Zacks Small-Cap Research

January 19, 2012
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Transcept Pharmaceuticals, Inc. (TSPT-NASDAQ)

TSPT: Expecting Intermezzo Launch In The Second Quarter 2012…

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	07/12/2011
Current Price 01/19/12)	$7.98
Target Price	**$10.00**

UPDATE

On November 23, 2011, the U.S. FDA announced it had approved Intermezzo for the treatment of insomnia when a middle-of-the-night awakening is followed by difficulty returning to sleep. FDA deputy director, Dr. Robert Temple, noted in the press release that the approval of Intermezzo presents, “Less risk of a person having too much drug in the body upon waking, which can cause dangerous drowsiness and impaired driving.” It is clear the U.S. FDA favors use of the drug in this indication versus generic zolpidem or other longer-acting hypnotics.

On November 30, 2011, Purdue Pharmaceuticals formally opted-into its commercialization agreement with Transcept for Intermezzo. We expect a launch Q2-2012.

SUMMARY DATA

52-Week High	**$11.73**
52-Week Low	**$2.63**
One-Year Return (%)	**-7.62**
Beta	**1.94**
Average Daily Volume (sh)	**154,590**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$108**
Short Interest Ratio (days)	**3.62**
Institutional Ownership (%)	**28**
Insider Ownership (%)	**43**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Value**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	3.1 A	3.1 A	3.1 A	3.1 A	12.5 A
2011	3.1 A	3.1 A	0.6 A	10.4 E	17.3 E
2012	0.8 E	5.2 E	0.3 E	0.5 E	6.7 E
2013					9.9 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$0.14 A	-$0.15 A	-$0.21 A	-$0.20 A	-$0.69 A
2011	-$0.14 A	-$0.17 A	-$0.37 A	$0.40 E	-$0.27 E
2012	-$0.27 E	$0.04 E	-$0.32 E	-$0.33 E	-$0.87 E
2013					-$0.96 E

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WHAT'S NEW

Intermezzo Approved!

On November 23, 2011, the U.S. FDA announced it had approved Intermezzo (zolpidem tartrate sublingual tablets) for use as needed to treat insomnia characterized by middle-of-the-night waking followed by difficulty returning to sleep. The agency noted this was the first time the FDA had approved a drug for this type of insomnia. In the FDA's press release, Dr. Robert Temple, MD, deputy center director for clinical science in the FDA's Center for Drug Evaluation and Research (CDER) noted, "With this lower dose there is less risk of a person having too much drug in the body upon waking, which can cause dangerous drowsiness and impair driving." It was a ringing endorsement of the product not typically found in these types of releases.

…Label Analysis…

The approved indication for Intermezzo was as-expected, listing "treatment as needed" and "middle-of-the-night" dosing. The limitations were less strict that expected, only placing a 4 hour "bedtime remaining" limitation. The agency did not feel it was necessary to place an additional limitation about driving five hours after dosing.

----------**INDICATIONS AND USAGE**----------

Intermezzo is a $GABA_A$ agonist indicated for use as needed for the treatment of insomnia when a middle-of-the-night awakening is followed by difficulty returning to sleep (1)

Limitation of Use: Not indicated for the treatment of middle-of-the night awakening when the patient has fewer than 4 hours of bedtime remaining before the planned time of waking (1)

The dosing does list both the 1.75mg and 3.5mg recommended dose strengths based on age and gender.

----------**DOSAGE AND ADMINISTRATION**----------

- Take only if 4 hours of bedtime remain before the planned time of waking (2.1, 5.1)
- Intermezzo should be placed under the tongue and allowed to disintegrate completely before swallowing. The tablet should not be swallowed whole. (2.1)
- The effect of Intermezzo may be slowed if taken with or immediately after a meal (2.1)
- Recommended dose is 1.75 mg for women and 3.5 mg for men, taken only once per night if needed (2.2)
- Lower doses of CNS depressants may be necessary when taken concomitantly with Intermezzo (2.3)
- Co-administration with CNS depressants: Recommended dose is 1.75 mg for men and women (2.3)
- Geriatric patients and patients with hepatic impairment: Recommended dose is 1.75 mg for men and women (2.4, 2.5)

The pharmacokinetic section of the label notes that Intermezzo is rapidly adsorbed…with a mean T_{max} across studies of about 35 to 75 minutes. The label also notes the half-life of a single dose of 3.5mg Intermezzo is approximately 2.5 hours (range 1.4 to 3.6 hours).

