Zacks Small-Cap Research

December 14, 2012
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

# EpiCept Corp (EPCT-NASDAQ)

**EPCT: Merger with private Immune will create a public company with strong pipeline ---move to Outperform**

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 12/13/2012 |
| Current Price (12/13/12) | $0.06 |
| **12-Month Target Price** | **$0.45** |

## OUTLOOK

EpiCept will merge with private Immune to create a public company. The combined company will have a strong pipeline focused on antibody therapeutics and antibody drug conjugate (ADC) drugs for inflammatory diseases and cancers.

Lead candidate Bertilimumab is already in Phase II clinical trials for ulcerative colitis. Another key platform of the combined company is next generation of antibody drug conjugate technology NanomAbs, which holds many advantages over existing ADC technologies.

The merger creates value for shareholders and we move to Outperform.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$0.39** |
| **52-Week Low** | **$0.06** |
| **One-Year Return (%)** | **-77.78** |
| **Beta** | **1.36** |
| **Average Daily Volume (sh)** | **99,418** |
| **Shares Outstanding (mil)** | **92** |
| **Market Capitalization ($mil)** | **$6** |
| **Short Interest Ratio (days)** | **6.28** |
| **Institutional Ownership (%)** | **5** |
| **Insider Ownership (%)** | **4** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **-18.2** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2011 Estimate** | **N/A** |
| **P/E using 2012 Estimate** | **N/A** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **High,** |
| **Type of Stock** | **N/A** |
| **Industry** | **Med-Drugs** |
| **Zacks Rank in Industry** | **N/A** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2011 | 0.24 A | 0.22 A | 0.28 A | 0.21 A | 0.94 A |
| 2012 | 0.24 A | 6.60 A | 0.87 A | 0.50 E | 8.21 E |
| 2013 | | | | | 2.00 E |
| 2014 | | | | | 4.00 E |

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

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2011 | -$0.04 A | -$0.06 A | -$0.07 A | -$0.05 A | -$0.22 A |
| 2012 | -$0.05 A | -$0.00 A | -$0.03 A | -$0.03 E | -$0.11 E |
| 2013 | | | | | -$0.02 E |
| 2014 | | | | | -$0.02 E |

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

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

## WHAT'S NEW

### *Merger with Immune Pharmaceuticals Will Re-energize EpiCept*

On November 8, 2012, EpiCept and Immune Pharmaceuticals Ltd., a privately held Israeli company, announced that they have entered into a definitive merger agreement. The transaction is anticipated to close during **the first quarter of 2013** and is subject to satisfaction of certain customary closing conditions, including the approval of a majority of EpiCept shareholders.

The terms of the merger agreement provide for EpiCept to issue shares of its common stock to Immune shareholders in exchange for all of the outstanding shares of Immune, with EpiCept shareholders retaining approximately **22.5 percent ownership** of the combined company and Immune shareholders receiving approximately **77.5 percent**, calculated on an adjusted fully diluted basis.

The combined company, to be named **Immune Pharmaceuticals, Inc**. will be primarily focused on developing **antibody therapeutics** and other targeted drugs for the treatment of inflammatory diseases and cancer.

**Dr. Daniel Teper** will become the Chairman and Chief Executive Officer of Immune Pharmaceuticals, which will have dual headquarters in Herzliya-Pituach, Israel and in the New York City area, with research laboratories in Rehovot, Israel. The combined company's board of directors will consist of not more than six current Immune directors and at least one current EpiCept director. The Immune Pharmaceuticals management team will include Robert Cook, EpiCept's Interim Chief Executive Officer, who will become the combined company's Chief Financial Officer, and Stephane Allard, M.D., EpiCept's Chief Medical Officer, who will become Immune Pharmaceutical's Chief Medical Officer. Serge Goldner, Chief Financial Officer of Immune will take the new role of Executive Vice President and Chief Operating Officer. Suzy Jones will continue to advise Immune Pharmaceuticals on business development and the combined company's Scientific Board will be jointly led by Professor Marc Rothenberg (Cincinnati Children's Hospital) and Professor Shimon Benita (Hebrew University).

The merger with Immune is great news to EpiCept shareholders in our view. We believe the combined company will provide EpiCept's shareholders with a broad, attractive portfolio of product candidates that address unmet medical needs and have significant market potential. Monoclonal antibodies, a field in which Immune Pharmaceuticals has particular expertise, are an exciting area for pharmaceutical development. We also believe the combined company will re-energize EpiCept's efforts to obtain a partner to pursue the Phase III development of **AmiKet.** Additionally, EpiCept's vascular disruption agents Azixa and Crolibulin are promising, targeted oncology drug candidates that may further benefit from Immune Pharmaceuticals' expertise in nanotherapeutics.

