Zacks Small-Cap Research

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AUXILIO, Inc. (AUXO-OTC)

AUXO: Dominant Quarter- OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/21/2011
Current Price (08/14/12)	$1.09
Target Price	**$2.00**

OUTLOOK

AUXILIO is the only health care exclusive, vendor neutral Managed Print Services (MPS) firm that provides document production management strategies, services and solutions to hospitals throughout the United States. AUXILIO's continuous workflow improvement solutions enable hospitals and health systems to reduce costs and waste in their operational and clinical functions by managing the process of document production between printing and copying equipment and technology. AUXILIO should see a tail wind in its top and bottom-line growth given the Health Information Technology federal mandates; the fact that hospitals are seeking efficiencies to reduce the cost of health care to the public, and because of increasing reductions in Medicare reimbursements. A recent strategic relationship with Sodexo, a leading provider of integrated facilities management services in North America, has been renewed and has nearly doubled the sales force. We see value in the shares.

SUMMARY DATA

52-Week High	**$1.47**
52-Week Low	**$0.72**
One-Year Return (%)	**21.11**
Beta	**0.28**
Average Daily Volume	**9,868**
Shares Outstanding (mil)	**20**
Market Capitalization ($mil)	**$21**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**17**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**0.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**27.3**
Zacks Rank	**3**

Risk Level	**Moderate**
Type of Stock	**Growth**
Industry	**Outsourcing**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	3.69 A	3.58 A	3.97 A	4.15 A	15.40 A
2011	4.68 A	4.80 A	6.67 A	5.68 A	21.85 A
2012	6.54 A	10.72 A	8.55 E	9.00 E	34.81 E
2013					40.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$0.00 A	-$0.02 A	-$0.01 A	-$0.05 A	-$0.08 A
2011	-$0.04 A	-$0.03 A	-$0.00 A	-$0.06 A	-$0.13 A
2012	-$0.08 A	$0.00 A	-$0.02 E	-$0.01 E	-$0.11 E
2013					$0.04 E

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WHATS NEW

Dominant Quarter at Auxilio

On August 14, 2012, Auxilio, Inc., reported financial results for its fiscal 2012 second quarter and six months, ended June 30, 2012. A strong quarter resulted in a nearly 123 percent year over year jump in sales, with revenue expanding $5.918 million to $10.722 million from $4.803 million for the second quarter ended June 30, 2011.

Auxilio's strength in its year over year revenues was primarily driven by to the contribution from the four new accounts signed during the July 2011 to April 2012 period and the high equipment revenue related to the fleet refresh.

Furthermore, management expects continued revenue growth throughout 2012 as a result of new contracts signed.

Still, cost of revenue during the second quarter, which consists of document imaging equipment, parts, supplies and salaries and expenses of field services personnel, jumped to $9.323 million for the three months ended June 30, 2012, as compared to $4.019 million for the same period in 2011.

This resulted in gross margin for the quarter falling year over year to 13.1 percent from 16.3 percent for the three months ended June 30, 2011.

It's important to note that gross margin is negatively impacted by new contracts, which at the onset, translate to higher costs associated with absorbing new customer's legacy contracts in advance of anticipated revenue.

As Auxilio implements its programs, it attempts to improve upon these contracts, therefore reducing costs over the term of the contract.

Again, while the upfront costs associated with bringing on new accounts will continue, management expects to partially offset those costs with accelerated growth and quicker ramp up of new accounts.

However, Auxilio reported a net loss of $26,818, which was a year over year improvement of $542,878 from a net loss of $569,696 during the three months ended June 30, 2011.

The decrease in net loss was primarily a result of higher revenues offset by lower gross margin as well as slightly higher total operating expenses.

Based on the weighted average number of basic and diluted common shares of 19.568 million shares, basic and diluted net loss per share resulted in a net loss of $0.00 per basic and diluted share during the second quarter ended June 30, 2012. This compares to a basic and diluted net loss per share of $0.03 on a weighted average number of basic and diluted shares of 19.336 million shares during the three months ended June 30, 2011.

