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Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

BioForce Nanosciences Holdings, Inc.

Rating: Speculative Buy

Juan Noble

BFNH \$0.50 — (BFNH.OB)

January 14, 2008

	2006A	2007E	2008E	2009E
Total revenues (in thousands)	\$415	\$1,269	\$3,545	\$8,347
Earnings (loss) per share	(\$0.17)	(\$0.17)	(\$0.12)	(\$0.06)
52 - Week range	\$4.55 - \$0.40		Fiscal year ends:	December
Shares outstanding as of October 31, 2007	24.1 million		Revenue/shares (ttm)	\$0.03
Approximate float	16.1 million		Price/Sales (ttm)	15.1X
Market Capitalization	\$17 million		Price/Sales (2009)E	1.95X
Tangible Book value as of September 30, 2007	\$0.06		Price/Earnings (ttm)	NA
Price/Book	8.7X		Price/Earnings (2009)E	NA

BioForce Nanosciences Holdings, Inc. (BFNH.OB), headquartered in Ames, IA, markets the Nano eNabler™, a benchtop molecular printer used to produce ultraminiaturized biological sensors, biological tests and other ultraminiaturized devices. The company produces proprietary consumables – surface patterning tools and silicon chips – to support the Nano eNabler, and is developing advanced diagnostics, standard and customized patterned surfaces, a high-throughput Nano eNabler system for use by biopharmaceutical firms and a Nano eNabler for use specifically in cellular biology research.

Key Investment Considerations:

We are initiating coverage of BioForce Nanosciences Holdings (BFNH: OTC BB) with an investment rating of Speculative Buy and a 12-month price target of \$1.00 per share based in part on a sector price-to-sales multiple. In our view, the stock is suitable mainly for highly risk-tolerant accounts.

The Nano eNabler, BioForce's initial product, is a novel benchtop molecular printer with broad biomedical applications. The Nano eNabler enables researchers to precisely place minute quantities of sample-bearing fluids onto a variety of very small surfaces (chips) where the samples lend themselves to complex analyses.

There is significant revenue potential in a worldwide academic and non-profit laboratory market of at least 1,300 institutions, some potentially multiple-placement sites. In the US, academic and non-profit laboratories are generously funded by the Federal government.

BioForce's revenue is starting to ramp as Nano eNablers are purchased by academic institutions that started evaluating the system in 2006. As the experience of those institutions builds, and the utility of the Nano eNabler becomes more widely known, sales gains should accelerate.

In the nine months ending September 30, 2007 (results reported November 15, 2007), the company incurred a loss of \$3.4 million, or (\$0.14) per share, on revenue of \$579,000. Losses should moderate as volumes rise and margins widen, partly in response to increased sales of potentially high-margin consumables.

2007 operations will burn cash estimated at almost \$2.7 million, partially offset by almost \$900,000 in proceeds from equity financing. Based on our projections, BioForce is likely to need additional financing shortly.

** Please view our disclaimer located on page 15.*

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Overview

The business of BioForce Nanoscience Holdings, Inc. (BFNH.OB) was founded by the company's CEO, Eric Henderson, in 1994 and acquired in 2006 by an inactive Nevada corporation (chartered in 1984), which changed its name to BioForce in 2006. Among the company's officers, Eric Henderson is the largest shareholder (16% owned/controlled). The largest single portion of the company's common stock is owned by FCPR SGAM Biotechnology Fund (France), which has a 27% holding.

BioForce's principal product is the Nano eNabler™, a benchtop molecular printer capable of patterning biological and non-biological matter in minute quantities on several types of solid surfaces. The patterns, or arrays, created by the Nano eNabler using only minimal sample quantities, can be exposed to other substances to create reactions that are analyzed through a variety of methods. This capability can be used to develop faster-acting and less expensive diagnostics and therapies with potential applications in point of care diagnosis and therapy, and "personalized" medicine tailored to individual patients. Compared to other technologies currently used to create patterns, the Nano eNabler is more efficient, precise, consistent and versatile, characteristics which underlie the system's potential in academic research laboratories and in a production role in biopharmaceutical companies.

The company also offers the SPT™ surface patterning tool and Sindex™ silicon chips, the print cartridges and paper, respectively, used by the Nano eNabler to print arrays. The company also sells probe cleaners for atomic force microscopes (AFMs) and scanning probe microscopes (SPMs), mainly through its Internet store. A significant portion of the company's revenue has been generated overseas, where its products are sold through distributors. As of September 30, 2007, half of the Nano eNabler systems sold had been purchased by overseas institutions. Around 70% of atomic force microscopy-related sales (18% of nine-month revenue) was generated overseas.

The Nano eNabler was commercialized in 2005. Missionary work in 2006 was aimed at placing the system in selected laboratories, mainly academic ones, with a view to selling the systems to users after a one-year trial period and generating publicity based on their experience. Twenty Nano eNablers were placed in 2006, most in the latter half of the year; as of September, 2007, there were 20 Nano eNabler systems in service worldwide, of which six had been sold. The feedback we have obtained from some Nano eNabler users, while limited and anecdotal, suggests good prospects for wide long-term acceptance.

The Nano eNabler system can be used in the production of ultraminiaturized biological sensors, biomedical tests and other ultraminiaturized devices that could fuel growth of nanotechnology and overcome limitations of existing technologies aimed at microscale encoding. Researchers and scientists seeking to perform tasks at the nanoscale level are likely to turn increasingly to systems such as the Nano eNabler for their instrumentation needs.

Beyond commercialization of the Nano eNabler in the academic research community, the company aims to pursue development of proprietary diagnostics, therapeutics, self-diagnosis systems, and, ultimately, capabilities for personalized medicine. The company also aims to commercialize, possibly by 2009, a high-throughput version of the Nano eNabler for production use in the biopharmaceutical industry. The ViriChip™ and nanodiagnostics, already in development, could be commercialized, respectively, by 2009 and 2010. Self-diagnosis and personalized medicine system are longer-term development projects.