We expect commercialization efforts to focus around the pharmacokinetic (PK) and safety advantages of Intermezzo versus generic zolpidem (Ambien) 5mg as the key differentiator for use. We note that PK studies done by the company show the zolpidem blood level profile of Intermezzo at 4-5 hours is similar to the blood level profile of Ambien at 8-9 hours post dose.

…Purdue To Commercialize…

In August 2009, Transcept signed a licensing and commercialization agreement for Intermezzo in the U.S. with Purdue Pharma. We note Transcept retains the rights to the drug in Canada and Europe. Purdue is one of the world's largest privately-held pharmaceutical companies. Purdue has built up an excellent name and reputation through its pain product offerings. North American revenues exceed $3 billion. The deal included a $25 million upfront payment from Purdue to Transcept, along with the potential for an additional $90 million in sales and IP related milestones.

The NDA has since been transferred to Purdue. There are two patents relating to the Formulation of Intermezzo that have been issued by the U.S. Patent and Trademark Office (USPTO). Transcept has submitted these patents for publication in the FDA Orange Book. On December 21, 2011, Transcept noted receiving a $10.0 million milestone payment from Purdue upon the patents being listed in the Orange Book. There is a second IP-related milestone associated with listing of the Intermezzo Method-of-Use patents in the Orange Book. Our best guess is $5 million, leaving $75 million in sales milestone post launch. As part of the NDA transfer, Transcept also transferred manufacturing knowhow and intellectual property to Purdue. The drug is being manufactured by U.S based contract manufacturer, Patheon, Inc.

Purdue will pay Transcept a tiered base royalty on U.S. net sales of Intermezzo that ranges from the mid-teens to the mid-20% level. The base royalty is tiered depending upon the achievement of certain fixed net sales thresholds by Purdue, which net sales levels reset each year for the purpose of calculating the royalty.

Purdue will be 100% responsible for all post-approval medical monitoring and phase IV studies. We note that Purdue has a strong track record with managed care, and we anticipate broad Tier-2 coverage for the drug. Purdue plans to invest approximately $100 million to support sales and marketing during the first year of commercialization. We think this is a testament to the potential for the drug. That is a big number, and we do not think Purdue would have committed such a large marketing and promotional budget for Intermezzo in the first year of the launch unless they truly believe the drug has peak sales potential far beyond that level. We remind investors that Purdue currently has 500 full-time representatives on staff.

Transcept has the option to co-promote Intermezzo to psychiatrists in the U.S. as early as the first anniversary of commercial launch of Intermezzo, and as late as approximately 4.5 years post-launch. Upon entry into the market under the co-promote option, Transcept is entitled to receive an additional co-promote royalty from Purdue on net revenue that is generated by psychiatrist prescriptions, ranging from 40%, if Transcept begins marketing to psychiatrists in the first month following the one year anniversary of commercial launch of Intermezzo in the U.S., down to approximately 22%, if Transcept does not begin marketing to psychiatrists until 55 months after the commercial launch of Intermezzo. Net revenue qualifying for this additional co-promote royalty is limited by an annual cap of 15% of total Intermezzo annual net sales in the U.S.

The co-promotion opportunity is an interesting one for Transcept. Purdue has 1-year to introduce Intermezzo to the primary-care (85% of the market) and specialist (15% of the market), as well as market directly to consumers. After that time, we expect that Transcept will take over promotion to the psychiatry and sleep specialist market – about 15,000 physicians. We believe this is something that can be effectively done with roughly 100 representatives, some of which Transcept can contract directly from Purdue. In time, the specialist market can grow substantially and provide very meaningful royalties to Transcept given the addition double-digit (up to 40%) royalty Transcept earns on this segment.