Revenues for the six months ended June 30, 2012 were $17.260 million, nearly an 82 percent or $7.773 million year over year increase when compared to revenues of $9.486 million for the first half of 2011.

Still, net loss for the six months ended June 30, 2012 increased year over year by $212,305 to a net loss of $1.646 million compared to a net loss of $1.433 million for the first half of 2011.

The increase in year over year net loss for the first half of 2012 was primarily a result of lower gross margin and increased interest expense offset by slightly lower total operating expenses.

Gross margin for the first half of 2012 fell to 10.1 percent compared to 11.9 percent for the first six months of 2011.

Based on the weighted average number of basic and diluted common shares of 19.509 million shares, basic and diluted net loss per share resulted in a net loss of $0.08 per basic and diluted share during the six months ended June 30, 2012. This compares to a basic and diluted net loss per share of $0.07 on a weighted average number of basic and diluted shares of 19.336 million shares during the first half of 2011.

As of June 30, 2012, Auxilio had $1.581 million in cash and equivalents and a working capital deficit of $708,426. This compares to $1.031 million in cash and equivalents and a working capital deficit of $703,508 as of March 31, 2012.

Still, by adding new accounts and expanding existing accounts and driving contracts toward profitability, the Company has made significant progress on its growth objectives.

Looking ahead, management is focused on building Auxillio's awareness in the healthcare industry to add new accounts with large healthcare systems, expanding geographic presence domestically and renewing existing accounts to three to five year terms as well as moving all new accounts toward profitability.

While the number of health systems has decreased as a result of industry consolidation the size of individual systems has increased. Auxillio has responded by targeting these larger health systems and generating a strong pipeline of sizable customers.

The success of capturing these larger systems is demonstrated by the recent large customer wins which include the $40 million five year program with Catholic Health East (CHE), the $35 million five year contract with Bon Secours Health System (BSHS) as well as the $10 million five year agreement with Sharp HealthCare.

While the bulk of the implementation and startup costs for CHE occurred in the first quarter of 2012, the Company has integrated the majority of CHE operations into its systems of Print Management and expects to have CHE fully integrated by end of third quarter.

Similarly, management anticipates completing the implementation and fully integrating the BSHS system by the end of this year while the target date to complete implementation and full system integration for Sharp HealthCare is the middle of next year.

Still, although the Company's initiatives include the targeting of larger health systems, Auxillio has been able to leverage and turn strong relationships with existing accounts into opportunities to expand its reach. For example during the second quarter John Hopkins Health Systems expanded its MPS program to include Suburban Hospital in Montgomery County, Maryland.
Auxillio now operates on-site in 22 states throughout the nation representing more than 26,000 patient beds in over 80 hospitals.

Likewise, the Company has retained 100 percent of its hospital partnerships since its launch and currently has a national portfolio of 80 long-term contracts representing hospitals, health care systems and affiliated clinical and administrative support offices that consist of over 100 facilities.

Along the same lines the Company's MPS offerings continue to be in high demand as health care systems and hospitals increasingly search for solutions to reduce costs and enhance efficiencies.

Auxilio's unshared position as the only managed print service provider in the U.S. dedicated exclusively to the health care industry and hospitals allows it to tap into HITECH incentives indirectly by bringing a unique exposure and knowledge in assisting customers in the preparation of electronic records management and the complex compliance requirements of the 'meaningful use' criteria federal mandates.

As Hospitals and IT departments are pressured to further reduce cost and enhance efficiencies as well as act quickly on cost cutting measures to comply with these EHR (Electronic Health Records) mandates, it leads to shorter sales cycles for Auxilio.

Similarly, the continued trend of high levels of consolidation within the healthcare industry should work to the Company's advantage.

As healthcare systems consolidate and become larger, the need to streamline cost and increase efficiencies also grows, presenting a strong demand driver for Auxilio's MPS solutions.

Largest Contract in Company History Could be a Stepping Stone!

