Zacks Small-Cap Research

November 5, 2014
Grant Zeng, CFA
312-265-9466
gzeng@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Threshold Pharm (THLD-NASDAQ)

THLD: Balance sheet remains strong, both Phase III trials have completed enrollment, and data will be available in 2016–Outperform

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	04/27/2014
Current Price (11/04/14)	$2.84
Twelve- Month Target Price	**$9.50**

OUTLOOK

Threshold is a late development stage biopharmaceutical company focused on developing hypoxia targeted cancer therapy. The Company's lead prodrug candidate TH-302 is in a series of clinical trials including two Phase III clinical trials for soft tissue sarcoma and pancreatic cancer respectively.

We model TH-302 to be approved by the FDA in late 2016 or early 2017 for soft tissue sarcoma. The Company will be cash flow positive in 2018. Balance sheet remains strong.

We rate Threshold Outperform based on its strong fundamentals.

SUMMARY DATA

52-Week High	**$5.72**
52-Week Low	**$2.83**
One-Year Return (%)	**-34.41**
Beta	**2.60**
Average Daily Volume (sh)	**828,573**
Shares Outstanding (mil)	**63**
Market Capitalization ($mil)	**$178**
Short Interest Ratio (days)	**8.44**
Institutional Ownership (%)	**58**
Insider Ownership (%)	**19**
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 2014 Estimate	**N/A**
P/E using 2015 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**N/A**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	2.9 A	3.2 A	3.2 A	3.2 A	12.5 A
2014	3.7 A	3.7 A	3.7 A	4.0 E	15.0 E
2015					18.5 E
2016					27.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.11 A	-$0.12 A	-$0.08 A	-$0.13 A	-$0.45 A
2014	-$0.14 A	-$0.12 A	-$0.13 A	-$0.15 E	-$0.54 E
2015					-$0.57 E
2016					-$0.54 E

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

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

WHAT'S NEW

- ***Balance sheet remains strong;***
- ***Phase III pancreatic trial completed enrollment, top line data in 2016;***
- ***Phase III soft tissue sarcoma continues to go as planned after interim analysis; OS data expected in 1Q16;***
- ***License of Hypoxin expands clinical pipeline;***
- ***Dara on TH-302 + Avastin Phase I/II Trial for Glioblastoma will be presented at SNO;***
- ***Data on TH-302 Phase I/II Trial for Multiple Myeloma will be presented at ASH;***
- ***Valuation is Attractive***

Threshold Reports 3Q14 Financials, Current Cash Can Run into 2017

Total revenue for 3Q14 ended September 30 was $3.7 million, compared to $3.2 million for 3Q13. Both revenues were generated form the amortization of the aggregate of $110 million in upfront payment and milestone payments from the Company's collaborator Merck KGaA.

R&D expenses for 3Q14 were $8.9 million, compared to $6.4 million for the third quarter of 2013. The increase was due primarily to an increase in clinical development expenses and increase in consulting and employee related expenses.

G&A expenses were $2.4 million for 3Q14, compared to $2.1 million for the third quarter of 2013. The increase was due primarily to an increase in consulting and employee related expenses to support business development activities.

Operating loss for 3Q14 was $7.6 million and net loss for the third quarter was $7.7 million, compared to net income of $1.2 million for the third quarter of 2013. Net income for 3Q13 included non-cash income of $6.4 million.

As of September 30, 2014, Threshold held $68.5 million in cash, cash equivalents and marketable securities. The balance sheet is relatively strong in our view.

Threshold has a collaboration agreement with Merck KGaA worth **total of $550 million** in terms of upfront and milestone payments. To date Threshold has received upfront and milestone payments of $110 million. The Company can earn additional potential milestone payments of up to $440 million, comprised of $100 million in development and regulatory milestones and $340 million in sales-based milestones.

