Zacks Small-Cap Research

March 22, 2011
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Oxygen Biotherapeutics, Inc. (OXBT-NASDAQ)

OXBT: Dermacyte Ramping, But Cash Remains A Major Concern Near-Term…

UPDATE

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	12/10/2010
Current Price (03/22/11)	$2.01
Target Price	**$3.00**

We currently have a Neutral rating and $3 target on Oxygen Bio. The company's strong science background and seemingly limitless potential for Oxycyte certainly make for an attractive biotech investment. Additionally, with Dermacyte on the market, the company is starting to generate revenues and create shareholder value through non-clinical applications.

That being said, the company is limited by the cash they can raise and the pace at which they can generate the necessary data to keep investors enthused. We are big fans of Oxycyte and believe it has real potential in the future. We are looking forward to the company's next update.

SUMMARY DATA

52-Week High	**$5.71**
52-Week Low	**$1.85**
One-Year Return (%)	**-57.83**
Beta	**0.29**
Average Daily Volume (sh)	**29,334**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$47**
Short Interest Ratio (days)	**1.35**
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 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed**

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	0.01 A	0.04 A	0.05 A	0.25 E	0.35 E
2012					1.40 E
2013					1.85 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	-$0.13 A	-$0.09 A	-$0.11 A	-$0.10 E	-$0.43 E
2012					-$0.33 E
2013					-$0.30 E

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

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WHAT'S NEW

Fiscal Third Quarter 2011 Financial Review

On March 21, 2010, Oxygen Bio reported financial results for the fiscal third quarter ended January 31, 2011. The company reported revenues of $52,562 during the quarter, all from OTC sales of Dermacyte. Sales of Dermacyte increased 71% from the $30,768 reported in the fiscal third quarter 2010. Sales were generally in-line with our expectations for $55,000. Dermacyte revenues so far in fiscal 2011 have totaled $95,543, up an impressive 156% YTD from fiscal 2010.

Revenues from Dermacyte were derived roughly 50/50 between the U.S. and Europe (U.S. was $26,712 / EU was $25,850). Sales of Dermacyte in Europe were recorded via the distribution agreement with Dermacyte Switzerland, Limited (DSL). This was the initial 1,000 unit order placed by DSL upon initiation of the agreement signed in December 2010. The price of $25.85 per unit was in-line with our expectations. We note that Oxygen Bio and DSL have an agreement for which an additional 39,000 units will be purchased before the end of the year 2011. This should generate just over $1.0 million in revenues to Oxygen Bio alone. Add in the recently signed agreement with Comercial Uni2 for 10,000 units in calendar 2011, and we are expecting a dramatic ramp in revenues over the next several quarters in Dermacyte sales outside the U.S. Back in the U.S., Dermacyte sales are being driven by a mix of online sales and direct marketing. The majority of the sales are coming in areas where management has sales managers, including New York City, Michigan, and Arizona. We note that in October 2010, management hired a sales director with 15 years of experience in dermatological and skin care sales to elevate Dermacyte's effort to date and focus on increasing sales in the future. The company currently has 3 full-time reps in the field promoting Dermacyte skin care products.

Oxygen Bio reported research and development costs of $0.50 million during the fiscal third quarter. Expenses decreased from the fiscal first and second quarter in 2011 due to lower costs associated with the Oxycyte phase 2b STOP-TBI program, which remains on hold. R&D costs during the quarter included cosmetic skin tests on Dermacyte and increased headcount. SG&A cost in the fiscal third quarter totaled $2.28 million, up significantly from the previous quarters as management ramps the marketing and promotional expense around Dermacyte.

Expense in the fiscal third quarter were down significant from the fiscal first quarter 2011 when the company incurred one-time site set-up fees and equipment at the CRO to expand STOP-TBI into India and registration fees relating to the company's listing on the Swiss Stock Exchange. We remind investors that shares of OXBT began trading on the Swiss SIX Stock Exchange in June 2010.

Net loss reported during the fiscal third quarter 2011 totaled $2.54 million, or 11 cents per share. This was generally in-line with our forecast for a loss of 10 cents per share. Oxygen Bio exited the fiscal third quarter 2011 with $0.52 million in cash and investments. In October 2010, management entered into an agreement with Vatea Fund to issue an aggregate of $5M senior unsecured promissory notes, of which $2.0 million had been issued prior to the end of the fiscal third quarter (January 31, 2011). In March 2011, management issued another $861,000 to Vatea. Another $2.139 million remains to be issued, which we expect to take place in the next few months. These notes mature on October 31, 2013 unless otherwise requested by the holders. The notes do not accrue interest, instead, on the maturity date Oxygen Bio will pay Vatea $3M plus the outstanding principal balance. The effective interest rate at the time of maturity is roughly 17% all-in for Oxygen Bio.

Oxygen Bio burned approximately $2.3 million during the fiscal third quarter. We believe the current cash balance, along with the ability to issue another $2.1 million in promissory notes over the next few months, is sufficient to fund operations to June 30, 2011. Unless management can secure significant non-dilutive cash in April or May 2011, we expect a dilutive offering to take place in June 2011. Future dilution is our major concern for the stock right now, and our primary reason for the 'Neutral' rating despite very encouraging potential Dermacyte orders and sales.

INVESTMENT OVERVIEW

NEUROLOGICAL

…U.S. Army Grant For Oxycyte TBI…

On March 2, 2011, Oxygen Bio announced that it had received a $2.075 million, 2-year grant from the U.S. Army to study Oxycyte (perfluorocarbon emulsion) as a therapeutic intervention focused on reducing brain damage in victims of traumatic brain injury (TBI). The preclinical studies supported by this grant will examine the effects of Oxycyte on the immune system, platelet function and distribution, as well as the safety and efficacy of platelet transfusion, which can be necessary for patients with TBI and related polytrauma. Additional pharmacokinetic studies are planned to further evaluate the pharmacokinetics (pk) and safety profile of Oxycyte for treating TBI. Oxygen Bio will fund these expenses and then submit to the U.S. Army for reimbursement. The ultimate goal here is to address the U.S. FDA's regulatory concerns over injectable PFCs such as Oxycyte.