On January 12th, AUXILIO announced a five-year contract worth over $40 million with Catholic Health East (CHE) to implement its MPS strategy in 19 hospitals, three long-term care facilities and a multitude of clinical and administrative entities in 11 states from Maine to Florida. CHE is based in Newtown Square, Pa., and is a multi-institutional Catholic health care network of 18 regional health corporations located along the eastern seaboard of the U.S. and employs approximately 54,000 full-time employees.

The contract is significant for two reasons. First, it's the largest in company history (executed outside of the Sodexo partnership). Second, it could further awareness of AUXILO into Catholic hospitals across the U.S. CHE is the 5th largest Catholic health system in the United States.

Looking at Thompson Reuters annual list of the 100 Top Hospitals in the U.S., Catholic hospitals take up 29 spots in the top 100. The list is decided by quality not just size. To get an idea of the worldwide size of the Catholic Church's reach, according to the Catholic News Agency, The Catholic Church manages 26 percent of health care facilities in the world with 117,000 health care facilities, including hospitals, clinics, and orphanages. There are more than 600 Catholic health care institutions in the United States.

The hospitals represent health ministries that originated with communities of religious sisters throughout the history of health care in America. Among them: Sisters of St. Francis, Bon Secours, Sisters of Mercy, Daughters of Charity, Sisters of Charity, Sisters of Providence, Sisters of St. Joseph and others. It is estimated one in six Americans receives health care in a Catholic health institution each year, according to the Catholic Health Association. *Source Catholic News Source

AUXILIO's Partnership with Sodexo Brings Results

Just one day earlier, AUXILIO announced it signed a five year, $5 million agreement with Memorial Health System in Colorado Springs, Colorado. Memorial Health System has three hospitals with over 4,100 employees including over 650 beds and 950 physicians. AUXILIO will implement its print management solutions program, which is anticipated to cut costs and maximize efficiencies to the print infrastructure of Memorial Health System's three hospitals and affiliated clinical and support facilities.

Through its full-time, on-site resident team of customer service and technical personnel, AUXILIO will centralize costs, right-size equipment, manage supplies and uncover hidden expenses in Memorial Health System's print environment.

This MPS agreement is a result of the effective joint marketing alliance between AUXILIO and Sodexo. In May 2011, AUXILIO secured an expanded marketing alliance with Sodexo, a leading provider of comprehensive service solutions, which more than doubled the investment in AUXILIO's sales resources and

marketing efforts. The strategic relationship with Sodexo promotes AUXILIO's managed print solutions and leverages Sodexo's customer pipeline by providing crucial, C-suite access to over 1,300 U.S. hospitals in the $22 billion market in which AUXILIO competes.

This in turn should continue to prove beneficial to AUXILIO and its shareholders as the Company further advances its sales progress as well as continues to expand AUXILIO's ability to attract and sign new customer contracts.

INVESTMENT THESIS

- No other Managed Print Services company has its entire business dedicated to solving cost-cutting and waste reduction issues in the document production process within the health care industry.
- Vendor neutral status means negotiating power for 'best equipment, lowest price' regardless of manufacturers' make or model for customers.
- Hospitals are under intense government and public scrutiny to do more with less or cut costs.
- Hospital IT departments are overburdened with federal electronic records mandates and are outsourcing for support services.
- There are approximately 5,795 hospitals in the United States, representing a large market opportunity.
- A partnership agreement with Sodexo gives the firm the inside track on its portfolio of over 1,300 hospitals.

OVERVIEW

AUXILIO, Inc. provides fully-outsourced Managed Print Services (MPS) exclusively to the health care industry throughout the United States. The company is vendor neutral and provides full-time, on-site and trained customer service and technical service representatives that execute customized document management solution programs that are risk-free with guaranteed savings. The company is headquartered out of Mission Viejo, CA.

AUXILIO's vendor neutral position ensures maximum savings and efficiencies by enabling the company to work with a wide range of print-related equipment vendors. Its vendor neutral positioning enables it to offer each of its customers the proper hardware solutions based on need, use and quality.