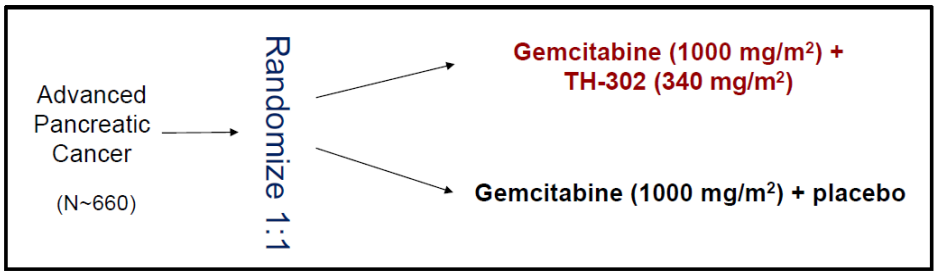
We welcome this non-dilutive financing which benefits all of its shareholders. We estimate current cash balance combined with the potential payment from Merck KGaA could last into 2017 when the Company's TH-302 could be approved for soft tissue sarcoma.

Target Enrollment for Phase III MAESTRO Study of TH-302 Completed

On Nov 3, 2014, Threshold announced that its global partner Merck KGaA has completed target enrollment of 660 patients in the global **Phase III MAESTRO** study.

As a reminder, in **December 2012,** Merck KGaA initiated the global pivotal **Phase III MAESTRO** clinical trial assessing the efficacy and safety of TH-302 in combination with gemcitabine in patients with previously untreated, locally advanced unresectable or metastatic pancreatic adenocarcinoma. MAESTRO stands for TH-302 in the treatment of MetastAtic or unrESectable pancreaTic adenocaRcinOma.

The MAESTRO trial is a randomized, placebo-controlled, international, multi-center, double-blind Phase III clinical trial of TH-302 plus gemcitabine compared with placebo plus gemcitabine and is expected to enroll **660 patients**. The primary efficacy endpoint is overall survival; the secondary endpoints include efficacy measured by progression-free survival, overall response rate and disease control rate, as well as assessments of safety and tolerability, pharmacokinetics and biomarkers. The study is being conducted under an **SPA** with the FDA. The study design was also discussed with the European Medicines Agency (EMA) during a scientific advice procedure.



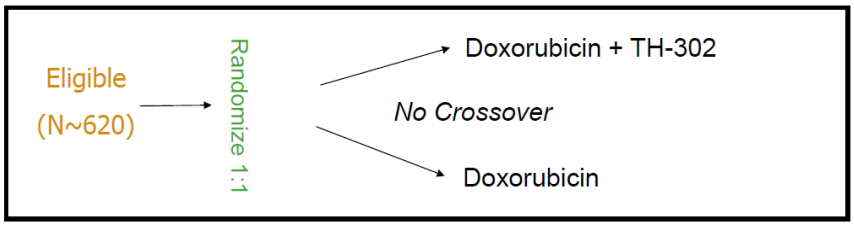
Patients	Metastatic or locally advanced unresectable pancreatic cancer
Primary Endpoint	Overall survival (OS)
Secondary Endpoints	Overall response rate, progression free survival, CA19-9, QOL, pain, safety

The MAESTRO trial of TH-302 is one of the two pivotal Phase III trials of TH-302. The other one is Phase II trial for previously untreated patients with metastatic or locally advanced unresectable soft tissue sarcoma. Both trials have completed enrollment. Top line data from MAESTRO are expected to be available in 2016.

Phase III TH-302 in Soft Tissue Sarcoma Continues After Interim Analysis

In September, 2014, the Independent Data Monitoring Committee (IDMC) completed the planned interim efficacy and safety analyses of unblinded data for the pivotal **Phase III** clinical trial of TH-302 in combination with doxorubicin versus doxorubicin alone in patients with locally advanced unresectable or metastatic soft tissue sarcoma (STS).

Based on their analyses, the IDMC recommended that the trial should continue as planned to its natural conclusion. This is in line with our expectations.



Patients	Metastatic or locally advanced unresectable front-line soft tissue sarcoma
Primary Endpoint	Overall survival (OS); 85% power to detect 33% improvement (434 events)
Secondary Endpoints	Overall response rate, progression free survival, duration of response, QOL

Threshold initiated the **pivotal TH-CR-406 trial** in partnership with the Sarcoma Alliance for Research through Collaboration (SARC) in September 2011. CR-406 trial is an international, randomized, pivotal **Phase III** trial enrolling patients with metastatic or locally advanced unresectable **soft tissue sarcoma**

(STS) who have not previously received chemotherapy outside the adjuvant or neoadjuvant setting. The trial is designed to evaluate the efficacy and safety of TH-302 **in combination with doxorubicin**, compared to doxorubicin alone. The study is under a Special Protocol Assessment (SPA) with the FDA.

