Zacks Small-Cap Research

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Umami Sustainable Seafd. (UMAM-OTCBB)

UMAM: Increase in line of credit.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	01/25/2012
Current Price (07/17/12)	$1.45
Six- Month Target Price	**$6.00**

OUTLOOK

Umami Sustainable Seafood Inc. is the global leader in producing and supplying high quality bluefin tuna for sushi and sashimi consumption in Japan. The company operates bluefin tuna farms in Kali Croatia and Baja, Mexico with a current inventory of tuna exceeding $30 million.
The company can grow revenue by increasing the size of the tuna and by adding capacity to sell into a market with a demand that greatly exceeds the available supply. Excess cash flow will reduce debt. We are rating the stock Outperform with a target price of $6.00

SUMMARY DATA

52-Week High	**$2.50**
52-Week Low	**$1.30**
One-Year Return (%)	**N/A**
Beta	**0.08**
Average Daily Volume (sh)	**11,259**
Shares Outstanding (mil)	**59.5**
Market Capitalization ($mil)	**$86.3**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**57**
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	**3.42**
P/E using N4Q Estimate	**6.7**
P/E using 2013 Estimate	**6.2**

Risk Level	**N/A**
Type of Stock	**Small-Growth**
Industry	**Food-Misc/Dvrsd**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	**$0.0 A**	**$4.8 A**	**$20.4 A**	**$0.2 A**	**$25.3 A**
2011	**$0.0 A**	**$14.4 A**	**$42.3 A**	**$0.3 A**	**$57.0 A**
2012	**$16.0 A**	**$55.6 A**	**$25.6 A**	**$0.5 E**	**$97.6 E**
2013	**$10.0 E**	**$60.0 E**	**$30.0 E**	**$0.5 E**	**$100.5 E**

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

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	**-$0.02A**	**$0.02A**	**$0.06A**	**-$0.01A**	**$0.06A**
2011	**-$0.03A**	**$0.03A**	**$0.15A**	**$0.01A**	**$0.17A**
2012	**$0.01A**	**$0.30A**	**$0.11A**	**-$0.06E**	**$0.31E**
2013	**-$0.02E**	**$0.21E**	**$0.08E**	**-$0.05E**	**$0.24E**

EPS do not sum to the annual number due to changes in share count

Zacks Projected EPS Growth Rate - Next 5 Years % **40**

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RECENT NEWS

Umami has amended the terms of its credit agreement with Amerra Capital Management. The line of credit is increased to $30 million with an extended maturity date to December 31, 2012. The line is backed by a lien on the eligible catch or inventory, and a first priority lien on the Baja's licenses, concessions, fishing vessels and inventory. The interest rate depends on the period during which the line of credit is drawn down but is one year LIBOR plus 9.0% during the harvesting period and LIBOR plus 11.75% during the inter-harvest period (the current one year LIBOR rate is 1.07% as of 7/11/2012). The base amount that can be borrowed is 80% of the insured value of the catch or inventory of tuna. The amount borrowed above the base amount is $10 million between April 1 and July 31, $6 million for all of August, $3 for all of September and zero for the rest of the year, with a maximum draw of $30 million. At the end of March 2012 the tuna inventory was close to $30 million, but this does include fish in Croatia.

In our opinion, the access to credit will allow Umami to purchase fish from other fish farms in the Baja area, feed these fish so that they gain weight, and sell them in late 2012 and 2013.

On May 17, 2012 Umami reported its results for the third fiscal quarter of 2012. The numbers were well ahead of our estimates with revenue of $25.6 million and net income for Umami stockholders of $7.0 million or $0.11 per diluted share excluding non-operating charges. Gross margins were in line with the second quarter and above year ago levels. Some of the numbers reported for the first quarter have been adjusted and we have incorporated these in our data.

June 30 Fiscal year:		Revenue	Op. Inc.	Net Inc.*	GPM**
$ in millions	2009	$24.07	$5.72	$2.13	29.69%
	1Q10	$0.00	($0.41)	($0.53)	NM
	2Q10	$4.81	$0.63	$0.72	23.95%
	3Q10	$20.36	$3.09	$1.92	17.14%
	4Q10	$0.15	($1.15)	($0.37)	NM
	1Q11	$0.00	($1.37)	($1.49)	NM
	2Q11	$14.37	$0.91	$1.40	22.39%
	3Q11	$42.34	$6.35	$10.61	41.94%
	4Q11	$0.34	($3.29)	$0.32	NM
	1Q12	$15.97	$2.87	$0.55	48.02%
	2Q12	$55.56	$24.01	$18.29	51.55%
	3Q12	$25.59	$9.30	$7.04	51.06%

* Excludes charge for fair value adjustment, currency changes and warrant derivative charges.

GPM: Gross profit margin

Baja Farms was acquired on Nov. 10, 2010 (2Q11)

Sales to Japan continue to be the major part of revenue and demand for quality tuna exceeds the available supply. Average price per kilogram was close to the second quarter as it was in the first, and well above year ago levels. Third quarter selling prices increased again and was $29.15/kg as compared to $19.60 last year and $25.16 in the second quarter.

Umami Tuna in inventory @ QTR end								
	4Q10	1Q11	2Q11	3Q11*	4Q11	1Q12	2Q12	3Q12
Under 30kg	$7.13	$2.33	$30.98	$21.06	$24.36	$24.99	$11.28	$14.77
31 to 60	$8.93	$20.23	$27.00	$17.97	$10.16	$8.81	$7.31	$9.94
60 plus	$3.07	$3.72	$3.72	$2.17				
61 to 90					$12.65	$20.95	$16.02	$3.90
90 plus					$1.27	$1.27	$1.00	$1.53
In transit					$4.61			
Total	$19.13	$26.28	$61.70	$41.20	$53.05	$56.02	$35.61	$30.14
In million US dollars								
*Baja Farms acquired in 2Q11								

The biomass inventory was at its lowest level since the acquisition of the Baja operations. However, the tuna fishing season has just started and this will add to inventory.

Qtr ending in:		Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June
Biomass by QTR		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12 E	1Q13 E	2Q13 E	3Q13 E	4Q13 E
Start		1720	2027	5092	2971	3418	4357	2552	1918	1890	2997	1619	1001
Growth, net of mortality		307	631	126	349	514	419	261	225	225	350	185	120
Caught			0	0	133	1069	0	0	250	1200	0	0	300
sold			657	2158	36	644	2208	892	500	315	1875	950	
Purchased*			3230	0	0						150	150	
Storm losses & other			139	89	-1		16	3	3	3	3	3	3
End		2027	5092	2971	3418	4357	2552	1918	1890	2997	1619	1001	1418
Growth as % start INV>	58.17%	17.85%	31.13%	2.47%	11.75%	15.04%	9.62%	10.23%	11.73%	11.90%	11.68%	11.43%	11.99%
Revenue		$0.00	$14.37	$42.34	$0.34	$15.97	$55.56	$25.59	$15.00	$10.00	$60.00	$30.00	$0.50
ASP/Ton			21878	19619	9361	24797	25161	28688	30000	31746	32000	31579	N/M
* Baja tuna acquisition of 3080 tons is included in tuna purchased.													