Furthermore, AUXILIO's risk-free program assumes all costs related to a customer's print environment with no upfront costs, and AUXILIO guarantees savings up to 30 percent for customers at fixed rates that generate service fees for the company. The company's utilization model includes all expenses related to the production of the document, including services, supplies, equipment, finance charges and labor.

Through its validated and proven methodology, proprietary database of information and highly-skilled staff expertise in MPS in hospitals since 2004, AUXILIO performs strategic, operational and financial assessment analyses at the customers' premises and is able to forecast savings and waste reduction. AUXILIO is able to assist hospitals and health systems in reducing expenses by creating manageable, standardized and dependable document management programs.

AUXILIO is the first and only MPS provider in the U.S. dedicated exclusively to the health care industry and hospitals. Its comprehensive and single focus on hospitals provides AUXILIO with a deeper understanding of the cultural and urgent care environment of hospitals, thereby providing its customers with heightened performance levels of caregiver service and satisfaction.

AUXO currently has a national portfolio of 80 hospitals and manages over 1,000 facilities that consist of affiliated clinical, corporate and administrative support offices. Along the same lines, a recent strategic relationship with Sodexo, a leading provider of comprehensive service solutions, promotes AUXILIO's Managed Print Services and leverages Sodexo's customer pipeline by providing crucial, C-suite access to over 1,300 U.S. hospitals in the $22 billion market in which AUXILIO competes.



Looking closer at the agreement on May 19th 2011, AUXLIO and Sodexo announced an expanded marketing alliance that has enhanced their partnership and deepened the market reach of AUXILIO's MPS program into the U.S. health care industry. The new agreement comes after the successful implementation of the existing agreement that led to four new MPS contracts in 2010.

Sodexo has more than doubled its investment in AUXILIO's sales resources and marketing efforts to bolster its unique health care exclusive, vendor neutral MPS model deeper into Sodexo's 1,300 hospital portfolio. In exchange, AUXILIO provides Sodexo with direct equity in the company through the issuance of restricted stock and certain performance based equity and cash commissions based on sales and growth achievements.

Customer Type	Size	Cash Flows
Single	One Single Facility	$15,000 to $50,000 per month
Mid-Size	medium hospital with small clinics attached	$50,000 to $100,000 per month
Large	Large hospital or several facilities	$100,000 to $400,000 per month

Backdrop of growth in MPS

Hospitals are paper intensive businesses. A typical 525-bed hospital will create roughly 35 million documents each year and expend about $1.5 million to print, copy, fax and scan each piece. This cost results in a high proportion of their annual budgets spent on printing and document handling — an estimated nine percent, according to the National Health Service in 2010. The inefficiencies are tremendous in the print environment as there is routinely a fragmented array of printers, scanners and multi-function devices; no management or centralized cost center; an over-burdened staff, and inefficient workflow processes that adversely affect the quality of health care provided to patients.

Enter Managed Print Services (MPS). Hospital management teams, (CEOs, CFOs, and CIOs) across America are seeking best practices and change management techniques to reduce their carbon footprint and to be more accountable and transparent to their boards, stakeholders and the public They are turning to MPS as one of the few remaining areas where they can capture considerable savings (as much as 20 to 30 percent) and efficiencies to improve workflow processes, as well as gain employee productivity and satisfaction, all while reducing waste and making the transition to electronic health records less costly and

painful. According to estimates by Photizo Group, the growth of MPS by 2012 will have a carbon reduction impact equivalent to taking 304,000 cars off the road and saving enough energy to power 230,000 homes for a year.

The question today is often not if your hospital should implement MPS, but how best to implement MPS to over-achieve desired results. Creating fundamental, sustainable transformation in workflow processes requires a comprehensive change in a hospital's operations and culture.

