August 6, 2012

Zacks Small-Cap Research

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Interleukin Genetics (ILIU-OTC)

ILIU: Positive PST Study Data

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/28/2011
Current Price (08/06/12)	$0.45
Target Price	**$1.30**

OUTLOOK

Top-line data of the key UofM PST (periodontal disease) test study was announced on August 6th and looks very positive. This follows other encouraging news that Delta Dental injected $3MM in new financing into ILIU, a clear indication (in our opinion) of confidence in ILIU's PST test.

The next steps leading up to roll out of the high-potential PST test are publication of the full data and reimbursement by Renaissance Health/Delta Dental. We remain highly positive on ILIU and are maintaining our Outperform rating and $1.30 price target.

SUMMARY DATA

52-Week High	**$0.52**
52-Week Low	**$0.17**
One-Year Return (%)	**12.50**
Beta	**1.85**
Average Daily Volume (sh)	**23,985**
Shares Outstanding (mil)	**37**
Market Capitalization ($mil)	**$17**
Short Interest Ratio (days)	**3.49**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-33.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	719 A	797 A	765 A	575 A	2,857 A
2012	677 A	829 E	898 E	1,121 E	3,545 E
2013					7,917 E
2014					23,113 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.03 A	-$0.04 A	-$0.03 A	-$0.04 A	-$0.14 A
2012	-$0.04 A	-$0.03 E	-$0.03 E	-$0.03 E	-$0.11 E
2013					-$0.05 E
2014					$0.04 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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Positive PST Study Top-Line Data / $3MM Financing From Delta Dental

Positive PST Study Top-Line Data

This morning (8/6/2012) Interleukin announced that the University of Michigan revealed top-line results of the eagerly awaited PST test study. The top-line data is positive, in favor of Interleukin's PST study showing efficacy on the primary endpoint, change in tooth loss based on patient risk category.

The study, officially titled *Periodontal Disease Prevention Study: A Retrospective Cohort Study to Assess the Effect of Genetics and Dental Preventive Care on Periodontal Disease* is funded by Renaissance Health Service/Delta Dental and conducted by the University of Michigan. It examined 16 years worth of data from over 5,000 patients taken from a large dental claims database. It is the pivotal study which is expected to show that certain risk factors, including a positive result on ILIU's PST genotyping test, can help predict periodontal disease and determine the optimal number of dental cleanings per year, which will provide support to reimburse for the PST from dental insurance providers.

Top-line data from the study showed exactly what Interleukin hoped, that high risk patients are likely to benefit from more than one cleaning per year while low risk patients are not. Specifically the data showed that there was no significant difference between two dental cleanings and one dental cleaning in reducing the number of tooth extractions in the low-risk patient population (13.8% vs. 16.4%, p=0.092). By contrast there was a significant difference between two dental cleanings and one dental cleaning in reducing the number of tooth extractions in the high-risk patient population (16.9% vs. 22.1%, p=0.002).

Per the trial protocol, patients were categorized as low risk of tooth loss if they were non-smokers, did not have diabetes and were PST test negative. High risk were smokers, diabetic and PST test positive. Of particular interest is that the top-line data also shows a highly significant ($p<0.001$) correlation between the number of positive risk factors and extractions - implying that all risk factors (i.e. - including PST) are indicative of risk of tooth loss.

The full data set is expected to be submitted for publication by the UofM. Following publication, we expect that Interleukin's game plan will continue to be to roll out their PST test supported with dental insurance reimbursement from Renaissance Health/Delta Dental which touches as many as 54 million covered lives.

This top-line data, along with the early July news that Delta Dental injected $3 million in new financing to ILIU provides what we view as substantial support for the potential of ILIU's PST test.

ILIU Scores $3MM In New Financing, Extends Note Maturity (*per our 7/2/12 investor note*)

In an 8K filing this morning (7/2/2012) Interleukin announced that they've secured $3 million (~$2.7MM net) in new financing via the sale of 500k shares (@ $6.00/share) of their Series B convertible preferred stock and extended the maturity of the credit facility from Pyxis (from June 30, 2012) to November 30, 2012. These are huge positives as it eliminates (or at least postpones) the impending liquidity crunch that the company faced as a result of the company's dwindling cash balance and maturity of the credit line.