Since 2005, the company has raised net proceeds of more than \$6 million in financing, the largest portion (\$5.3 million) from a private placement of four million common shares in 2006. In 2007, BioForce will burn an estimated \$2.7 million in cash, depleting the \$2.6 million in cash held at the end of 2006 and the \$800,000 in proceeds from the August, 2007 issuance of preferred stock and the November, 2007 exercise of warrants. Despite the anticipated ramp in the sales of the Nano eNabler and ancillary products, positive cash flow lies an estimated two years out, making it likely, based on our projections, that BioForce will need additional financing in early 2008 and early 2009. The company intends to maintain sufficient cash reserves through private placements of common stock.

Applications in Biomedical Research

The convergence of nanotechnology and biomedical sciences offers significant developmental potential in a number of areas, two of which, diagnostics and highly specific therapies, are targeted by BioForce.

Biological tests measuring the presence or activity of specific substances are faster and more sensitive when certain nanoscale particles are utilized as tags or labels. For example, magnetic nanoparticles bound to a suitable antibody can be used to label specific molecules, structures or microorganisms. Gold nanoparticles tagged with short segments of DNA can be used to detect the genetic sequence in a sample. Nanopore technology for analysis of nucleic acids converts strings of nucleotides directly into electronic signatures.

Drug consumption and side-effects can be lowered significantly by depositing an active agent only in the target region in the smallest dose consistent with efficacy. Nanoporous materials may hold small drug molecules and carry them to the target location, enabling a highly targeted approach that reduces costs and adverse side effects. A targeted or highly specific medication would require a considerably smaller dose than one absorbed systemically, minimizing drug consumption, improving side effects profiles and reducing healthcare costs.

Drug delivery based on nanoelectromechanical systems (NEMS) is also being explored for the potential capability of extremely small machines to deliver and release drugs. Some potentially important applications include cancer treatment with iron nanoparticles or gold shells. Implantable ultraminiaturized time-release drug delivery systems can be preferable to injections as they could reduce high, initial drug concentrations that could be toxic, and also sustain dose efficacy by keeping the drug levels from dropping below targeted dose ranges.

Strategy

The company's strategy aims to create awareness of the Nano eNabler's potential utility, generating longer-term demand for its array printers and patterned surfaces used by researchers in developing diagnostics and therapeutics. In 2006, BioForce launched its Pilot Placement Program, targeting selected US and international institutions which might be willing to evaluate the Nano eNabler.

Potential placement sites were selected based on interest in using the Nano eNabler, the quality of research projects proposed for use of the instrument, the reputation of the research institutions and their scientists, the likelihood that use of the Nano eNabler would be cited in scientific publications, potential sale of the system to the institutions and their willingness to allow BioForce to participate in the development of new applications stemming from the use of the instrument. In some instances, BioForce has a right of first refusal on rights to collaborators' inventions stemming from their use of the Nano eNabler.

As of September, 2007, there were 20 Nano eNabler systems in service, of which six had been sold. The company sold nine Nano eNabler systems in 2007, vs. two in 2006. The following is a partial list of institutions in which the Nano eNabler is currently in use.

Harvard Medical School	Louisiana Tech University
Johns Hopkins University	University of Wales
University of California (Irvine)	University of Limerick
Stanford University James H. Clark Center	Georgia Institute of Technology
National Institute for the Physics of Matter (CNR-INFN)	

In 2007, BioForce's marketing efforts were expanded to include encouraging placement sites to publish papers citing the Nano eNabler that would potentially generate interest among researchers who had not yet used the system. The company also encourages existing placement sites to purchase the Nano eNabler or seek funding to finance the purchase of the systems they are evaluating. BioForce also attempts direct selling through exhibits and presentations at US trade shows and scientific meetings, as well as through networks based on existing customer relationships.

To drive sales of Nano eNablers and its other products, BioForce aims to increase its field force to seven representatives in 2008 (up from four in 2007), and 10 in 2009. The company's overseas distributor network currently covers Western Europe, the UK, Japan, India, China, Australia, Singapore, South Korea, Thailand, Indonesia, Taiwan, and Vietnam. In 2008, BioForce expects to extend its distributors' coverage to Canada and Latin America.

BioForce has established scientific collaborations with several leading medical research institutions, including Harvard Medical School, Johns Hopkins University, Stanford University, Universite Pierre & Marie Curie and the Massachusetts Institute of Technology. Potential applications have been identified in stem cell biology, cancer cell biology, tissue engineering, biosensors and neuro biology. To the extent that scientific collaborations are productive, BioForce could develop and market a broader spectrum of products. Strategic partnerships aimed at establishing broad marketing and distribution capability are also a key objective. BioForce aims to establish collaborative agreements covering the Nano eNabler and the ViriChip by 2009.

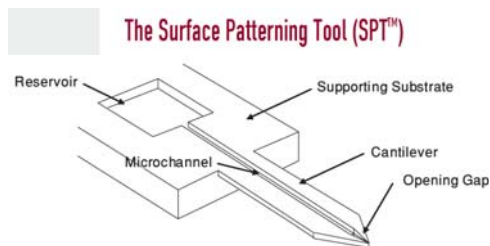
Product Line

The Nano eNabler is a benchtop molecular printer capable of placing biological and non-biological fluid samples in quantities as small as one quintillionth to one quadrillionth of a liter onto a wide variety of solid surfaces to create features in the approximate size range of one-millionth to 15 millionths of a meter. The system can place small molecules, reactive solutions and nanoparticles on a surface. The patterns created by this printing system, called arrays, can be exposed by researchers to other molecules or substances, causing reactions read by several analytical methods. Miniaturization reduces sample sizes to the barest minimum, enabling the Nano eNabler to create, for example, a diagnostic chip that uses just a few cells extracted from less than a drop of blood.

