April 13, 2006

Bridge IR Group, Inc.

United States – Healthcare

Drug Wholesale & Retailers

NYER MEDICAL GROUP, INC. (NYER - NASDAQ:SC)

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Exchange: US - NASDAQ Small Cap Market
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Recent Price: $2.67

Target Price: $4.65

SPECULATIVE STRONG BUY RATING

Main Headquarters

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Nyer Medical Group Incorporated.		
(all figures in Millions)		
52 Week Hi/Lo Range	4.59/1.99	
Fiscal Year End	30-Jun	
Shares Outstanding (3/29/2006)	4.20	
Float (approximately)	2.06	
Share price (03/28/2006)	2.67	
Market Capitalization	11.2	
Average Volume (3 months)	0.016	
Insider Ownership	30%	
Institutional Ownership	13%	
Enterprise Value	10.00	
Total LT Debt (12-31-05)	0.167	
Total Cash (12-31-05)	1.378	
	6/2005	6/2006
	FY2005 A	FY2006 E
Earnings Per Share (EPS)	0.05	0.22
Book Value ($/share)	1.817	1.833
	FY2005 A	FY2006 E
Total Revenue	61.184	63.673
Cost of Sales	47.453	48.744
Gross Profit/Loss	13.731	14.929
Operating expenditures	13.137	13.374
Operating Loss /Profit	0.594	1.555
Other income	0.003	
Income continuing operations	0.184	1.311
Tax Expense	0.040	0.338
Net Income	0.224	0.973
NA = Not applicable/Not Available.		
A = Actual Reported figures		E = Estimates
Balance Sheet & Financial Statement Extracts (12/31/05)		
Current Assets	11.873	
Current Liabilities	4.490	
Total Assets	13.824	
Total Accumulated Deficit	10.391	
Total Shareholder's Equity	7.632	
Capital Structure (as at 12-31-05)		
Authorized Common Stock	25 000 000	
Authorized Preferred Stock	5 000 000	
Class A Prefs Authorized	2 500 000	
Class B Prefs Authorized	2 500 000	
Outstanding Preferred Stock	3000	
Outstanding Stock Options	1 570 600	
Ave weighted exercise price	3.98	

Surfing the Generic & Prescription Drug Plan Tidal Waves

Company Overview

Nyer Medical Group, Inc. (NASDAQ:SC) is a holding company operating a pharmacy chain, consisting of 18 facilities operating under the name Eaton Apothecary (Eaton), in the greater Boston area and a medical products/equipment distribution business (ADCO Surgical Supply Inc. and ADCO South Medical Supplies, Inc.), located in Maine and South Florida and supply to hospitals, nursing homes and physicians.

- The company is improving its profitability in both business units with Q2 FY 2006 EPS coming in at $0.02.
- Eaton announced **a record number of prescriptions filled in December 2005 and January 2006** and management expects this **trend to persist**.
- Eaton **opened 4 new 340B (federally qualified) pharmacies** during the past fiscal year, which is **a niche segment in the greater Boston area**. NYER plans on expanding this program throughout 2006. They are also negotiating to purchase and retire the **4 million shares of preferred stock.** This will enhance shareholders interest.
- Legislation introduced in January 2006, involving the **initiation of the Medicare Prescription plan**, the **aging "baby-boomer" demographic factor** in the US, and an increasing number of **medications turning generic in 2006 and 2007**, are all **key revenue and profit drivers** for NYER shareholders to look towards.
- The **generic industry is expected to grow by roughly 13% in 2006**, according to IMS Health, while Bain & Co. estimates that blockbuster products coming off patent are valued at **$22 billion in 2006, $27 billion in 2007, and $29 billion in 2008**.
- Eaton is presently under lease negotiations to open a pharmacy in an affluent suburban Boston strip mall. The community presently has no pharmacy. Eaton has also begun **preliminary negotiations to purchase an additional operating pharmacy with revenues in excess of $4.5 million.**
- We expect NYER to **generate $63.7 million in revenue in FY2006** up 4% over FY2005 Revenues and return EPS of **+22c vs. +5c EPS**, in FY 2005. We expect gross profit margins will widen slightly to 23.4% and that operating margin and net income will improve - driven by an improvement from losses to at least EBITDA breakeven for the Medical division in FY 2006 vs. FY 2005. FY2007 Revenues are forecasted **to rise 12.5% to $71.7 million** with EPS of **at least 38c** (up 77%)
- The medical segment has turned the corner and is operating profitably on EBITDA level once again, after the subsidiary disposed of its Nevada location, sold off old inventory, reduced staff and shifted to higher margin products.
- NYER has lagged behind the larger peers in the pharmacy sector (**WAG, CVS, LDG** etc.) and we believe room exists for NYER to gain on a relative basis if results live up to our revenue and EPS forecasts in FY 2006 and beyond. Hedge fund **Around the Clock Partners, LP** has **increased their position in the company to 9.7%,** following its initial position established as a result of A **private placement in April 2005**.
- **The prognosis for Nyer Medical Group looks upbeat in the wake of both the micro and macro factors impacting favorably on a net basis on the company. We believe that the inverted yield curve in the US is in fact cause for concern that either a US economic slowdown or recession is highly likely in the next 12 months. Such slowdown will likely arise from the lag effect of the strong interest rate tightening cycle that will squeeze consumers and trigger a change in the present regime. Under such conditions we expect defensives such as drug-store and other healthcare stocks to outperform other sectors. Even if this macro view turns out to be incorrect, we believe NYER is undervalued from a bottom-up and peer comparison perspective and our SPECULATIVE STRONG BUY rating assumes this issue will outperform the S&P 500 benchmark index by 25% or more on a relative basis. See INVESTMENT THESIS & RECOMMENDATION for more in-depth discussion (Page 9-11)**

See Appendix A-1 for Analyst Certification and Important Disclosures

COMPANY

Nyer Medical Group, Inc. (NASDAQ SC:NYER), was incorporated in Florida in 1991, and is a holding company with operations in the following businesses:

D.A.W., Inc. (Eaton), which is 80% owned by NYER, is a chain of fourteen pharmacy drug stores located and four 340B programs, located in the suburban Boston, Massachusetts area.

ADCO Surgical Supply, Inc. (ADCO) and ADCO South Medical Supplies, Inc. (ADCO South), two wholly owned subsidiaries, are engaged in the wholesale and retail sales of medical and surgical medical equipment and supplies worldwide through sales representatives in New England and Florida and the Internet.