…Intermezzo Looks To Fill A Much Needed Void…

Insomnia remains a significant problem in the U.S. and Europe, and as such, there exists an attractive market opportunity for the launch of a new pharmaceutical product with differentiating characteristics. Data presented at the 2007 World Sleep Conference by Ohayon, et al., "Nocturnal Awakenings in the American General Population: Prevalence and Consequences," Provides an outstanding overview of the market opportunity for Intermezzo. This paper was published in the Journal of Psychiatric Research (43(2009)48-54).

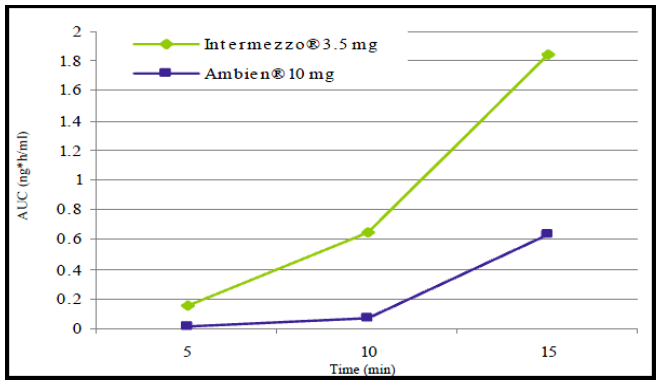
We calculate that nearly 80 million American adults (35% prevalence rate) are affected by some form of insomnia or sleep disorder which involves waking in the middle-of-the-night. About half (~45%) have difficulty returning to sleep (MOTN-Insomnia). This creates a potential target population of 35 million Americans. However, about 40% also report having onset issues, so they may already be taking Ambien-CR or Lunesta.

Therefore, a target population of around 22 million Americans would use a drug like Intermezzo. We estimate that only around 15% are actively seeking prescription medications. So Purdue's job is two-fold: 1) Target the active 3 – 3.5 million patients on sleep drugs for MOTN-Insomnia, and 2) grow the on prescription market through promotion.

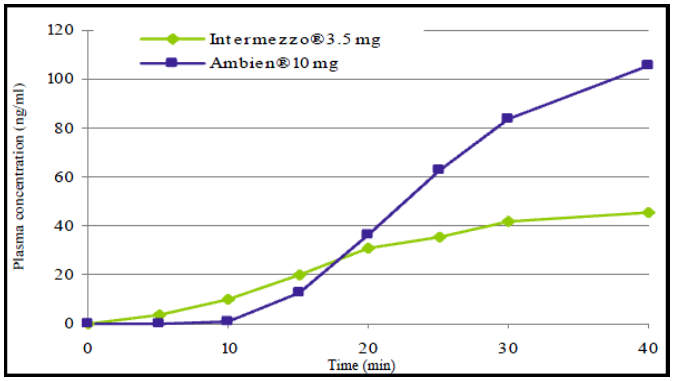
The ideal pharmaceutical product to address this unmet medical need would be an oral pro re nata (as needed) dosing of a rapidly effective molecule that can be taken with little to no next-day residual effects as soon as 3 to 4 hours later. Chronic patients typically suffer from nocturnal awakenings 3 to 4 times a week. The approved PRN dosing for Intermezzo eliminates necessary dosing of Ambien-CR or Lunesta each night, and eliminates potentially dangerous dosing of Ambien or generic zolpidem in the middle of the night.

The sublingual tablet dissolves in less than 2 minutes, without water, and puts patients back to sleep quickly. Sleep lab clinical results show an average of 14 minutes for onset at the standard 3.5mg dose. Plus, in two phase 3 studies, Transcept observed no meaningful next day residual effects compared to placebo when taken correctly.

