nuclear medicine, ultrasound, mammography and general radiography (X-ray). The Company also provides shared management services, which include marketing, procurement of imaging systems and upgrades of related equipment, facilities construction and maintenance, recruitment and training of technical and support staff, information services, and financial services, such as leasing, administration of contracts, billing, and collections. For the trailing twelve months ended September 30, 2006, the Company reported net revenues of \$7.3 million and EBITDA* of nearly \$0.6 million, posting a small operating loss of \$70,000, partially due to problems stemming from two discontinued imaging centers. In the coming months, the Company intends to grow its existing centers' revenues through targeted marketing activities and expanding its centers network via aggressive joint ventures and acquisitions. Trading on the OTC Bulletin Board under the symbol MODM, the Company appears to be well positioned to become a significant player in a rapidly growing DIS segment of the healthcare industry.

TECHNOLOGY BACKGROUND

Medical diagnostic imaging systems are used to study the configuration of anatomical structures or the function of body organs and systems. Diagnostic imaging facilitates the diagnosis of a variety of

diseases and disorders at an early stage, often minimizing the amount and cost of care needed to stabilize or cure the patient and frequently obviating the need for invasive diagnostic procedures, such as exploratory surgery. Diagnostic imaging systems are based on the ability of energy waves to penetrate human tissue and generate images of the body, which can be displayed either on film or on a video monitor. Imaging systems have evolved from conventional x-ray to the advanced technologies of MRI and CT scan. X-ray machines and fluoroscopes are essential in diagnosing bone fractures, tumors, and other abnormalities of the internal organs. Ultrasound employs the reflections of high-frequency sound waves to construct an image called a sonogram. The CT scan uses computer technology to focus X rays on precise sections of the body. Magnetic resonance imaging (MRI) utilizes super-cooled magnets to concentrate and focus radiation in very small areas of the body, rendering sharp detail. Nuclear imaging, including PET, involves the administration into the patient of substances labeled with radioactive tracers which have affinity for particular tissues, a procedure useful in displaying physiological function.

SERVICES

The Company provides a wide range of diagnostic imaging services emphasizing easy one-stop access to multiple advanced technologies, flexible scheduling and superior patient care that minimizes the stress and uncertainty typically faced by patients. Procedures offered by the Company to referring radiologists and other medical professionals include magnetic resonance imaging, computerized axial tomography, positron emission tomography and other nuclear medicine, as well as ultrasound, densitometry, mammography and general x-ray radiography. Other services provided by the Company for its affiliated centers include equipment financing, licensing, installation and maintenance, marketing, technical and administrative support staffing and training, as well as other management functions, such as budgeting, patient scheduling, billing, collection and reimbursement program

* EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is computed using Net Income as Earnings, adds Interest, Taxes, Depreciation and Amortization back-in to Earnings, and excludes losses from discontinued business.

administration. Each of the Company's center operations are supported by a proprietary integrated management information system.

STRATEGY

The Company's operating model focuses on development of local cluster networks of DIS centers, which fosters high quality, cost effective patient care based on innovative technology. By concentrating imaging centers in close proximity to each other, the Company is able to offer a broad spectrum of most advanced imaging technologies to better meet the varied needs of its end customers and participating care providers in a particular community. Sourcing its medical equipment and ancillary supplies from leading manufacturers, including General Electric, Siemens, Philips, Konica and Kodak, the Company employs top-of-the-line imaging devices, typically financing the purchases through contractual leasing arrangements over a sixty-month period and entering into appropriate equipment maintenance agreements. Local integration also enables the sharing of resources, including streamlined management services, resulting in economies of scale and optimized productivity at each center. Furthermore, the Company's dominant position within a local market and its affiliation with leading hospitals attracts the collaboration of top laboratory technicians and radiologists with excellent academic and clinical backgrounds. Finally, systematic geographic coverage and comprehensive range of DIS offerings represent key factors in influencing physicians to refer patients, at the same time strengthening the Company's negotiating power for favorable reimbursement contracts with third party payors. The Company markets its services to physicians and hospitals through various direct solicitation methods, including telemarketing, mail, and personal visits to physician offices, as well as sponsorship of in-service education programs for physicians and technical staff. The Company's affiliated centers participate in numerous managed care reimbursement programs, including Medicare and Medicaid, as well as private insurance.