The company has $17 million in cash, much of it in Croatia, and has, in the past, purchased tuna. Above is the historical data and our estimates of changes in biomass for the fourth quarter of fiscal 2012 and for each quarter of fiscal 2013.

At the current time we estimate that fiscal year-end inventory will be at approximately the same level as at the end of the third quarter.

KEY POINTS

- Headquartered in San Diego, California, Umami Sustainable Seafood Inc. is the largest supplier of high quality bluefin tuna for the high end Japanese sushi and sashimi market. The Bluefin Tuna market is estimated to exceed $1 billion with the Japanese market consuming 80% of the total.

- The company aquafarms tuna at two locations, Ugljan Islands, Croatia (Northern Tuna) in the Adriatic Sea and Coronado Islands, Baja, Mexico (Pacific Tuna) in the eastern pacific, with a combined capacity of over 15 million pounds (7000 metric tons).

- There are quota restrictions on catching Atlantic Tuna and these are being reduced each year. The farmed tuna grow faster than do the wild tuna (since more food is available), gain weight quicker (and so command a higher market price). Farmed tuna is replacing wild caught fish.

- The tuna are kept and fed for about 3 1/2 years. A 10 Kg tuna will grow to over 100 Kg during this period.

- The Kali facility has a successful breeding program that has released tuna eggs and larvae into the Adriatic sea each year over the last three years.

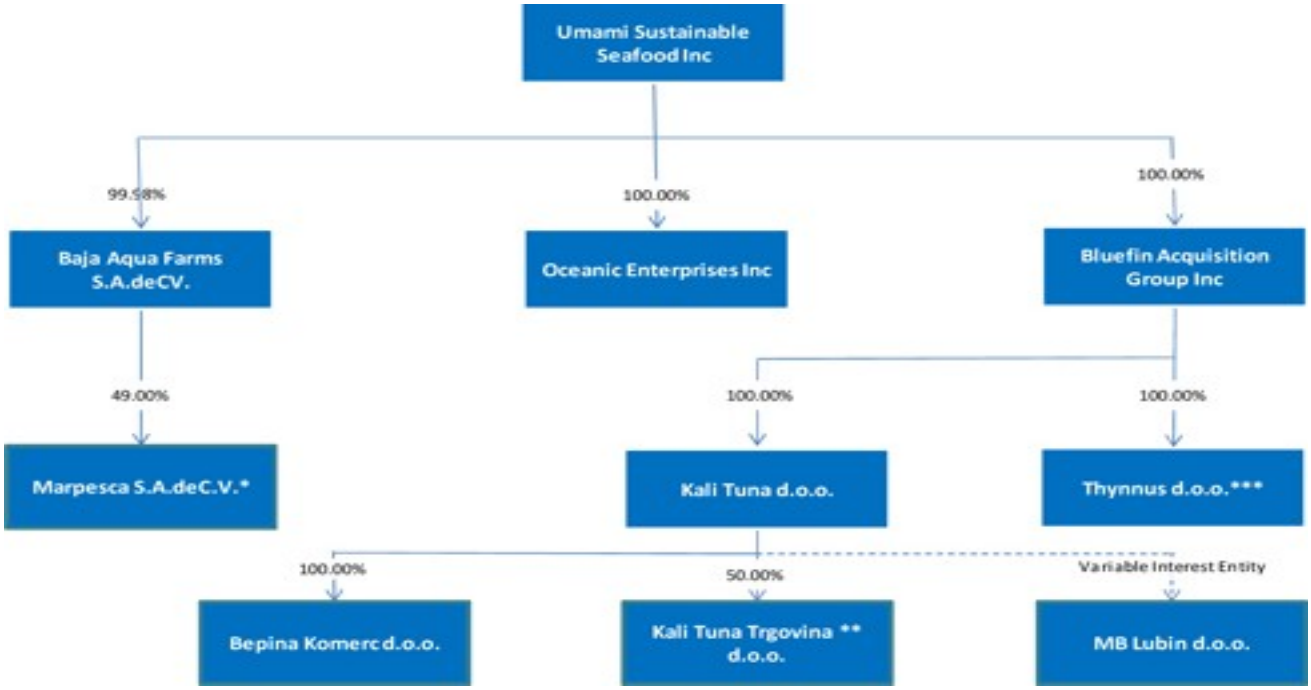
- Umami has positive EBITDA and positive cash flow on an annual basis. This will allow the company to pay down debt and potentially acquire facilities and/or fishing licenses.

OVERVIEW

Oli Steindorsson established the Atlantis Group in 2002. Atlantis has been involved in seafood trading and salmon and cod farming in various countries and in tuna farming in Australia. Oli has spent many years in Japan. The company is a major supplier of fresh and frozen premium seafood in Australia, Europe and Japan. In 2005 Atlantis acquired Kali Tuna, a limited liability company in Croatia that is involved in farming and selling Bluefin Tuna.

On May 3, 2010 Atlantis, Kali Tuna and associated entities affected a reverse merger with Lions Gate, a shell company, that was accounted for as a recapitalization wherein Kali Tuna was the surviving entity for accounting purposes. On August 20, 2010 the name of the company was changed to Umami Sustainable Seafood Inc. and the stock symbol on the OTC Bulletin Board was changed to UMAM.

On July 20, 2010 Umami entered into a Stock Purchase Agreement to acquire 33% of Baja Aqua Farms and its affiliate Oceanic, that farmed Pacific Tuna off the coast of Baja California Mexico, and the right to acquire all the remaining shares of Baja and Oceanic from a number of parties that owned Baja and Oceanic. The acquisition was consummated on November 30, 2010. Part of the purchase was 49% of Marpesca which owned the rights to fish for Pacific Tuna. It is not legal for a foreign entity to own over 50% of a fishing company in Mexico.



* 51% of Marpesca is owned by Baja's General Manager.
**The remaining 50% of Kali Tuna Trgovina is owned by Bluefin Tune Hella A.E. an unrelated third party.
*** Thynnus d.o.o. is an inactive Croatian company.

The tuna are caught in nets and are, very carefully, transported to the holding pens and fed regularly with their traditional food of small fish such as herrings and sardines. When the tuna have reached an optimum market weight they are harvested, sold then frozen and shipped in special boats to Japan.

FINANCIAL RESULTS:

Umami has a limited financial history. The quarterly highlights are shown below and the full data (including estimates) for the income statement, balance sheet and cash flow statements are at the end of the report.

Excluding the fair value adjustment the gross profit margin exceeds 50%. The break-even quarterly sales level is $14 million and sales above that level should drop 50% down to the pretax income line. The cash flow generated in fiscal 2012 should be sufficient to pay down a significant portion of the current, high interest rate, debt load.

The covenants in some of the debt require Umami to carry significantly more than usual business operation insurance against loss of inventory. This is a safety net on cash flow.

Kali

Kali is a typical Mediterranean tourist and fishing village on the island of Ugljan, Croatia in the Adriatic Sea. It is about 180 miles South East of Venice Italy.



