Zacks Small-Cap Research

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EpiCept Corp (EPCT-NASDAQ)

EPCT: Merger with Immune is expected to close in 3Q13, which will create a public company with strong pipeline ---Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	12/13/2012
Current Price (05/20/13)	$0.05
12-Month Target Price	**$0.45**

OUTLOOK

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

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

The merger creates value for shareholders and we maintain Outperform rating for the Company.

SUMMARY DATA

52-Week High	**$0.19**
52-Week Low	**$0.05**
One-Year Return (%)	**-69.44**
Beta	**1.51**
Average Daily Volume (sh)	**71,893**
Shares Outstanding (mil)	**112**
Market Capitalization ($mil)	**$6**
Short Interest Ratio (days)	**6.28**
Institutional Ownership (%)	**5**
Insider Ownership (%)	**4**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-18.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	0.24 A	0.22 A	0.28 A	0.21 A	0.94 A
2012	0.24 A	6.60 A	0.87 A	0.09 A	7.81 A
2013					2.00 E
2014					4.00 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.04 A	-$0.06 A	-$0.07 A	-$0.05 A	-$0.22 A
2012	-$0.05 A	-$0.00 A	-$0.03 A	-$0.01 A	-$0.09 A
2013					-$0.02 E
2014					-$0.02 E

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

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WHAT'S NEW

EpiCept Reports First Quarter 2013 Operating and Financial Results

Revenue for the 1Q13 was $0.4 million, compared to $0.2 million for 1Q2012. Revenue consisted primarily of the recognition of license fee payments previously received from the Company's partners, with $0.3 million related to the sale of Ceplene® during the first quarter of 2013.

Cost of goods sold in the first quarter of 2013 of $0.1 million consisted primarily of the cost for Ceplene® inventory sold during the quarter. Cost of goods sold in the first quarter of 2012 was immaterial.

SG&A expense in the first quarter of 2013 decreased by 43%, or $0.6 million, to $0.8 million from $1.4 million in the first quarter of 2012. The Company expects general and administrative expenses to remain at approximately current levels through the close of the merger with Immune.

R&D expense in the first quarter of 2013 decreased by 77%, or $1.0 million, to $0.3 million from $1.3 million in the first quarter of 2012. This decrease was primarily related to a $0.5 million reduction in clinical trial expenses in connection with the sale of EpiCept's rights to Ceplene® in Europe and certain Pacific Rim countries in June 2012 and a $0.3 million reduction in salary-related expenses resulting from a reduction of staff in 2012. The Company expects R&D expense to remain at approximately current levels through the close of the merger with Immune.

Net loss attributable to common stockholders for the first quarter of 2013 was $1.3 million, or $0.01 per share, compared with a net loss attributable to common stockholders of $4.7 million, or $0.06 per share, for the first quarter of 2012.

EpiCept had approximately $0.3 million in cash and cash equivalents as of March 31, 2013. In addition, EpiCept's lender has restricted $0.7 million of the Company's cash, with which EpiCept is required to make monthly interest payments on its senior secured term loan.

The Company received $0.4 million of net cash from Immune during the first quarter of 2013 through the issuance of approximately 3.2 million shares of EpiCept common stock, received an additional $0.1 million in April and May 2013 through the issuance of approximately 0.7 million shares of common stock to Immune and an additional $0.1 million in May 2013 by entering into a loan pursuant to the merger agreement with Immune.

Business Highlights

AmiKet™ is a prescription topical analgesic cream designed to provide long-term relief from the pain of peripheral neuropathies. During the first quarter of 2013, EpiCept re-energized its efforts, with assistance from Immune, to partner AmiKet™ for Phase III development and discussions with several prospective partners have commenced. EpiCept has been granted permission by the U.S. Food and Drug Administration (FDA) to commence Phase III development and Fast Track designation was granted in April 2012. The FDA also agreed that a Special Protocol Assessment is available with respect to the protocol for the first Phase III trial in chemotherapy-induced peripheral neuropathy (CIPN). EpiCept has also received formal scientific advice from the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) for the Phase III clinical and nonclinical development and subsequent Marketing Authorization Approval (MAA) filing of AmiKet™ in the treatment of CIPN.