Following a corporate restructuring, which resulted in the closing of two affiliated centers, one in Metairie, Louisiana due to damages caused by hurricane Katrina and another unprofitable Manalapan, New Jersey location, the Company is poised to expand in the coming quarters through organic growth at its existing network, as well as acquisitions and establishment of new centers in other regions of the U.S. The Company's management intends to intensify its targeted marketing activities, placing particular emphasis on establishing and maintaining strong relationships with referring physicians, continuing to attend many of the larger radiology

shows throughout the country, as well as initiating special direct consumer awareness campaigns. Positioned to participate in the expanding managed healthcare market, the Company will also engage in aggressive marketing in areas of specialized physician groups, chiropractors, health maintenance organizations (HMOs), preferred provider organizations (PPOs), union locals, municipalities and insurance companies. Building on its success in Union, New Jersey, the Company is also planning to selectively expand into new regions through the acquisition of established imaging centers or clusters and development of new locations through strategic alliances and joint ventures with hospital and physician managed ambulatory groups. Expansion of the Company's operations into additional and larger regional networks will provide treatment to growing patient populations, further leveraging its investments in advanced imaging technologies.

INDUSTRY

According to Washington G-2 Reports, an operating unit of IOMA, Inc., an independent source of exclusive business management information known as the Institute of Management & Administration, the U.S. diagnostic imaging industry reached \$100 billion in 2005. Supporting continued rapid market growth in the coming years, the demand for imaging services is expected to be fueled by an aging population, rapidly advancing imaging technology and increased consumer awareness, as well as current industry trends affecting healthcare management, which impel hospitals to conserve limited capital resources and reduce risks associated with technological obsolescence and under-utilization by leasing equipment and purchasing services from third parties. A 2005 Diagnostic Imaging Center Market Report released by Verispan, a leading provider of healthcare information services, estimates that there are about 5,760 freestanding diagnostic imaging centers in the US, a 5.7% increase since the previous year, with each center performing on average 244 procedures per week. Roughly 44% of all imaging centers are located in Florida, California, New York, Texas and Pennsylvania. Out of all studied centers, 71% of centers have MRI, 60% have ultrasound, 44% have CT, 68% have x-ray, and about 4% have PET.

COMPETITION

The rapidly growing DIS industry is highly competitive. With only a few nationwide operators owning in excess of 100 outpatient diagnostic centers, the industry is very fragmented and poised for consolidation. The Company faces most direct competition from hospitals and radiology groups in its markets, as well as other mobile and fixed site

diagnostic imaging service providers ranging from small local single center operators to regional chains of various sizes. The fragmented condition of the DIS market, combined with the increasing demands that often exceed the capacity of the many small organizations in this market, have created a favorable climate for the Company to acquire other organizations on an accretive basis.

MANAGEMENT

The Company's management team has a wealth of entrepreneurial spirit, financial expertise and executive management, as well as business development experience, particularly in the healthcare industry.

Mr. Baruh Hayut, Chairman and CEO, is a financial industry veteran with over 15 years of experience. Having provided independent services to the Company as a financial consultant since June 2002, he has served in his current positions since March 2003, when he acquired control of the Company with majority of the shares. Prior thereto, Mr. Hayut worked as a Corporate Finance and Investment Banker with Thornhil Group and Joseph Charles and Associates, as well as a registered representative with H.J. Meyers & Co. Mr. Hayut received his Bachelor degrees in Business Administration and Economics from Hebrew University in Jerusalem, Israel.

Mr. Minesh Patel, Chief Operating Officer, Chief Financial Officer, Director, was appointed to the Board of Directors of the Company in June 2002 and on November 2002 was appointed Chief Financial Officer. Previously in his career, Mr. Patel was employed as an Investment Broker at JP Turner & Company LLC between February 2001 and November 2002, and JW Genesis Securities from October 1998 through February 2001. Mr. Patel received his Masters in Business Administration with a concentration in Finance from Georgia State University.