The primary endpoint is overall survival; secondary endpoints include efficacy measured by progression-free survival, overall response rate, overall survival at 6 and 12 months, progression free rate at 3 months and progression-free rate at 6 months, duration of response, stable disease or better rate, change in Eastern Cooperative Oncology Group or ECOG and performance status, as well as assessments of safety and tolerability, pharmacokinetics and biomarkers. The FDA and the European Commission have granted TH-302 **orphan drug** designation for the treatment of soft tissue sarcoma.

In December 2013, Threshold completed the target enrollment of **620 patients**. The enrollment achievement triggered a milestone payment of $12.5 million from Merck KGaA.

The Company projected the pre-specified number of events (n=434 deaths) required to trigger the primary efficacy analysis would occur in the latter half of 2015. We expect overall survival data will be available in **1Q16.** The FDA approval could be in late 2016 or early 2017.

Sarcomas are a group of aggressive cancers of connective tissues of the body. Currently, there are only limited treatment options for sarcomas. **Soft tissue sarcomas** are usually treated with surgery, chemotherapy and radiation or in combination of these modalities.

Doxorubicin and **ifosfamide** are the most commonly used chemotherapeutic agents in patients with advanced soft tissue sarcoma, but response rates are generally low and toxicity can be significant. Doxorubicin is the only approved front line therapy with an overall survival rate of approximately 8 months to 12 months, and an overall response rate of approximately 15% to 25%. The most serious toxicity for doxorubicin is the cumulative cardiotoxicity which usually limits the use of doxorubicin.

According to the American Cancer Society, about 12,020 new soft tissue sarcomas will be diagnosed and about 4,740 patients are expected to die of soft tissue sarcomas in the US in 2014.

New Phase I/II Data on TH-302 in Glioblastoma to be Presented at the 2014 SNO Annual Meeting

New data from an investigator-sponsored **Phase I/II** trial evaluating the combination of TH-302 and Avastin® (bevacizumab) in patients with bevacizumab-refractory recurrent glioblastoma will be presented in two posters at the 19th Annual Scientific Meeting and Education Day of the Society for Neuro-Oncology (SNO) held in Miami, Florida, from November 13-16, 2014.

Background

Glioblastoma multiforme (GBM), also called glioblastoma, is the most common and most aggressive type of primary brain tumor and accounts for approximately 50% to 60% of all primary brain tumors. It is estimated that 23,130 people were diagnosed with and 14,080 people died of **cancer of the brain and other nervous system** in 2013 in the US.

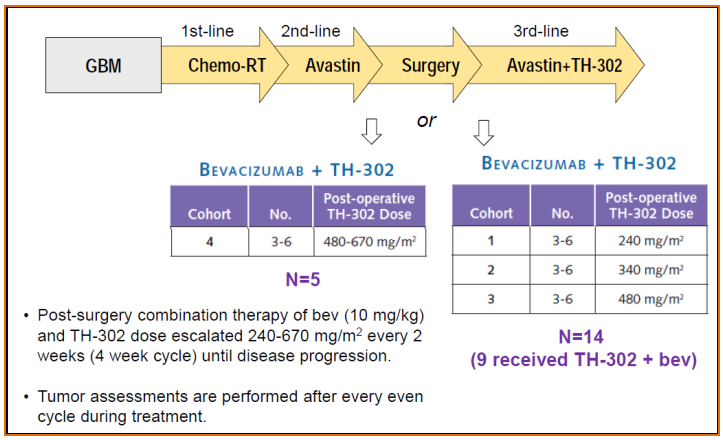
Glioblastomas are among the most aggressively malignant human neoplasms. The median survival time from the time of diagnosis without any treatment is usually less than 1 year. Despite multimodality treatment, median survival is about 14.6 months. The overall 5-year survival is less than 10% with the standard of care today.

Chemotherapy (temozolomide) with radiotherapy (RT) is standard care for newly diagnosed glioblastoma. Avastin (bevacizumab, Roche) is approved in the U.S. for progressive disease following prior therapy. After disease progression on bevacizumab, patients may start a subsequent bevacizumab-containing regimen. These patients typically progress in 5 to 8 weeks.