The complete Nano eNabler system includes a motion control system, an optical observation system, and a surface patterning system. The system is controlled by software with a graphical interface designed to retain significant depth of functionality for high-throughput users while providing ease of use for less experienced users.

BioForce has developed proprietary consumable products to support the Nano eNabler system. These products, which also have potential utility in atomic force microscopy and other applications, are marketed to existing Nano eNabler systems and through BioForce's on-line store.

SPT™ surface patterning tools are the "print cartridges" of the Nano eNabler system. Each one is a microcantilever-based microfluidic sample handling and delivery device. SPTs contain either a single microcantilever print head or multiple microcantilevers that can simultaneously print multiple molecular species or materials. The integrated microfluidic network transports fluid samples from reservoirs located on the SPT through microchannels to the opening at the tip of the cantilever.



Custom SPT design and fabrication services are also offered.

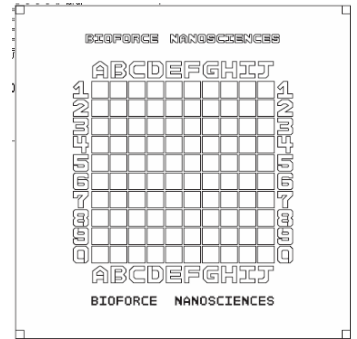


Thousands of spots can be printed with one load. SPTs can be used to print materials that include biological samples such as proteins, DNA, RNA and whole viruses, as well as non-biological samples such as chemical solutions, colloids and particle suspensions. The biological and non-biological materials to be printed are deposited via the SPT in the locations and quantities specified by the user. The company supplies a variety of SPTs to meet a broad range of customer needs.

SPTs are disposable, obviating the need for labor intensive cleaning and eliminating risk of contamination. For repeated use, SPTs can be cleaned in a BioForce cleaning device.

Sindex™ silicon chips are analogous to the "paper" upon which the printing takes place. These chips are index-etched printing surfaces that offer Nano eNabler users required surface chemistry and observable indexing features for easy location and relocation of arrays on chips. The chips are 4X4 mm silicon substrates that contain topographically defined pads that are arrayed within an alphanumeric indexing system.

The pads are flat and smooth, making them compatible with conventional and other more exploratory readout mechanisms. The indexing system allows precise location and relocation of specific positions on the chip. The surface can be coated with different metals and treated by a variety of approaches that can make it chemically reactive. Sindex chips come in two pattern options, the 10X10 pad array with 200 micron square pads (seen at right) and the 15X15 pad array with 100 micron square pads.



Sales of consumable printing and surface patterning tools accounted for 3% of revenue in 2006, and 4.6% of revenue in the first nine months of 2007. In 2006, 55% percent of consumables revenue was attributable to international sales. Sales of consumable products should increase as the number of Nano eNablers in service rises.

BioForce markets a line of accessories for atomic force microscopes (AFMs) and scanning probe microscopes (SPMs), primarily through its on-line store. Atomic force microscopes, also know as scanning force microscopes, are high-resolution microscopes with resolutions as small as fractions of a nanometer. AFMs scan specimens using a physical probe and obtain an image by mechanically moving the probe in a line by line pattern and recording the probe-surface interaction as a function of position. BioForce's AFM/SFM products include the TipCleaner™ UV/ozone device used for decontaminating AFM probes, and other materials. Sales of AFM and SPM accessories accounted for 33% of revenue in 2006, with 45% attributed to international sales. In the first nine months of 2007, AFM and SPM accessory sales represented 18% of revenue.

Products in Development

Extended Nano eNabler Line In addition to the initial Nano eNabler, BioForce is developing two other versions for distinct market segments. A Nano eNabler system aimed at the cellular biology research market is targeted for introduction in 2Q08. Priced lower than the first Nano eNabler, the cellular biology system features greater ease of use relative to the initial system but lacks some of the software-based control features that cellular biology researchers find unnecessary.

A high-priced production Nano eNabler being developed for use by biopharmaceutical companies is planned for introduction in 2009. The production Nano eNabler will have significantly higher throughput, based on simultaneous multiple array printing capability and multiple-well SPTs.

Patterned Surfaces Patterned surfaces, arrays printed by BioForce on in-house Nano eNablers, will be offered to customers starting in 3Q08. Initially, the company will produce arrays on a custom basis, with sample and surface types, spot sizes and intervals specified by customers. As research preferences become clearer, BioForce will start to produce packages or kits of standardized patterned surfaces. User demand for custom and standard patterned surfaces could increase to levels that make Nano eNabler purchases cost-effective for some researchers.

ViriChip™ ViriChip is a platform technology for the detection, based on availability of capture reagents, and identification of a wide range of viruses. The planned system will consist of a silicon chip and a reader similar to an atomic force microscope. The ViriChip, characterized as "flypaper" for viruses, has potential advantages over conventional detection technologies. It can detect an entire virus particle rather than just the virus components detected by nucleic acid and immuno-based testing. The ViriChip is also a much more rapid detection system,

taking only 30 minutes to two hours (vs. three to 24 hours for current methods). The ViriChip is inexpensive, rugged, portable, highly sensitive, non-destructive (preserving viruses for further testing) and can detect multiple viruses simultaneously. Its simple detection system, capture and readout processes make it easy to use,

At this stage, BioForce is establishing proof of concept and securing funding for further development as a prelude to clinical sample testing (2008-2009) that will affirm reproducibility and consistency relative to other testing systems. By 2009, BioForce aims to sign a licensing agreement with a strategic partner that can market and distribute the product.

NanoDiagnostics NanoDiagnostics are miniaturized diagnostic tests for clinic or home testing that require only minute samples, are less invasive and have low patient impact, yet yield high information content. Proof of concept studies for these diagnostics are underway, as are efforts to secure funding and a clinical contract. Clinical sample testing is targeted for 2009 and the company aims to establish a strategic partnership by 2010.