Enter intermezzo, a sublingual low dose formulation of zolpidem that has been developed for use as-needed for the treatment of insomnia when a middle of the night awakening is followed by difficulty returning to sleep – the first and only drug approved for this indication. Neither Lunesta nor Ambien is approved for a middle of the night dose. Plus, the pharmacokinetic profile of Intermezzo is substantially improved from generic zolpidem. Transcept's proprietary formulation employs a pH sensitive layer that releases the zolpidem molecule into the blood stream for a faster rate of absorption versus higher doses of Ambien, with a lower overall plasma profile to reduce next day residual effects. The sublingual tablet is designed to dissolve under the tongue in a little as 2 minutes, meaning that patients can take the pill without water, and without getting out of bed. Clinical data shows that the tablet is highly effective in returning patients to sleep, with onset effects in as soon as 10 minutes, and systemically lower plasma concentrations in eight hours post dose.



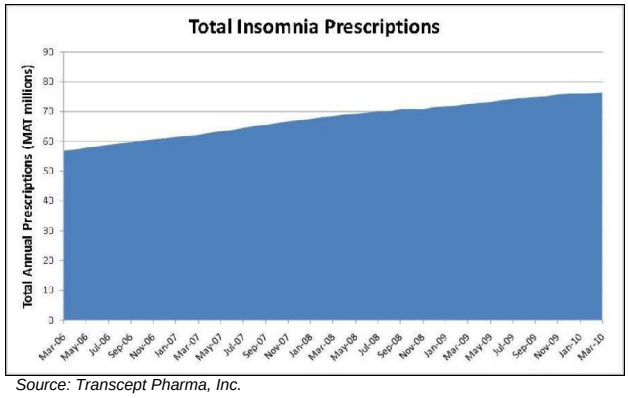
Rapid initial absorption…



…with lower residual systemic profile

Transcept has noted that the PK (blood profile) of a patient 4 hours after taking 3.5mg Intermezzo looks similar to the PK blood profile of a patient 8 hours after taking Ambien. We think Purdue will send the bulk of its marketing and promotional effort around this improved bioavailability and safety profile of the drug vs. the cheaper generic.

It is clear that the insomnia market is large. Purdue does not need to capture significant market share to achieve meaningful sales. In fact, with market share as little as 7.5%, Intermezzo becomes a $250 million drug.



Source: Transcept Pharma, Inc.

From a sales standpoint, we think peak U.S. sales are around $250 million. We arrive at this figure as follows:

- ⇨ 235 million adult Americans…
  - ↳ 35% with nocturnal awakenings…
    - ↳ 45% with subsequent insomnia…
      - ↳ 60% without onset issues…
        - ↳ 15% currently seek Rx…
          - ↳ 7.5% eventually turn into Intermezzo users…

  - ↳ Intermezzo costs $5.50 per pill, with average 2.5 pills per week (125 per year)…

- ⇨ 235 million * 35% * 45% * 60% * 15% * 7.5% * 125 pills/year * $5/50 per pill ~ $250 million

We forecast peak sales in 2020. We note the patent on Intermezzo goes until 2025, meaning Purdue and Transcept will have over a dozen years to market Intermezzo exclusively. Upside to this $250 million peak U.S. sales figure could come from increasing any of the above components, with the most likely being penetration and market share.

Purdue has commercial rights to Intermezzo in the U.S. only, with the right to negotiate for commercial rights in Mexico and Canada. We think the European market is probably about similar in size in terms of prescriptions of the U.S. market; however, pricing in Europe is only 15% to 20% of U.S. pricing. Management continues to look at the opportunity to launch Intermezzo in Canada or Europe. We believe the value to Transcept has been maximized now that it has been approved in the U.S. However, we believe that the European Medicines Agency (EMEA) will probably ask Transcept to conduct one additional study, most likely an efficacy study in an elderly population, to supplement the U.S. data, before they will accept an MAA. Transcept is also in the process of determining whether or not to file under a centralized procedure. Approval in Europe could begin 8 – 10 years of market exclusivity.