### *Merger Creates a Much Stronger Pipeline Targeting Multiple Areas*

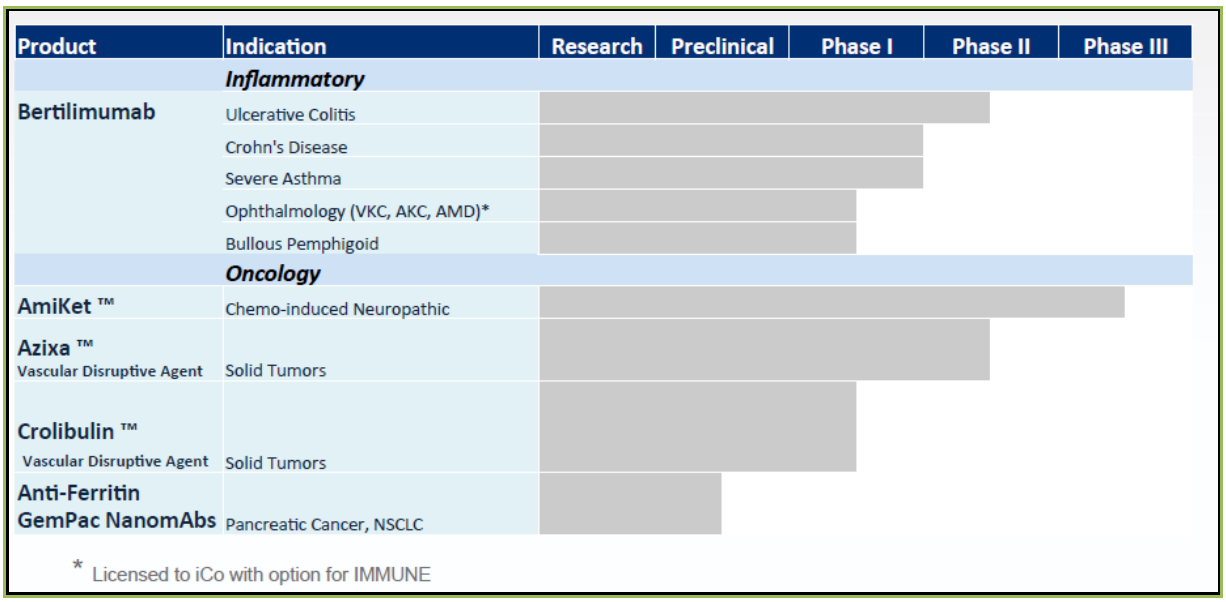
The merger will create a public company with multiple clinical stage drug candidates.

Immune Pharmaceuticals Ltd. is a private company headquartered in Israel and with an office in New York. The Company is focused on the development of next generation **antibody therapeutics** addressing unmet medical needs in the treatment of inflammatory diseases and cancer. Immune licensed worldwide rights for systemic indications of **Bertilimumab** from iCo Therapeutics in June 2011, while iCo retained rights to all ophthalmic indications. iCo originally licensed the exclusive world-wide rights to Bertilimumab in 2006 from MedImmune Limited, the global biologics unit of AstraZeneca. Additionally, Immune has licensed from Yissum, the Technology Transfer Company of the Hebrew University of Jerusalem, the injectable applications of the **antibody nanoparticle conjugate technology (NanomAbs®)** developed by Professor Shimon Benita.

The combined company will have a portfolio of four clinical-stage drug candidates for the treatment of inflammatory diseases and cancer.

Immune's **bertilimumab**, a first in class monoclonal antibody, is being evaluated clinically to address unmet medical needs in multiple severe disease indications.

The combined company's collective **oncology portfolio** comprises: Immune's NanomAbs®, a new generation of antibody drug conjugates, and EpiCept's vascular disruptive agents. Immune Pharmaceuticals will continue efforts to secure a partner for EpiCept's Phase III clinical development candidate AmiKet, for which efficacy has been demonstrated for the treatment of chemotherapy-induced neuropathic pain and post-herpetic neuralgia.