SUBSIDIARIES

** Eaton Apothecary [Pharmacies Segment]

D.A.W., Inc. is the 80% owned subsidiary of NYER, which currently does business under the name Eaton Apothecary. Eaton is a chain of pharmacies operating in the greater Boston area, comprised currently of 14 pharmacies and four 340B programs. The competitiveness of the retail pharmacy is rife with many different channels of retail and non-retail competition.

Virtually all of Eaton's stores compete head-to-head with CVS and Walgreen stores. **Eaton believes it occupies a niche in the market not covered by the larger chain stores**. **Average store size is approximately 2,500 square feet (versus 10,000 to 20,000 for the average chain),** with the pharmacy department as the central focus to the customer. Eaton offers free delivery service of prescription medication to their clientele and this customer benefit gives Eaton an important competitive advantage for the shut-in customer.

Eaton's management strategy is to move in the opposite direction from the national chains with a smaller store size, specific merchandise mix and deliberate selection of highly effectual store locations. More specifically, the prototype of locations is developed for approximately 2,500 square feet, housing high volume prescription departments and situated in neighborhood locations, which has proved to be an effective strategy. **Net sales were approximately $53 million in fiscal 2005**, with the emphasis of operations on the pharmacy department. Eaton offers free delivery service of prescription medication to customers. **In fiscal 2005, prescription sales accounted for 88.7% of total sales.**

* ADCO & ADCO South [Medical Segment]

ADCO started as a quality distributor of home health, medical, surgical and laboratory supplies and equipment in Bangor, Maine in 1963. **ADCO supplies all areas of health care products**. ADCO sells to physician offices, clinics, health centers, nursing homes, visiting nurse associations, individual health care consumers and specialty equipment to hospitals.

The products supplied include gloves, incontinence products, laboratory supplies and equipment, surgical supplies and equipment, diagnostic equipment, motorized rehabilitative equipment, such as stair glides, chair lifts, scooters, wheelchairs and hospital beds, various kinds of rehabilitative aids utilized by persons who are rehabilitating from operations, serious illnesses and accidents, diagnostic kits, incontinence supplies, medical equipment (both disposable and re-usable), oxygen and associated supplies, diabetic supplies, and various other products including nursing uniforms and shoes.

ADCO is one of the larger independent wholesale medical distributors located in New England (excluding national competitors), with a wholesale customer base of over 1,125 active customers. **ADCO derives 90% of its revenues from sales to institutional customers (primarily nursing homes and physician offices), while the balance comes from its retail and home health customers.** ADCO owns a 23,000 square foot facility containing a 3,000 square foot retail showroom located in Bangor, Maine.

ADCO South began operations in 1992. ADCO South's sales are from medical supplies and equipment primarily to physicians and clinics in the Palm Beach and Broward County areas of South Florida. It does virtually no home health care business.

In May of 1999, NYER launched a business to business (B2B) and business to consumer (B2C) Internet commerce ventures, beginning with an interactive web site**, www.medicalmailorder.com.** This site directs consumers and businesses through a multi-tiered virtual medical department store to locate the items that best fit their needs. This site has interactive and secure on-line transactions.

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As at March 31, 2006, these subsidiaries had 124 full-time and 87 part-time employees, including its executive officers. Eaton employs 97 full-time and 83 part-time employees, ADCO employs 23 full-time employees and 2 part-time employees, ADCO South employs 4 full-time employees and 2 part-time employees.

INDUSTRY

The Medicare Prescription Plan that went into effect in January of 2006 which is expected to have a major impact on the pharmaceutical industry. For NYER medical group we expect this legislation to have a material beneficial impact on particularly its Eaton Apothecary subsidiary as far as revenue recognition and margin expansion is concerned. This subsidiary uses two methods for revenue recognition, namely the gross revenue and dispensing fee methods. Revenue from dispensing fees is expected to receive a strong boost from this new regulatory plan.

The dispensing fee method is becoming more popular in the pharmacy sector, but it has served to mask much of the actual revenue growth. For example, under the gross revenue method, if a person comes in to fill a prescription of Amoxicillin and the pharmacy charges them $25.00 for the drug which is reflected as revenue against a cost of good sold of $22.00, resulting in $3.00 gross profit on the prescription. With the dispensing fee method, if that same person comes in for the Amoxicillin prescription and the facility they come into recognizes revenue via the dispensing fee method there will only be a single accounting entry against revenue of $7.50, since this amount is fixed and received on all prescriptions filled via the dispensing fee method. Although revenue may be masked lower when booking revenue via the dispensing fee method, the margins are better on prescriptions filled. The dispensing fee method is used by federally qualified healthcare facilities called 340B facilities where the federal government foots the bill on medication prescribed and purchased by people enrolled and qualified under the plan and has no direct bearing on the cost structure of these 340B facilities. The effect on margins, under the dispensing fee method is more lucrative than under the gross revenue methodology.

In addition, the new expanded Medicare drug benefit is contributing to rising drug sales, even if some of the features of the plan are confusing. Finally, the shift toward cheap generic drugs is helping drug-store chains in general. An increase in sales of generics may reduce store revenues. However, insurance reimbursements for generics generally cover a higher percentage of the price, which means that profits can be higher even if sales are lower. Put simply, some of the cost savings from generics go to improve store profit margins. As a result, drugstore chains can look forward to earnings growth that outpaces revenue growth and we believe this is also the case for the FY2006 and FY 2007 outlook for NYER. And revenues are likely to grow at a healthy clip for this emerging chain, because if they are looking also to add stores were acquisition will fit with its strategy.

All aspects of the medical products business are subject to significant competition. NYER's national competitors generally have substantially greater financial resources and other competitive advantages, although they traditionally concentrate on hospitals. Nonetheless, the company believes they have certain competitive advantages which enable them to compete favorably with larger competitors because of our ability to be flexible and creative for their customers.

Medicare Prescription Plan

Everyone with Medicare, regardless of income, health status, or prescription drug usage, will have access to prescription drug coverage as of January 1, 2006. There is extra help for people with limited income and resources. Almost 1 in 3 people with Medicare will qualify for extra help and Medicare will pay for almost all of their prescription drug costs. The latest survey shows nearly 2 million more people have signed up, since last measured for Medicare prescription drug benefits as US CMS officials works to enroll more elderly and disabled Americans before an upcoming deadline**. Almost 7.2 million people** have now joined the controversial plan voluntarily, according to the **Centers for Medicare and Medicaid Services (CMS)**. About 20 million were automatically transferred from other programs or receive benefits through an employer that gets Medicare subsidies. The prescription drug coverage started in January 2006. People who enroll after the May 15 deadline must pay penalties, unless they sign up during the next open enrollment starting in November 2006, but thus far pressures from both Democrat and Republican parties may lead to Congress ruling to extend the existing deadline.