EMR Mandate

With its exclusive focus on the health care industry, the Healthcare Information Technology (HITECH) portion of the American Recovery and Reinvestment Act of 2009 (ARRA) offers AUXILIO a unique growth opportunity. The ARRA was initiated with the intent to stimulate the U.S. economy by providing nearly $800 billion in spending and tax cuts. The HITECH portion of the bill includes nearly $20 billion of reimbursement incentives to those providers achieving "Meaningful Use" for the implementation of an Electronic Medical Record System.

The funding is per-physician and hospital or health system and is based on either Medicare or Medicaid charges. Eligible physicians can receive up to $44,000 in incentive payments under the Medicare provision or up to $63,750 under the Medicaid provision. The funding began in May 2011 for those who achieve Stage 1 "Meaningful Use". It is expected that Medicare will begin applying penalties to hospitals and physicians who fail to adopt an Electronic Medical Record System starting in 2015.

Solutions that maximize interoperability of hardware and EHR software across the enterprise and improve workflow processes in a hospital's print environment are vital to the successful implementation of electronic records management. The world renowned ECRI Institute in 2010, identified four steps to EHR implementation success, the first one advised to 'map out the existing workflow and clinical data flow at your organization,' which is precisely the service AUXILIO's MPS program performs.

AUXILIO's unshared position as the only managed print service provider in the U.S. dedicated exclusively to the health care industry provides a greater opportunity for hospitals to tap into HITECH incentives by bringing its unique expertise and knowledge in assisting customers in the preparation of electronic records management and the complex compliance requirements of the 'meaningful use' criteria federal mandates.

AUXILIO is able to assist its customers in electronic records management preparation by solving device connectivity issues from department to department, facility-to-facility, and person-to-person, and uses its trained full-time, on-site teams to support hospital staff in the design and application of practical solutions to software that are customized and standardized.

Typical Customer Case Study

Let's look at a hospital with three campuses that has approximately 1,000 beds and averages five million documents per month at an average cost of $0.045 per document. (This assumes a 60% printer/fax 40% copier split) The problem before the assessment is that no one owns the process. It is a bad mix of dysfunction and under-utilized technology. Through a combination eliminating multiple vendor invoices and bringing the system together in a centralized managed process, AUXILIO can manage entire process for $0.035 per document which represents a 20% discount. This translates to savings to the hospital of $43,000 per month or $2.6 million over the life of the contract. (Assumes a three-five year contract) That savings could improve if the firm is able to reduce the total documents produced per month. The revenue for AUXILIO in this case is projected at $170,000 per month. On a margin basis, most projects take several months to be profitable before settling in at around 20%.

Combine this type of cost saving potential with the fact that most hospitals are reeling from Medicare cuts and you have a powerful business model. In a white paper on www.healthaffairs.org, Author James Robinson illustrates how hospitals respond to Medicare payment shortfalls. The study presents empirical evidence that faced with shortfalls between Medicare payments and projected costs, hospitals in concentrated markets focus on raising prices to private insurers, while hospitals in competitive markets focus on cutting costs.



Opportunity

The potential for growth as the only exclusive MPS provider to the health care industry is enormous. There are approximately 5,795 hospitals in the United States of which only 42are current clients. The Sodexo partnership opens the company up to over 1,300 potential new customers, which the firm has direct access to and the inside track to its C-suite. Four Sodexo contracts were signed in 2010. They include the Johns Hopkins Health System (made up of over 100 clinical and administrative support facilities and five hospitals) Palisades Medical Center, St. Joseph's in Yonkers and New York Hospital Queens. AUXILIO's three year goal is to have 80 hospitals with an average of 300-500 beds each with three-five year contracts.

Beyond the obvious huge number of potential hospitals, the health care industry in general is set to take on a greater and greater piece of the GDP pie given the aging baby boom generation. According to the American Hospital Association (AHA), the over-65 population will nearly triple between 1980 and 2030 as a result of the aging Baby Boomers, adding new demands and challenges on an already stressed-out health system.

The first Boomers will turn 65 this year and, more than 37 million of them - six out of 10 - will be managing more than one chronic condition by 2030. Also by 2030:

- 14 million Boomers will be living with diabetes - that's one out of every four Boomers.
- Almost half of the Boomers will live with arthritis and that number peaks to just over 26 million in 2020.
- More than one out of three Boomers - over 21 million - will be considered obese.