Crolibulin™ is a vascular disruption agent (VDA) that has demonstrated potent anti-tumor activity in both preclinical and early clinical studies. In December 2010 the National Cancer Institute initiated a Phase Ib/II trial for crolibulin™ to assess safety and efficacy in combination with cisplatin in patients with

anaplastic thyroid cancer. The Phase I safety portion of the trial has completed, and the results will be presented at the upcoming ASCO meeting in Chicago. The Phase II randomized efficacy proof-of-concept study is expected to commence in the third quarter of 2013.

Merger With Immune Expected To Close In 3Q13

EpiCept now anticipates the merger with Immune will close during the third quarter of 2013, subject to satisfaction of certain customary closing conditions.

Epicept and private **Immune Pharmaceuticals Ltd**., based in Israeli, entered into a definitive merger agreement on November 7, 2012. The transaction was originally expected to close in 1Q13, but the two companies amended the merger agreement in Feb 2013. As a result of the amendment, the merger is anticipated to close during the third quarter of 2013.

The terms of the merger agreement between EpiCept and Immune provide that, upon the closing of the transaction, EpiCept will issue shares of its common stock to Immune shareholders in exchange for all outstanding shares of Immune and issue options and warrants to purchase shares of its common stock in exchange for certain options and warrants to purchase shares of Immune. EpiCept shareholders will own approximately **19%** of the combined company and Immune shareholders will own approximately **81%**, calculated on an adjusted fully diluted basis. The merger ratio initially excludes the exercise or conversion of certain EpiCept options and warrants whose exercise/conversion prices equal or exceed $0.60 per EpiCept share.

The parties will negotiate any further adjustments to the relative post-closing ownership percentages in the combined company that may apply to amounts in excess of $500,000 that Immune invests by purchasing shares of EpiCept common stock from EpiCept.

This amendment was executed primarily to provide EpiCept with cost effective **operating capital** while the merger closing process continues. At the same time, the amendment provides Immune with time to provide its 2012 GAAP audited financial statements for inclusion in its proxy statement. As a result of the additional time allowed for receipt of the audited financial statements, the merger transaction is estimated to close in the third quarter of 2013.

Merger with Immune Pharmaceuticals Will Re-energize EpiCept

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

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

The merger with Immune is great news to EpiCept shareholders in our view. We believe the combined company will provide EpiCept's shareholders with a broad, attractive portfolio of product candidates that address unmet medical needs and have significant market potential. Monoclonal antibodies, a field in which Immune Pharmaceuticals has particular expertise, are an exciting area for pharmaceutical