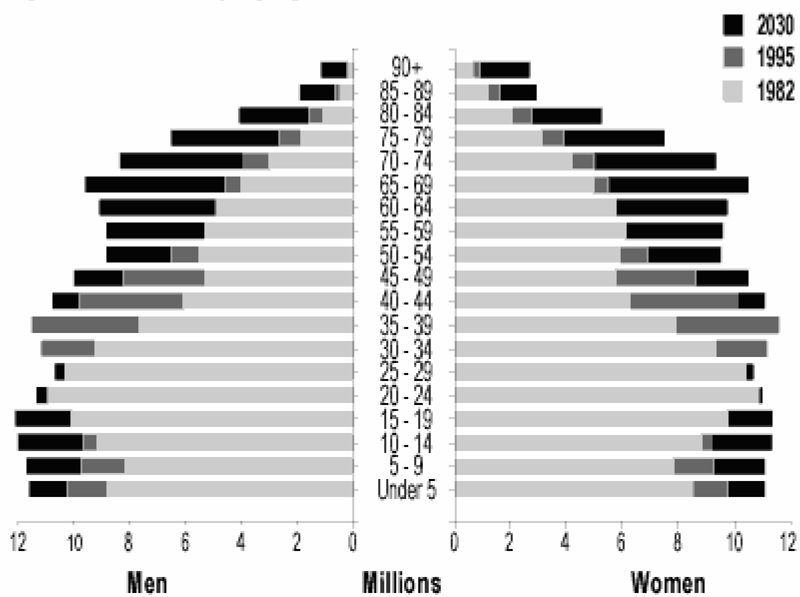
Officials are aiming to enroll up to 30 million of the 43 million Medicare patients in a drug plan this year. The primary criticism against the plan has centered on the idea that picking a plan is too complicated. Beneficiaries can select from dozens of plans offered by health insurers and other companies. **Each plan covers different sets of drugs and varies in price**. CMS plans to automatically sign up an additional 1.2 million low-income patients, many of whom finished initial paperwork for special discounted plans but did not complete a second step.

California Democrat Rep. Henry Waxman released a report arguing many of the companies offering the benefit limit or impede access to key drugs and that it is very hard for seniors to get that information from the Medicare Web site or the plans themselves. Waxman cited cases in which the drug plans refused to allow a patient to get a specific drug, or limited the dose or amount of the medicine and mentioned in this report that the disclosure of their terms is virtually nonexistent. CMS Administrator Mark McClellan said Waxman's report appeared to be misleading and that the companies offering Medicare drug benefits are simply employing cost-savings measures similar to what other insurers use, such as requiring prior authorization for some drugs.

Aging population

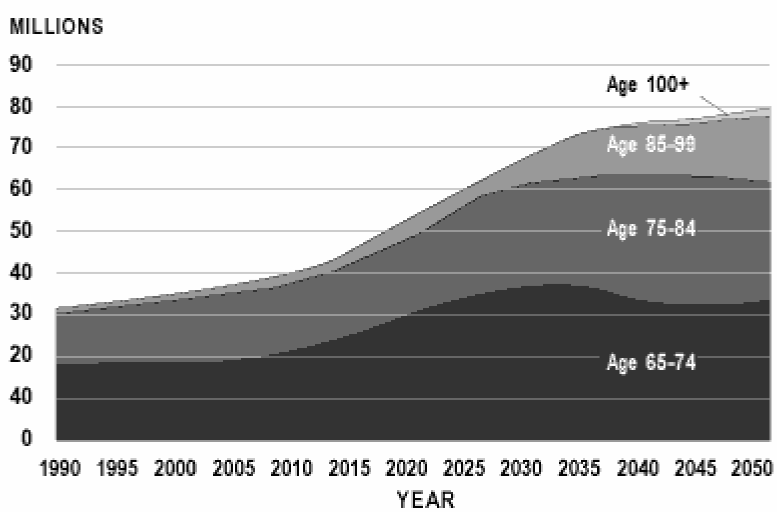
Our nation is aging. There is a growing recognition that the predicted expansion of the aging population in the United States will have far-reaching effects on the health status of our nation's citizens. There has been, and will continue to be, a substantial increase in the numbers and the proportion of Americans in the age group most vulnerable to cancer. The US Census Bureau has estimated that Life expectancy at birth has increased from 48 years to 79.4 years for women and from 46 years to 73.6 years for men. Life expectancy at 65 years and 85 years has also increased. **Persons who live to age 65 can expect to live an average of another 18 years, while persons who survive to age 85 years can expect to live an average of approximately 6 or more years.**

Figure 3. Expanding Aging U.S. Population



Source: U.S. Census Bureau, Population Projections of the United States by Age, Race, and Hispanic Origin: 1993–2050, P25-1104, 1993

Figure 4. U.S. Population Aging 65 Years and Older: 1990 to 2050



Source: U.S. Census Bureau, Population Projections of the United States by Age, Race, and Hispanic Origin: 1993–2050, P25-1104, 1993

The first of the postwar baby boom cohort, born 1946–1964, will turn 55 years in 2001**. An extraordinary change in the age structure of the United States is anticipated during the first 3 decades of the 21st century. By 2030, one in five persons (20% of the U.S. population) will be aged 65 or older**, increasing from the present ratio of one in nine persons (12.8%).

The number of persons in the 65 and older age group will more than double, increasing from the current 34 million persons to 70 million persons. Moreover, within the older segment of the population, because of longer life expectancy and additional persons reaching older ages, there will be age shifts resulting in the 85 and older population more than doubling in size from 4.3 million persons to approximately 8.9 million persons. The age pyramid depicted in Figure 3 presents the estimated and projected age structure for selected years. The U.S. Bureau of Census has depicted the U.S. population as a roller coaster to show the effects of aging on the baby boom population over time. 75 million people were born in that period.

As the total population continues to age and expand, so does the aging of the elderly. Age shifts within the segment of the population aged 65 and older are projected to increase the proportion of persons aged 85 and older from 4.3 million in 2000 to 8.8 million individuals in 2030.As the nation ages, clinicians will be treating more older patients and more spending by Medicare and Medicaid for eligible senior citizens will be required to take care of the elderly. Information from a variety of disciplines and professions must converge, and new knowledge must be developed and applied at the aging/ prescription drug research interface.