…U.S. Sales Model…

Below is our U.S. sales ramp model for Intermezzo:

Transcept, Inc.	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Adults in the U.S. (Millions)	235	237	240	242	245	247	249	252	254	257	260
Percent with MOTN-Awaken	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Percent with MOTN-Insomnia	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*	*45%*
Percent w/o Onset Issues	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*
Target Market (Millions)	22.2	22.4	22.7	22.9	23.1	23.3	23.6	23.8	24.0	24.3	24.5
Percent Seeking Rx Help	*14%*	*15%*	*16%*	*16%*	*17%*	*17%*	*17%*	*18%*	*18%*	*18%*	*18%*
Active Users (Millions)	3.1	3.4	3.6	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.5
Market Share (@Purdue)	*1.0%*	*3.5%*	*5.5%*	*6.0%*	*6.5%*	*7.0%*	*7.0%*	*7.3%*	*7.5%*	*7.0%*	*6.5%*
Co-Promotion (@Transcept)	*0%*	*0%*	*0.3%*	*0.6%*	*0.9%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Doses / Year	*125*	*125*	*125*	*125*	*125*	*125*	*125*	*125*	*125*	*125*	*125*
Cost per Pill (Net)	*$3.00*	*$4.50*	*$5.00*	*$5.10*	*$5.20*	*$5.31*	*$5.36*	*$5.47*	*$5.58*	*$5.63*	*$5.69*
Intermezzo Sales at Purdue	$11.7	$66.2	$131.4	$156.9	$184.6	$209.3	$217.3	$236.3	$253.6	$247.6	$240.7
Royalty on Intermezzo	$1.7	$9.9	$23.7	$29.0	$34.9	$39.6	$41.1	$44.6	$47.8	$46.9	$45.8
Milestones from Purdue	$15.0	$0.0	$10	$0	$0.0	$10	$0	$0.0	$5	$0	$0

Source: Zacks Investment Research, Inc. / Jason Napodano, CFA

Looking For In-Licenses Opportunities

With Intermezzo now approved and the launch planned for the second quarter 2012, Transcept has now turned its attention to the potential to co-promote the drug as soon as the summer of 2013. Paramount to the company is to find an additional product to promote along with Intermezzo to improve the economics of building and maintaining a specialty sales force.

We expect that Transcept will look to in-license a psychiatric product within the next few quarters. We expect the following characteristics:

- ✓ Late-stage, NDA filed, or currently approved (perhaps an approved product at a big pharma that is begin neglected, or specialty pharma company that is looking to divest the asset on a change in focus).
- ✓ At least 50% of the current or planned scripts to be into the psychiatry market (this would bring meaningful over-lap with the co-promote agreement with Purdue on Intermezzo).
- ✓ Meaningful opportunity to achieve breakeven operations with a small sales force of 10-15 representatives after the second year on the market.

RECOMMENDATION

We currently have a 'Neutral' rating on Transcept while we wait for the first update from management on the launch of the drug. Purdue plans to be in position to launch the drug in the second quarter 2012. As noted above, we see peak U.S. sales of Intermezzo at around $250 million. The market remains skeptical of our estimate, which we note is among the lowest on the Street. Unfortunately, it may not be until later this year before we really get a sense of where Intermezzo is headed. In the meantime, we see the stock trading between $8 and $10 per share, despite the fact that our discounted cash flow (DCF) model is showing fair-value at $12+ per share (see below).

Upside to our price target comes from several potential sources. Firstly, we believe we are being very conservative with our $250 million peak sales forecast for Intermezzo. Our guess is that Purdue sees this opportunity more in the $500 million area. Second, we expect that Transcept will seek to in-licenses another psych-promoted product within the next few quarters. We expect that management would like to have this product ready to go when they exercise their right to co-promote Intermezzo. Finally, we remind investors that Transcept is also in phase 2 studies with TO-2061, a low-dose ondansetron product for treatment-resistant obsessive compulsive disorder. If successfully developed, this would present management with a third product to promote into the psych market.