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

Merger Creates a Much Stronger Pipeline Targeting Multiple Areas

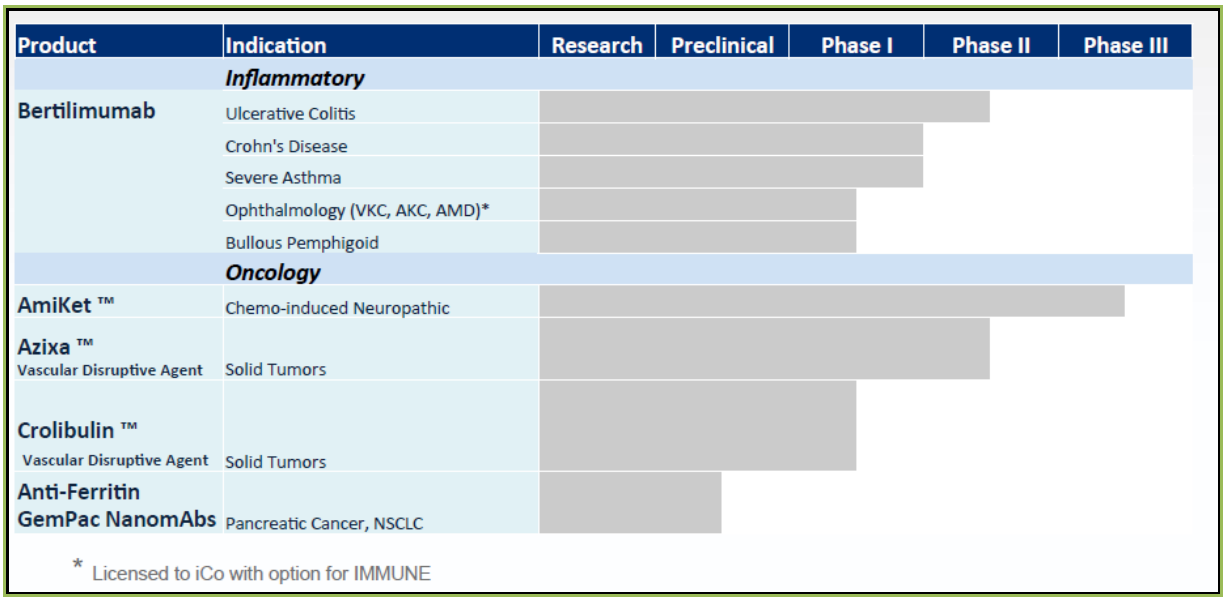
The merger will create a public company with multiple clinical stage drug candidates.

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

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

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

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

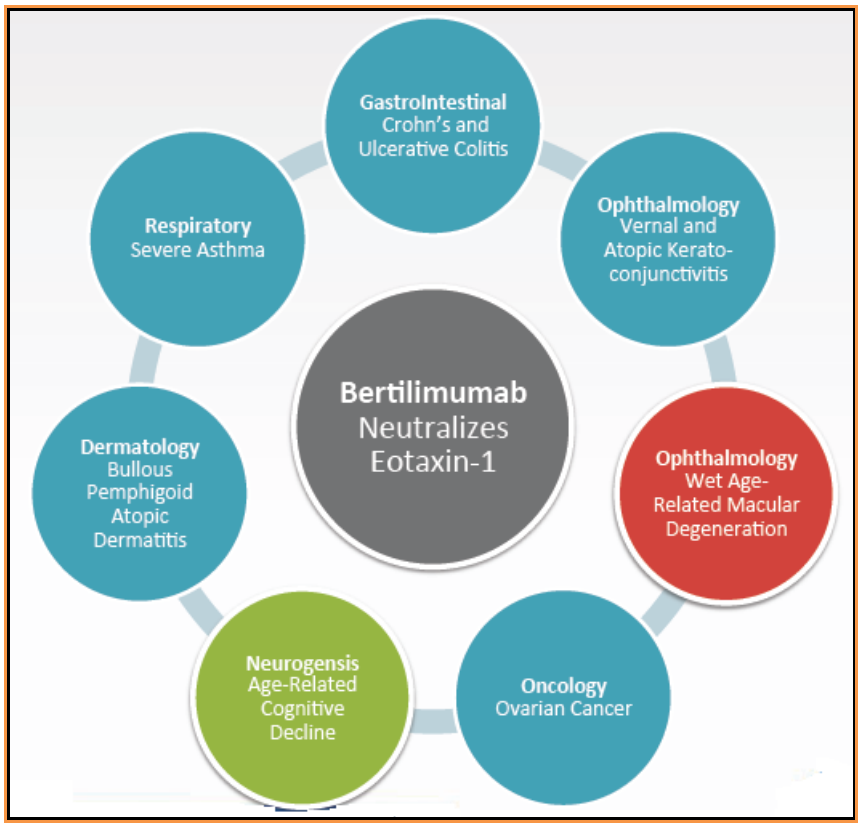


Bertilimumab Targets Multiple Indications

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

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

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



Immune is developing Bertilimumab for the treatment of **inflammatory bowel diseases** (UC and CD) as well as other indications. The Company is currently initiating, following authorization from Israeli health authorities, a placebo-controlled, double-blind **Phase II** clinical trial with bertilimumab in 90 patients for the treatment of active moderate-to-severe **ulcerative colitis**. Immune expects to report results from this trial in 2014. Peak sales for combined UC and CD indications in major markets (US/EU/Japan) could reach $1 billion for Bertilimumab.