The US Government has identified this demographic trend as a major challenge and has initiated the recent new drug legislation to facilitate the integration of aging and rising need for drugs and resulting higher drug costs that will accompany this trend.

What is certain is that drug chains will play a vital role to establish a pathway and effective delivery of medication to reduce the healthcare burden for current and future older Americans and likely enjoy strong volumes as a result.

Generic Drugs

Generics provide the same medicine and the same results as their brand counterparts, but at a significantly lower cost. The Generic Pharamceutical Association (GPhA) projects that **more than half of all prescriptions are currently filled with more affordable generic medicines**, at pharmacies across the country.

Generics, which cost 30% to 80% less than brands, save consumers and public and private health care purchasers billions of dollars each year. Medicare, for example, anticipates that its prescription drug benefit will cost $8 billion less than anticipated, due in part to the use of affordable generic medicines. And, just a one percent increase in the use of generics nationwide would save $4 billion annually.

The Generic Pharmaceutical Association (GPhA) is also a strong proponent for a minimal amount of additional funding for the Office of Generic Drugs (OGD) that they claim will provide a tremendous return on investment, resulting in long-lasting dividends to all health care purchasers and health care programs. The backlog at OGD continues to grow, denying consumers access to affordable medicines. The OGD's workload has increased by 36%, and **the department currently has a backlog of more than 800 generic drug applications. That number that is expected to increase as more than $100 billion in brand products are expected to lose patent protection by 2010.**

For the coming year an estimated $20 billion worth of brand drugs are expected to go off patent. Drug companies must submit an abbreviated new drug application (ANDA) for approval to market a generic product. Although the agency fully approved 361 generic drugs in 2005, an additional 850 generic drug applications still await approval, according to FDA. Submissions for Generic Drug approvals increased 36% between 2004 and 2005.The average approval time for generic drugs in 2005 was 16.5 months according to an FDA spokesperson. This is up from 16.3 months for 2004 but down from 17.3 months in 2003 and 18.3 months in 2002, according to agency budget documents.

The increased efficiency can be ascribed to collaborative efforts between the industry and OGD, such as electronic filing and online databases to guide the review process. Next year, the agency aims to speed the approval process for 25% of generic drugs by two weeks. But the GPhA recently said the generic approval process could not get any faster without increased funding to hire more staff at OGD.

INDUSTRY STATISTICS

- U.S. brand pharmaceutical sales for 2005: $229.5 billion. U.S. generic pharmaceutical sales: $22.3 billion. U.S. generic sales increased by 10% from 2003 to 2004. (Source: IMS Health)
- Of the top five U.S. pharmaceutical companies, based on the number of prescriptions dispensed, four are generic companies. They are Novartis (Sandoz), Teva, Mylan and Watson, respectively.
- 8,400 of the 11,167 drugs listed in the FDA's Orange Book have generic counterparts. (source: FDA, MedAd News)
- Generic medicines account for 56% of all prescriptions dispensed in the United States.
- Generic pharmaceutical products are used to fill more than one billion prescriptions every year.
- In 2004, the top 10 generic drugs, by prescriptions dispensed, were Hydrocodone/APAP, Lisinopril, Atenolol, Amoxicillin, Hydrochlorothiazide, Furosemide Oral, Alprazolam, Albuterol Aerosol, Metformin, Cephalexin. **(source: Drug Topics, March 7, 2005)**
- In 2004, the average price of a generic prescription drug was $28.71. The average price of a brand name prescription drug was $95.54 (Source: The National Association of Chain Drug Stores, October 2005).
- According to a 1998 study by the Congressional Budget Office, generic drugs save consumers between $8 billion and $10 billion each year.
- **Generics accounted for 56% of all prescriptions dispensed in 2005, according to IMS Health data, but less than 13.1% of every dollar spent on prescription drugs.** Generics cost, on average, 30% to 80% less than their brand counterparts.

Generics in the Future

- The generic industry is expected to grow by roughly 13% in 2006. **(Source: IMS Health)**
- Blockbuster products coming off patent are valued at **$22 billion in 2006, $27 billion in 2007, and $29 billion in 2008**. **(Source: Bain & Company)**

As of January 2006, Medicare beneficiaries can choose to enroll in one of many Medicare part D plans currently under consideration for approval by the Centers for Medicare and Medicaid. **The plans will provide seniors, for the first time, with a prescription drug benefit under the Medicare program. Eaton expects to realize significant prescription sales growth as seniors, whose limited incomes may have acted as a barrier to obtaining prescription medication**, can now expect Medicare to subsidize a significant portion of their prescription drug costs.

Customers and Third-Party Payors

During the year ended June 30, 2005, approximately **81% of the pharmacy sales were to customers covered by health plan contracts.** These **plans typically contract with a third-party** (insurance company/prescription benefit management company/ governmental agency/private employer/health maintenance organization or other managed care provider) that agrees to pay for all or a portion of a customer's eligible prescription purchase in exchange for reduced prescription rates.

During FY2005 the top 5 third-party payors, which provide administrative and payment services for multiple health plan contracts and customers, **accounted for approximately 65% of total sales**, the largest of which represented 28% of the total sales. Medicaid agencies accounted for approximately 28% of FY 2005 total sales.

FINANCIALS

The company has its financial year-end on 30 June. As of September 26, 2005, there were approximately 745 holders of NYER shares of common stock. Total sales for FY 2005 decreased 0.8%, to $61.18 million, from $61.68 million in FY 2004. The pharmacies segment's sales decreased $327,354 to $52.893 million or 0.6% in FY 2005, as compared to $53.22 million for FY2004. The main reason for the decrease was the **impact of an expired contract with one federally qualified health center (FQHC)** and <u>renegotiation of terms from a replenishment model to a segregated inventory model</u>. Under the former contract, the pharmacies dispensed prescriptions from its inventory and recognized as sales the gross value of the prescription dispensed. Under the latter contract, the pharmacies dispensed prescriptions from a segregated inventory owned by the FQHC and recognized as revenues the dispensing fee paid it by the FQHC.