As patients live with multiple chronic diseases, demand for services will increase. The number of physician visits has been increasing for all adults, up 34 percent over the last decade, and this trend is expected to continue. By 2020, Boomers will account for four in 10 office visits to physicians. Over the next 20 years, Boomers will make up a greater proportion of hospitalizations as they live longer but with multiple complex conditions.

INDUSTRY OUTLOOK

Our outlook for the business services industry is positive. Companies in this broadly characterized industry provide consulting, information and data, information technology (IT), marketing, payment processing, staffing, and other outsourcing services to businesses. The industry is generally tied to the economy, and is related to growth in business spending. Most firms in this industry have straightforward business models that generate healthy cash flows, low debt levels, and negligible dividend payouts. Firms in this industry are wide-ranging in terms of size, market share, and geographic reach.

INDUSTRY POSITION

AUXILIO operates in a highly competitive market in which the majority of competition comes from the large photocopy/multi-functional digital device manufacturers such as Xerox, Canon, Konica Minolta, Ricoh and Sharp. Smaller competitors are also found in a number of regional and local equipment dealers and distributors in the communities that the hospitals serve. In addition, some in-house departments perform a portion of the functions the firm seeks to outsource.

AUXILIO is entirely focused on the health care industry. No other vendor/service provider has its entire business dedicated to solving issues within the health care industry.

Benefits include

- Hospitals need only pay a single invoice.
- Not restricted to any single equipment vendor.
- AUXILIO maintains a daily connection with the hospital.
- Operate the print management process as a department in the hospital with full-time staff on-site.

VALUATION

Several factors point to AUXILIO growing faster than the overall industry.

- The cost saving nature of the business combined with the fact that hospitals are under pressure to cut costs.
- The aging population that will require more health care assets.
- The fact that AUXILIO remains the only Managed Print Services Company that has its entire business dedicated to the health care industry.
- The partnership agreement with Sodexo gives the firm the inside track on its portfolio of over 1,300 hospitals.
- Entry into the Catholic Hospital Market.

Investors should be aware that signing new clients and realizing immediate profits do not go hand and in hand. Contracts signed in 2010 provide a microcosm into how cash flows are affected by new business. During the latter part of 2010, AUXILIO signed five new long-term customer contracts. As such, its results only represent a small portion of the revenue related to these new contracts but recognized many of the costs related to starting up an account, such as commissions, travel, recruiting and "onboarding" of new employees and other upfront costs. In addition, AUXILIO assumes the customer's legacy contracts with third party vendors when it signs a new account and absorbs related costs at the beginning of the relationships. However, after a period of time, AUXILIO is able to favorably restructure the contracts. As a result of these factors, the company's gross and operating margins are negatively impacted, but are expected to improve over the life of the contracts. These factors are symptomatic of a service model, and as such, AUXILIO expects for them to continue as the business grows and new contracts are added.

To value the firm we assume AUXILIO takes a moderate share of the market over the next ten years and then grows at the rate of the economy after that.

The intrinsic value is essentially a sum of the company's future earnings, minus any long-term debt. Dividing the intrinsic value by the number of shares outstanding yields an intrinsic stock price. We used the following inputs:

- A 10-year period with an earnings growth rate of 15% and a discount rate of 11.43%.
- A continuing period assumed to go on forever, with earnings growing at 3% and a discount rate of 9.87%.

We also used a relative valuation model of 1.5x sales using the same discount rates.