NanomAbs, Next Generation Antibody Drug Conjugates

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

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

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

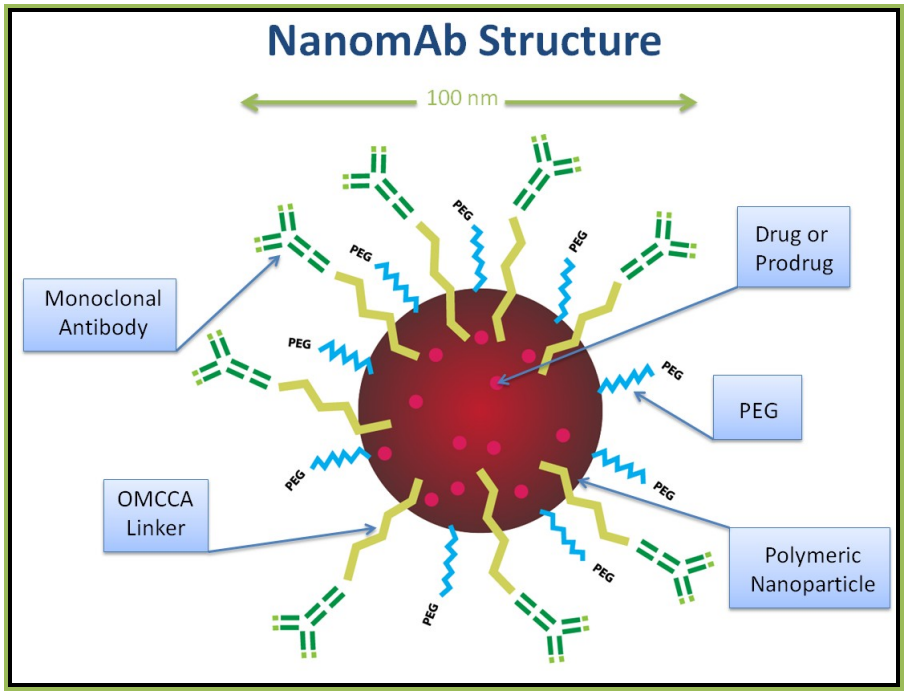
However, the use of main stream chemotherapies eliciting therapeutic effect in different mechanisms of action than that of cytotoxins is currently not possible using ADCs. The relatively low mAb to drug ratio and the lack of possibilities of tailored combined therapy limit therapeutic options.

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

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

There are four modules in the NanomAbs system:

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



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

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

Ceplene Rights are Sold to Meda AB

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

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

On January 24, 2012, EpiCept Corporation (EPCT) received further encouraging guidance for the **Phase III** clinical and nonclinical development and subsequent New Drug Application (NDA) filing of **AmiKet™**

in the treatment of chemotherapy- induced peripheral neuropathy (CIPN) based on the issuance of the final minutes of the Company's meeting with the FDA in December 2011.

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

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

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

The key element of the proposed Phase III clinical program is a 12-week, four-arm, factorial designed trial in CIPN that would seek to demonstrate AmiKet's superiority compared with placebo and with each of the component drugs of AmiKet™, amitriptyline and ketamine. EpiCept intends to submit the protocol for this trial to the FDA via a Special Protocol Assessment (SPA). An additional two-arm efficacy study in another painful peripheral neuropathy may be performed as an alternative strategy to a second factorial-designed trial for the NDA filing, which could potentially lead to a broader label in the treatment of peripheral neuropathic pain.