The **medical segment's sales decreased $175,879 in 2005 to $8.29 million or 2.1% for FY2005 as compared to $8.46 million for FY2004.** Over $400,000 was due to increased pressure from regional and national buying groups which are able to command larger discounts from manufacturers and are able to offer on-line purchasing and inventory controls. Increased pressure continues from larger competitors who offer lower prices; some physicians and physician groups were purchased by hospitals which required them to purchase from their sources resulting in a decrease of $80,000. The balance is due to new buying groups that offered lower prices to induce customers to purchase their products and not selling products with very low gross profit margins. Internet sales increased approximately $330,000 which helped offset the decline.

Overall gross profit margins were 22.4% in 2005 as compared 21.6% in 2004.The pharmacies segment's gross profit margins increased 1% to 21.3% for FY 2005 as compared to 20.3% for FY 2004. The increase was due to **larger discounts from their suppliers due to purchasing volume.** This increase helped offset lower insurance reimbursements. The medical segment's gross profit margins decreased 0.3% to 29.6% for in FY2005, as compared to 29.9% in FY2004.

Selling, General and Administrative expenses (SG&A) increased 0.2% in FY2005 to $13.138 million as compared to $13.111 in FY2004. The pharmacies' SG&A expenses increased $528,591 to $10.114 million or 5.5% FY 2005 as compared to $9.586 million during FY2004. The increase was due to costs associated with the **opening of a pharmacy in Waltham, MA of $275,500**, increased labor costs (including benefits) of approximately $524,000 due to a shortage of available pharmacists, and an increase in depreciation expense of $53,000. These increases were partially offset by decreased legal fees of $32,400, decreased advertising of approximately $179,000, and decreased amortization of $16,700. The medical segment's SG&A expenses decreased $364,481 or 12.7% to $2.512 million for FY 2005 as compared to $2.876 million for FY2004.

The decrease was due to a combination of a reduction in sales related expenses of $160,000, a reduction in bad debt expense of $63,000, personnel costs of $48,900, Nevada overhead costs of $37,000, advertising costs of $33,000, reduced bulk inventory storage costs of $8,000, mortgage interest of $6,000 and building maintenance and repair costs of $5,100. Due to continuing losses, the division located in Nevada was closed in June 2005. The Corporate segment's overhead decreased by $137,269 or 21.2% to $511,510 for the year June 30, 2005 as compared to $648,779 for the year June 30, 2004. The decrease was due to a combination of the following reductions: personnel costs of approximately $91,200, public relation fees and stock related expenses of approximately $74,000, insurance of $14,700. Legal and audit fees increased approximately $56,000. **The debt position of NYER is not subject to market risk and fluctuations** because all of the debt has fixed maturity dates and fixed interest rates. The difference between the company's carrying amount and fair value of its long-term debt consisting mostly of notes payable was immaterial at June 30, 2005, 2004 and 2003. The company utilized all tax credits in FY 2005 and deferred tax assets were reduced to zero balance.

The following page shows a table with both past actual income statement figures and also shows our forecasts for both the second half of FY 2006 and full year FY2006, and FY2007. A short discussion is included below the table. We have assumed an effective tax rate of 34% for 2nd half of FY 2006 and FY 2007.

(All figures in millions)	FY 2003 A	FY 2004 A	FY 2005 A	FY 2006 A	FY2006E	FY2006 E	FY 2007
				Q1 / Q2	Q3 / Q4		
Pharmacies - Revenue		53.220	52.893	27.024	28.779	55.803	62.845
Medical - Revenue		8.466	8.290	3.839	4.031	7.870	8.814
Total Sales	**56.972**	**61.687**	**61.184**	30.863	32.810	**63.673**	**71.659**
Gross profit	12.455	13.336	13.730	7.294	7.635	14.929	16.681
Gross profit margin	***21.9%***	***21.6%***	***22.4%***	***23.6%***	***23.3%***	***23.4%***	***23.3%***
Operating Expenses	11.452	13.110	13.137	6.864	6.510	13.374	13.954
(Operating Expense/Sales %)	***20.1%***	***21.3%***	***21.5%***	***22.2%***	***19.8%***	***21.0%***	***19.5%***
Operating Income	1.001	0.224	0.592	0.429	1.125	1.554	2.727
Operating Margin	**1.8%**	**0.4%**	**1.0%**	**1.4%**	**3.4%**	**2.4%**	**3.8%**
Taxes (at 34%)					0.338		0.927
Net Income (Loss)	0.499	-0.425	0.223	0.186	0.787	0.973	1.800
EPS (in US$)	**0.130**	**-0.110**	**0.060**	**0.043**	**0.176**	**0.217**	**0.383**
Weighted average common shares outstanding							
Basic	3.758	3.784	3.825	3.978	4.097	4.097	4.302
Diluted	3.759	3.784	4.024	4.300	4.472	4.472	4.695

The table shows the performance of both subsidiaries for FY 2003 through 1st half (H1) FY2006. The Pharmacy division has been profitable on a EBITDA basis throughout and we expect this division to continue to perform well and at a minimum maintain current operating and gross margin levels achieved in H1 FY2006 for rest of FY 2006, and improve on them marginally in FY 2007. The second subsidiary is **ADCO Surgical** which is medical distributor that has been operating at a loss on both operating and gross profit basis. The new CEO has turned this ship around. They have sold off all old inventory, cut staff, closed an unprofitable location in Nevada, and have shifted their focus to selling high margin products. The latest 10Q filing show the gross margins are improving and ADCO is now EBITDA positive. While revenue is roughly $8 million annually for ADCO, the subsidiary should now be able to show an EBITDA profit with the product shift. The company is also entertaining selling this subsidiary now that they have turned it around to a profitable subsidiary. We have assumed that the 2 subsidiaries remain in the Nyer group and status quo is maintained. On a consolidated basis we expect revenues to increase 4% in FY 2006 over FY 2006 to $63.6 million, followed by a 15% increase to $71.6 million in FY 2007 on the back of higher volumes. EPS is expected to show a strong rise in FY 2006 and FY 2007 on the back of top line growth that has been absent in FY2004 to FY 2005 and operating cost improvements that will translate into operating margins rising from only 1.0% in FY2005 to 2.4% in FY2006 and 3.8% in FY2007 that is **trending closer towards operating margin range of Walgreen, CVS and other competitors**. Our EPS calculation assumes slight increases in weighted average common shares outstanding close to 4% annually which we believe is conservative.

