Zacks Equity Research

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Oxygen Biotherapeutics, Inc.

(OXBT-NASDAQ)

OXBT: Skin Trial Shows Benefits of Dermacyte Formulation…

Current Recommendation	**Outperform**
Prior Recommendation	**Neutral**
Date of Last Change	10/26/2009
Current Price (08/31/10)	$3.17
Target Price	**$6.00**

UPDATE

Today Oxygen Bio released data from a simple skin trial highlighting the benefits of the company's Dermacyte skin cream. Results show improvement in fine lines and blemishes or imperfections following 8 weeks of use. Management continues to sell Dermacyte in 10ml bottles online. Oxygen Bio is also now selling a Dermacyte Eye Complex online as well that should help drive revenues and reduce burn in the coming quarters.

Management is making progress with the two key initiatives for the company right now: 1) Enroll patients in the phase IIb STOP-TBI program taking place and Switzerland, Israel, and India, and 2) Ramp sales of Dermacyte online directly to consumers.

SUMMARY DATA

52-Week High	**$8.01**
52-Week Low	**$2.44**
One-Year Return (%)	**-53.83**
Beta	**0.48**
Average Daily Volume (sh)	**41,767**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$72**
Short Interest Ratio (days)	**3.03**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed**
Zacks Rank in Industry	**44 of 102**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	0 A	0 A	0 A	0 A	0 A
2011	0.1 E	0.2 E	0.4 E	0.4 E	1.0 E
2012					2.5 E
2013					4.5 E

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

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	-$0.15 A	-$0.13 A	-$0.13 A	-$0.13 A	-$0.54 A
2011	-$0.12 E	-$0.12 E	-$0.11 E	-$0.11 E	-$0.45 E
2012					-$0.40 E
2013					-$0.35 E

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

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WHAT'S NEW

Dermacyte Now Available in 10ml Pump Bottles…



On August 3, 2010, Oxygen Bio announced that Dermacyte is now available in elegant, easy-to-use 10ml pump bottles. The bottles can be purchased on the company's at www.BuyDermacyte.com. The 10ml bottle sells for $84 (about a 1-month supply).

Management is marketing Dermacyte for intended use as a spot application on fine lines, blemishes, scars or imperfections, and dry skin. On August 31, 2010, the company released results from an 8-week cosmetic study on 36 women ages 39-63 with mild-to-moderate facial wrinkles backing up the above claims. The studies investigator, Dr. Steven H. Dayan, MD, of DeNova Research in Chicago, concluded that:

- ✓ 29 woman (~80%) experienced at least one-grade improvement on the Fitzpatrick Wrinkle Assessment Scale (FWAS),
- ✓ 35 woman (~97%) experienced at least one grade of improvement compared to their baseline photos according to the investigator's Global Improvement Aesthetic Scale (GIAS),
- ✓ 30 woman (~84%) has at least a grade of improvement on their self-perception of GIAS,

…Dermacyte Backgrounder…

In September 2009, Oxygen Bio launched a limited pre-production batch of Dermacyte (oxygen concentrated gel) as a market acceptance test. Not surprisingly, based on the potential benefits and characteristics of the product, all boxes sold out by November 2009. Roughly 5,000 boxes at $24.99 (1 box = 8 doses of 0.4ml per) were sold through the company's website: www.BuyDermacyte.com. This test run allowed management to identify specific market opportunities and reformulate the concentration for better product stability.

The second phase of the Dermacyte rollout began in April 2010 when management made available a new formulation for direct sales. The company is marketing these products to medical spas through a combination in−house sales and exclusive distributor network. The company has hired a sale manager in New York to oversee the rollout. Oxygen Bio plans to expand its headcount to focus on L.A., Miami, Arizona, and Michigan with additional agents and distributors.

Management is also selling a new Dermacyte Eye Complex formulation in a 15ml bottle available for $120 online. This product adds PFC technology, as well as other ingredients including fragrances and moisturizers such as sunflower oil, avocado essence, vitamin C, and other antioxidants. Dermacyte Eye Complex decreases flakiness, roughness, and dryness around the eye contour area, and reduces the appearance of dark circles and puffiness though increased oxygenation and hydration.



It's an exciting addition to the Dermacyte product suite. Future product lines include facial creams, moisturizers with SPF, hand and body lotions, toners, lip balms, exfoliators, and regenerating serums. These products can be marketed to physician's offices, spas, sole proprietor boutiques, and non-television direct marketing, and internet through a two-tier-model using the company's own internal sales force and distributors and network marketing partners.