Croatians returning from Australia where they worked in Bluefin tuna farming established the fish farm in 1996. Kali Tuna pens are off the Dalmatian coast of Croatia near Ugljan Island. The farm raises Northern tuna, Thunnus thynnus, the largest of all the tuna. From June 2011 through October 2011 the company acquired a series of Croatian concessions that increased capacity from 3,240 metric tons to 5,030 metric tons. There are 34 cages in five sites, some of which are shown below, with a current capacity of 11 million pounds of tuna. The Croatian location has the advantage a sheltered location (less storm damage, more constant water temperatures) and a lack of predators as compared to other Mediterranean locations. Kali has the largest production capacity in the Mediterranean.

Kali Tuna



Sales in fiscal 2011 were 1,317 metric tons. In fiscal 2010 (the last year Kali data alone was available) the capacity and inventory data in metric tons was as follows:

Starting inventory	1,315 metric tons
Tuna growth	765 [close to 50% of starting inventory].
Tuna caught	159
Purchased for farming	405
Sales	(924)
Ending inventory	1,720 [close to 35% of cage capacity].

Kali has input capacity of 1,818 metric tons so even with maximum growth and maximum input there is sufficient excess capacity to maintain a large inventory.

Total live stock inventories in US dollars for both Kali and Baja combined are outlined later in this report.

Kali Tune buys live Northern Bluefin tuna through MB Lubin (see organization chart above) that sells all of its tuna catch to Kali Tuna.. MB Lubin owns a fleet of seven ships that catch tuna during the harvesting season and subject to the quotas as determined by ICCAT, the organization that governs the northern tuna fishing industry. The last data from ICCAT for Northern Bluefin tuna shows six boats owned by Kali Tuna, the only operator in Croatia that operates more than one boat, with a total capacity of 4,470 metric tons. There were nine other boats with combined capacity of 3,052 metric tons. MB Lubin primarily fishes off the coast of Croatia. Kali Tuna also buys live tuna from other suppliers that fish off the coasts of Malta, Libya and other Mediterranean locations. The tuna fishing season is restricted to May and June.

These boats also fish for the pelagic bait fish (sardines and herrings for example) that tuna eat.

After being caught the tuna are transferred into special towing cages. They are counted via cameras as they are transferred. The cages are then carefully towed to the tuna farms, at a very slow speed, seldom exceeding one mph, to minimize any damage to the tuna and maximize the survival rate. This may take a month or more. The tuna is purchased by Kali Tuna at the prevailing market price at the time of delivery. On delivery the tuna are transferred to the feeding pens, being counted again, to be grown to a market size. The fish are frequently monitored by an independent third party and the water surrounding the pens are analyzed for water quality monthly.

	Capacity/Permit to Farm (in metric tons)	Surface (in m2)	Expiration Date
Mrdjina	1,240	160,000	February 28, 2026
Fulija-Kudica	500	120,000	December 23, 2018
Zverinac	1,500	140,000	December 14, 2026
Kluda	1,000	157,000	October 31, 2016
Ispred Morotove Glave	560	40,000	April 30, 2012

Tuna farmers can sell their sites and permits and this is a potential area of growth for Kali Tuna. Kali Tuna has about 100 employees and Lubin has just less than 50.

Under Croatian law a foreign owned company may not own the right to fish in Croatian waters. Kali Tuna needs a source of live tuna and sufficient small fish to feed them. Lubin is owned by Dino Vidov, Kali Tuna's General Manager. Lubin is sunder a 20 year contract to supply fish to Kali Tuna.

The tuna is usually sold from November to March when the water temperature is low and the fish are building fat for the cold water migration. This is when the sashimi is at its best from the consumers point of view.

Most (98%) of the fish is sold as frozen fish. Specially equipped freezer vessels are used to transport the frozen tuna to Japan

Baja Aqua Farms

Baja was formed in 1999 under the laws of the Republic de Mexico by (again) people involved in the Southern Bluefin Tuna industry in Australia. The company owns and operates facilities in Ensenada, Baja California (south of San Diego CA and 55 miles south of Tijuana, Mexico). Mexican law prohibits the right to fish in Mexican waters unless the company has a majority ownership by Mexican nationals. Marpesca (see organization chart on page 4) is 51% owned by one of the members of Baja Tuna-Farms management and has the right to fish in Mexican waters. Marpesca leases a boat from Baja and does not have the resources to be in business without the help of Baja. As such, Marpesca is a variable interest entity with Baja being the sole beneficiary.

The two locations farm the Pacific Bluefin tuna, Thunnus orientalis, the second largest of the tuna species. Baja Aqua-farms has 60 cages with a total capacity of 4,800 metric tons and employees about 360 employees.

Baja Tuna-Farms is the largest tuna farm in North America and is currently the only facility in Mexican waters that can grow the tuna over a multi-year cycle.

In 2011 fiscal year Baja sold 1,534 metric tons of tuna, generated revenue of $28.2 million with costs of $25.8 million. Approximately 10% of the cost were storm losses.

Islas Coronadas



There are two locations, one is at Islas Coronados (above) and the other in Salsipuedes Bay (below). Shown are the sea birds fishing off Cedros Island, which is an area where Baja has a concession.

Baja Tuna-Farms has four concessions:

Site	Capacity/Permit to Farm (in metric tons)*	Surface (in m2)	Expiration Date
Isla Coronado	720	1,470,000	November 23, 2020
Bahia Salsipuedes	400	500,000	May 2, 2012
Isla de Cedros	800	1,090,000	October 10, 2014
Bahia Salsipuedes	400	1,000,000	October 10, 2015
Total	2,320	4,060,000	

* based on maximum input per annum

Harvesting tuna from Baja occurs typically during the months from September through March when low water temperatures optimize the quality of tuna meat.

The cost of feed (small fish) is significant lower in Baja due the abundance of such fish, as shown above.

Live stock inventories:

Umami publishes its live stock inventories on a quarterly basis, broken down by weights, in million dollars. Prior to the acquisition of Baja the Mediterranean tuna over 60 kg was listed, after acquiring Baja this was expanded to show the over 90 kg inventory. :

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Under 30 kg.	7.13	2.33	30.98	21.06	24.36	24.99	11.28	14.77
30-60 kg	8.93	20.23	27.00	17.97	10.16	8.81	7.31	9.94
60+	3.07	3.72	3.72	2.17				
60-90					12.65	20.95	16.02	3.90
90+					1.27	1.27	1.00	1.53
Inventory in Transit					4.61	----	----	

(millions US dollars)

The data shows the impact of the fishing season and the sale of fish. The numbers are influenced by the valuation of the fish. The 60+ kg group includes the tuna used as breeding stock. Atlantic tuna under 30 kg cannot be sold under the current regulation. However, with a potential gain in weight of about 50% over 6 months and a 200% weight gain over 18 months that is not a problem.