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

Liquidity and Capital Resources

At December 31, 2005, **cash on a consolidated basis was $1.378 million** as compared to $1.99 million at June 30, 2005. Approximately $993,000 was held by the pharmacy subsidiary, $162,895 was held by the Parent and $223,000 was held by the medical segment. **The main use of cash was to pay down accounts payable.** NYER's primary source of liquidity is **cash provided from operations**. Its principal uses of cash are: **operations, capital expenditures and repayment of debt.** The medical and corporate segments obtained a $300,000 line of credit which has been renewed until November 2006 and to date the company has not used this line. The line of credit is collateralized by property owned by the subsidiary and is guaranteed by Nyer Medical Group Inc.

At December 31, 2005, accounts receivable, net of the allowance for doubtful accounts, was $4.401 million as compared to $4.394 million at June 30, 2005, the increase resulted in increased sales from the pharmacy segment. At the end of Q2 FY2005 debt was $168,517 as compared to $215,275 at June 30, 2005. Total debt has decreased due to pay down on existing debt. Net cash flows used in operating activities was $301,161 for the 6 months ended December 31, 2005 as compared to net cash flows used in operating activities of $89,569 for the 6 months ended December 31, 2004. The primary uses of cash were to fund operations. Net cash flows used in investing activities was $267,096 for Q1 & Q2 FY2006 as compared $322,607 for the Q1 & Q2 FY2005. The decrease was due to the investing in property, plant and equipment for the three new locations in 2004. Net cash flows used in financing activities was $46,758 for 6 months ended December 31, 2005 as compared to $105,932 for the 6 months ended December 31, 2004. The decrease was due to the NYER continuing to pay down debt. **The balance sheet has improved with total long term debt as a percentage of shareholders equity standing at a mere 2% as at the end of calendar year 2005.**

The company also received an aggregate **of $400,000 from the sale of 193,237 shares of common stock at $2.07 per share** and 53,320 warrants with a five-year life at an exercise price of $2.60 per share to certain investors in a private placement transaction concluded on April 15, 2005. The net proceeds were $328,472 after expenses **from this transaction which will be used for working capital purposes.** Although Nyer Medical Group, Inc. will not receive any proceeds from the sale of those shares of common stock underlying the warrants, it will receive an aggregate of up to $138,632 upon the exercise of these warrants, if they are exercised, and similarly intend to use the proceeds from the exercise of the warrants for working capital purposes.

RISK FACTORS / CONCERNS

The longer term consistency of profit potential, remain uncertain and future operating results may continue to fluctuate. Nyer reported losses until 2001, with the exception of Q3 FY 1996. Since 2001 the company reported profits with the exception of FY 2004. The company does not possess depth in its management team. Nyer is **principally dependent on the expertise of its President & CEO (Karen Wright), the board of directors and the management team at the pharmacies**, the loss of which could materially adversely affect future anticipated results. Eaton depends on the continued service of, and on the ability to attract, motivate and retain a sufficient number of pharmacists for its stores. The success of ADCO is dependent on hiring, training and retaining, skilled and qualified Sales Representatives.

NYER is also controlled by a few shareholders. The principal shareholder is **Nyle International Corp**, controlled by **Mr. Samuel Nyer**, who owns 781,000 shares of NYER common stock. In addition, Nyle owns 2,000 shares of Class A preferred stock which has voting rights equal to 2,000,000 shares of common stock of Nyer on all matters that come before the common shareholders can vote. Mr. Nyer personally owns 101,400 shares of common stock of Nyer and 1,000 shares of Class B preferred stock of Nyer which has voting rights equal to 2,000,000 shares of common stock of Nyer on all matters that come before the common shareholders to vote**. Such holdings collectively represent approximately 61.6% of the voting securities of Nyer and subsequently these parties are in the position to elect a majority of Nyer's directors and control the policies and operations of Nyer. If current liquidity and cash position proves to be insufficient to fund operating and other needs, the company may not be able to generate or obtain sufficient funds to operate its business which, could harm results and force the company to curtail or cease planned operations.**

Pharmacies are exposed to risks inherent in the packaging and distribution of pharmaceuticals and other healthcare products, such as **improper filling of prescriptions, labeling of prescriptions and adequacy of warnings**. The company maintains a professional liability and errors and omissions liability insurance, but claims can result in the payment of significant amounts, some portions of which will not be funded by such insurance. The sale of medical products entails the risk that users will pursue product liability claims.

Eaton's pharmacies and pharmacists must be licensed by the Massachusetts board of pharmacy. Eaton's pharmacies and distribution centers are also registered with the Federal Drug Enforcement Administration and are subject to Federal Drug Enforcement Agency regulations relative to Eaton's pharmacy operations, including purchasing, storing and dispensing of controlled substances. If Eaton were to violate any applicable statute, rule or regulation, their **licenses and registrations could be suspended or revoked.**

The health care industry is subject **to extensive government regulation, licensure and operating procedures.** Nyer cannot predict the impact that present or future regulations may have on operations of Eaton and ADCO. Additionally, Eaton is subject to **federal Drug Enforcement Agency and state regulations relating to pharmacy operations**, purchasing, storing and dispensing of controlled substances, and to other federal regulations such as **The Health Insurance Portability and Accountability Act of 1996 (HIPAA).** Consolidation among physician provider groups, long-term care facilities and other alternate-site providers continues and provider networks are created, purchasing decisions may shift to individuals with whom Eaton and ADCO have not had prior selling relationships which poses risk to operating margins and revenue if existing relationships are not maintained or broadened. Also, national health care reform has been the subject of a number of legislative initiatives by Congress which creates uncertainty surrounding the timing, extent and impact of future reform decisions will have on Eaton and ADCO or their customers.

Trading in the shares will continue to be subject to major fluctuations for the foreseeable future. The stock is thinly traded at prices below $3.00 and selling of small positions could have a negative impact on the share price in absence of sufficient liquidity. The reverse is true if one or more large investors decide to acquire a block of NYER shares that would result in demand outstripping supply and result in an upward squeeze in the price given the low liquidity and daily trading volume.

We caution that historical volume activity on NYER has been noticeably light, **but we are unable to forecast if trading volumes will improve over the coming months.** Major dilution of common stock can occur if company issues large blocks of common stock or stock options/warrants are exercised into common stock, that can negatively impact on the value of the shares either theoretically or if sold in the open market. Nyer's common stock is listed on the NASDAQ Stock Exchange Small Cap market. NASDAQ rules provide that if the market price of a common stock is less than $1.00 for thirty consecutive trading days, it can be delisted upon the happening of certain events. If Nyer's common stock is delisted by NASDAQ, the market price of the common stock will likely decline on the back of such announcement.