Treatment Setting	Therapy	Median PFS	Median OS
Newly Diagnosed *first-line setting, after surgical resection*	temozolomide (TMZ) + radiation (RT) followed by maintenance TMZ	~7 months	~15 months *TMZ + RT provides Δ2.5 months benefit over RT alone*
First Recurrence *second-line setting*	bevacizumab	~4 months	~9 months
Second Recurrence *third-line setting*	bevacizumab-containing regimen	~38 days	82 days

An investigator-sponsored **Phase I/II trial (the 4003 trial)** to evaluate TH-302 in combination with **Avastin**® (bevacizumab) in patients with **recurrent glioblastoma** following bevacizumab failure is ongoing.

This is a single center, dose-escalation, prospective study with 2:1 randomization to TH-302 single dose of 575 mg/m^2 or placebo administered pre-surgery (cohorts 1-3 only), followed by post-surgery combination therapy of BEV at 10 mg/kg and TH-302 dose escalated 240-670 mg/m^2 every 2 weeks (4-week cycle) until disease progression. Following the first 5 patients in cohort 3, patients were allowed to proceed directly to TH-302/BEV combination therapy without surgery.



The Updated Data from 2014 SNO

Twenty three patients have been enrolled: 14 randomized in pre-surgery cohorts 1-3 with 9 proceeding to TH-302/BEV after surgery and 9 additional patients proceeding directly to TH-302/BEV.

TH-302 was safe and well tolerated in the patients.

In 18 patients evaluable for response,

- best responses included one complete response (1CR) and three partial responses (3PR) for a response rate of **22%**, and nine stable disease (9 SD) assessments for a clinical benefit rate of **72%**;

- The median progression-free survival (PFS) was 3.1 months on combination therapy vs. 2.4 months on prior single-agent bevacizumab; the 4-month PFS rate was 26%;

Patients continue to be enrolled in the 670 mg/m^2 TH-302 cohort.

We think preliminary data from the SNO presentation are encouraging. The 22% objective responses are rarely seen at this advanced stage of the disease. The median PFS with TH-302 plus bevacizumab was longer than with prior single-agent bevacizumab (3.1 vs 2.4 months). We look forward to updating investors when new data are available.

Immunohistochemistry study showed that CA-IX as a hypoxia marker might be a predictive biomarker for TH-302 and histone γH2AX a response biomarker for TH-302.

Pipeline Expanded with License of Hypoxin

In October, 2014, Threshold licensed **Hypoxin** from the University of Auckland.

Hypoxin (formerly known as PR610) is a hypoxia-targeted epidermal growth factor receptor (EGFR) tyrosine-kinase inhibitor (TKI). Hypoxin is designed to selectively release a potent, picomolar irreversible inhibitor in hypoxic tumors. The University of Auckland has completed preclinical and **Phase I** studies. Data suggest that plasma concentrations of Hypoxin that are active in EGFR-dependent tumor xenograft models in mice could be attained in patients with an acceptable therapeutic index. Accordingly, the Company plans to conduct preclinical translational studies to further evaluate the rationale for proceeding with further clinical development of the compound.

Subject to the satisfactory completion of these preclinical studies, the Company expects to initiate a **Phase II** proof-of-concept study in a subset of molecularly-defined **non-small cell lung cancer** patients in **1H2015**.

The license of Hypoxin is a natural expansion of the Company's clinical pipeline, which diversify its clinical risks in our view.

Phase II of TH-302 in Combination with Pemetrexed in Advanced NSCLC Initiated

In early July, Threshold initiated of a 440-patient, randomized, double-blind, placebo-controlled **Phase II** trial of TH-302, in combination with pemetrexed in advanced non-squamous non-small cell lung cancer **(NSCLC).**

The international Phase II trial will compare the combination of TH-302 and pemetrexed versus the combination of pemetrexed and placebo as second-line therapy for NSCLC. A TH-302 dose of 400 mg/m^2 will be utilized in combination with full-dose pemetrexed. The **primary endpoint** is overall survival. Secondary endpoints include safety and assessment of anti-tumor activity as determined by progression-free survival and objective response rate.

The initiation of the Phase II trial was based on the positive results from a **completed Phase I/II** study that evaluated TH-302 in combination with full-dose pemetrexed in 18 patients with relapsed/refractory non-squamous NSCLC. In this Phase I/II trial, median progression-free (PFS) survival was 7.0 months and median overall survival was 14.9 months. Of 15 patients evaluable for response, 6 (40%) achieved a partial response including 4 confirmed responses, 6 (40%) achieved stable disease, and 3 (20%) had progressive disease. The most common adverse events following combination therapy of TH-302 and pemetrexed were fatigue, anemia, stomatitis and nausea.