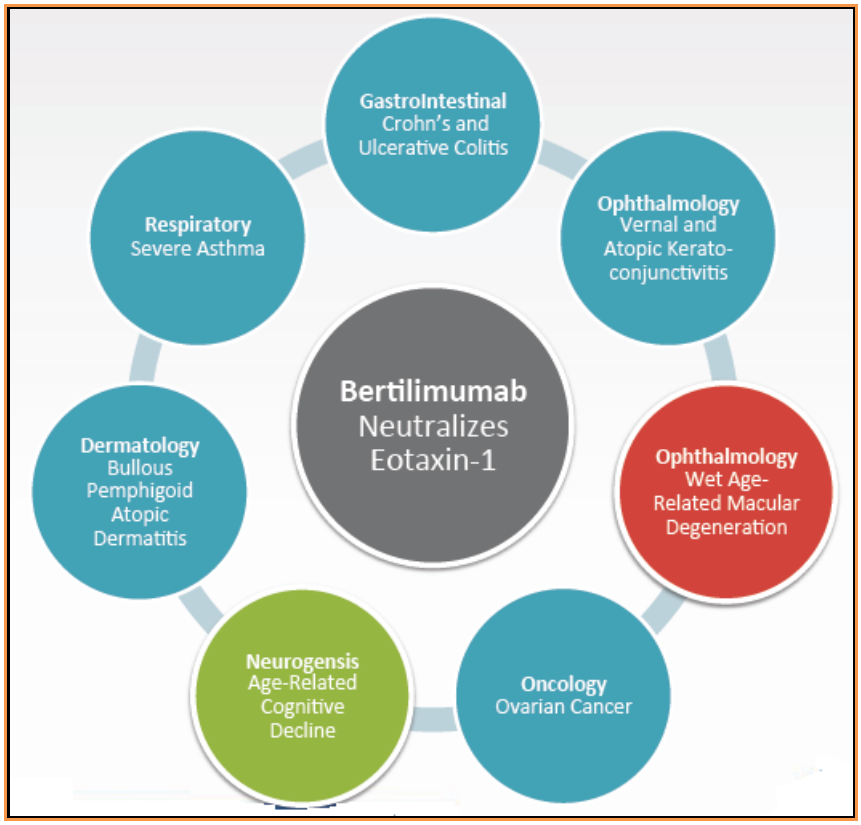



## *Bertilimumab Targets Multiple Indications*

Immune's lead product candidate is **bertilimumab,** which is a full human monoclonal antibody that targets eotaxin-1, a chemokine involved in eosinophilic inflammation, angiogenesis and neurogenesis.

Bertilimumab was originally developed by Cambridge Antibody Technology (CAT, now MedImmune, the biologics division of AstraZeneca), isolated initially by phage display technology as antibody fragment (CAT-212), then optimized, converted into the IgG4-type whole antibody bertilimumab (CAT-213), and expressed in Lonza Biologics' mammalian expression system. The antibody was GMP manufactured at Lonza Biologics. iCo Therapautics licensed in the drug from CAT before granting Immune an option to in-license bertilimumab for non-ophthalmic indications in December 2010. This option was exercised in June 2011.

**Eotaxin-1** (CCL11) is a key mediator of inflammation, angiogenesis and neurogenesis in multiple clinical indications. The first functional role that was elucidated for eotaxin was eosinophil chemotaxis mediated via the CC chemokine receptor 3 (CCR3), and it has also been shown to have a variety of effects associated with eosinophil activation. These data implicate eotaxin-1 as an important regulator of overall eosinophil function. While an important component of innate immunity, the accumulation of eosinophils in tissues can be detrimental; eosinophil degranulation products have significant cytotoxic effects on tissues, and cytokines known to be released by eosinophils enhance inflammatory signaling. By interfering with this process, Bertilimumab may have potential for the treatment of many indications as described in the following chart.




Immune is developing Bertilimumab for the treatment of **inflammatory bowel diseases** (UC and CD) as well as other indications. The Company is currently initiating a placebo-controlled, double-blind **Phase II** clinical trial with bertilimumab for the treatment of **ulcerative colitis.** Patient enrollment will begin in early 2013. Peak sales for combined UC and CD indications in major markets (US/EU/Japan) could reach $1 billion for Bertilimumab.

***NanomAbs, Next Generation Antibody Drug Conjugates***

One of the frontiers for **targeted cancer therapy** is the development of monoclonal **antibody drug conjugates (ADC)** technology. The cell-killing ability of a cytotoxin is joined with the specificity of a monoclonal antibody to produce targeted anticancer therapeutics. Creating a successful antibody drug conjugate requires careful selection of the drug, antibody, and linker.

Both mAbs and small-molecule chemotherapeutics are used individually as cancer therapies, but an ADC is designed to overcome the limitations of each. MAbs are highly specific, but as therapeutics have demonstrated only modest efficacy and often are used in combination with a conventional chemotherapy. Chemotherapeutics are highly toxic, but nonspecific, and so suffer from poor side-effect profiles and dose-limiting toxicities. In combination, the ADC serves to keep the chemotherapuetic bound until it reaches the cancer cell, thereby limiting its ability to interact with non-targeted tissues and therefore limiting nonspecific toxicity.

This Antibody Drug Conjugates (ADC) technology has progressed significantly, as reified by the recent approval of an ADC drug from Seattle Genetics by the FDA. Two key players in the ADC area are Seattle Genetics and ImmunoGen. Both have established a decent pipeline of ADC for the treatment of various cancers.