Sales and Customers:

Sales

On June 30, 2010, Umami entered into a sales agency agreement with Atlantis (which is partially owned by Umami's CEO) pursuant to which Atlantis was granted the exclusive right to sell, on Kali Tuna's behalf, all of its Bluefin tuna products into the Japanese market. Following the acquisition of Baja, Umami agreed to extend the sales agency agreement to most of Baja's sales. Umami paid Atlantis an agency commission of 2% on all sales made under this agreement, resulting in payments of $1.0 million for the year ended June 30, 2011. In June 2011, the agreement was terminated. In October 2011, Umami entered into a sales agency agreement with Atlantis Co., Ltd. ("Atlantis Japan"), giving Atlantis Japan exclusive rights to sell Kali and Baja Bluefin tuna in Japan. Umami will pay Atlantis Japan 2% for all sales up to 4.0 billion Japanese Yen (approximately $52.0 million) and 1.0% for all sales above that amount. Commissions under the agreement are payable quarterly. The agreement was effective retroactively to July 1, 2011 and expires March 31, 2012. Atlantis Japan is a wholly owned subsidiary of Atlantis.

It is contemplated that pricing of products sold through Atlantis Japan will be based on negotiation between Atlantis Japan and the customers. All sales are subject to Umami's review and approval.

Customers:

The Japanese consume about 80% of the world's supply of bluefin tuna. Demand in China is increasing rapidly and it is growing in the USA.

For the year ended June 30, 2011, Atlantis Japan, Atlantis's wholly owned subsidiary, purchased from Umami approximately $40.6 million worth of tuna, representing approximately 71% of total sales for the year. An additional 27% was sold to large Japanese importers.

The following table shows our principal customers and the amount purchased by each as a percentage of total sales for the years ended June 30, 2011 and 2010.

Year Ended June 30:	2011	2010
Atlantis Japan and other Atlantis Group Subsidiaries	71.9 %	—
Mitsubishi Corporation	10.8 %	—
Global Seafoods Co., LTD	9.3 %	—
Sirius Ocean Inc.	6.9 %	16.5 %
Daito Gyorui Co., Ltd	—	82.6

Closing the life cycle:

Japan is both the biggest consumer of bluefin and the leader in tuna farming research. Kinki University of Japan first successfully farmed already-hatched bluefin tuna in 1979. In 2002, they succeeded in breeding them, and in 2007, the process was repeated for a third generation. This farm-raised tuna is now known as Kindai tuna. Kindai is a contraction of Kinki University (Kinki daigaku). There are several restaurants in the San Francisco area that sell Kindai tuna. It is very expensive.

Sexually mature tuna, four to five years old, release eggs and sperm for external fertilization. The eggs hatch after about four days and are carried by ocean currents being about one millimeter in size (25.4 mm is one inch). The larvae consume the oil in the egg sac and then begin to eat other organisms. At this stage they are about 4 mm in size. Up to this point they are still drifting on the ocean currents. They eat voraciously and at about 12 mm (half an inch) they start to shoal and become free swimmers. Up to this point they have been food for other fish, or even for other tuna. As they shoal they migrate along with the smaller bait fish and grow to mature adults. After about four years of age they return to where they were born and start the cycle again (the age at which tuna spawn varies by the source of information but is normally in the range of three to five years).

The first two stages can be reproduced for captive tuna as long as the environment in which they spawn can be replicated. Water acidity, brackishness, temperature and salinity as well as possibly

the presence of trace elements (copper and iron) are important. The problem is the growth of the free swimming fry. The Mediterranean is a relatively closed environment and has an indigenous population of Atlantic tuna.

Umami has a number of tuna that were caught as young fish and are now old enough to spawn. These brood fish have spawned for three consecutive years (2009, 2010 & 2011). The eggs were hatched and the fry released into their natural habitat. It appears that a number of fry have survived to become juvenile tuna. However, the survival rate may not be any better than those fry from normal propagation, that is about 1.5%

In order to extend the life cycle to grow more juvenile fish and ultimately breed adult tuna from eggs the company has bought a ship that is now in dry dock to be customized as a hatchery. This ship will be used to move the newly hatched fish to areas where the water conditions are optimum for survival in sea cages. The hatchery should have the capacity to produce about 15,000 juveniles.

It will probably be several years before the company knows if the process works and produces fish of the required quality for Umami's customers.

Ultimately the breeding program may be successful enough to used to replenish the wild stock.

Regulation

Environmental Laws:

Umami is subject to international quotas and to various national, provincial and local environmental protection laws and regulations, including certifications and inspections relating to the quality control of all production. During each of the years ended June 30, 2010 and June 30, 2011, approximately $0.2 million was spent on environmental law compliance, consisting primarily of various International Commission for the Conservation of Atlantic Tunas, ICCAT regulations.

Croatian Environmental Law:

Kali Tuna is required by Croatia's Environmental Protection Act of 2007 to apply for location permits which are issued by the respective authority for each farming location and in accordance with local ordinances. Applications must be accompanied by an environmental impact assessment. Concession contracts relating to each site are entered into based on the relevant location permits.

Kali Tuna is also subject to ongoing environmental monitoring requirements, including testing the quality of the water and performing emission measurements for all its installations.

ICCAT regulates Atlantic Bluefin tuna quotas that are allocated to and enforced by individual countries, including Croatia.

Atlantic Bluefin Tuna

International organizations have increased regulation relating to and imposed strict quotas on Bluefin Tuna catches. The main international body that regulates fishing activities and trade in the Atlantic Bluefin is the International Commission for the Conservation of Atlantic Tunas or ICCAT. It describes itself as an inter-governmental fishery organization responsible for the conservation of tunas and tuna-like species in the Atlantic Ocean and its adjacent seas. Its primary tool in its conservation efforts is its ability to impose quotas. The organization was established in 1966, is headquartered in Madrid, Spain, and covers 30 species of tuna, including the Northern (Atlantic) Bluefin Tuna.

Mexican Environmental Law and Compliance:

Baja Aqua-Farm is required to comply with all the relevant parts of the Mexican General Act for Ecologic Balance and the Protection of the Environment of 1988 (the “General Act”). This act created specific criminal and administrative sanctions for failure to comply. Under the act Baja is required to obtain a license for all of its activities and that all applications for which a license is sought must be in compliance with national, state and municipal programs as well as applicable marine ecological land zoning programs and has to contain an environmental impact statement. Baja is also subject to the National Waters Act and the General Act for Sustainable Fishing and Aquaculture, which also governs the grant of concessions for commercial fisheries.

Baja has obtained permits for each farming location.

Waste from cutting off tails & fins.

In line with the objectives of reducing the environmental impact of its operations Umami converts the waste products from gutting and fin removal to fish based fertilizer and animal food.

Currency affects
Umami deals in four currencies. The Croatian kuna, which is tied to the Euro, the Mexican peso, the Japanese yen and the US dollar.

At Kali the fish sales are denominated in Yen but the cost are based on the kuna. At Baja the fish revenue is yen based but the costs are in pesos. Then all the transactions are converted to US dollars. The balance sheet is converted to US dollars using the exchange rate of the last day of the quarter.

