Zacks Small-Cap Research

May 19, 2014

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

scr.zacks.com

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

PLC Systems Inc (PLCSF-OTC)

PLCSF: Bondholder's Taking Operating Assets Private

OUTLOOK

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

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	05/18/2014
Current Price (05/19/14)	$0.01
Target Price	**$0.01**

SUMMARY DATA

52-Week High	**$0.15**
52-Week Low	**$0.01**
One-Year Return (%)	**-95.29**
Beta	**1.64**
Average Daily Volume (sh)	**566,031**
Shares Outstanding (mil)	**161**
Market Capitalization ($mil)	**$1**
Short Interest Ratio (days)	**1.07**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-33.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in 000s $)

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

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.19 A	$0.06 A	-$0.01 A	$0.02 A	$0.03 A
2014	-$0.02 A	-$0.03 E	-$0.03 E	-$0.03 E	-$0.11 E
2015					$0.00 E
2016					$0.00 E

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

© Copyright 2014, Zacks Investment Research. All Rights Reserved.

PLC Announces "Merger"

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

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

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

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

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

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

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

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

The potential wild-card is that we have no idea what, if any, additional market value Viveve may command, particularly when the shares become publicly traded (of course there's always the risk that additional financings may be further dilutive). Valuing the shares with more of a market-value based methodology is difficult given that there isn't currently a public market for the stock and Viveve is a private company with no publicly available financials or other performance-related information. Anecdotally, we think there are indications of potential value beyond just book value, however. This includes the seemingly skilled, experienced and relevant backgrounds of Viveve's management team - several of which were recently brought on to accelerate development and sales. The company has been in existence for several years, has products being marketed in Asia (although we have no idea to the significance of sales) and has U.S. clinical data. The other not insignificant consideration should be that the company is backed financially by 5AM Ventures, GBS Venture Partners and Alta Bioequities - all of which are venture capital companies specifically focused on life sciences. In other words, they are experienced life sciences investors and the fact that they are backing Viveve may be considered a vote of confidence from knowledgeable sources.

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

DISCLOSURES

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

ANALYST DISCLOSURES

I, Brian Marckx, CFA, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

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 Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her 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 services described above. 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 article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this 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 without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1072 companies whose securities it covers, including securities covered by Zacks SCR:
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 is as follows: Buy/Outperform- 17.2%, Hold/Neutral- 76.3%, Sell/Underperform – 5.9%. Data is as of midnight on the business day immediately prior to this publication.