DCF Model

Transcept, Inc.	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Royalty on Intermezzo	$1.7	$9.9	$23.7	$29.0	$34.9	$39.6	$41.1	$44.6	$47.8	$46.9	$45.8
Milestones from Purdue	$5.0	$0	$10	$0	$0.0	$10	$0	$0.0	$5	$0	$0
Sales of TO-2061	$0	$0	$0	$0	$9.2	$20.2	$31.8	$44.6	$58.6	$64.0	$69.8
TSPT Revenues (in Millions)	**$6.7**	**$9.9**	**$33.7**	**$29.0**	**$44.0**	**$69.8**	**$73.0**	**$89.2**	**$111.3**	**$110.8**	**$115.6**
CoGS	*$0*	*$0*	*$0*	*$0.0*	*$0.9*	*$2.0*	*$3.2*	*$4.5*	*$5.9*	*$6.4*	*$7.0*
R&D	*$10.0*	*$15.0*	*$20.0*	*$20.0*	*$20.0*	*$20.0*	*$20.0*	*$15.0*	*$15.0*	*$15.0*	*$15.0*
SG&A	*$8.8*	*$9.5*	*$13.0*	*$14.0*	*$17.9*	*$19.0*	*$21.2*	*$23.5*	*$25.9*	*$26.4*	*$27.0*
Other Expenses	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
EBITDA	($12.1)	($14.6)	$0.7	($5.0)	$5.2	$28.8	$28.6	$46.3	$64.6	$63.0	$66.6
Depreciation and amortization	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*	*$0.5*
EBIT	**($12.6)**	**($15.1)**	**$0.2**	**($5.5)**	**$4.7**	**$28.3**	**$28.1**	**$45.8**	**$64.1**	**$62.5**	**$66.1**
EBITDA margin	-	-	*0.6%*	*-18.8%*	*10.7%*	*40.5%*	*38.5%*	*51.3%*	*57.6%*	*56.4%*	*57.2%*
Cash Taxes	$0	$0	$0	$0	($0.2)	($4.2)	($9.0)	($14.6)	($20.5)	($20.0)	($21.2)
Tax Rate	-	-	-	*0%*	*5.0%*	*15.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*	*32.0%*
Balance Sheet											
Capital Expenditures	$0.5	$3.0	$2.5	$4.0	$2.5	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Working Capital	($1.0)	($1.0)	($1.0)	($0.5)	($0.5)	$0.0	$0.5	$1.0	$1.0	$1.0	$1.0
Other Cash Adjustments	($1.0)	($1.2)	($1.4)	($1.6)	($1.8)	($2.0)	($2.2)	($2.4)	($2.6)	($2.8)	($3.0)
Capital Adjustments	**($1.5)**	**$0.8**	**$0.1**	**$1.9**	**$0.2**	**($1.0)**	**($0.7)**	**($0.4)**	**($0.6)**	**($0.8)**	**($1.0)**
Net Margin	*-186.0%*	*-151.6%*	*0.6%*	*-18.8%*	*10.1%*	*34.4%*	*26.2%*	*34.9%*	*39.2%*	*38.4%*	*38.9%*
Discounted Cash Flow											
Net Income	($12.6)	($15.1)	$0.2	($5.5)	$4.5	$24.0	$19.1	$31.1	$43.6	$42.5	$45.0
Depreciation and amortization	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Net Cash Adjustments	$1.5	($0.8)	($0.1)	($1.9)	($0.2)	$1.0	$0.7	$0.4	$0.6	$0.8	$1.0
Post-Tax Operating Cash Flow	**($10.6)**	**($15.4)**	**$0.6**	**($6.9)**	**$4.8**	**$25.5**	**$20.3**	**$32.0**	**$44.7**	**$43.8**	**$46.5**
Dividends	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Free Cash Flow	**($10.6)**	**($15.4)**	**$0.6**	**($6.9)**	**$4.8**	**$25.5**	**$20.3**	**$32.0**	**$44.7**	**$43.8**	**$46.5**