With these inputs we arrive at a target price of **$2.00.**

RISKS

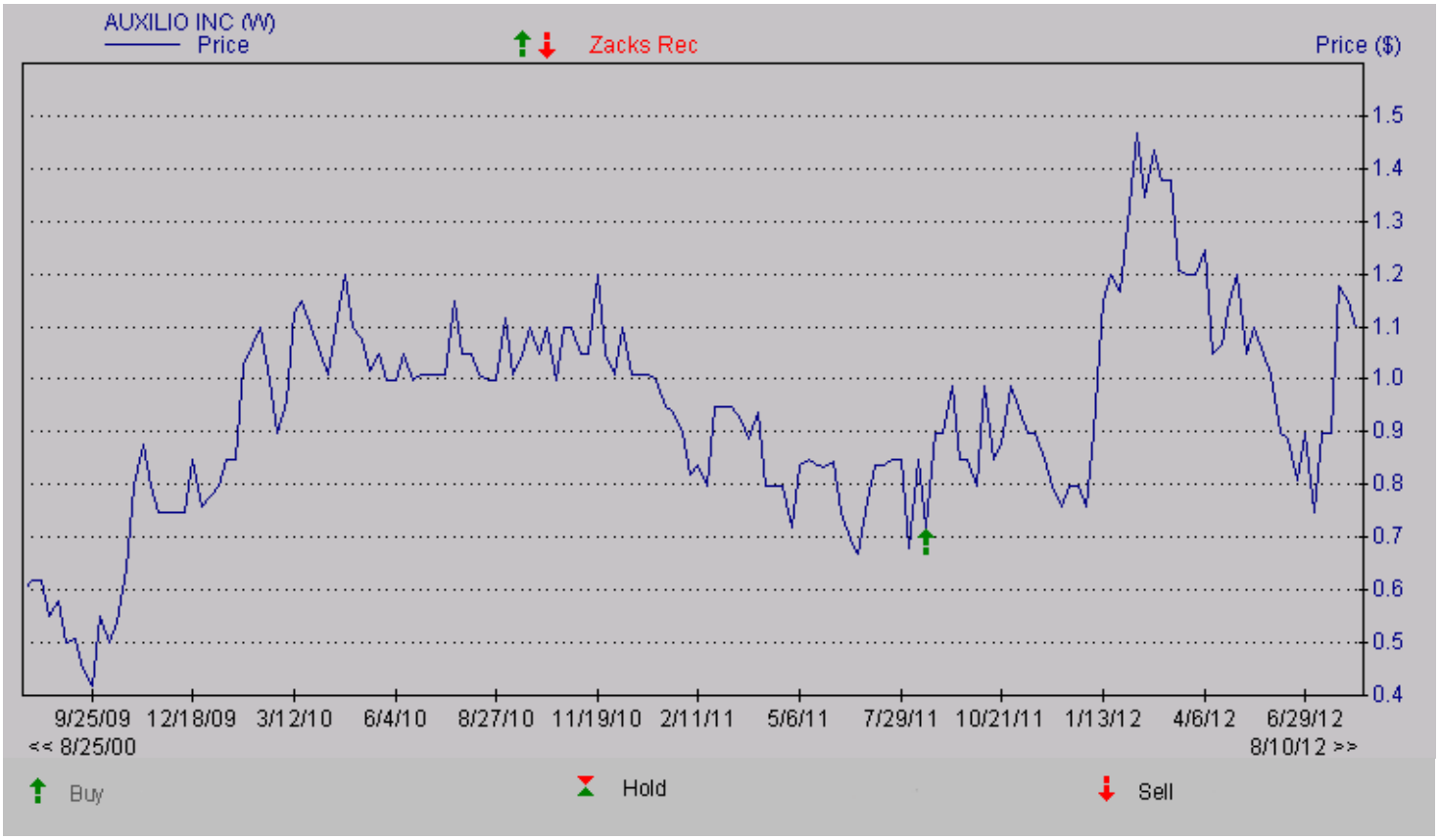
- The majority of the competition in the health care industry market for Managed Print Services comes from the large photocopy/multi-functional digital device manufacturers such as Xerox, Canon, Konica Minolta, Ricoh and Sharp.
- AUXILIO's largest customers represent approximately 70% of revenues for the year ended December 31, 2010. While that should fall to less than 36% of revenue for 2011, the loss of any of these customers would hurt results.
- The market for the firm's products and services is competitive and is likely to become even more competitive in the future. Increased competition could result in pricing pressures, reduced sales, reduced margins or the failure of products and services to achieve or maintain market acceptance.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Sep-11 Q3 11	Dec-11 Q4 11	Mar-12 Q1 12	Jun-12 Q2 12	Sep-12 Q3 12 E	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 E	FY 2013 E
REVENUE											
Net Revenue	**6.67**	**5.68**	**6.54**	**10.72**	**8.55**	**21.02**	**15.98**	**15.41**	**21.85**	**34.81**	**40.00**
Sequential Growth		*-15%*	*15%*	*64%*	*-20%*						
OPERATING EXPENSES											
Cost of Revenues	5.40	5.37	6.19	9.32	7.27	15.91	11.93	12.53	19.1	30.8	33.0
% of Revenue	*81.0%*	*94.4%*	*94.6%*	*87.0%*	*85.0%*						
Gross Profit -	**1.27**	**0.32**	**0.35**	**1.40**	**1.28**	**5.11**	**4.05**	**2.88**	**2.7**	**4.0**	**7.0**
Proforma Gross Margin	*19.0%*	*5.6%*	*5.4%*	*13.0%*	*15.0%*	*24.3%*	*25.3%*	*18.7%*	*12.4%*	*11.6%*	*17.5%*