Intellectual Property

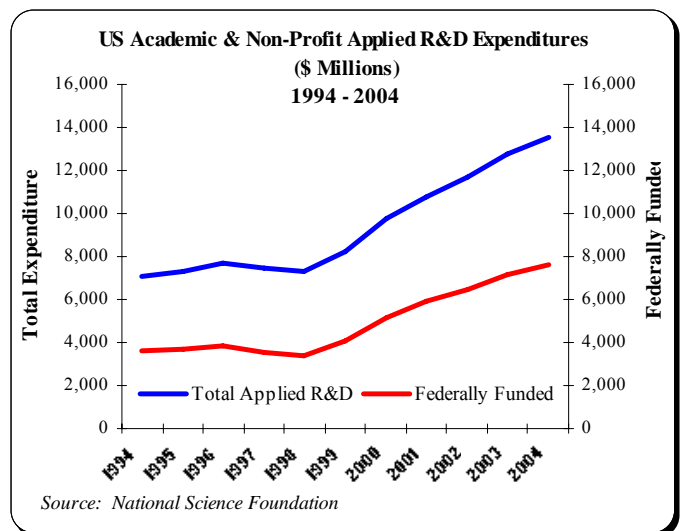
Six US patents have been issued covering BioForce’s technology and its uses. The Nano eNabler (nanoscale molecular arrayer) patent covers its components and controls, including a humidity control system that serves as a capillary bridge loading substrate, deposition probe and deposition substrate. In October, 2007, BioForce announced that the US Patent and Trademark Office upheld its Protein Nanoarray patent, satisfying a third party’s request for re-examination of the patent.

The other issued patents cover atomic force microscopy technology, specifically a method for selectively removing objects from a surface utilizing a probe and methods for making nanoarrays and conducting solid state genome and molecular analysis. One of the issued patents covers the ViriChip, both the device and the method of use for detection and characterization of pathogens and biological materials.

BioForce has also received notices of allowance covering the Sindex chip and Chip on a Tip. Patents are pending on the Sindex chip, the SPM surface patterning tool, the Cell Well nanodiagnostic and an AFM screening technique.

Market Opportunity

Academic research institutions are the company’s initial target market for the Nano eNabler. US Government statistics show that in 2004 (latest compiled), US expenditures for applied research totaled \$312 billion, of which \$66 billion was for applied research. The bulk (\$41 billion) of applied R&D expenditures was seen in industry. US academic institutions’ expenditures for applied R&D totaled \$9.2 billion; other non-profit institutions’ applied R&D accounted for \$4.3 billion. US expenditures for applied R&D increased steadily in the 10 years through 2004, rising an average of 6% a year. Applied R&D average annual growth rates by sector ranged from 5.5% in universities and colleges to 10% in other non-profit institutions.



Non-corporate applied R&D is generously funded by

the federal government. In 2004, 54% of academic applied R&D expenditures were underwritten by the federal government, a share exceeded only by the government's 61% contribution to other non-profit organizations' applied R&D.

The National Science Foundation reported (2003 statistics) that there were 465 research-performing academic institutions (annual R&D expenditures of \$1 million or more) and almost 200 nonprofit biomedical research institutions in the US. We believe that the figures for the European Union, a principal overseas target market, are comparable, giving the company a combined US-Europe potential market of around 1,300 research institutions, a figure subject to an increase if academic laboratories in East and South Asia are included.

If BioForce achieves a market penetration of as little as 5% and replicates that every year, the academic and non-profit research lab could represent a \$6.5 million annual revenue opportunity for the Nano eNabler alone. Sales of other existing products such as surface patterning tools, silicon chips, and accessories for atomic force microscopes and scanning probe microscopes could, selling through a Nano eNabler penetration of as little as 5%, potentially expand total annual revenue opportunity to \$11 million within a few years.

At this stage, BioForce aims to position its product line for specific applications in the biomedical and life sciences industries, including microarrays, molecular diagnostics, molecular detection and nanotechnology instrumentation (including atomic force microscopy). The microarrays printed by the Nano eNabler have applications – lab-on-a-chip, cell biology, and protein array-based research and analysis – with potentially broad utility in drug discovery and epidemiological profiling work in the biopharmaceutical industry and academic medical laboratories. The Nano eNabler can also coat chemical sensors and biosensors used in molecular detection.

The Nano eNabler creates chips and devices in sizes that lend themselves to the detection and molecular analysis capabilities of atomic force microscopy, a product line that currently account for a significant portion of revenue. The NanoReader™ device envisions employing the capabilities, subject to consent of patent holders, of atomic force microscopy systems as a bio-readout device, creating another avenue of entry for BioForce to share the field with the estimated 15,000 AFMs currently in use.

The developmental-stage ViriChip, an example of an in vitro medical diagnostic kit, is being positioned for licensing opportunities in the molecular diagnostics market. This platform exists today as a proof of principle, multiplexed prototype product for use in specific virus detection assays and cancer biomarker chip-based fluorescent assays. Potential markets include biodefense, agri-bio and viral detection/treatment.

Competition

BioForce's patterning system is unique and has no direct competitors. Other companies that offer products with similar functions include Affymetrix, BioRad, Perkin Elmer, Agilent and NanoInk (microarrays and protein biochips); Lab Corp and Quest Diagnostics (molecular diagnostics and detection); Veeco, Agilent and FEI (nanotechnology instrumentation); and NovaScan (specialized atomic force microscopy products).

The table on the right shows available operating results for (publicly traded) competitors' businesses that support market applications targeted by BioForce.