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

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

We think responses from both the FDA and CHMP are positive. This is a very favorable outcome that will likely benefit AmiKet's market opportunity and time to NDA or MAA filing. Further, this will facilitate

the efforts to identify potential acquirers or strategic partners to advance AmiKet™ towards approval and commercialization.

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

Update on Other Clinical Programs

Crolibulin is a vascular disruption agent (VDA) that has demonstrated potent anti-tumor activity in both preclinical and early clinical studies. In December 2010 the National Cancer Institute initiated a **Phase Ib/II** trial for crolibulin to assess safety and efficacy in combination with cisplatin in patients with anaplastic thyroid cancer. The Phase I safety portion of the trial has completed enrollment, and the Phase II randomized efficacy proof-of-concept study is expected to commence later this year.

Azixa is a novel small molecule VDA and apoptosis inducer, Azixa is a lipophilic compound that collects in the brain at significant concentrations. The compound was discovered by EpiCept and licensed to Myrexis, Inc. as part of an exclusive, worldwide development and commercialization agreement. In August 2012 Myrexis terminated its License and Collaboration Agreement with EpiCept relating to Azixa. In December 2012 Myrexis licensed to EpiCept all of the Myrexis Technology in return for future milestone payments and a royalty on commercial sales. EpiCept is currently analyzing the Myrexis Technology and will determine its future plans for Azixa in consultation with Immune. Azixa has received orphan drug status in the U.S. for the treatment of glioblastoma multiforme (GBM).

F573 (previously known as EP1013) is a di-peptide small-molecule compound with a potent inhibitory effect on caspases, a class of enzymes involved in cell death and inflammation. Drug efficacy has been shown in animal models relating to liver failure, brain ischemia and myocardial infarction. In April 2012 EpiCept announced that new preclinical research for F573 concluded that the compound is a new therapeutic drug candidate for the treatment of late-stage viral infection-induced hepatitis. The data were published in the Chinese Pharmacological Bulletin (2102 Volume 28 (1):136-139). EpiCept licensed rights to a series of patents for F573 in China, Japan other key territories to GNI Group Ltd. to develop this drug for liver diseases.

VALUATION AND RECOMMENDATION

We maintain our Outperform rating on EpiCept shares while we are waiting for the closing of the merger with Immune. Our 12-month price target is $0.45 per share for the combined company at this time.

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

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

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

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

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

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

Our price target is based on all the information we currently have. We estimate that after the merger the combined company will have approximately 425 million shares outstanding. Based on the fundamentals of the combined company, we think that the value for the combined company should be somewhere between $150 million and $300 million in market cap compared to its peers. Our price target of $0.45 per share values the company roughly at $200 million in market cap, which we think is fare. But our rating and price target may change when we have further information about the combined company after the merger close in 3Q13. We will keep investors posted in this regard.