The cost of a significant portion of medical care in the United States is funded by government and private insurance programs, such as Medicare, Medicaid and corporate health insurance plans. In recent years, **government-imposed limits** on reimbursement of hospitals and other health care providers have significantly **impacted spending budgets**. Private third-party reimbursement plans are also developing increasingly sophisticated methods of controlling health care costs by redesign of benefits and exploration of more cost-effective methods of delivering health care. Accordingly, there can be no assurance that reimbursement for purchase and use of medical products will not be limited or reduced and thereby adversely affect future sales by Eaton and ADCO. In addition, any substantial delays in reimbursement, **significant reduction in coverage or payment rates from third party payors can have a material adverse effect on NYER's retail pharmacy business. Pharmacy sales to third party plans accounted for 81% of total pharmacy sales for the fiscal year ended 2005.** Any significant loss of third-party payor business could have a material adverse effect on Eaton's business and results of operations.

Eaton is dependent on vendors to manufacture and supply products - one vendor whose relationship accounted for 86% of their inventory purchases in FY 2005. ADCO distributes over 5,000 medical products manufactured by approximately 135 vendors and is dependent on these vendors for the manufacture and supply of products. During FY 2005 no vendor relationship accounted for more than 10% of ADCO's inventory purchases.

Compliance with changing and evolving regulation(s) such as the **Sarbanes Oxley Act of 2002 of corporate governance and public disclosure** may result in **additional expenses**. As a result, NYER efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. There has not been a formal news release from the company on the development and status surrounding the purchase of the remaining 20% of DAW, nor specifics terms or details surrounding plans to repurchase the 4 million preferred shares that remain outstanding. Investors should consider the possibility that such transactions may not transpire or occur at favorable terms or pricing.

Further elaboration on risk factors are contained in Form 10-Q, filed with the SEC on February 8, 2006 and Form 424B3 which is Prospectus filed with the SEC under Rule 424(b)(3) for public offering distribution of 246,557 shares of common stock with par value of $0.001 that is not being underwritten.

MANAGEMENT

The company was founded by Samuel Nyer in 1991. Mr. Nyer currently holds a position as a consultant with the company. His agreement expires in December 2007.

Karen L. Wright – CEO

Karen L. Wright has been President of the company and subsidiaries, with the exception of D.A.W., since September 2004. She has been a director of the company since November 2004. She has been treasurer of the company since 1991 and vice-president of finance and assistant secretary of the Company since January 1997 and vice-president of operations since 2001. She served on the Board from April 1997 to September 2001. She has been the Company's chief operating office since October 2001. She was a director of Nyle from 1998 until October 2004. From 1985 through 1987, Ms. Wright was ADCO's assistant comptroller, from 1987 through the present time, Ms. Wright has been ADCO's comptroller and treasurer. Ms. Wright received her Bachelors of Science Degree in Accounting from Husson College, Bangor, Maine in 1985.

Mark Duomochel – CEO of DAW & Eaton

Mark Dumouchel has been a director of the company since March 2004. He has been President and Director of the company's 80% owned subsidiary, D.A.W., Inc., since 1990. He is a registered pharmacist in the State of Massachusetts and has over 29 years experience working in and running pharmacies. Mr. Dumouchel received his Bachelors of Science Degree in Pharmacy from Massachusetts College in 1982, and his MBA from Babson College in 1984.

INVESTMENT THESIS AND RECOMMENDATION

Our analysis suggests that **NYER MEDICAL GROUP, INC.** is an interesting speculative play among micro-cap companies offering **exposure to the investor on pharmacy drug wholesale and retailing in** regional areas such as in Florida nad New England, where the company believes **it is a niche player. Investors can look forward to better results as the medical distribution business** has shed unnecessary overheads and closed its underperforming store in Nevada that **has been a drag on earnings.**

Perhaps most importantly the backdrop for NYER, especially the Eaton Apothecary division is improving and the company is expected to receive a boost from several key factors that is expected to advance turnover and prescription volume, which together with cost improvements will have a levered positive impact on the bottom line.

The key factors have been discussed earlier in this report, which we again mention briefly, namely the **aging US population** (especially baby boomer generation and increase in the +65 age group), the **new Medicare Drug Prescription Plan** that is expected to lift dispensing fees, most notably at the 340B locations. In the coming year more **brand name drugs will come off patent and will be classified as generic** and improve sales of generic drugs which are typically very favorable from a margin point of view for pharmacies. Last but not least the company is **considering acquiring another location** which can further fuel growth through acquisition and the company is also looking to grow organically and **open more pharmacies in suitable locations where the community need exist.**

Both operating and financial risk involved in investing in a small healthcare company are typically high and should be considered by investors. In this case the risks are tied to the uncertainty surrounding changing legislation or changing customer preferences, or drop in prescription fill rates that will harm profitability. Price negotiations with suppliers and manufacturers of generic drugs may change which could impact negatively on margins. Regulatory compliance costs, licensing etc. could change and counteract positive topline volume growth. Readers should understand that there can be **no assurance that the company will be able to fast-track its intended path towards diversifying and improving the product drug mix and increasing its prescription fill rates from 3rd party payors, that** will flow through directly to the top and or bottom line to build a consistent longer term profitable track record that will build shareholder value.

We therefore only recommend investors that have a **high tolerance for risk** that are able and willing to forfeit a large potion of their capital in search for extraordinary returns, to consider investing in the shares. Also, in our view investors willing to commit capital to NYER should do so with **absolute minimum 1 year investment horizon**, but preferably longer**, to allow ample opportunity for the major catalysts to create a bullish reaction** for broader price discovery to materialize within the investment community that will **allow the value behind the current niche pharmacy segment to be unlocked as revenue streams flow stronger as the population ages, the new Medicare Prescription drug plan is implemented, generic drug prescriptions increase and the list of generic alternatives lengthens that are positive macro factors**.

On the other hand, we feel to mention one of the factors behind the stock having had a hard time moving is that the founder of NYER**, issued 4 million preferred shares back in 1997 to help prevent a takeover.** Back then the company just became a public company, and with the IPO they had a lot of cash with very few shares. These were basically issued as a **poison pill that has acted as a headwind to past performance** and may continue to plague investor sentiment.