Sales (\$ millions)	2006	% +/- vs. 2005	9 mos 2007	% +/- vs. 2006
Microarrays and protein biochips				
Affymetrix (probe arrays)	120	(1%)	43	15%
BioRad - life sciences	576	5%	431	3%
- clinical diagnostics	685	11%	561	11%
Perkin Elmer - life & analytical sciences	1,145	6%	945	15%
- optoelectronics	402	2%	331	12%
Agilent (bioanalytical measurement) ⁽¹⁾	2,005	20%		
Molecular diagnostics and detection				
Laboratory Corp. of America	3,591	8%	3,062	14%
Quest Diagnostics	6,269	15%	4,934	5%
Nanotechnology instrumentation				
Veeco Instruments (metrology)	172	(6%)	115	(1%)
Agilent (electronic measurement) ⁽¹⁾	3,415	3%		

⁽¹⁾ fiscal year ending October 31, 2007

While there are other technologies – micro-contact printing, nanopipettes, AFM nanolithography and ink-jet printing – in use with capabilities similar to those of the Nano eNabler, the company believes that its product is strongly differentiated in that it combines greater printing speed, reduced clogging of the printing stylus, reliability, multiplexing, size range, and biological compatibility.

BioForce observed that the AFM lithography systems offered by NanoInk and Veeco perform poorly with biomolecules, have slower processing times and encounter multiplexing difficulties. In addition, they do not hit the 1 to 20 micron feature sizes, the “sweet spot” range. The micropipetting systems sold by Nanonics are costly to operate and prone to clogging. Microstamping systems, which are offered by a number of individual laboratories, are expensive and difficult to align. As the older-technology pin spotters and ink jet systems sold by Hewlett Packard and Affymetrix print in large spot sizes, they have limited applications in nanotechnology.

Nano eNabler users we contacted cited greater utility, precision and efficiency compared to alternative array printers such as pipettes and pin array and lithography technology. The environmental (humidity) control capability was referred to by a user as facilitating tighter control over the printing process. Potential useful improvements suggested by a user was the development of an SPT with more than (the current maximum) four wells, which would increase throughput.

Recent Developments

4Q07 View On January 14, 2008, BioForce announced the sale of five Nano eNabler systems in 4Q07, bringing total Nano eNabler unit sales for 2007, by our count, to nine. Since the company’s inception, a total of 11 Nano eNabler systems have been sold. Four of the five systems sold in 4Q07 were purchased by overseas institutions through the company’s network of foreign distributors.

Notice of Allowance – “Chip-On-A-Tip” Patent On December 11, 2007, BioForce announced that it received a Notice of Allowance from the US Patent and Trademark Office (USPTO) for the company’s patent on the Chip-On-A-Tip™, which enables diagnostic tests on extremely small tissue and liquid samples. Chip-On-A-Tip diagnoses involve placement of an ultra-miniaturized diagnostic test at the end of a device, such as a surgical probe, as a means of collecting minute amounts of material necessary for the ultra-miniaturized tests to provide a diagnosis. This method can be used for diagnosis of diseases, such as cancer, and for analyses of small samples such as those extracted in neonate and forensics cases. The Chip-On-A-Tip has been successfully used in cancer protein biomarker screening from as few as four cells, demonstrating the detection of prostate-specific antigen (PSA) used for the diagnosis of prostate cancer.

\$500,000 Proceeds from Warrant Exercise On November 19, 2007, the company announced the receipt of \$500,000 in proceeds from the exercise of warrants issued in connection with the August, 2007 issuance of convertible preferred stock. These warrants entitled an institutional investor to purchase one million common shares at \$0.50 per share. The investing institution had earlier expressed its intent to exercise the warrants.

Notice of Allowance – Sindex Chip Patent On October 25, 2007, the company announced that it received a notice of allowance from the USPTO for Sindex™ chips, indexed silicon substrates that serve as the basis for many ultraminiaturized molecular tests. One example is a cancer biomarker screen developed by BioForce that requires only four cells using the Sindex chip. These chip complement the Nano eNabler as their indexing system allows users to map locations of microscopic biological test sites and easily find them for analysis.

Nine Months 2007 Results

Operations For the nine months ending September 30, 2007, BioForce incurred a loss (including preferred dividends of \$134,000) of \$3.4 million, or (\$0.14) per share, on revenue of \$579,000. In the first nine months of 2006, the company incurred a loss of \$2.8 million, or (\$0.12) per share, on revenue of \$262,000. Revenue for the nine months ending September 30, 2007 consisted mainly of three Nano eNabler systems, up from only one for

BioForce Nanoscience Holdings

all of 2006. Sales of all other product were up 46% to \$167,000, driven mainly by gains in sales of atomic force microscope accessories, warranty income and installation/training charges.

Operating expenses increased almost 60% to \$3.4 million, with large increases offset in part by increased reimbursements for grant expenses. The largest dollar increase was in G&A expenses, which were up due mainly to the hiring of a CFO (new position), severance costs relating to the September, 2007 termination of the general counsel position, larger public/investor relations expenses, and patent defense costs.

Increases in sales and marketing expenses stemmed from an increase in staff and travel relating to efforts to increase placements of the Nano eNabler, higher sales commissions and stock compensation expenses. Stock compensation expenses were a factor in the rise in R&D expenses, which also increased due to higher staffing and initial work on design improvements on the Nano eNabler.

A \$150,000 loan from the State of Iowa, forgivable based upon the achievement of certain milestones, was formally forgiven by the State in 3Q07, resulting in debt forgiveness income of \$164,250 representing the principal balance plus interest accrued on the loan prior to its forgiveness.

During 2007, BioForce issued 100,000 shares of common stock valued at \$256,500 to an investment bank as a retainer for services. An August, 2007 private placement of convertible preferred stock and warrants to purchase common shares was completed without the assistance of that investment bank. As BioForce does not anticipate engaging that investment bank in the future, the company wrote off the costs of issuing the retainer shares, which had been deferred at the time the shares were issued.

Finances In the first nine months of 2007, cash declined to \$552,000 from \$2.6 million as of the start of the year. The company burned cash of \$2.1 million and spent \$400,000 on fixed assets and patents/trademarks. Those outflows were partly offset by \$380,000 in proceeds from the issuance of warrants and preferred stock.

In August, 2007, the company issued units consisting of shares convertible preferred stock and warrants to purchase common shares to an investor for gross proceeds of \$500,000. Net cash proceeds were \$360,840. Within the warrants were warrants to purchase one million common shares at a price of \$0.50 per share, which the investor exercised in November, 2007. Proceeds from the exercise of the warrants were \$500,000.