R&D + Engg	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
SG&A	1.28	1.36	1.58	1.51	1.60	4.34	3.99	4.43	5.19	6.15	6.25
% of Revenue	*19.2%*	*23.8%*	*24.2%*	*14.1%*	*18.7%*	*20.7%*	*24.9%*	*28.7%*	*23.8%*	*17.7%*	*15.6%*
GW Amort, Restructuring, other	-	-	-	-	-	*0.2*	-	-	-	-	-
% of Revenue											
Total Operating Expenses	1.28	1.36	1.58	1.51	1.60	4.54	3.99	4.43	5.19	6.15	6.25
% of Revenue	*19.2%*	*23.8%*	*24.2%*	*14.1%*	*18.7%*	*21.6%*	*24.9%*	*28.7%*	*24%*	*18%*	*16%*
Operating Income -	**-0.01**	**-1.04**	**-1.23**	**-0.11**	**-0.32**	**0.57**	**0.06**	**(1.55)**	**-2.48**	**-2**	**1**
Operating Margin	*-0.2%*	*-18.3%*	*-18.8%*	*-1.1%*	*-3.7%*	*3%*	*0%*	*2%*	*-11%*	*-6%*	*2%*
NON-OPERATING ITEMS											
Non operating Income/Expense	0	0	0	0	0	(0.62)	-0.1	0.01	-0.11	0	0
% of Revenue	*-0.54%*	*-1.20%*	*-5.92%*	*0.82%*	*0.00%*	*-2.95%*	*-0.58%*	*0.04%*	*-0.50%*	*0.00%*	*0.00%*
Tax Provision	0.000	0.005	0.002	0.000	0.002	0.056	0.011	0.015	0.007	0.000	0.000
Net Income -	**-0.05**	**-1.11**	**-1.62**	**-0.03**	**-0.32**	**(0.10)**	**(0.04)**	**(1.56)**	**-2.6**	**-2.1**	**0.8**
Net Income Margin	*-0.7%*	*-19.6%*	*-24.8%*	*-0.3%*	*-3.7%*	*-0.5%*	*-0.3%*	*-4%*	*-12%*	*-6%*	*2%*
EARNINGS PER SHARE											
EPS - Basic	$0.00	-$0.06	-$0.08	$0.00	-$0.02	-$0.01	$0.00	-$0.08	-$0.13	-$0.11	$0.04
EPS - Diluted	$0.00	-$0.06	-$0.08	$0.00	-$0.02	-$0.01	$0.00	-$0.08	-$0.13	-$0.11	$0.04

Ken Nagy, CFA Zacks Investment Research 8/15/2012

HISTORICAL ZACKS RECOMMENDATIONS



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