Assumptions	
Beta:	1.5
Equity Risk Premium:	7%
Risk Free Rate:	3%
Firm Risk Premium:	50%
Discount Rate:	**13.5%**

Valuation	
10-Year Model:	$48
Terminal Growth:	3%
Terminal Value:	$113
Net Cash - LT Debt:	$60
Firm Value:	**$221**

Price Target	
Basic Outstanding:	13.5
Options / Warrants:	3.5
Dilution:	1.0
Fully Diluted:	18.0
Target Price:	**$12.22**

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

PROJECTED FINANCIALS

Transcept Pharmaceuticals, Inc.
Income Statement

	2009 A	2010 A	Q1 A	Q2 A	Q3 A	Q4 E	2011 E	2012 E	2013 E	2014 E
Intermezzo (US Sales)	$0	$0	$0	$0	$0	$0	$0	$11.7	$66.2	$131.4
Intermezzo (Ex-US Sales)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Intermezzo Royalty	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$1.7**	**$9.9**	**$29.6**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Collaborations / Milestones	**$5.2**	**$12.5**	**$3.1**	**$3.1**	**$0.6**	**$10.4**	**$17.3**	**$5.0**	**$0**	**$10.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
TO-2061	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-					-	-	-	-
Total Revenues	**$5.2**	**$12.5**	**$3.1**	**$3.1**	**$0.6**	**$10.4**	**$17.3**	**$6.7**	**$9.9**	**$39.6**
YOY Growth	-	*140.0%*	-	-	-	-	*38.2%*	*-60.9%*	*-42.5%*	*486.2%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-	-	-	-	-
SG&A	$16.0	$11.0	$2.5	$2.6	$2.9	$2.5	$10.5	$8.8	$9.5	$13.0
% SG&A	*308.0%*	*88.3%*	*81.4%*	*82.6%*	*467.0%*	*24.0%*	*61.0%*	*130.4%*	*95.6%*	*32.9%*
R&D	$9.0	$10.7	$2.5	$2.8	$2.7	$2.4	$10.3	$10.0	$15.0	$20.0
% R&D	*172.9%*	*85.5%*	*79.7%*	*88.4%*	*426.9%*	*23.1%*	*59.8%*	*148.2%*	*151.0%*	*50.6%*
Merger & Other Costs	$2.2	$0	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($22.1)	($9.2)	($1.9)	($2.2)	($5.0)	$5.5	($3.6)	($12.1)	($14.6)	$6.6
Operating Margin	-	-	-	-	-	-	*-20.8%*	*-178.6%*	*-146.6%*	*16.6%*
Interest & Other Net	$0.3	($0.1)	($0.0)	($0.0)	($0.0)	($0.0)	($0.1)	$0.1	$0.2	$0.3
Pre-Tax Income	($21.8)	($9.3)	($1.9)	($2.2)	($5.0)	$5.5	($3.7)	($12.0)	($14.4)	$6.9
Taxes / Other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0.0%*	*0.0%*
Net Income	($21.8)	($9.3)	($1.9)	($2.2)	($5.0)	$5.5	($3.7)	($12.0)	($14.4)	$6.9
YOY Growth	-	-	-	-	-	-	-	*223.0%*	*287.6%*	*-157.3%*
Net Margin	-	-	-	-	-	-	*-21.5%*	*-177.4%*	*-144.6%*	*17.3%*
Reported EPS	**($1.79)**	**($0.69)**	**($0.14)**	**($0.17)**	**($0.37)**	**$0.40**	**($0.27)**	**($0.87)**	**($0.96)**	**$0.43**
YOY Growth	-	-	-	-	-	-	-	*217.6%*	*249.3%*	*-149.3%*
Shares Outstanding	12.2	13.4	13.5	13.5	13.5	13.6	13.5	13.8	15.0	16.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