	9 Mos. Ending September (\$ 000)		
	2007	2006	% +/-
Revenues	579	262	121%
Cost of sales	434	101	328%
Gross profit	145	160	(9%)
Operating expenses			
R&D	897	560	60%
Sales/marketing	919	360	155%
G&A	1,961	1,343	46%
Reimbursement - grant exp	(415)	(151)	175%
Total	3,362	2,112	59%
Operating loss	(3,216)	(1,952)	65%
Other			
Interest and other income	41	117	(65%)
Debt forgiveness income	165		NM
Abandoned stock offering costs	(257)		NM
Interest expense	(11)	(976)	(99%)
Net loss	(3,277)	(2,811)	17%
Preferred dividends	134		
Net loss on common stock	(3,412)	(2,811)	21%
Avg shares outstanding	24,083	24,000	
Loss per share	(0.14)	(0.12)	21%

The 8% preferred dividend is payable June 30 and December 31 of each year. BioForce has the option of paying the preferred dividend either in cash or in common shares valued at a 10% discount to market value. Our forecasts treat this dividend as issued common stock.

Projections

Operations By our estimates, revenue will roughly treble in 2008, then double in 2009, driven mainly by unit sales of the Nano eNabler. With volume gains, gross margins should widen significantly, improving coverage of operating expenses as they are rising with expansion in the company's activity.

For 2007, we project a loss of \$4.2 million, or (\$0.17) per share, on revenue of \$1.3 million, vs. a 2006 loss of \$4 million, or (\$0.17) per share, on revenue of \$415,000. Our 2007 forecast includes a strong 4Q in which we projected the sale of five Nano eNablers that account for more than 90% of estimated revenue for the period. 4Q operating expenses will, by our estimates, track at roughly the same levels seen in the prior four quarters.

For 2008, we project a loss of \$3.9 million, or (\$0.12) per share, on revenue of \$3.5 million. We currently project Nano eNabler sales of 30 units for 2008. With increased Nano eNabler placements, Sales of consumables (SPTs and Sindex chips) and warranties should rise. With rising volume, we project a slight gain in gross margins, which, in 2008, are still likely to be under their potential peak. We anticipate a broad rise in operating expenses with sales and marketing expenses rising more than 45% to \$1.9 million, and R&D expenses increasing more than 50% to \$1.9 million. We project relative flat offsets in the form of research grants. Some of the increase in sales and marketing expenses will be driven by the enlargement of a US field sales force from four (including the Nano eNabler product manager) to seven representatives.

2009 should, in our view, be a breakout year, with worldwide unit sales of the Nano eNabler more than doubling to over 70 units, a figure that includes sales of lower-priced systems sold to the cellular biology research market and higher-priced production units sold to biopharmaceutical companies. We project a narrower loss of \$2 million, or (\$0.06) per share, on revenue of \$8.3 million. We anticipate further gains sales of consumables and warranties and widening of gross margins as a result of larger volumes. Operating expenses should rise further with sales and marketing expenses rising more steeply partly as a consequence of the addition of another three sales representatives, sales related compensation, and more intense efforts to promote BioForce's product line.

Our operating projections are based in part on the company's ability to secure sufficient additional financing, without which BioForce may have to curtail its sales/marketing and R&D activity.

Finances At the levels of sales and expenses we have projected, cash burn should diminish steadily, with operations turning cash flow-positive in late 2009. Before then, the company is likely to require additional financing, which we have factored into our 2008 and 2009 cash flow projections.

For 2007, the company will burn an estimated \$2.7 million in cash and spend around \$500,000 on fixed assets, patents and trademarks. Those outflows will be offset in part by almost \$900,000 in proceeds from the issuance of common and preferred stock, and the exercise of warrants. Cash will drop by an estimated \$2.3 million to \$300,000 by year-end.

By 1Q08, BioForce will, by these projections, require an infusion of capital which we have projected at \$3.0 million (six million shares valued at \$0.50 per share), an amount that should cover the company's requirements until early 2009. Cash burn for 2008 should total \$2.6 million, some of which would be offset by a slight reduction in working capital. Cash burn, and an estimated \$400,000 in capital expenditures and patent and trademark purchases, should be largely covered by the financing we have projected for 1Q08. We project a year-end 2008 cash position of \$312,000, flat vs. the \$300,000 at the end of the prior year.

Cash burn for 2009 year should decrease sharply to \$700,000, but the company will need at least \$1 million in additional funding (500,000 shares at \$1.00 per share) early in the year to cover its needs through 4Q09, after which operations should be cash flow-positive. We project a year-end 2009 cash balance of \$475,000, up from \$312,000 at the end of 2008.

Management

Eric R. Henderson, Ph.D. CEO, president and director. Founded the company in 1994. CEO, chairman, secretary and chief science officer since inception. Appointed president and CEO in 2006, when the company was acquired by the corporation. Currently professor of genetics, development and cell biology at Iowa State University. BA, Biology; Ph.D., Molecular Biology, University of California (Los Angeles).

Kerry M. Frey. Chief operating officer since June, 2006. From 4Q05 to June, 2006 provided management consulting services to BioForce through his company BioMedical Consulting, LLC. starting in the fourth quarter of 2005. Appointed non-employee chief operating officer March, 2006, and director in April, 2006. Also treasurer from November, 2006 until January, 2007. Prior to his consultancy with BioForce, president of Innovation Development Partners, LLC (2003 – 2006), and president and chief operating officer of Medisys Technologies, Inc. (1997 – 2002). Held various sales and marketing and business management positions, including vice president of sales and marketing, during a twenty year career with Johnson & Johnson. BA, Southeastern Louisiana University.

