Zacks Small-Cap Research

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Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com

10 S. Riverside Plaza, Ste 1600, Chicago, IL 60606

PLC Systems Inc (PLCSF-OTC)

PLCSF: Preparations for Take-Out

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	05/18/2014
Current Price (08/21/14)	$0.01
Target Price	**$0.01**

OUTLOOK

In a surprise move, on May 14th PLC announced that they intended to execute what is essentially being structured as a take-out by bondholders of the operating company and a reverse merger of the remaining company (i.e. - "shell") with Viveve Medical, an unrelated women's health company.
While we think this will preserve more shareholder value than bankruptcy, this transaction will result in the tangible per share (book) value of PLC stock being less than $0.01.

SUMMARY DATA

52-Week High	**$0.11**
52-Week Low	**$0.01**
One-Year Return (%)	**-93.99**
Beta	**1.20**
Average Daily Volume (sh)	**336,797**
Shares Outstanding (mil)	**125**
Market Capitalization ($mil)	**$1**
Short Interest Ratio (days)	**1.07**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-32.4**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med Products**

ZACKS ESTIMATES

Revenue
(in 000s $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	348 A	372 A	348 A	205 A	1273 A
2014	54 A	73 A	50 E	50 E	227 E
2015					0 E
2016					0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.19 A	$0.06 A	-$0.01 A	$0.02 A	$0.03 A
2014	-$0.02 A	$0.01 A	-$0.03 E	-$0.03 E	-$0.07 E
2015					$0.00 E
2016					$0.00 E

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

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Preparations for Take-Out

PLC filed their 10-Q for the second quarter ending 6/30/2014. Revenue remains extremely weak at just $73k, a decrease of 80% from the year earlier comparable period. Revenue through the first six months of the year was $127k, down 82% from the $720k generated in the first half of 2013.

Excluding non-cash revaluation of convertible notes and derivatives, net loss and EPS was $1.3M and ($0.01). Cash used in operating activities was $544k and $1.2M in the three and six months ending 6/30/2014. PLC exited Q2 with $87k in cash and equivalents. Subsequent to Q2 quarter-end, the company raised an additional $250k via the sale of convertible notes with warrants to GCP.

During Q2 PLC made further progress towards its intended sale to GCP which included settling most of their outstanding warrants via issuance of 2/3 of a common share for each warrant. We estimate PLC's fully-diluted outstanding share count was approximately 330M at August 9, 2014.

We continue to expect the proposed transaction, which was first announced in mid-May, to be consummated in the coming months.

Bondholder Take-Out

In a surprise move, on May 14th PLC announced that they intended to execute what is essentially being structured as a take-out by bondholders of the operating company and a reverse merger of the remaining company (i.e. - "shell") with Viveve Medical, an unrelated women's health company.

The company indicated in that this course was being pursued as they had been unable to raise additional operating capital. The company had been successful in raising additional funds in the past including convertible debt sold to GCP IV LLC ($5M aggregate including $1M sold in July 2012) and $4M of equity sold in a private placement in February 2013. Given the company's seeming ability to continue to raise funds, that they had $769k in cash at 2013 year-end (i.e. - not yet on fumes) and the bondholder's willingness to amend certain terms in the past (including extending maturity of $4M of the debt from 2/14 to 6/15), this take-out announcement came as a surprise. Nonetheless, management is proposing this route as an alternative to bankruptcy in order to preserve the most shareholder value. It's clear the transaction is being done (we think it's highly likely it happens) at the behest of GCP IV LLC, which is at the top of the capital structure and can essentially pull the strings. And while we think this will preserve more shareholder value than bankruptcy, as explained below this transaction will result in the tangible per share (book) value of PLC stock being less than $0.01.

Per terms of the proposed transaction, which requires approval from at least 2/3 of shares o/s (which we think is all but guaranteed);

> the operating assets will be "sold" to the bondholders (GCP IV LLC) in exchange for cancellation of the outstanding debt

> PLC will undergo a 1 for 100 reverse stock split and exchange common stock for outstanding warrants

> the PLC shell will be merged with Viveve, Inc, a privately-held medical device company developing non-surgical vaginal tissue restoration technology

> the merged company ("Viveve Medical") will complete a $6M private placement of stock and warrants. 11.3M shares will be sold at $0.53/share (which would equate to $0.0053/share pro forma pre-reverse split)

There are currently 6.6M shares of Viveve outstanding - assuming $0.53/share valuation, this equates to a pre-money valuation of ~$3.5M. Post-private placement value will be ~$9.5M. Following the recapitalization and private placement, there will be approximately 20M shares (or 2.0B pre-reverse split) of Viveve Medical outstanding, roughly 15% (or ~$1.4M) of which will be legacy PLC shares. This $0.0053 (pro form pre-reverse split) is what we see as a low-end valuation.

The potential wild-card is that we have no idea what, if any, additional market value Viveve may command, particularly when the shares become publicly traded (of course there's always the risk that additional financings may be further dilutive). Valuing the shares with more of a market-value based methodology is difficult given that there isn't currently a public market for the stock and Viveve is a private company with no publicly available financials or other performance-related information. Anecdotally, we think there are indications of potential value beyond just book value, however. This includes the seemingly skilled, experienced and relevant backgrounds of

Viveve's management team - several of which were recently brought on to accelerate development and sales. The company has been in existence for several years, has products being marketed in Asia (although we have no idea to the significance of sales) and has U.S. clinical data. The other not insignificant consideration should be that the company is backed financially by 5AM Ventures, GBS Venture Partners and Alta Bioequities - all of which are venture capital companies specifically focused on life sciences. In other words, they are experienced life sciences investors and the fact that they are backing Viveve may be considered a vote of confidence from knowledgeable sources.

If you currently own PLC shares it may be worth holding on to them as the above considerations may provide some option-like value above just book value and the sub-$0.01 current bid. However, given the lack of information, we can not comfortably value PLC shares. The $0.01 "current price and $0.01 "price target" on the first page of this report reflects a system limitation that only allows for inputs in increments of not less than $0.01 and therefore should not be relied on.

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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