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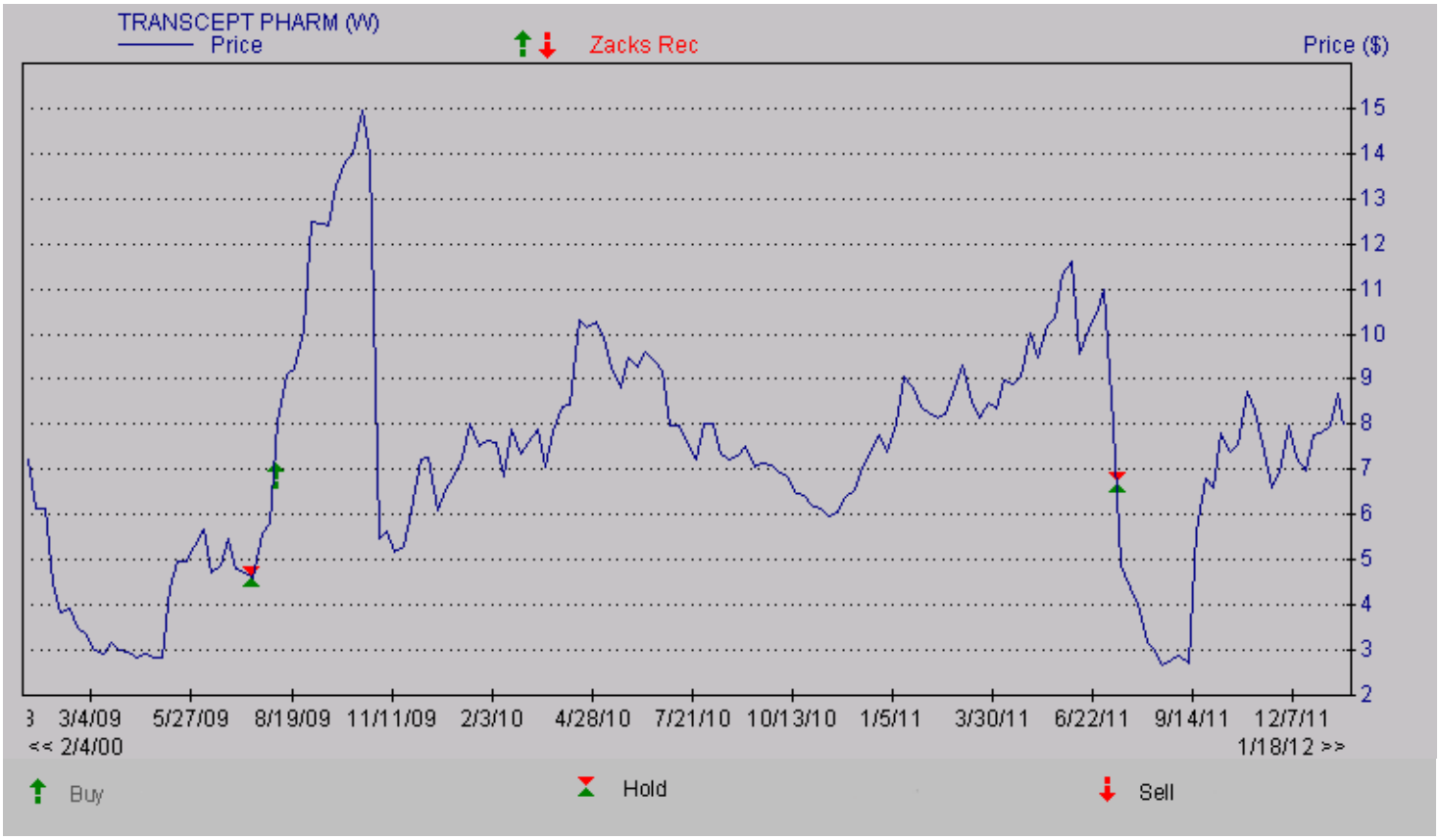

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