Strategies

Umami has a number of strategic business guidelines that it expects to assist it in becoming the global leader in trading bluefin tuna:

Sustainability

The company is actively searching for means to close the life cycle. If this goal can be achieved the company could reduce its dependence on catching wild tuna, lower its operating expenses and quotas would not impact the growing and marketing of tuna.

Increase the average age by lengthening the farming cycle and building inventories.

Customers are willing to pay more for larger fish as they have fattier meat. This marbled flesh fetches a premium.

Weight Pounds	Selling price US dollars/pound
65-130	26.25
130-200	30.19
200-265	31.50
Over 265	35.44

Since consumers eat by the portion, bigger fish equates to more portions which reduces the number of fish needed.

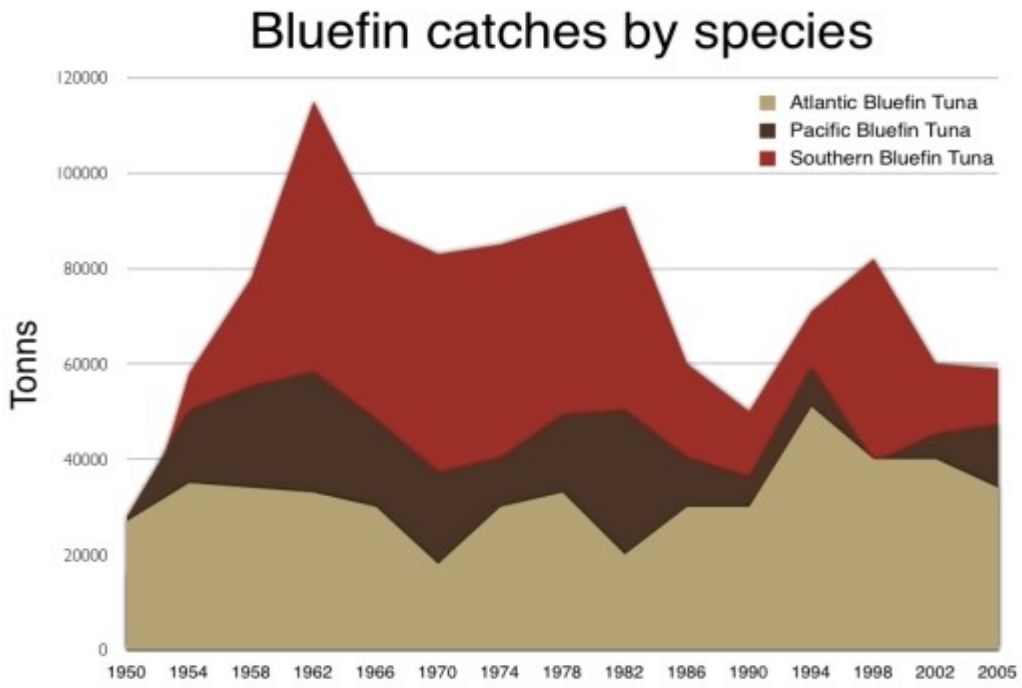
Strategic investments.
Buy successful tuna farms. However this will need additional financing.

Consolidating and upgrading of the fleet.
Cut expenses by using fewer and more efficient boats, both in catching the tuna and in catching the feed fish

INDUSTRY OUTLOOK

Tuna are a group of ocean fishes from the family Scombridae, particularly of the genus Thunnus. There are over 50 species in the family Scombridae, which is the mackerel family, that exhibit tuna like characteristics and are often called tuna but only 8 in the family Thunnus. Marlin, swordfish and sailfish are also related to the scombridae. Of these the major types are the Albacore, Bigeye, Blackfin, Bluefin (Atlantic, Pacific and Southern), Longtail and Yellowfin. The largest is the Atlantic bluefin, followed by the Pacific bluefin, the Bigeye Tuna and the Southern bluefin. Most of the canned tuna is Albacore. All of the tuna can thermo-regulate (they are warm blooded). Heat is transferred from arterial blood to venous blood. This allows the fish to migrate from warm waters to cooler waters to feed in the north Atlantic and Northern Pacific.

Farming region	Catch season	Bluefin species	Size of caught fish	Farming period
Mediterranean	May – June	Atlantic Northern	10 – 400 kg	0.5 – 3.5 years
Kali Tuna	May – June	Atlantic Northern	8 – 200 kg	1.5 – 3.5 years
Australia	Nov – Jan	Pacific Southern	15 – 30 kg	5 – 7 months
Baja	May– Aug	Pacifc Northern	10 - 50 kg	0.5 - 2.5 years
Japan	Aug – Sept	Pacific Northern	1 – 10 kg	1.5 – 3 years



Quotas

International concerns have been mainly focused on over-catching and poaching of various tuna species, primarily concentrating on the Bluefin tuna's stock situation in the Mediterranean Sea. The Mediterranean straits is only 16 miles wide. The migration of the tuna into the Mediterranean Sea occurs over a short period of time. This is a low risk - low cost invitation to hunt tuna using seiner boats.

As a result the tuna population was decimated. ICCAT was established in 1966 in response to the outcry about the decline in stocks.

In response, ICCAT has been taking measures to regulate the catching of the Atlantic-Mediterranean territory covering the migration of Northern Bluefin tuna. In 1966 the Atlantic tuna catch exceeded 130 million pounds (60,000 metric tons). In subsequent years quotas have reduced the catch (before illegal poaching). Quota by year, in metric tons (1 metric ton is 2204.6 pounds)

2006	32,000	2009	18,500
2007	25,500	2010	13,500
2008	23,000	2011	12,900

Another provision, apart from the quota, is that Atlantic bluefin tuna below 30 kg in weight cannot be sold.

A wild stock assessment by the scientific body of ICCAT, SCRS, in October 2010 calculated that the Mediterranean stock of Atlantic Bluefin Tuna was 175,000 metric tons, a dramatic gain from the estimate of 78,000 tons in 2007.

A low quota would serve Umami well. The catch would be more valuable and the value added during the holding period would be increased. Fish captured, but not sold, would be very valuable.

There are no quotas on bluefin tuna caught in Mexican waters.

The Atlantic Bluefin Tuna

The Atlantic bluefin is the largest tuna, with an average size of 6.5 feet and 550 pounds. They live for 15 years or more. The larger Atlantic bluefin may be 50 years old. The record for the heaviest bluefin is 1,496 pound, caught off the shores of Nova Scotia in 1979.

It is now believed that two distinct and separate populations of tuna share foraging sites in the Atlantic waters off the coasts of Spain, Portugal and Ireland and off the eastern shores of North America. These groups feed together. When the adult fish decide to spawn they split off and return to the areas where they were born. The tuna may be in the western Atlantic feeding areas for three or four years. There are two spawning areas, the Gulf of Mexico and the Western Mediterranean and when it is time to spawn they head straight through the Straits of Gibraltar to their spawning grounds in the Mediterranean (around the Balearic Islands is a major spawning area).

The Pacific Bluefin Tuna.