Positive data from the ongoing Phase II trial will support a **registrational Phase III** trial in patients with advanced non-squamous non-small cell lung cancer.

New Data Will be Presented at ASH Meeting for TH-302 for Multiple Myeloma

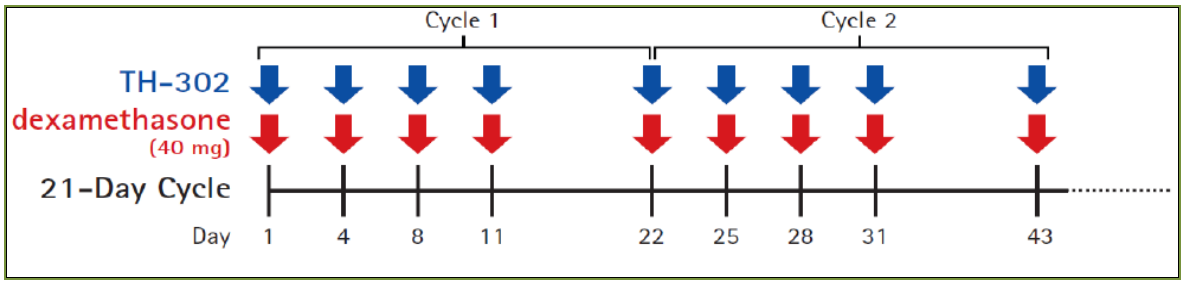
Background

In March 2012, Threshold initiated a **Phase I/II** (the 408 trial) open label clinical trial of TH-302 with **relapsed/refractory multiple myeloma**.

The study has three parts:

- The first part is designed to establish the maximum tolerated dose of TH-302 **in combination with dexamethasone**; completed;
- This MTD of TH-302 will be further evaluated in combination with dexamethasone in additional patients in the second part of the study; ongoing;
- Lastly, the combination of TH-302 and dexamethasone with **Velcade**® (bortezomib, a proteasome inhibitor currently used to treat patients with multiple myeloma) will be investigated, initiated in July 2014.

The dose of TH-302 administered in the dose escalation portion of the study was 240, 340, or 480 mg/m^2 given on days 1, 4, 8, and 11 of a 21-day cycle, with 40 mg dexamethasone given on the same days as TH-302.



The first part dose escalation of the Phase I/II trial has been completed. **14 patients** received therapy. These patients were heavily pretreated having received 3 to 11 prior treatments (median of 6.5) and all having received a regimen containing bortezomib, an immunomodulatory agent lenalidomide and/or thalidomide, and an alkylating agent. Patients received one to 19 cycles (median of 4 cycles) of therapy with TH-302 and dexamethasone. **The maximum tolerated dose** was determined to be **340 mg/m^2** TH-302. The most frequent Grade 3/4 side effects were thrombocytopenia, leukopenia, anemia, and neutropenia.

New Data from the ACSO Presentation

Enrollment of the **second part dose-expansion** of the study is now complete. The ASCO presentation includes data from **24 patients** enrolled at the maximum tolerated dose of TH-302 (340 mg/m^2) from dose escalation and dose expansion portions. According to the presentation, patients had received a median of 6.5 systemic therapies prior to enrollment. The patients initiated treatment prior to March 1, 2014 and analyses reflected the clinical database as of May 19, 2014. Of these 24 patients, **23** were evaluable for response, and **17** were treated at the maximum tolerated dose of TH-302 (16 evaluable).

Best responses included four partial responses (4 PR), two minimal responses (2 MR), and 15 stable disease (15 SD) assessments; two patients had progressive disease (2 PD). The clinical benefit rate for patients treated at the maximum tolerated dose of TH-302 (n=16 evaluable patients) was **31%** (comprised of 3 PR and 2 MR).

The most common adverse events were nausea and fatigue. The most common Grade 3/4 hematologic adverse events were thrombocytopenia (29%) and leukopenia (25%). Dose-limiting toxicities of Grade 3

stomatitis were reported during the first treatment cycle for the first two patients treated at 480 mg/m^2 TH-302.