PROJECTED INCOME STATEMENT

	2009A	2010A	2011A	2012A (Dec)					2013E (Dec)					2014E (Dec)	2015E (Dec)
$ in million except per share data	FYA	FYA	FYA	Q1	Q2	Q3	Q4	FYA	Q1	Q2	Q3	Q4	FYE	FYE	FYE
Product Revenue	$0.00	$0.17	$0.09	$0.05	$0.58	$0.00	$0.00	$0.63	$0.38	$0.30	$0.30	$0.30	$1.28	$3.50	$7.50
R&D revenue	$0.41	$0.80	$0.86	$0.19	$6.03	$0.87	$0.09	$7.18	$0.00	$0.00	$0.00	$0.00	$0.00	$0.50	$0.50
Total Revenues	**$0.41**	**$0.97**	**$0.94**	**$0.24**	**$6.60**	**$0.87**	**$0.09**	**$7.81**	**$0.38**	**$0.30**	**$0.30**	**$0.30**	**$1.28**	**$4.00**	**$8.00**
YOY Growth	-	*133.3%*	*-2.3%*	*1.3%*	*2847.3%*	*216.7%*	*-56.0%*	*3179.4%*	*67.9%*	*9.1%*	*44.9%*	*-68.2%*	*469.6%*	*1354.5%*	*3764.7%*
CoGS	0.00	0.97	0.69	0.00	0.40	0.00	0.01	0.40	0.14	0.11	0.11	0.11	0.49	2.00	3.60
Gross Income	**$0.41**	**($0.00)**	**$0.25**	**$0.24**	**$6.21**	**$0.87**	**$0.08**	**$7.40**	**$0.23**	**$0.19**	**$0.19**	**$0.19**	**$0.79**	**$2.00**	**$4.40**
Gross Margin	*100.0%*	*-0.2%*	*26.7%*	*99.6%*	*94.0%*	*100.0%*	*92.3%*	*94.8%*	*62.0%*	*62.0%*	*62.0%*	*62.0%*	*62.0%*	*50.0%*	*55.0%*
SG&A	$7.55	$7.25	$6.45	$1.43	$1.38	$0.85	$0.94	$4.61	$0.81	$0.80	$0.80	$0.80	$3.21	$4.50	$4.00
% SG&A	-	-	-	-	-	-	-	-		-	-	-	-	-	-
R&D	$11.60	$8.13	$7.85	$1.30	$0.96	$1.10	$0.04	$3.40	$0.33	$0.30	$0.30	$0.30	$1.23	$4.50	$5.00
% R&D	-	-	-					-		-	-	-	-	-	-
Other	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
% Other	-	-	-					-					-	-	-
Operating Income	**($18.7)**	**($15.4)**	**($14.1)**	**($2.5)**	**$3.9**	**($1.1)**	**($0.9)**	**($0.6)**	**($0.9)**	**($0.9)**	**($0.9)**	**($0.9)**	**($3.6)**	**($7.0)**	**($4.6)**
Operating Margin	-	-	-	-	-	-	-	-	-				-	-	-
Other Net	($20.1)	($0.2)	($1.6)	($2.2)	($1.7)	($1.7)	$0.0	($5.5)	($0.2)	($0.2)	($0.2)	($0.2)	($0.8)	($1.0)	($1.0)
Pre-Tax Income	**($38.8)**	**($15.5)**	**($15.7)**	**($4.7)**	**$2.2**	**($2.8)**	**($0.9)**	**($6.1)**	**($1.1)**	**($1.1)**	**($1.1)**	**($1.1)**	**($4.4)**	**($8.0)**	**($5.6)**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($38.8)**	**($15.5)**	**($15.7)**	**($4.7)**	**$2.2**	**($2.8)**	**($0.9)**	**($6.1)**	**($1.1)**	**($1.1)**	**($1.1)**	**($1.1)**	**($4.4)**	**($8.0)**	**($5.6)**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares Out	*40.1*	*47.8*	*68.3*	*77.1*	*91.6*	*84.6*	*92.3*	*86.4*	*106.6*	*112.0*	*114.0*	*425.0*	*189.4*	*450.0*	*500.0*
Reported EPS	**($0.97)**	**($0.32)**	**($0.23)**	**($0.06)**	**$0.02**	**($0.03)**	**($0.01)**	**($0.07)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.00)**	**($0.02)**	**($0.02)**	**($0.01)**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
One time charge	*$19.83*	*$0.00*	*$0.62*	*$0.94*	*($2.60)*	*$0.00*	*$0.00*	*($1.67)*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($19.0)**	**($15.5)**	**($15.0)**	**($3.8)**	**($0.4)**	**($2.8)**	**($0.9)**	**($7.8)**	**($1.1)**	**($1.1)**	**($1.1)**	**($1.1)**	**($4.4)**	**($8.0)**	**($5.6)**
Non GAAP EPS	**($0.47)**	**($0.32)**	**($0.22)**	**($0.05)**	**($0.00)**	**($0.03)**	**($0.01)**	**($0.09)**	**($0.01)**	**($0.01)**	**($0.01)**	**($0.00)**	**($0.02)**	**($0.02)**	**($0.01)**

Source: Company filings and Zacks Investment Research estimates

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