Pacific tuna are a little smaller than the Atlantic tuna. They max out at about 900 pounds. Squid is a large part of their diet in the wild. They spawn in S.E. Asia and migrate to the eastern pacific:

The Pacific bluefin reaches sexual maturity at about 5 years of age and live for between 15 and 25 years (different sources of information) Spawning occurs from April to August but varies by region, the major areas being the northwest Philippine Sea (early spawning) and the Sea of Japan (late spawning)

Both the Pacific bluefin Southern bluefin spawn in the same general area as shown below but migrate indifferent directions as juveniles.

The adults, like many species of fish, return to the place of birth to spawn again. Mature females can expel three to five million eggs during spawning. About 1.5% of these will become adult tuna.

Industry Overview:

Aquaculture Industry

Aquaculture is the farming of aquatic organisms including fish, mollusks, crustaceans and aquatic plants. It has been world's fastest growing segment of food production over the last 20 years. World fisheries production reached a high of 143.6 million metric tons in 2006. The contribution of Aquaculture contributed to the world fisheries production in 2006 was 51.7 million metric tons of fish in 2006, or 36% of world fisheries production, up from 3.6% in 1970. The FAO's worldwide fisheries data are typically five or more years old. In 2008, world fisheries production grew to 158.1 million metric tons, of which aquaculture made up 65.8 million metric tons, representing almost 42% of world fisheries production. According to WFC, worldwide aquaculture production grew at an average annual rate of 8.4% from 1970 to 2008

Global aquaculture accounted for 6% of the fish available for human consumption in 1970. In 2008, global aquaculture accounted for 42% of the fish available for human consumption according to the FAO and WFC

The Tuna Industry

Tuna and tuna-like species are of great economic importance and represent a significant source of food. They include approximately forty species occurring in the Atlantic, Indian and Pacific Oceans and in the Mediterranean Sea. According to the FAO, their global production has increased from less than 0.6 million metric tons in 1950 to 6.5 million metric tons in 2009. 6 Seven principal market species made up 4.4 million tons of the whole in 2009, with Bluefin tuna totaling 58,944 metric tons, or 1.3% of the global production of tuna.

The major market tuna species are the most important species. They are landed in numerous locations around the world, traded on a nearly global scale and also processed and consumed in

many locations. According to the FAO, in 2007, their catch was approximately four million tons, which represents about 65% of the total catch of all tuna and tuna-like species. Most catches of the principal market tuna species are taken from the Pacific (69.0% of the total catch of principal market tuna species in 2007), the Indian Ocean (21.7% in 2007) than the Atlantic and the Mediterranean Sea (9.5% in 2007).

Approximate contributions of individual principal market tuna species to the 2008 total catch is given below.

Principal market tunas:

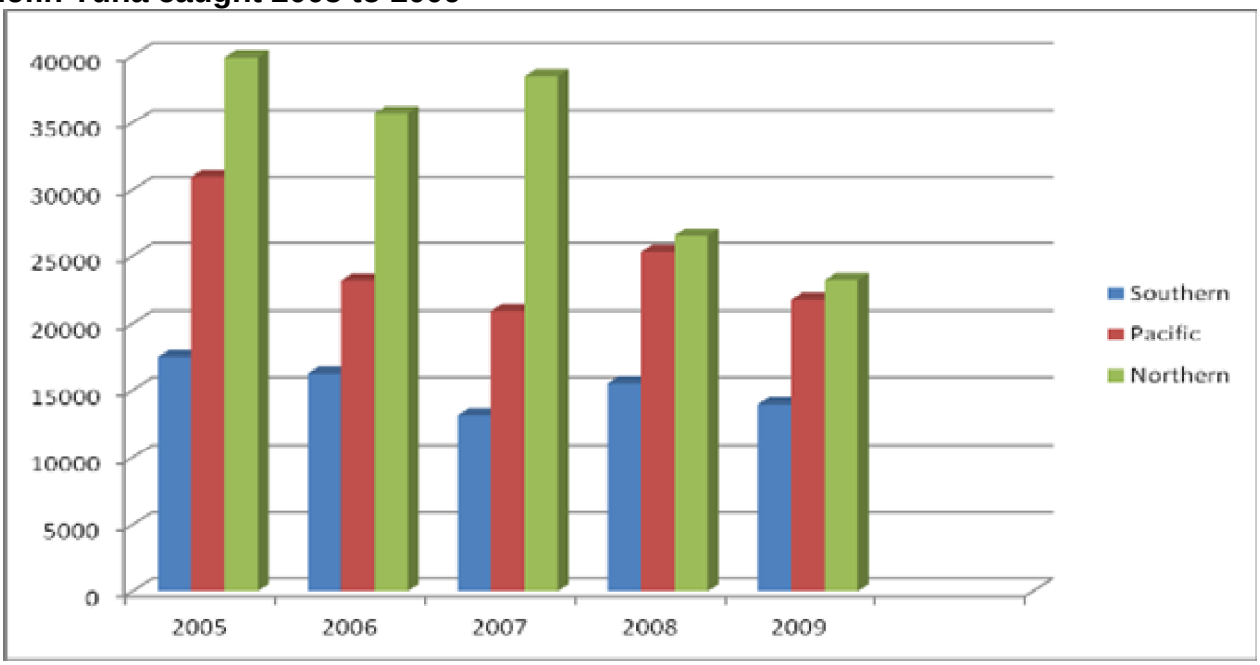
Albacore 4.7%
Atlantic bluefin tuna less than 1%
Bigeye tuna 9.6 %
Pacific bluefin tuna less than 1%
Southern bluefin tuna less than 1%
Skipjack tuna 57.5%
Yellowfin tuna 27.1%.

Skipjack and Yellowfin are the tuna used mostly for canning. Albacore is the only canned tuna that can be called white tuna.

Global production of tuna (of the major species) was 1.9 mt in 1980 to 4.2 mt in 2008. Total bluefin tuna is estimated to be 1.4% of the total volume of tuna caught. In 2007the total bluefin trade was estimated at over $1 billion. Total bluefin production has declined from a peak of 150,000 mt in the 1960 to about 60,000 mt in 2009, in part due to quota restrictions.

Japan is the largest market for sashimi grade bluefin tuna, the country imports about 33,000 mt a year of which 70% is Northern and Pacific blue fin. A Japanese household spends $77 a year on tuna, well above the $43 spent on shrimp.

Bluefin Tuna caught 2005 to 2009



INDUSTRY POSITION

Umami is the largest aqua-farmer in the tuna industry. There are few tuna farms that practice a multi-year growth strategy, most of them fatten up the smaller tuna over a six month period and then sell them. As such Umami is a unique company.

There are no comparable public companies.

VALUATION

With Umami moving into consistent profitability on an annual basis we are using a PEG ratio of 0.75 of our estimated growth rate of 40% compounded, or 30 times 2013 fiscal rears earnings of $0.19. Our price target is round up to $6.00 a share.

RISKS

- The company is under-capitalized. The seasonality of capture and sales of the tuna requires short term financing. The company may not have sufficient funds to expand via acquisition of new farming permits or fishing licenses.