Gregory D. Brown. Appointed chief financial officer in January, 2007. Previously chief financial officer of BidRx, LLC (2006 - 2007), co-chief operating officer and partner of Residex Ventures BV (2004 - 2006), managing director and partner of P3 Technology Partners BV (2003 - 2004), and partner of P3 Technology Partners BV (2001 - 2003). CPA. BBA, Accounting, University of Iowa.

Risks

In our view, these are the principal risks underlying the stock:

Acceptance The satisfactory experience of a limited number of users in the Pilot Placement Program, reflected in sales of Nano Enablers through that program, point to broad upside revenue potential for the system. However, sales have yet to begin ramping to the extent that we believe is necessary to turn operations profitable within the next two years.

Continuing losses BioForce is projected to operate at a loss through 2009. Based on our operating projections, funding needs for the next two years should be relatively modest. But if revenue falls significantly short of our forecasts, losses, cash burn, and financing needs could be greater than we have anticipated. If the company is unable to raise additional equity in sufficient amounts, it may have to curtail its activity, as conventional debt financing does not appear to be an option.

Products in Development While we have not factored the ViriChip or nanodiagnostics into our forecasts, BioForce's longer-term growth prospects also rest on these products. If progress toward 2009/2010 licensing or commercialization goals is slow, investor perception of the stock could be adversely affected.

Dilution Since 2006, BioForce has financed its operations mainly through the issuance of 6.4 million common shares. In combination with a recapitalization, two private equity offerings doubled the number of shares outstanding in 2006. In an August, 2007 private placement, BioForce issued 500,000 investment units which included one million preferred shares convertible to an equivalent number of common shares. The units also included several series of warrants to purchase, in aggregate, four million common shares at exercise prices ranging from \$0.50 to \$1.25 per share. The equity financings we project for 2008 and 2009 would dilute future earnings further.

Intervening Technology There are currently no other systems than compete directly with the Nano eNabler, which has demonstrated better utility and efficiency than other technologies used to print microarrays. However, new technologies that do not breach the Nano eNabler patent could potentially be introduced to the market, undercutting any early-to-market advantage that the Nano eNabler may gain during the next year or so.

Microcap Concerns Shares of BFNH have risks common to the stocks of other microcap (which we define as market capitalizations of \$250 mil or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately 16 million shares in the float. On average, approximately 23,500 shares are traded daily.

Miscellaneous Risks The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Investment Recommendation

We are initiating coverage of BioForce Nanosciences Holdings (BFNH.OB) with a rating of Speculative Buy and a 12-month price target of \$1.00 per share. In our view, the stock is speculative and suitable mainly for accounts with a high tolerance for risk.

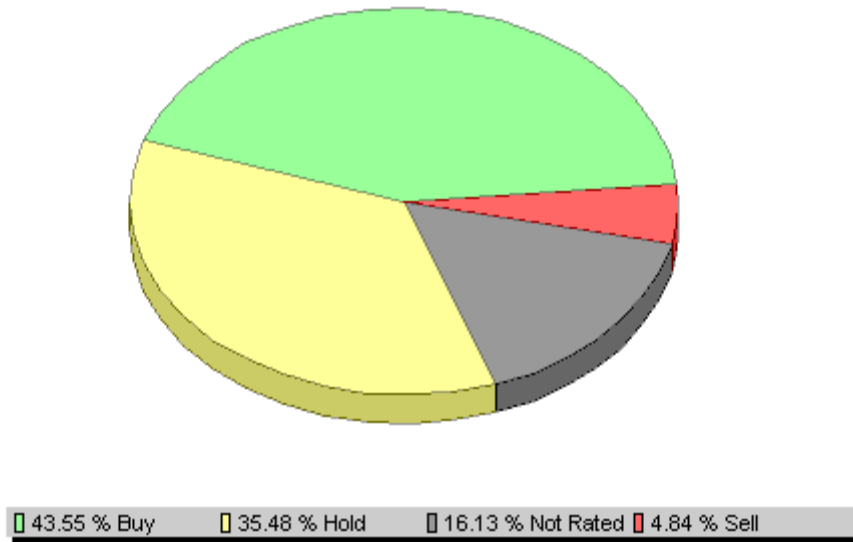
Capital IQ data on 70 stocks in the scientific and technical instruments sector with market capitalizations less than \$250 million show an average price to (trailing) sales multiple (after discarding extreme highs) of 6.6X, vs. BioForce's 15.1X.

We believe that within the next 12 months, BFNH could be accorded a valuation of around 7X estimated 2009 sales per share of \$0.26, or \$1.80 per share. To account for commercialization risks, we have discounted that figure by 45% to arrive at our 12-month price target of \$1.00 per share, a target that implies a doubling of the stock price within the next 12 months.

BioForce Nanoscience Holdings



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
<u>Rating</u>	<u>#</u>	<u>%</u>
Buy	0	0
Hold	2	10.00%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public companies mentioned in this report

Affymetrix (Nasdaq: AFFX)

Agilent (NYSE: A)

BioRad (Amex: BIO)

Johnson & Johnson (NYSE: JNJ)

Laboratory Corporation of America (NYSE: LH)

Perkin Elmer (NYSE: PKI)

Quest Diagnostics (NYSE: DGX)

Veeco Instruments (Nasdaq: VECO)

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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not have an investment banking relationship with the company mentioned in this report and was not a manager or co-manger of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In November, 2007, the company paid a monetary fee of US\$24,000 for the creation and dissemination of research reports for one year, and will, starting one year after the publication of an initial research report, pay a monetary fee of US\$2,000 per month for the continued creation and dissemination of research reports.