Mr. Paul W. Harrison, recently appointed as a Director in June 2006, has also served as the Company's consultant since August 2005. Mr. Harrison is a seasoned executive bringing tremendous business development, operational and financial expertise in the healthcare industry. He has a proven track record participating in and consummating many M&A transactions with combined revenues exceeding \$1 billion. In his 20+ year career, Mr. Harrison has founded, turned-around and sold several companies, and also held top executive positions at various healthcare, technology and financial companies, including Fortune 500 firms, such as McKesson Corporation (NYSE: MCK) and Lincoln National Corporation

(NYSE: LNC). He has a Business Degree (BBA) from Georgia State University and holds many professional certifications.

FINANCIALS AND OUTLOOK

In the fiscal year ended December 31, 2005, when the Company had two additional affiliated centers, the reported net revenue from services reached \$7,778,000, an increase of \$529,000, or 7%, from \$7,249,000 for the same period in 2004. With costs of services totaling \$5,530,222 in 2005, representing an approximate increase of just \$35,000 over 2004, the gross margin in 2005 grew to 29%. The net margin in 2005, based on income of \$195,449, or \$0.01 per share, equaled 2.5%.

For the nine months ended September 30, 2006, net revenues from services totaled \$5,333,000 as compared to \$5,737,000 for the same period in 2005, representing a decrease of \$404,000, or 7.0%, attributable predominantly to a \$410,000 decrease due to the discontinuance of the Metairie, Louisiana operations and a \$170,000 decrease from divested billing services business, as well as the sale of the Manalapan, New Jersey center, which occurred in September 2006. The cost of provided services totaled \$4,224,000, as compared to \$4,206,000 for the same period in 2005, representing an increase of approximately \$18,000 and resulting in a gross margin of 20.8%. For the nine months ended September 30, 2006, the Company reported a net loss of \$716,108, or \$0.05 per share, with \$320,000 attributable to a loss from the discontinued Metairie, Louisiana operations, versus a net income of \$164,653 in the same period of 2005.

In the past several years, the Company has been financed through several convertible debt offerings, of which \$703,326 is still currently outstanding and can be converted to common shares in the near term at a floor level ranging between \$0.143 and \$0.179 per share. Any conversions would materially improve the balance sheet liquidity and ratios. As of September 30, 2006, the Company had a working capital deficit of \$2,017,487 and negative net worth of \$2,538,521.

Having been seeking appropriate partners and acquisition targets in the past few months, the Company is expected to soon commence its accelerated growth period by expanding its center presence into additional local and regional markets in the U.S. Subject to appropriate financing, the management expects to at least double its 2006 revenues in fiscal 2007. In addition, revenue and profitability growth is expected to come from increasing clinical referrals, expanded offering of imaging solutions, standardizing treatment protocols, adding additional radiologists and entering into

additional third-party payor relationships. Furthermore, the Company hopes to increase its profit margins by shifting its service mix from lower margin managed care and traditional insurance covered services and reimbursements to consumer driven on-demand services and payments.

Given the Company's current post-restructuring annual revenue run rate of approximately \$7 million, the Company's shares are currently valued at a ratio of 1.6 times sales, which could bode well for appreciation of market capitalization once the acquisition plans are accomplished successfully and additional revenue streams are realized. As such, the shares at these levels appear to present a good opportunity for speculative long-term investors willing to accept the general high risks associated with emerging growth companies, such as potential significant dilution expected to result from acquisition

financing and/or debt conversion, the relative lack of trading liquidity and substantial price volatility of bulletin board companies, lack of current profitability, as well as certain other business risks, including intense competition and resulting low profit margins in the DIS industry.

Notwithstanding the above risk factors, we believe the strong management team and the recent restructuring has positioned the Company for substantial future growth during 2007 and beyond, and the Company appears attractively valued for longer-term speculative investors at these current levels should expected acquisition opportunities materialize.

Tytus Biniakiewicz, Senior Analyst

Alan Stone, Managing Director

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