- The Western United States and the Baja Peninsular are on the "Ring of Fire" where the Pacific tectonic plate and the North American plate meet. Small earthquakes are a daily occurrence (less than 3.0 on the Richter scale). A large earthquake could affect the operations at Baja Tuna-Farm.

- The tuna industry is highly regulated and is subject to a great deal of environmental scrutiny. The reduction in quotas in the Mediterranean could reduce the availability of Atlantic Tuna and hamper the growth of Kali Tuna.

- Volatile currencies and political uncertainties in the common market could have a significant impact on the financial results.

- Natural disasters such as red tides, algae blooms and contamination from land sources as well as storms allowing the entry of predators into the pens could increase mortality thereby reducing the fish for sale.

- Wild bluefin have been found with a mercury concentration of 1 part per million or greater, according to recent samplings. That is the level at which the FDA can legally remove a product from sale. Although this is unlikely such an action could cause a significant reduction in tuna sales.

INSIDER TRADING AND OWNERSHIP

Trading data not available.
Ownership is from the last S-1 and was current on May 23, 2011

Name of Beneficial Owner	Number of Shares	Percentage(1)
Atlantis Group hf **Storhofda 15** **110 Reykjavik** **Iceland**	30,000,000	50.5%
Oli Valur Steindorsson (2)	34,366,666	56.9%
Douglas Dunn	-0-	-0-
Michael David Gault (3)	30,000,000	50.5%
James White	-0-	-0-
Yukuo Takenaka	-0-	-0-
Dan Zang (4)	100,000	*
MotoMax C.V. **Boulevard 10 de Mayo PTE No. 116** **Los Mochis Sinaloa** **Mexico**	3,000,000	4.9%
Salander Holdings **4 V Dimech Street** **Floriana Frn 1504** **Malta**	7,000,000	11.8%
Executive Officers and Directors as a Group (four persons)	34,466,666	56.9%

* Denotes less than 1%

(1) Beneficial ownership percentages are calculated based on 59,412,066 shares of Common Stock issued and outstanding as of May 23, 2011. Beneficial ownership is determined in accordance with Rule 13d-3 of the Exchange Act. The number of shares beneficially owned by a person includes shares of Common Stock underlying options or warrants held by that person that are currently exercisable or exercisable within 60 days of May 23, 2011. The shares issuable pursuant to the exercise of those options or warrants are deemed outstanding for computing the percentage ownership of the person holding those options and warrants but are not deemed outstanding for the purposes of computing the percentage ownership of any other person. The persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite that person's name, subject to community property laws, where applicable, unless otherwise noted in the applicable footnote.

(2)Includes 30,000,000 shares owned by Atlantis Group HF ("Atlantis") of which Mr. Steindorsson may be deemed to be the beneficial owner in his capacity as Chief Executive Officer of that entity. Mr. Steindorsson disclaims beneficial ownership in the shares owned by Atlantis. In addition, includes 400,000 shares and 80,000 shares issuable upon exercise of warrants held by Aur Capital Inc. of which Mr. Steindorsson may be deemed a control person. It further includes 2,980,000 shares and 640,000 shares issuable upon the exercise of warrants held by Aurora Investments Ltd. of which Mr. Steindorsson may be deemed a control person. Also includes 133,333 shares issuable upon currently exercisable options and 133,333 shares issuable upon exercise of options that will become exercisable within 60 days. Does not include 533,334 shares issuable upon exercise of options that vest thereafter.

(3) Consists of 30,000,000 shares owned by Atlantis of which Mr. Gault may be deemed to be the beneficial owner in his capacity as Chairman of that entity. Mr. Gault disclaims beneficial ownership in the shares owned by Atlantis.

(4) Consists of shares issuable upon exercise of 50,000 currently exercisable options and 50,000 options that will become exercisable within 60 days. Does not include 200,000 shares issuable upon exercise of options that vest thereafter.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Umami Sustainable Seafood																
Consolidated Statements of Operations																
(Dollars in millions except per share data)																
Fiscal Year June 30.	2010A	1Q11	2Q11	3Q11	4Q11	2011A	Q12 adjuste	2Q12	3Q12	4Q12	2012 E	1Q13	2Q13	3Q13	4Q13	2013 E
Net sales	**$25.33**	**$0.00**	**$14.37**	**$42.34**	**$0.34**	**$57.05**	**$15.97**	**$55.56**	**$25.59**	**$0.50**	**$97.61**	**$10.00**	**$60.00**	**$30.00**	**$0.50**	**$100.50**
% Change												(37.38)	8.00	17.23	0.00	2.96
Cost Goods	20.07	0.00	11.16	32.38	(0.31)	43.23	9.60	27.82	12.52	0.20	50.14	5.50	30.00	15.00	0.25	50.75
G & A	3.09	1.31	1.96	2.64	3.58	9.48	3.14	2.95	3.21	3.00	12.30	3.30	3.30	3.40	3.50	13.50
Other op. exp. Including commissions	0.00	0.00	0.29	0.85	0.01	1.14	0.32	0.71	0.51	0.01	1.55	0.00	0.00	0.00	0.00	0.00
R&D	0.00	0.06	0.06	0.12	0.36	0.60	0.04	0.07	0.04	0.50	0.65	0.50	0.50	0.50	0.50	2.00
Depr. & Amort.	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	0.00	0.00
Op Income GAAP	2.16	(1.37)	0.91	6.35	(3.29)	2.60	2.87	24.01	9.30	(3.21)	32.97	0.70	26.20	11.10	(3.75)	34.25
Interest Expenses	0.98	0.49	1.32	2.26	2.36	6.43	3.25	1.62	1.11	2.50	8.48	2.50	2.00	2.00	1.50	8.00
Interest Income	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	0.00	0.00
Non Op Income	(0.29)	0.47	1.31	0.29	3.97	6.05	0.11	0.12	(0.03)	0.10	0.30	0.10	0.10	0.10	0.10	0.40
Other	(1.37)	0.02	0.28	0.03	0.03	0.36	0.07	0.04	(4.20)	0.05	(4.04)	0.05	0.05	0.05	0.05	0.20
Calc.Pretax	(0.48)	(1.37)	1.18	4.41	(1.64)	2.58	(0.20)	22.55	3.96	(5.56)	20.75	(1.65)	24.35	9.25	(5.10)	26.85
Taxes	0.46	0.03	0.40	1.68	0.20	2.31	0.81	5.64	1.41	(1.95)	5.91	(0.58)	8.52	3.24	(1.79)	9.40
Tax Rate	(96.86)	(2.20)	33.87	38.02	(12.45)	89.48	(405.00)	25.02	35.48	35.00	28.49	35.00	35.00	35.00	35.00	35.00
Other Income	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	0.00	0.00
Pro-forma adj.	1.30	0.00	0.00	7.80	2.00	9.80	1.30	0.90	4.20	0.00	6.40	0.00	0.00	0.00	0.00	0.00
Net Income	0.44	(1.49)	1.40	2.81	(1.68)	1.04	(0.75)	17.39	2.56	(3.61)	15.59	(1.07)	15.83	6.01	(3.32)	17.45
Pro-forma net income	1.74	(1.49)	1.40	10.61	0.32	10.84	0.55	18.29	7.04	(3.61)	22.27	(1.07)	15.83	6.01	(3.32)	17.45
Net For Common GAAP	$0.44	-$1.49	$1.40	$2.81	-$1.68	$1.04	-$0.75	$17.39	$2.84	-$3.61	$15.87	-$1.07	$15.83	$6.01	-$3.32	$17.45
Shares Used, millions	30.04	46.29	52.15	58.41	60.00	54.45	59.51	61.31	62.98	60.00	71.00	62.00	74.00	74.00	62.00	74.00
Earnings Per Share																
EPS	**$0.01**	**($0.03)**	**$0.03**	**$0.05**	**($0.03)**	**$0.02**	**($0.01)**	**$0.29**	**$0.05**	**($0.06)**	**$0.22**	**($0.02)**	**$0.21**	**$0.08**	**($0.05)**	**$0.24**
Pro Forma EPS	**$0.06**	**($0.03)**	**$0.03**	**$0.15**	**$0.01**	**$0.17**	**$0.01**	**$0.30**	**$0.11**	**($0.06)**	**$0.31**	**($0.02)**	**$0.21**	**$0.08**	**($0.05)**	**$0.24**
EBITDA	**$3.31**					**$ 4.02**					**$34.97**					
Gross margins	20.74%		22.39%	23.51%	192.58%	24.23%	39.88%	49.93%	51.06%	60.00%	48.63%	45.00%	50.00%	50.00%	50.00%	49.50%