Based on recent transaction activity and budgets, we expect financial performance to start showing improvement into the back half of the current financial year. Given management comments and our own independent forecasts, we **are of the opinion that revenue potential of $63.7 million is achievable for FY 2006. Using our gross margin and operating cost assumptions we calculate a net operating income of $1.55 million for FY 2006. Assuming a 34% US effective tax rate to our calculation, we arrive at a net income figure for FY 2006 of $0.973 million for NYER. Using a weighted average fully diluted share count of 4.47 million, we estimate a FY 2006 EPS of 22c. For FY 2007 we are expecting EPS to come in at least at 38c.**

Recent mergers within the pharmacy/drug store sector make Eaton Apothecary a prime candidate for a takeover. CVS recently paid 11 times EBITDA for 700 standalone Sav-On and Osco Drug stores. EBITDA for the past year on the 14 Eaton Apothecary pharmacies alone was right at $1.86 million. Placing an 11 multiple on this gives you a value of $20.5 million (almost double the existing market capitalization of $11 million). This does not give any value to the 340B programs or to ADCO Surgical.

With a market cap of just over $10 million, it would appear neither of the subsidiaries of Nyer Medical Group is being fully valued. Annual sales for ADCO Surgical are right at $8 million. The company is now profitable and margins are improving. Annual sales for pharmacy chain are over $60 million. Once again, profits are growing at a nice clip with the addition of the 340B program, and a record number of prescriptions filled during the past few months. Management has also stated that they expect this trend within their pharmacies to continue.

In order to make a valuation call on the security, we have looked at drug store chain peer comparatives such as Walgreen (WAG), CVS Corp. (CVS), McKesson (MCK) and Patterson Companies (PDCO) among others. NYER is close to par in terms of its gross margins, but trailing its larger rivals on operating and net income margin levels. CVS and WAG are currently running operating margins in excess of 5%. Even though NYER is trading on a high 53x historic PE basis, the company is trading at **only 12.3 x FY 2006 EPS forward PE. This is well below the industry average PE and also looks very attractive in light of the fact that after-tax profit growth of as much as 85% is feasible (or 77% growth in EPS) in FY 2007 over FY 2006.** Since the company is yet to illustrate that it can deliver higher return on equity and show that it the distribution business will not relapse into a state of producing losses and net operating margins to trend closer to its large peers **we anticipate the PE multiple of NYER will remain pegged at a discount to its peers,** and also a lower PE is likely assigned to account for relative **risk associated with smaller pharmacy chain that has a regional strategy and focus.**

		Forward PE multiple	EPS Growth	PEG Multiple	Forward Price	Discount Rate (k)	Present Value
FY 2006 EPS	21.7	16.8	340%	0.05	364.56	15%	340.4
FY 2007 EPS	38.3	18.9	77%	0.25	724.57	15%	589.8
Average							465.1

Price to Book	1.83	Assumptions	Beta	1.20
Price to Sales	0.18		R_f	4.6%
Current PE	50.2		R_m	13.0%
Forward PE	12.3		k	14.7%
(FY 2006 EPS)				
EV	10.00			
EBITDA*	1.55			
EV/EBITDA	6.4			
Debt/Equity	0.022			
Current Ratio	2.644			

$$k=R_f+(R_m-R_f)*Beta$$

Using our FY 2006 and FY 2007 EPS forecasts and applying a forward 6 and 18 month PE multiples of **16.8x and 18.9x** respectively**, (PE ratios chosen based on 20% discount to average forward PE multiple of WAG & CVS), we arrive at future share values of 340c and 590c going out 6 and 18 months. Our view is that the shares are not reflecting any material growth assumptions beyond H1 FY 2006 into FY 2007. We have applied a discount rate of 14.7% and calculated a present value of these two future values and determining the average between these two present values using the discount rate (SEE TABLE ABOVE).**

This process yields a result of 465c. Given these calculations we set a 12 month target price for the security of $4.65. All factors considered, we anticipate a stake in NYER still has compelling upside potential in the coming 12 months and that the issue will OUTPERFORM the S&P 500 by a margin of at least 25% in absolute terms.

We HIGHLIGHT to the reader that this forecast is made under the assumption that the company can attain our FY2006 revenue expectation of $63.7 million and a minimum of $0.973 million after tax income on relatively flat share count. Moreover, we believe that the present market for NYER shares is far from efficient, **does not fully reflect the sustainability of the restructuring of the ADCO distribution business, nor factor in an uptick in top or bottom line growth which we believe is looming.** We regard the present market capitalization as **modest in light of industry terms for acquisition of other pharmacy chains cited earlier.** We are also of the opinion that the company is positioned as a niche player and positioned to **benefit from higher 340B federal and 3rd party player healthcare spending.**

Under these assumptions we initiate coverage on NYER with a SPECULATIVE STRONG BUY rating, which is our highest rating category assigned to listed stock we view has the potential to outperform the broad S&P 500 index by 25% or more over the immediately ensuing 12 month time horizon.

Risk to our recommendation include amongst other, failure of NYER to continue to enjoy a competitive advantage over larger rival drug stores in its regional markets, a slowdown or stagnation in revenue growth that will lead to a contraction in forward PE multiple assumptions, below forecast prescription fill rates at 340B locations, changes in favorable terms with generic and other drug suppliers or spending patterns of clientele, new competition that grabs existing client business, a change to Medicare and 3rd party payment reimbursement procedures/policies changes or unforeseen regulatory changes impacting adversely on the medical supplies and drug chin or pharmacy industry. Also, any inability to obtain necessary financing from capital markets when needed, to continue its business projects and/or major share dilution that can occur, if large quantities of shares are issued to extinguish debt or paid for services, and a slow or weak flu season (seasonal factors) are some additional factors that will counteract price appreciation potential or cause shares to decline in value. We would caution that given the size of the company and risks involved, overall we advise positions be limited below 5% of the client's total portfolio size.

ANALYST CERTIFICATIONS APPENDIX-A1

The research analyst, who upon request wrote this report, certifies that the views expressed in this research report, accurately reflects his personal view about the subject company. The analyst also certifies that he does not own or have any beneficial interest in shares of the covered company, also that no part of his compensation was, is or will be directly or indirectly related to the specific recommendation or view expressed in this report.

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

Clients of the analyst firm collectively own less than 1% of total shares outstanding of the issuer. For securities recommended in this report the firm is not a market maker, but may from time to time provide bids and offers and may act as principal in connection with such transactions to facilitate trading liquidity or execution. The firm of the analyst does not actively seek to do investment banking business with the company covered in this research report. This independent analysis and judgment relies on material supplied by the subject company and other sources, such as SEC filings believed to be reliable. The analyst that prepared this report cannot guarantee the information contained herein for accuracy or completeness.

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