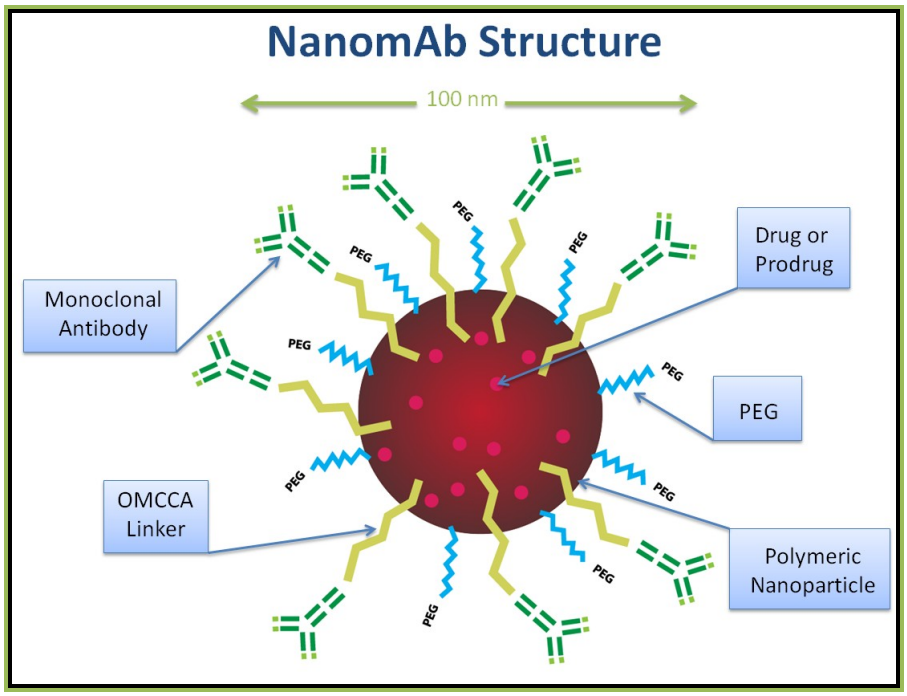
However, the use of main stream chemotherapies eliciting therapeutic effect in different mechanisms of action than that of cytotoxins is currently not possible using ADCs. The relatively low mAb to drug ratio and the lack of possibilities of tailored combined therapy limit therapeutic options.

As next generation of ADCs, Immune's NanomAbs technology addresses these challenges in cancer.

Immune has prioritized the development of **Ferritin targeted combo Gemcitabine Paclitaxel NanomAbs**. Total ferritin increased and shifted towards acidic (H-rich) ferritin in the serum of patients with various malignancies such as colon cancer, testicular seminoma, breast cancer, squamous cell carcinoma of the head and neck. In research anti-Ferritin NanomAbs showed marked affinity and improved efficacy for specific tumors such as pancreatic cancer and NSCLC. The combination of two drugs induces synergistic anti-tumor effect, while the targeted delivery specifically to tumor cell reduces undesired effects.

There are four modules in the NanomAbs system:

- **PEGylated polymeric nanoparticles (PPNs)** act as a scaffold which shields the drug from premature elimination or off-target effects.
- **Proprietary linker molecules** embedded within the PPN connect the mAb to the rest of the particle.
- **Anti-cancer drug** (incorporated within the PEGylated polymeric nanoparticles). Several chemotherapeutic drugs with different mechanism of action have been successfully incorporated as lipophilic prodrugs within NanomAbs, e.g. Paclitaxel, Gemcitabine and Oxaliplatin.
- **Therapeutic mAb** mainly functions as a targeting ligand by binding to a specific tumor antigen. Several mAbs have been tested and are being used in NanomAbs products currently developed, including HER2, HER3, EGFR and Ferritin targeting mAbs.




Efficient targeted delivery of the novel drug molecule specifically into the cell cytoplasm could be achieved by its incorporation in a NanomAb. Thus, the NanomAb platform offers a solution to the issues of both off-target side effects and undeliverable drugs. Delivering main stream chemotherapeutics specifically to the target cell by a mAb is the 'Magic Bullet', as the mAb's conjugation to the PPN enables active targeting and improved tumor cell permeability.

This platform enables incorporation of high payloads of anti-tumor agents within a nano-sized, stable, biodegradable and biocompatible polymeric drug carrier, all-together improving the therapeutic ratio of the drug incorporated. Moreover, extended stability due to lyophilization allows IV administration after reconstitution and therefore prompt commercialization. We believe in the years to come NanomAbs may offer clinical oncologists and cancer patients novel cancer treatment modalities with improved safety and efficacy.