The clinical benefit rate from TH-302 in combination with low dexamethasone for multiple myeloma is comparable to early data as listed below from two of the most recently approved agents for advanced multiple myeloma, i.e., pomalidomide and carfilzomib.

	TH-302 + Low Dex	Pomalidomide + Low Dex	Carfilzomib (Single Agent)
Stage	Phase I dose escalation and expansion	Phase I dose escalation	Phase I dose escalation and expansion
N	23	38	28
Dose and Schedule	240-480mg/m2	2-5mg/Day	1.2-27mg/m2
Median Prior Lines	6.5	6	n/a
PR+MR	31%	42%	27%
Next Steps based on PI data	TBD	Ex-US PIII and US registration PIIb	PIIa/b and Ex-US PIII
Current Status	Phase I expansion ongoing	US & EU approved	US approved

Threshold initiated the **third part** of the trial in July 2014, which was 5 month ahead of our estimated schedule.

In the final stage of the trial to evaluate TH-302, bortezomib, and low-dose dexamethasone (TBorD), an initial dose of TH-302 of 240 mg/m^2 will be administered twice weekly for the first two weeks of a three-week treatment cycle. The dose of TH-302 will be escalated in cohorts of 3-6 patients. The dose of bortezomib will remain fixed at 1.3 mg/m^2.

Updated results will be presented at the 56th **ASH Annual Meeting**, December 3-6, 2014, in San Francisco, California.

There are few treatment options for patients with advanced multiple myeloma that stop responding to bortezomib and lenalidomide, and responses to subsequent salvage therapy have historically been extremely low. The preliminary results suggest that the combination of TH-302 with dexamethasone is active in some heavily pretreated patients who have failed conventional therapy.

Attractive Valuation

We maintain our Outperform rating for Threshold (THLD) shares and reiterate our 12-month price target of $9.50.

Threshold is a late development stage biopharmaceutical company focused on developing and commercializing **hypoxia based therapeutics** for cancer treatment based on its **prodrug platform technology**.

The Company's lead drug candidate is **TH-302**, a prodrug which can be taken by cancer cells and released in the microenvironment of tumor hypoxia. Th-302 is in a series of clinical trials targeting a variety of cancer indications either alone or in combination with other cancer therapeutics. The most advanced are two ongoing **Phase III clinical trials** for soft tissue sarcoma and for pancreatic cancer, respectively.

Both Phase III trials have completed the target enrollment. An interim efficacy and safety analysis for soft tissue sarcoma trial has concluded and suggests the trial continue to its natural conclusion. Overall survival data for the Phase III soft tissue sarcoma are expected to be available in 1Q16. We estimate TH-302 could be approved by the FDA in **late 2016 or early 2017**.

Data for the Phase III trial of TH-302 in combination with gemcitabine in pancreatic cancer patients is expected to be available in 2016.

In addition to the two Phase III trials, Th-302 is in more than 10 Phase I/II clinical trials targeting different cancer indications.

Threshold has a collaboration agreement with Merck KGaA to co-develop TH-302 worth **total of $550 million** in terms of upfront and milestone payments. This agreement is a major de-risk factor for Threshold in our view. This non-dilutive financing not only boosts Threshold's balance sheet, but more importantly validates its technology and clinical programs.

In addition to TH-302, Threshold is also developing Hypoxin for cancers, which naturally expand its clinical pipeline.

In terms of valuation, we think Threshold shares are undervalued at current market price. Currently, Threshold shares are trading at about $2.80 per share, which values Threshold at $176 million in terms of market cap based on 63 million outstanding shares. We think this is a discount compared to its peers. Threshold is a late development stage company with its lead candidate TH-302 to be approved in as early as in late 2016. According to our financial model, we estimate Threshold will become profitable in fiscal 2018 with EPS of $0.27 based on $110 million in revenue. Revenue will grow to $170 million in 2019 with an EPS of $0.83. We think it's appropriate to use 35 x P/E multiple to valuate Threshold. If we use 35 x P/E ratio and EPS of $0.83 for 2019, discounted at 25% for 5 years, we come up with our price target of $9.50 per share. Our price target values Threshold at $598 million in market cap which we think is appropriate.