Subsequent to Q1 2012, Interleukin drew down the remaining $1.3 million available under the $14.3 million Pyxis credit facility. The loan was set to mature on June 30, 2012 which, along with a nearly negligible cash balance, raised obvious concerns. This morning's 8K notes that Interleukin successfully amended certain terms of the debt, including extending the maturity to November 30, 2012.

Delta Dental Plan of Michigan, part of the Renaissance Health Service network, purchased the Series B convertible preferred stock and will get a seat on ILIU's board. Each Series B preferred share is convertible at the option of the holder into 21.86 shares of common stock ($0.2745 conversion price) and, at the discretion of the board, is eligible to receive an 8% (non-cumulative) dividend.

The investment by Delta Dental is, in our opinion, a meaningful show of confidence in the potential for Interleukin's PST (periodontal disease) test. Renaissance / Delta is funding Interleukin's large PST test study which is being conducted by the University of Michigan.

FINANCIAL MODEL

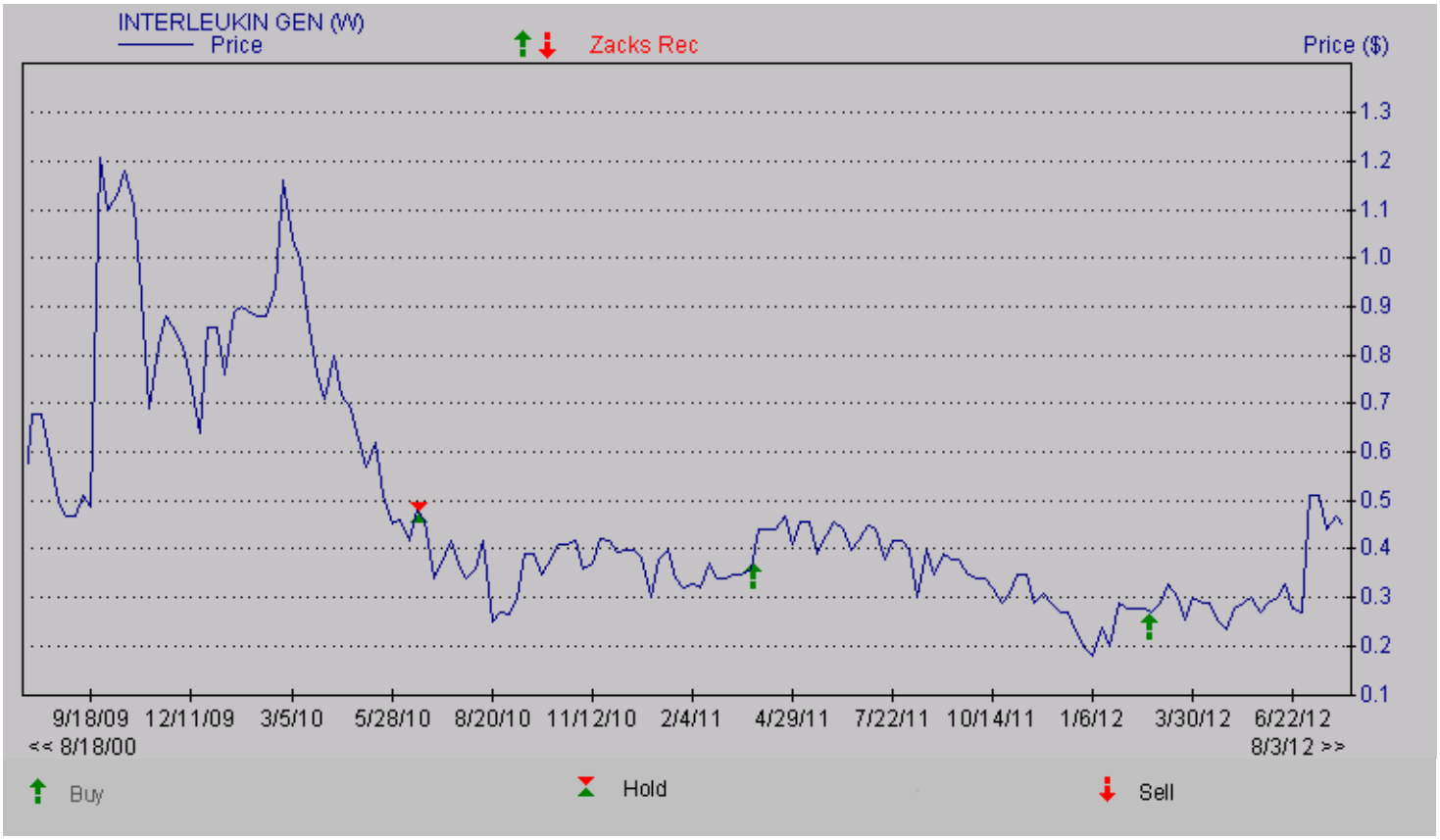
Interleukin Genetics, Inc.