***Ceplene Rights are Sold to Meda AB***

Ceplene has been approved in the EU and Israel for administration with low-dose interleukin-2 (IL-2) for the remission maintenance and prevention of relapse of patients with Acute Myeloid Leukemia (AML) in first remission; AML is the deadliest form of leukemia in adults. **In June 2012**, the Company sold all of its rights to Ceplene® in the territories previously licensed to Meda AB, and a portion of its remaining Ceplene® inventory, to Meda for approximately $2.6 million in cash and the assumption of EpiCept's ongoing responsibilities related to the manufacture of, and maintenance of the marketing authorization for, Ceplene® in the European Union. EpiCept also agreed to relinquish all future milestone payments and royalties on future sales of Ceplene® by Meda. In conjunction with the closing of this transaction EpiCept will close its EpiCept GmbH facility in Munich, Germany over the next several months. Ceplene® is licensed to Megapharm Ltd. to market and sell in Israel. Following Ministry of Health approval of labeling and other reimbursement matters, Megapharm Ltd. is expected to commence the commercial launch of Ceplene® in Israel, until which time it is available there on a named-patient basis. EpiCept retains rights to Ceplene® in all other countries, including countries in North and South America.

***The Combined Company will Continue the Efforts to Find Partners for AmiKet***

On January 24, 2012, EpiCept Corporation (EPCT) received further encouraging guidance for the **Phase III** clinical and nonclinical development and subsequent New Drug Application (NDA) filing of **AmiKet**™ in the treatment of chemotherapy- induced peripheral neuropathy (CIPN) based on the issuance of the final minutes of the Company's meeting with the FDA in December 2011.

AmiKet™ is a prescription, topical analgesic cream containing amitriptyline 4% and ketamine 2% designed to provide relief from neuropathic pain, which affects more than 15 million people in the U.S. alone. In the first half of 2011, EpiCept announced positive results from a National Cancer Institute-sponsored study evaluating the efficacy and safety of AmiKet™ in chemotherapy-induced peripheral neuropathy (**CIPN**), a painful condition that frequently occurs following systemic chemotherapy and that may interrupt, delay or even prevent completion of potentially curative chemotherapy regimens. A safe and effective therapeutic option for neuropathic pain associated with CIPN would address a significant unmet medical need.

In addition to the positive outcome previously reported for AmiKet™ in CIPN, EpiCept has reported statistically significant positive results in the treatment of pain from post-herpetic neuralgia in several Phase II studies, the non-inferiority of AmiKet™ compared with gabapentin in another placebo controlled study, and a positive trend in the treatment of pain in a diabetic neuropathy Phase II study.

In the final meeting minutes recently received by EpiCept, the FDA acknowledged that painful symptoms due to CIPN represent a significant unmet medical need and encouraged EpiCept to apply for Fast Track designation. Further, the FDA waived several expensive and time consuming non-clinical toxicology studies, and indicated that a single four-arm factorial trial might suffice for regulatory approval if combined with other pivotal data in another neuropathy such as diabetic peripheral neuropathy.

The key element of the proposed Phase III clinical program is a 12-week, four-arm, factorial designed trial in CIPN that would seek to demonstrate AmiKet's superiority compared with placebo and with each of the component drugs of AmiKet™, amitriptyline and ketamine. EpiCept intends to submit the protocol for this trial to the FDA via a Special Protocol Assessment (SPA). An additional two-arm efficacy study in

another painful peripheral neuropathy may be performed as an alternative strategy to a second factorial-designed trial for the NDA filing, which could potentially lead to a broader label in the treatment of peripheral neuropathic pain.

The meeting minutes with the FDA included a summary of the nonclinical program requirements to file an NDA, which notably included only a single dermal carcinogenicity study. The dermal photo-irritation/toxicity assessment may be waived, provided dermal photo-irritation is assessed in the clinical program. A COMET assay (Single Cell Gel Electrophoresis to detect DNA damage) study is required prior to initiation of the long-term open label clinical safety study.

During the second quarter of 2012, EpiCept received written advice from the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) concerning the clinical and nonclinical development and subsequent Marketing Authorization Approval (MAA) filing of AmiKet. In its written advice the CHMP recommended that the proposed clinical program consist of a single 12-week, four-arm, factorial-designed trial in CIPN that would seek to demonstrate AmiKet's superiority compared with placebo and with each of the component drugs of AmiKet, amitriptyline and ketamine. An additional two-arm efficacy study in CIPN or another neuropathy is required to complete the clinical requirements of the application. The advice provided a summary of the additional nonclinical program requirements to file an MAA, which included a 90-day dermal toxicity study in a non-rodent species, a dermal phototoxicity study in a rodent and an ocular toxicity study. The advice received from the CHMP is consistent with the guidance given to the Company by the FDA in January 2012, in which the FDA waived several expensive and time-consuming non-clinical toxicology studies, and indicated that a single four-arm factorial trial might suffice for regulatory approval if combined with other pivotal data in another neuropathy such as diabetic peripheral neuropathy.

**We think responses from both the FDA and CHMP are positive**. This is a very favorable outcome that will likely benefit AmiKet's market opportunity and time to NDA or MAA filing. Further, this will facilitate the efforts to identify potential acquirers or strategic partners to advance AmiKet™ towards approval and commercialization.