But keep in mind the **risks** associated with our price target. We assume that TH-302 will be approved by the FDA in late 2016 or early 2017. There are still some **clinical** and **regulatory** hurdles to overcome by Threshold. If TH-302 fails to be approved or is delayed for approval by the FDA, the share price could drop dramatically.

Even if TH-302 is approved by the FDA, there is still commercialization risk for Threshold since the Company has no experience in product commercialization.

Another risk we would like to remind investors is that the broad market fluctuation also has impact on the Company's share price. But overall we think Threshold is a risk/award opportunity for investors with a long term investment horizon.

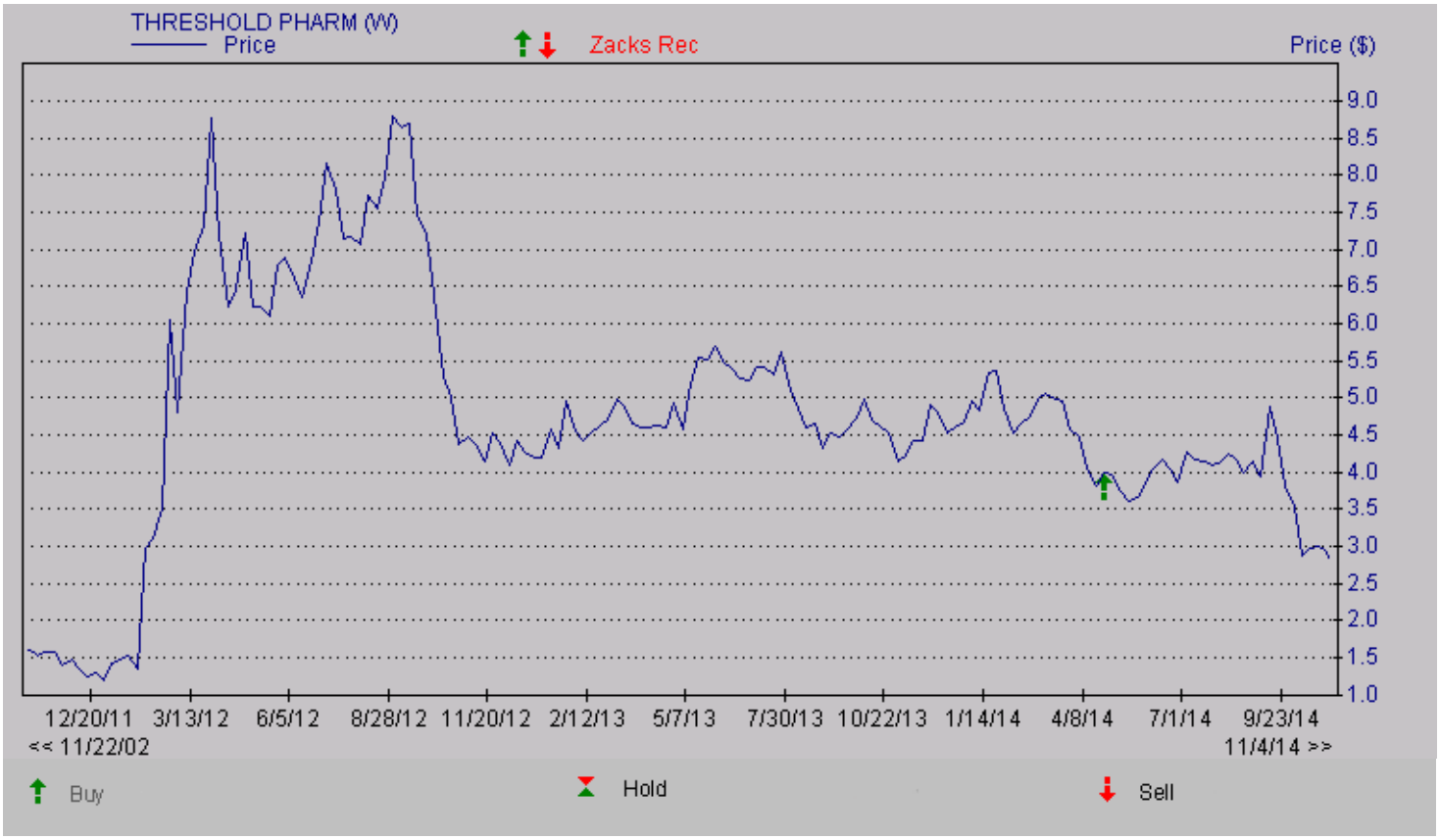
PROJECTED INCOME STATEMENT

	2012 (Dec)	2013A (Dec)	2014E (Dec)					2015E (Dec)	2016E (Dec)	2017E (Dec)	2018E (Dec)	2019E (Dec)
$ in million except per share data	FYA	FYA	Q1A	Q2A	Q3A	Q4E	FYE	FYE	FYE	FYE	FYE	FYE
Collaboration revenue	$5.87	$12.50	$3.68	$3.68	$3.68	$4.00	$15.04	$18.50	$22.00	$25.00	$35.00	$45.00
Product revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$5.00	$35.00	$75.00	$125.00
Total Revenues	**$5.87**	**$12.50**	**$3.68**	**$3.68**	**$3.68**	**$4.00**	**$15.04**	**$18.50**	**$27.00**	**$60.00**	**$110.00**	**$170.00**
YOY Growth	-	113.0%	26.0%	15.7%	15.7%	24.5%	20.4%	23.0%	45.9%	122.2%	83.3%	54.5%
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.75	5.25	11.25	18.75
Gross Income	**$5.87**	**$12.50**	**$3.68**	**$3.68**	**$3.68**	**$4.00**	**$15.04**	**$18.50**	**$26.25**	**$54.75**	**$98.75**	**$151.25**
Gross Margin	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	97.2%	91.3%	89.8%	89.0%
R&D	$18.79	$29.33	$9.65	$8.66	$8.91	$10.50	$37.72	$45.00	$50.00	$55.00	$60.00	$65.00
% R&D	320.2%	234.8%	262.2%	235.4%	242.0%	262.5%	250.8%	243.2%	185.2%	91.7%	54.5%	38.2%
SG&A	$7.08	$9.19	$2.63	$2.48	$2.41	$2.75	$10.27	$12.50	$14.00	$16.00	$18.00	$20.00
%SG&A	121%	74%	72%	67%	65%	69%	68%	68%	52%	27%	16%	12%