Our estimates assume all current concessions will be renewed but no new concessions will be acquired by acquisition or purchase. **The fair value adjustment is treated as a non-reoccurring charge.**

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Consolidated Balance Sheet (in $ millions)								
Fiscal Year June 30.								
	4Q10	**1Q11**	**2Q11**	**3Q11**	**4Q11**	**1Q12 adjustec**	**2Q12**	**3Q12**
ASSETS								
Cash & Equiv.	0.22	0.27	0.42	4.57	1.10	5.77	13.34	17.64
A/R	2.38	0.10	7.10	14.30	3.32	6.09	22.12	16.47
Inventories	19.77	27.01	62.95	43.03	55.03	59.16	39.35	33.83
Other	0.78	0.90	2.95	3.14	2.68	3.19	5.35	7.19
Total current assets	23.14	28.28	73.41	65.04	62.12	74.21	80.17	75.13
Gross Plant	8.67	9.22	14.86	15.67	16.75	15.85	17.04	17.61
Acc. Deprn	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Farming concessions	0.00	12.94	0.00	0.00	11.54	11.45	11.41	11.45
Intangibles	0.00	0.00	3.00	3.00	0.29	0.27	0.26	0.27
Other	0.01	0.01	1.19	0.67	1.02	0.81	1.11	2.40
All Assets	31.83	50.44	92.46	84.38	91.72	102.59	109.98	106.84
LIABILITIES AND NET WORTH								
Debt Due 1 Yr	0.00	0.00	25.64	23.69	24.00	7.35	20.40	18.81
Notes Payable	12.70	13.66	12.08	6.27	7.59	32.94	8.12	0.00
A/P	2.07	4.67	6.54	5.84	9.47	6.54	2.58	2.31
Taxes	0.29	0.24	0.62	1.93	1.39	2.59	6.30	7.47
Other	0.63	0.85	1.37	3.64	3.50	1.76	1.88	2.26
Total current liabilities	15.70	19.42	46.26	41.36	45.95	51.18	39.28	30.85
Conv. Debt	0.00	0.00	8.00	4.00	0.00	0.00	0.00	0.00
L.T.Debt	0.00	2.12	4.13	1.11	6.42	13.43	16.74	15.83
Other LT	0.73	11.59	1.55	2.29	2.30	3.01	2.76	5.02
Def. Taxes & ITC	0.00	0.00	1.90	1.22	0.00	2.21	2.21	2.21
Other	0.00	0.76	0.00	0.02	3.02	0.82	0.01	0.01
All Liabilities	16.42	33.88	61.83	50.00	57.68	70.65	61.02	53.92
Pref.Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06
Surplus	6.31	7.63	22.63	22.76	23.57	23.64	24.54	24.72
Retained Earnings	7.51	6.03	7.42	10.23	8.55	7.80	25.21	28.06
Other	1.54	2.85	0.52	1.33	1.86	0.44	-0.85	0.08
Treasury Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Worth	15.41	16.56	30.63	34.38	34.03	31.94	48.97	52.92
Total liabilities & stockholders' equity	31.83	50.44	92.46	84.38	91.72	102.59	109.98	106.84

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Umami Sustainable Seafood					
Condensed Consolidated Statements of Cash Flows					
Fiscal Year June 30.			2012		
	2010A	2011A	9 months	2012 E	2013 E
Cash flow from operations:					
Net (Loss) Income as reported	0.44	1.04	18.45	15.87	17.45
Depreciation & amortization	1.15	1.42	1.18	2.00	2.00
Amortization of goodwill & finance costs			3.42		
Adjustment of business combination		7.10			
Gain on stock warrants			(2.46)		
Stock based compensation			0.12		
Impairment of machinery					
In-process R&D					
Other	-3.89	-10.56	(2.75)	-15.00	
Net cash provided by (used in) operating activites	**($2.30)**	**($1.00)**	**$17.96**	**$2.87**	**$19.45**
Cash flow from investments:					
Purchase of PP&E	(2.41)	(20.09)	(3.68)	(4.00)	(5.00)
Proceeds from disposal of PP&E					
Other			0.02		
Net cash provided by (used in) investing activities	**($2.41)**	**($20.09)**	**($3.66)**	**($4.00)**	**($5.00)**
Cash flow from financing activities:					
Proceeds from issuance of common stock		4.88			
Proceeds (payment) on lines of credit, net			6.68	12.00	(10.00)
Proceeds from debt - related parties	11.79	8.80	1.32		
Proceeds from debt	24.15	49.72	11.91	12.00	
Payment on debt - related parties	(12.57)	(1.86)	(6.02)	(3.00)	
Payment on debt	(21.93)	(39.42)	(12.51)	(14.00)	
Other, inc. currency change	2.04	(0.13)	0.86		
Net cash provided by (used in) financing activities	**$3.49**	**$21.99**	**$2.23**	**$7.00**	**($10.00)**
Increase (decrease) in cash and equivalents	($1.21)	$0.90	$16.54	$5.87	$4.45
Cash & equivalents at beginning of period	$1.42	$0.21	$1.10	$1.10	$6.98
Cash & equivalents at end of period	$0.21	$1.10	$17.64	$6.98	$11.43

HISTORICAL ZACKS RECOMMENDATIONS



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The current distribution of Zacks Ratings is as follows on the 1033 companies covered: Buy/Outperform- 15.3%, Hold/Neutral- 78.8%, Sell/Underperform – 5.3%. Data is as of midnight on the business day immediately prior to this publication.