The FDA granted **Fast Track Status** to AmiKet in April 2012 and has agreed that a Special Protocol Assessment (**SPA**) would be available upon formal submission and agreement on the Phase III trial protocol.

***Update on Other Clinical Programs***

**F573** (previously known as EP1013) is a di-peptide small-molecule compound licensed by EpiCept to GNI Group Ltd. in China, Japan and other key Asian territories that has demonstrated a potent inhibitory effect on caspases, a class of enzymes involved in cell death and inflammation. Drug efficacy has been shown in animal models relating to liver failure, brain ischemia and myocardial infarction. Data published in the Chinese Pharmacological Bulletin (2102 Volume 28 (1):136-139) during the first quarter of 2012 concluded that F573 is a new therapeutic drug candidate for the treatment of late-stage **viral infection-induced hepatitis**. F573 delivered intravenously demonstrated a therapeutic effect in a study involving 60 mice with acute liver injury, including a reduction in TNF-a and cell apoptosis. As part of its license agreement with GNI Group Ltd., EpiCept received a small upfront fee upon signing the agreement and is eligible to receive milestone payments of more than $12 million based on the clinical advancement of F573 in in the licensed territories, as well as royalties on commercial sales. EpiCept retains the commercial rights to F573/EP1013 in all other markets. The next potential milestone payment will be in conjunction with initiation of a Phase I trial in any of the territories outlined in the agreement. In July 2011 Shanghai Genomics, a wholly owned subsidiary of GNI Group Ltd., filed an Investigational New Drug (IND) application for F573 in China.

**Crolibulin** is a vascular disruption agent that has demonstrated potent anti-tumor activity in both preclinical and early clinical studies. In December 2010 the NCI initiated a **Phase Ib/II** trial with Crolibulin to assess safety and efficacy in combination with **cisplatin** in patients with anaplastic thyroid cancer.

Trial enrollment has progressed to the third and final dosing cohort for the Phase Ib portion of this trial. The Phase II randomized proof-of-concept efficacy portion of the trial is anticipated to begin soon.

**Azixa** is a vascular disruption agent discovered by EpiCept and licensed to Myrexis, Inc. as part of an exclusive, worldwide development and commercialization agreement. Azixa has received orphan drug status in the U.S. for the treatment of glioblastoma multiforme. On August 28, 2012, EpiCept received notice of termination of the License and Collaboration Agreement, dated November 19, 2003, with Myrexis, Inc. Myrexis has elected to terminate its efforts to develop and commercialize any product covered under the License, including its drug candidate Azixa. As a result of the termination of the agreement, all rights and licenses granted under the License by the Company to Myrexis have reverted to the Company. The Company is currently negotiating a new agreement with Myrexis to secure rights to the Myriad Technology as set forth in the License Agreement.

## VALUATION AND RECOMMENDATION

We move to Outperform from Neutral on EpiCept shares. Our new 12-month price target is $0.45 per share for the combined company.

We think the merger with Immune creates value for EpiCept shareholders. The combined company has a broad, attractive portfolio of product candidates that address unmet medical needs and have significant market potential.

The combined company will be focused on antibody therapeutics and antibody drug conjugate (ADC) development, which are the frontiers of targeted cancer therapy.

Immune's **bertilimumab**, a first in class monoclonal antibody, is being evaluated clinically to address unmet medical needs in multiple severe disease indications and currently is in Phase II clinical trials for ulcerative colitis.

Immune's **NanomAbs** is next generation of antibody drug conjugate technology, which holds many advantages over existing ADC technologies.

We also believe the combined company will re-energize EpiCept's efforts to obtain a partner to pursue the Phase III development of **AmiKet.** Additionally, EpiCept's vascular disruption agents Azixa and Crolibulin are promising, targeted oncology drug candidates that may further benefit from Immune Pharmaceuticals' expertise in nanotherapeutics.

In terms of valuation, we admit that it is very difficult to value the combined company at this time, especially when there is not enough information available about the specific financials after the merger. Here, we try to give investors a rough idea where the combined company is headed and how they will fare in the years to come.

Our price target is based on all the information we currently have. We estimate that after the merger the combined company will have approximately 425 million shares outstanding. Based on the fundamentals of the combined company, we think that the value for the combined company should be somewhere between $150 million and $300 million in market cap compared to its peers. Our price target of $0.45 per share values the company roughly at $200 million in market cap, which we think is fare. But our rating and price target may change when we have further information about the combined company after the merger close in 1Q13. We will keep investors posted in this regard.