PROJECTED FINANCIALS

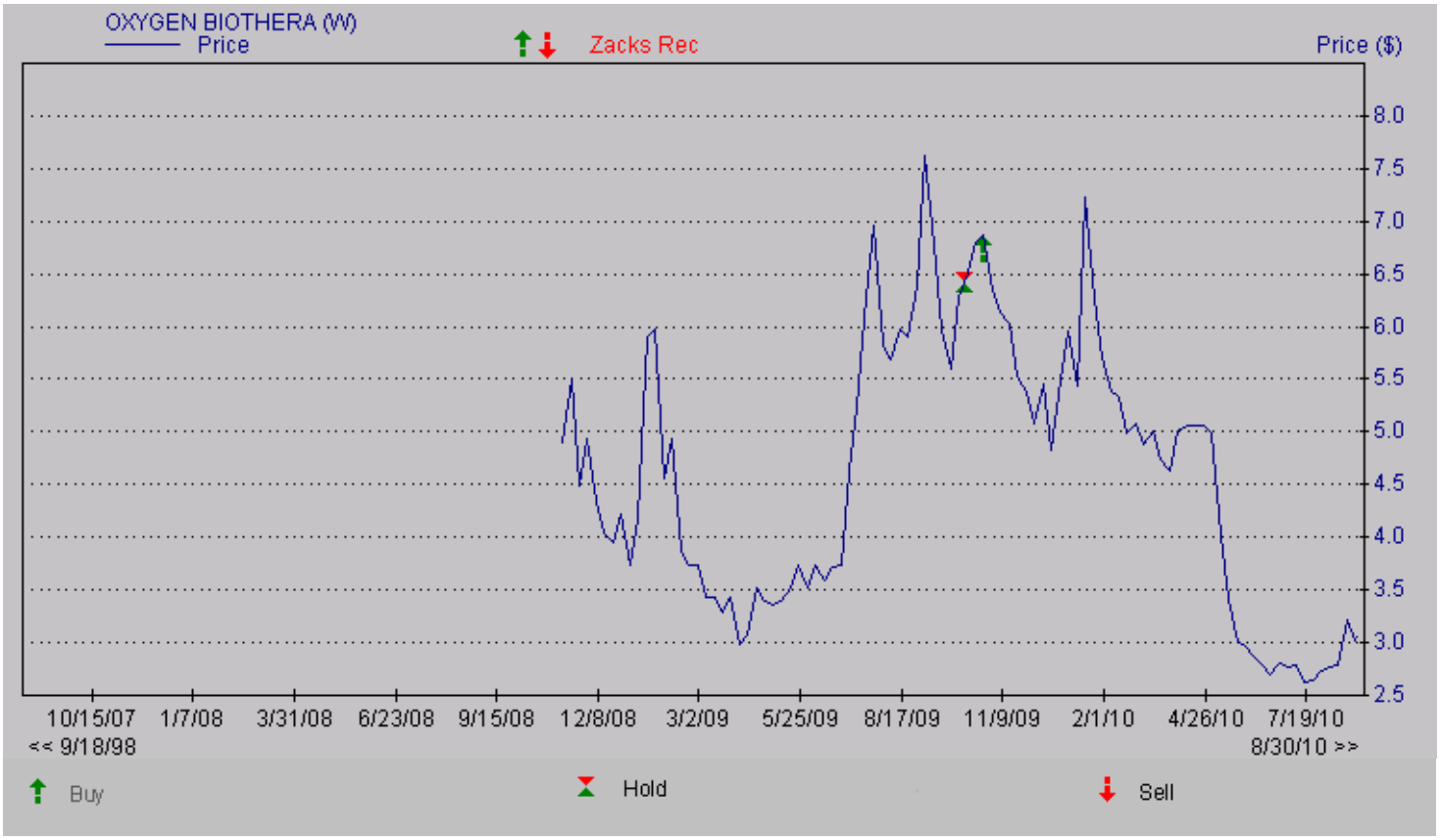
Oxygen Biotherapeutics, Inc. – Income Statement

	Apr-09	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Apr-11	Apr-12	Apr-13
Fiscal Year	**2009 A**	**2010 A**	**Q1 E**	**Q2 E**	**Q3 E**	**Q4 E**	**2011 E**	**2012 E**	**2013 E**
Total Product Sales	**$0**	**$0**	**$0.10**	**$0.15**	**$0.30**	**$0.35**	**$0.90**	**$2.25**	**$4.00**
YOY Growth	-	-	-	-	-	-	-	*150.0%*	*77.8%*
Licensing & Collaborative	**$0**	**$0**	**$0**	**$0**	**$0.05**	**$0.05**	**$0.10**	**$0.25**	**$0.50**
YOY Growth	-	-	-	-	-	-	-	*150.0%*	*100.0%*
Total Revenues	**$0**	**$0**	**$0.10**	**$0.15**	**$0.35**	**$0.40**	**$1.00**	**$2.50**	**$4.50**
YOY Growth	-	-	-	-	-	-	-	*150.0%*	*80.0%*
Cost of Goods Sold	$0	$0	$0.03	$0.04	$0.08	$0.09	$0.23	$0.56	$1.00
Product Gross Margin	-	-	-	-	-	-	-	-	-
SG&A	$7.00	$7.24	$1.60	$1.65	$1.65	$1.70	$6.60	$8.65	$9.55
% SG&A	-	-	-	-	-	-	-	-	-
R&D	$1.60	$2.92	$1.00	$1.05	$1.10	$1.10	$4.25	$4.50	$5.50
% R&D	-	-	-	-	-	-	-	-	-
Operating Income	($8.60)	($10.15)	($2.53)	($2.59)	($2.48)	($2.49)	($10.08)	($11.21)	($11.55)
Interest & Other Net	($24.86)	($0.35)	($0.20)	($0.15)	($0.15)	($0.15)	($0.65)	($0.75)	($0.85)
Pre-Tax Income	($33.46)	($10.51)	($2.73)	($2.74)	($2.63)	($2.64)	($10.73)	($11.96)	($12.40)
Taxes / Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*5%*
Net Income	($33.46)	($10.51)	($2.73)	($2.74)	($2.63)	($2.64)	($10.73)	($11.96)	($12.40)
YOY Growth	-	-	-	-	-	-	-	-	-
Reported EPS (Basic)	**($2.90)**	**($0.54)**	**($0.12)**	**($0.12)**	**($0.11)**	**($0.11)**	**($0.45)**	**($0.40)**	**($0.35)**
YOY Growth	-	-	-	-	-	-	-	-	-
Wt. Ave. Shares Outstanding	11.6	19.5	23.0	23.5	24.0	25.0	23.9	30.0	35.0

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

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HISTORICAL ZACKS RECOMMENDATIONS



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