I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

BioForce Nanoscience Holdings
Annual Income Statements
FY2005– FY2009E
(\$ Thousands)

	2005A	2006A	2007E	2008E	2009E
Revenues					
Sales	114	414	1,269	3,545	8,347
Consulting income	26	1			
Total	140	415	1,269	3,545	8,347
Cost of sales	117	199	772	1,630	3,429
Gross profit	23	216	497	1,915	4,918
Operating expenses					
R&D	1,198	839	1,227	1,875	2,200
Sales/marketing	244	733	1,269	1,850	2,500
G&A	798	2,029	2,661	2,650	2,750
Reimbursement - grant expenses	(361)	(240)	(540)	(500)	(500)
Total	1,879	3,362	4,617	5,875	6,950
Operating loss	(1,856)	(3,146)	(4,120)	(3,960)	(2,032)
Other					
Interest and other income	17	157	45	51	22
Debt forgiveness income			164		
Abandoned stock offering costs			(257)		
Interest expense	(254)	(984)	(14)	(10)	(8)
Net loss	(2,092)	(3,974)	(4,088)	(3,919)	(2,018)
Preferred dividends			134		
Net loss to common shareholders			(4,222)	(3,919)	(2,018)
Avg shares outstanding	11,092	24,000	24,435	31,500	32,500
Loss per share	(0.19)	(0.17)	(0.17)	(0.12)	(0.06)
Loss to common shareholders			(0.17)	(0.12)	(0.06)

Source: Company reports and Taglich Brothers estimates

BioForce Nanoscience Holdings
Quarterly Income Statements
FY2007 – FY2008
(\$ Thousands)

	2 0 0 7					2 0 0 8				
	1QA	2QA	3QA	4QE	2007E	1QE	2QE	3QE	4QE	2008E
Sales	359	185	36	690	1,269	690	705	1,010	1,140	3,545
Cost of sales	176	156	96	345	772	328	335	455	513	1,630
Gross profit	183	29	(60)	345	497	362	370	556	627	1,915
Operating expenses										
R&D	279	292	326	330	1,227	375	450	500	550	1,875
Sales/marketing	306	323	290	350	1,269	425	450	475	500	1,850
G&A	659	674	629	700	2,661	650	650	650	700	2,650
Reimbursement - grants	(125)	(165)	(125)	(125)	(540)	(125)	(125)	(125)	(125)	(500)
Total	1,119	1,124	1,119	1,255	4,617	1,325	1,425	1,500	1,625	5,875
Operating loss	(936)	(1,095)	(1,179)	(910)	(4,120)	(963)	(1,055)	(945)	(998)	(3,960)
Other										
Interest and other income	22	13	6	4	45	13	19	12	6	51
Debt forgiveness income			164		164					
Abandoned stock offering costs			(257)		(257)					
Interest expense	(3)	(4)	(4)	(3)	(14)	(3)	(2)	(2)	(2)	(10)
Net loss	(917)	(1,086)	(1,269)	(909)	(4,180)	(952)	(1,038)	(935)	(994)	(3,919)
Preferred dividends			134		134					0
Net loss on common stock			(1,403)	(909)	(4,314)	(952)	(1,038)	(935)	(994)	(3,919)
Avg shares outstanding	24,041	24,100	24,100	25,500	24,435	31,500	31,500	31,500	31,500	31,500
Loss per share	(0.04)	(0.05)	(0.06)	(0.04)	(0.17)	(0.03)	(0.03)	(0.03)	(0.03)	(0.12)

Source: Company reports and Taglich Brothers estimates

BioForce Nanoscience Holdings
Balance Sheets
FY2007 – FY2009E
(\$ Thousands)

	2005A	2006A	3Q07A	2007E	2008E	2009E
A S S E T S						
Current assets						
Cash + equivalents	363	2,603	552	301	312	474
Accts rec	9	22	6	264	788	1,623
Inventory		1,194	1,129	1,030	1,482	1,959
Prepayments & other	9	55	102	127	354	835
Total	381	3,874	1,790	1,722	2,936	4,891
Fixed assets	587	538	638	634	596	530
Intangibles	455	649	764	810	969	1,120
Total assets	1,422	5,061	3,192	3,165	4,501	6,541
LIABILITIES / EQUITY						
Current liabilities						
Accts pay	89	506	318	429	838	1,429
Accruals	191	193	422	444	1,241	2,504
Deferred revenue		9	43	63	177	417
Note pay - curr	878	132	109	161	140	103
Total	1,159	840	891	1,098	2,396	4,453
Long-term debt	172	279	159	80	37	37
Shareholders' equity	91	3,942	2,142	1,987	2,068	2,050
Total liabilities and shareholders' equity	1,422	5,061	3,192	3,165	4,501	6,541

Source: Company reports and Taglich Brothers estimates

BioForce Nanoscience Holdings
Cash Flow Statements
FY2005 – FY2009E
(\$ Thousands)

	2005A	2006A	3Q07A	2007E	2008E	2009E
	(3d qtr only)					
Cash from operating activities						
Net loss	(2,092)	(3,974)	(1,269)	(4,186)	(3,919)	(2,018)
Depreciation/amortization	173	203	64	249	278	315
Stock based compensation		903	277	1,114	1,000	1,000
Debt forgiveness income			(164)	(164)		
Abandoned stock offering costs			257	257		
Changes in working capital	122	(734)	342	78	116	302
Net from operating activities	(1,589)	(2,655)	(494)	(2,653)	(2,525)	(401)
Cash from investing activities						
Capital expenditures	(347)	(126)	3	(308)	(200)	(200)
Patents and trademarks	(139)	(222)	(59)	(193)	(200)	(200)
Total from investing	(486)	(348)	(56)	(501)	(400)	(400)
Cash from financing activities						
Issuance of long-term debt	1,350		0	68	0	0
Payments on long-term debt	(1)	(37)	(17)	(74)	(63)	(37)
Issuance of preferred stock			131	131	0	0
Issuance of warrants			230	230	0	0
Preferred dividends			(3)	(3)	0	0
Issuance of common stock	590	5,280		500	3,000	1,000
Total from financing	1,939	5,243	340	852	2,937	963
Net change in cash	(136)	2,240	(210)	(2,302)	12	162
Cash - beginning	499	363	762	2,603	301	312
Cash - ending	363	2,603	552	301	312	474

Source: Company reports and Taglich Brothers estimates