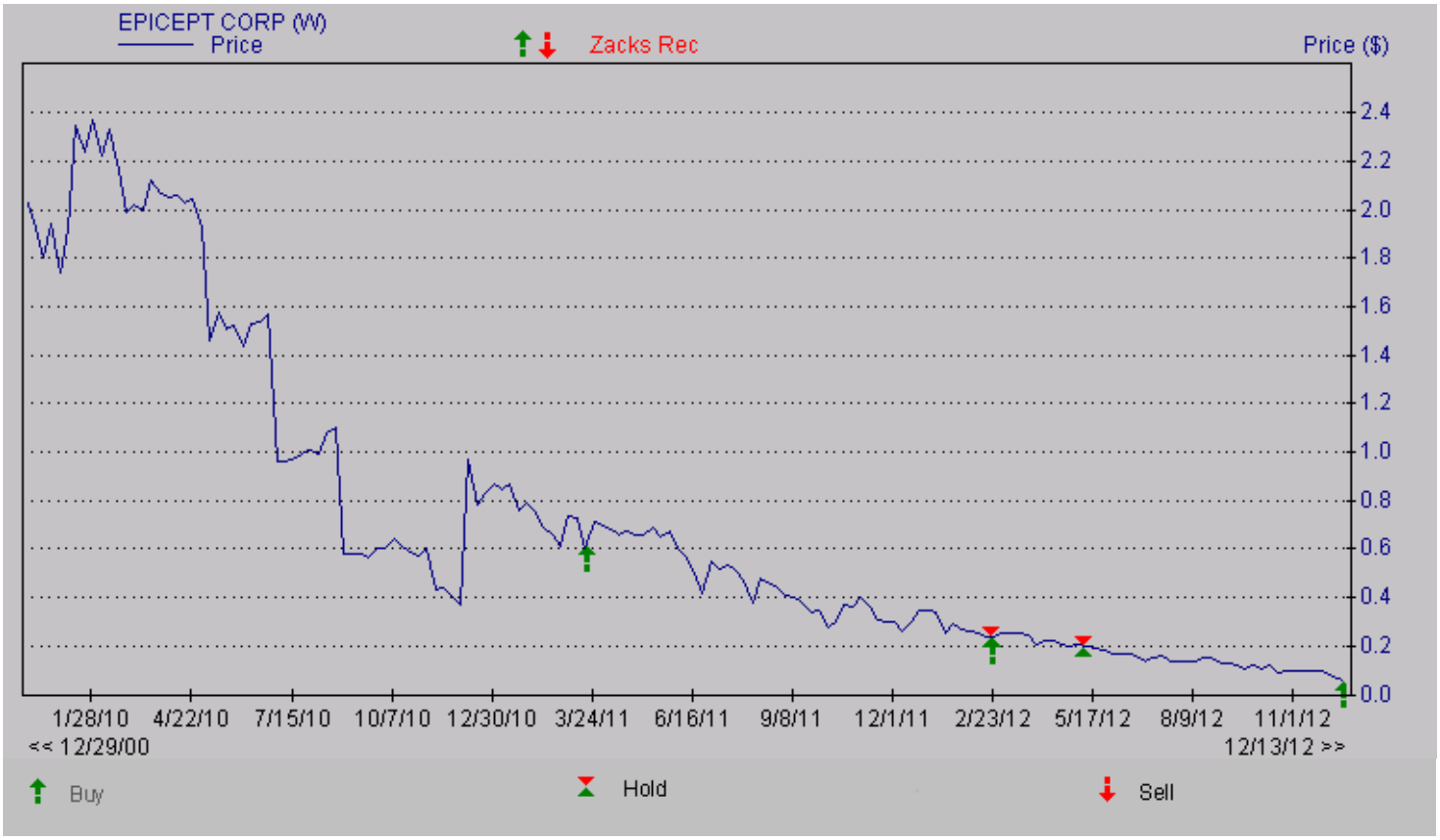
## PROJECTED INCOME STATEMENT

| | 2010A (Dec) | 2011A (Dec) | | | | | 2012E (Dec) | | | | | 2013E (Dec) | 2014E (Dec) | 2015E (Dec) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $ in million except per share data | FYA | Q1A | Q2A | Q3A | Q4A | FYA | Q1 | Q2 | Q3 | Q4 | FYE | FYE | FYE | FYE |
| *Product Revenue* | $0.17 | $0.05 | $0.00 | $0.03 | $0.00 | $0.09 | $0.05 | $0.58 | $0.00 | $0.00 | $0.63 | $1.50 | $3.50 | $7.50 |
| *R&D revenue* | $0.80 | $0.19 | $0.22 | $0.24 | $0.20 | $0.86 | $0.19 | $6.03 | $0.87 | $0.50 | $7.59 | $0.50 | $0.50 | $0.50 |
| **Total Revenues** | **$0.97** | **$0.24** | **$0.22** | **$0.28** | **$0.21** | **$0.94** | **$0.24** | **$6.60** | **$0.87** | **$0.50** | **$8.21** | **$2.00** | **$4.00** | **$8.00** |
| *YOY Growth* | *133.3%* | *42.5%* | *-10.8%* | *7.0%* | *-28.9%* | *-2.3%* | *1.3%* | *2847.3%* | *216.7%* | *141.5%* | *3351.3%* | *792.9%* | *1354.5%* | *3764.7%* |
| *CoGS* | 0.97 | 0.09 | 0.27 | 0.05 | 0.28 | 0.69 | 0.00 | 0.40 | 0.00 | 0.00 | 0.40 | 1.00 | 2.00 | 3.60 |
| **Gross Income** | **($0.00)** | **$0.15** | **($0.05)** | **$0.22** | **($0.07)** | **$0.25** | **$0.24** | **$6.21** | **$0.87** | **$0.50** | **$7.82** | **$1.00** | **$2.00** | **$4.40** |
| *Gross Margin* | *-0.2%* | *62.2%* | *-20.5%* | *81.5%* | *-35.7%* | *26.7%* | *99.6%* | *94.0%* | *100.0%* | *100.0%* | *95.2%* | *50.0%* | *50.0%* | *55.0%* |
| SG&A | $7.25 | $1.39 | $2.04 | $1.98 | $1.04 | $6.45 | $1.43 | $1.38 | $0.85 | $0.80 | $4.47 | $5.00 | $4.50 | $4.00 |
| *% SG&A* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| R&D | $8.13 | $1.68 | $1.99 | $2.62 | $1.56 | $7.85 | $1.30 | $0.96 | $1.10 | $0.75 | $4.11 | $4.00 | $4.50 | $5.00 |
| *% R&D* | - | - | - | - | - | - | | | | | - | - | - | - |
| Other | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 | $0.00 |
| *% Other* | - | - | - | - | - | - | | | | | - | - | - | - |
| **Operating Income** | **($15.4)** | **($2.9)** | **($4.1)** | **($4.4)** | **($2.7)** | **($14.1)** | **($2.5)** | **$3.9** | **($1.1)** | **($1.1)** | **($0.8)** | **($8.0)** | **($7.0)** | **($4.6)** |