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
Operating Income	**($20.0)**	**($26.0)**	**($8.6)**	**($7.5)**	**($7.6)**	**($9.3)**	**($33.0)**	**($39.0)**	**($37.8)**	**($16.3)**	**$20.8**	**$66.3**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	38.97%
Other Net	($51.1)	($2.2)	$1.5	$6.7	($0.3)	($0.2)	$7.7	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($71.1)**	**($28.2)**	**($7.1)**	**($0.8)**	**($7.9)**	**($9.5)**	**($25.3)**	**($39.0)**	**($37.8)**	**($16.3)**	**$20.8**	**$66.3**
Income taxes(benefit)	$0.0	$0.2	$0.0	$0.0	($0.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($71.1)**	**($28.4)**	**($7.1)**	**($0.8)**	**($7.7)**	**($9.5)**	**($25.3)**	**($39.0)**	**($37.8)**	**($16.3)**	**$20.8**	**$66.3**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-			
Diluted Shares Out	54.2	57.8	61.3	63.0	61.5	63.0	62.2	68.0	70.0	75.0	78.0	80.0
Reported EPS	**($1.31)**	**($0.49)**	**($0.12)**	**($0.01)**	**($0.13)**	**($0.15)**	**($0.41)**	**($0.57)**	**($0.54)**	**($0.22)**	**$0.27**	**$0.83**
One time charge	*$51.14*	*$2.19*	*($1.50)*	*($6.67)*	*$0.00*	*$0.00*	*($8.16)*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($20.0)**	**($26.2)**	**($8.6)**	**($7.4)**	**($7.7)**	**($9.5)**	**($33.4)**	**($39.0)**	**($37.8)**	**($16.3)**	**$20.8**	**$66.3**
Non GAAP EPS	**($0.37)**	**($0.45)**	**($0.14)**	**($0.12)**	**($0.13)**	**($0.15)**	**($0.54)**	**($0.57)**	**($0.54)**	**($0.22)**	**$0.27**	**$0.83**

Source: company filings and Zacks estimates

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

HISTORICAL ZACKS RECOMMENDATIONS



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, Grant Zeng, 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.

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

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 1129 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- 15.9%, Hold/Neutral- 78.2%, Sell/Underperform – 5.7%. Data is as of midnight on the business day immediately prior to this publication.