	2011 A	Q1A	Q2E	Q3E	Q4E	2012 E	2013 E	2014 E	2015 E
Genetic testing	$2,757.4	$677.2	$805.0	$872.0	$1,088.0	$3,442.2	$7,686.0	$22,440.0	$41,558.0
YOY Growth	*42.1%*	*-5.9%*	*3.3%*	*19.3%*	*106.2%*	*24.8%*	*123.3%*	*192.0%*	*85.2%*
Other	$99.7	$0.7	$24.2	$26.2	$32.6	$103.3	$230.6	$673.2	$1,246.7
Total Revenues	$2,857.1	$677.9	$829.2	$898.2	$1,120.6	$3,545.4	$7,916.6	$23,113.2	$42,804.7
YOY Growth	*43.1%*	*-5.8%*	*4.1%*	*17.3%*	*94.8%*	*24.1%*	*123.3%*	*192.0%*	*85.2%*
Cost of Revenues	$1,527.2	$376.2	$439.4	$431.1	$571.5	$1,818.3	$3,720.8	$9,938.7	$17,121.9
Gross Income	$1,329.9	$301.7	$389.7	$467.0	$549.1	$1,727.1	$4,195.8	$13,174.5	$25,682.8
Gross Margin	*46.5%*	*44.5%*	*47.0%*	*52.0%*	*49.0%*	*48.7%*	*53.0%*	*57.0%*	*60.0%*
R&D	$1,376.4	$446.3	$372.0	$425.0	$440.0	$1,683.3	$2,254.0	$2,450.0	$3,144.0
% R&D	*48.2%*	*65.8%*	*44.9%*	*47.3%*	*39.3%*	*47.5%*	*28.5%*	*10.6%*	*7.3%*
R&D QTDP Grant	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
SG&A	$4,665.4	$1,136.6	$1,244.0	$1,285.0	$1,271.0	$4,936.6	$6,016.6	$7,396.2	$9,417.0
% SG&A	*163.3%*	*167.7%*	*150.0%*	*143.1%*	*113.4%*	*139.2%*	*76.0%*	*32.0%*	*22.0%*
Amortization	$115.4	$28.9	$28.9	$28.9	$28.9	$115.6	$140.0	$155.0	$180.0
Operating Income	($4,827.3)	($1,310.1)	($1,255.2)	($1,271.9)	($1,190.8)	($5,008.4)	($4,214.8)	$3,173.3	$12,941.8
Operating Margin	*-169.0%*	*-193.3%*	*-151.4%*	*-141.6%*	*-106.3%*	*-141.3%*	*-53.2%*	*13.7%*	*30.2%*
Total Other income	($356.2)	($104.6)	($96.0)	($96.0)	($96.0)	($384.0)	($110.0)	$0.0	$50.0
Pre-Tax Income	($5,183.5)	($1,414.7)	($1,351.2)	($1,367.9)	($1,286.8)	($5,392.4)	($4,324.8)	$3,173.3	$12,991.8
Taxes	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	($5,183.5)	($1,414.7)	($1,351.2)	($1,367.9)	($1,286.8)	($5,420.5)	($4,324.8)	$3,173.3	$12,991.8
YOY Growth	*-19.9%*	*12.7%*	*-1.4%*	*20.6%*	*-9.5%*	*4.6%*	*-20.2%*	*-173.4%*	*309.4%*
Net Margin	*-181.4%*	*-208.7%*	*-163.0%*	*-152.3%*	*-114.8%*	*-152.9%*	*-54.6%*	*13.7%*	*30.4%*
EPS (continuing ops)	($0.14)	($0.04)	($0.03)	($0.03)	($0.03)	($0.11)	($0.05)	$0.04	$0.15
YOY Growth	*-22.0%*					*-18.9%*	*-55.6%*	*-173.4%*	*309.4%*
Diluted Shares O/S	36,661	36,748	50,750	50,800	50,800	47,275	85,000	85,000	85,000

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