| *Operating Margin* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other Net | ($0.2) | $0.5 | ($0.3) | ($1.0) | ($0.8) | ($1.6) | ($2.2) | ($1.7) | ($1.7) | ($1.5) | ($7.0) | ($0.8) | ($1.0) | ($1.0) |
| **Pre-Tax Income** | **($15.5)** | **($2.5)** | **($4.3)** | **($5.4)** | **($3.5)** | **($15.7)** | **($4.7)** | **$2.2** | **($2.8)** | **($2.6)** | **($7.8)** | **($8.8)** | **($8.0)** | **($5.6)** |
| Income taxes(benefit) | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| *Tax Rate* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Reported Net Income** | **($15.5)** | **($2.5)** | **($4.3)** | **($5.4)** | **($3.5)** | **($15.7)** | **($4.7)** | **$2.2** | **($2.8)** | **($2.6)** | **($7.8)** | **($8.8)** | **($8.0)** | **($5.6)** |
| *YOY Growth* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Net Margin* | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Shares Out* | *47.8* | *60.1* | *71.0* | *71.0* | *71.0* | *68.3* | *77.1* | *91.6* | *84.6* | *92.0* | *86.3* | *425.2* | *450.0* | *500.0* |
| **Reported EPS** | **($0.32)** | **($0.04)** | **($0.06)** | **($0.08)** | **($0.05)** | **($0.23)** | **($0.06)** | **$0.02** | **($0.03)** | **($0.03)** | **($0.09)** | **($0.02)** | **($0.02)** | **($0.01)** |
| *YOY Growth* | - | | | | | - | - | - | - | - | - | - | - | - |
| One time charge | *$0.00* | *$0.00* | *$0.00* | *$0.62* | *$0.00* | *$0.62* | *$0.94* | *($2.60)* | *$0.00* | *$0.00* | *($1.67)* | *$0.00* | *$0.00* | *$0.00* |
| **Non GAAP Net Income** | **($15.5)** | **($2.5)** | **($4.3)** | **($4.8)** | **($3.5)** | **($15.0)** | **($3.8)** | **($0.4)** | **($2.8)** | **($2.6)** | **($9.5)** | **($8.8)** | **($8.0)** | **($5.6)** |
| **Non GAAP EPS** | **($0.32)** | **($0.04)** | **($0.06)** | **($0.07)** | **($0.05)** | **($0.22)** | **($0.05)** | **($0.00)** | **($0.03)** | **($0.03)** | **($0.11)** | **($0.02)** | **($0.02)** | **($0.01)** |

*Source: Company filings and Zacks Investment Research estimates*

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

## HISTORICAL ZACKS RECOMMENDATIONS




## DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1035 companies covered: Buy/Outperform- 15.3%, Hold/Neutral- 77.3%, Sell/Underperform – 6.9%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.