…Perfect Partnership for Oxycyte…

According to the Department of Defense (DOD) statistics, 75% of all U.S. military casualties of Operation Enduring Freedom and Operation Iraqi Freedom are caused by explosive weaponry, resulting in TBIs and blast-induced neurotrauma. They estimate that TBI accounts for ~22% of all combat casualties. There were an estimated 380k such incidences among American military personnel from 2002-2008. TBI is primarily occurs due to roadside blasts or bombs. Time to treatment is a significant hurdle to reducing the severity of TBI on the battlefield, also known as military blast injury (MBI). Roughly 50% of military severe TBI survivors suffer major long-term impairments. The ideal medication would be to rapidly provide oxygen rich fluid to the damaged tissue. It must be portable, stable at room temperature, and easy to use quickly after a TBI-MBI occurs. That's Oxycyte! As such, we expect significant U.S. military interest in Oxycyte should the planned preclinical pk and safety studies offer positive data.

…A Big Market…

According to the Centers for Disease Control (CDC), there are approximately 1.5 million people who suffer from a traumatic brain injury in the U.S. each year, about 20% of which are severe and result in hospitalization (250k) or death (50k). Causes of TBI are diverse, with the top three being: motor vehicle crashes, firearms, and falls. TBI is the #1 cause of disability among those under the age of 35. Roughly 50k people die from TBI each year and 100k people suffer long term disabilities post injury. In the U.S. alone, more than 5.3 million people are currently living with long-term disabilities caused by TBI. The average cost of care for someone post a severe TBI is between $50k and $75k per year. Early-stage clinical work conducted by Oxygen Biotherapeutics demonstrates that 40% to 70% of damaged brain tissue can be saved by Oxycyte post TBI. Preclinical animal studies demonstrated that rats treated with Oxycyte following a lateral fluid percussion injury (LFPI) had statistically superior scores (lower times to complete) on Morris water maze tests than rats receiving saline solution only.

STOP-TBI Remains On Hold

The company's phase 2b traumatic brain injury (TBI) program, STOP-TBI (Safety and Tolerability of Oxycyte in Patients with Traumatic Brain Injury) is currently on hold while management finalizes the new protocol and sites for enrollment in the second cohort. As a reminder, the trial began enrollment in December 2009 with a target enrollment of 98 patients. The initial protocol called for patients presenting to the emergency room with severe, non-penetrating traumatic brain injury at sites in Switzerland (11) and Israel (4). Enrollment in the first cohort has completed and in September 2010 an independent data safety monitoring board (DSMB) cleared the trial to comment enrollment into the second cohort of patient.

However, in an effort to speed up and enrollment through targeting a wider patient population, management filed to amend the protocol to include patients with patients with mild-to-moderate TBI. Management also opened enrollment to Israeli soldiers who suffer severe brain injury during active service. Plus, in May 2010, management formalized a working relationship with global CRO to assist in enrollment and expansion. Oxygen Bio is using the CRO to expand the program into five clinical sites in India. Opening the trial to patients in India creates a potential low-cost avenue to speed up enrollment. Additionally, by allowing patients with mild-to-moderate TBI, the potential patient population is greatly expanded for Oxycyte.

Although we are disappointed with the speed of enrollment over the past year, the changes management has made to expand sites and widen the population should greatly improve the situation in 2011. So far there have been no serious adverse events that would prohibit commencement into the second and third cohorts of the study. However, funding also remains a key hurdle to re-initiating the program. Management is hoping to re-initiate enrollment, including new sites in India, in the next few months, although visibility remains low at this point. We remind investors that this is a randomized, double-blind program, and we will not see data from STOP-TBI until all subjects have been treated and analyze. This will most likely not be until the second half of 2012.

…Navy Work In DCS Continues…

We note the U.S. Navy is also looking at Oxycyte for the potential treatment of decompression sickness. An IND for this indication is expected in 2011. In June 2010, the U.S. Navy release data from a study demonstrating decreased mortality in porcine animal models that were given an intravenous dose of Oxycyte emulsion after the onset of decompression sickness (DCS). These results showed a statistically significant decrease in mortality compared with the control group that did not receive Oxycyte. The data was published in the June issue of *Aviation Space and Environmental Medicine*. The authors of the paper are Drs. Richard T. Mahon, Tomas T. Watanabe and Charles R. Auker and Madison C. Wilson, all of the Undersea Medicine Department at the U.S. Naval Medical Research Center. Their work was funded by the Office of Naval Research.

DCS Study	Oxycyte (n=25)	Control (n=29)	p-value
Survival at 24-Hours	72%	45%	p<0.05
Functional Recovery at 24-Hours (% scoring >3 on Tarlov scale)	52%	28%	-

Oxygen Bio and the U.S. Navy have signed a cooperative research and development agreement (CRADA) to continue to study Oxycyte in DCS in preclinical trials. Two dose range studies completed –await results. Two studies underway to evaluate effect of hyperbaric oxygen therapy after treatment with Oxycyte.

Approval for use of Oxycyte by the U.S. Navy based on animal-rule data could come by 2012. This could be a significant opportunity for Oxygen Bio based on the characteristics of the drug and the potential for broad-scale deployment on U.S. or NATO submarines. In a bullish scenario, we envision the U.S. Navy purchasing Oxycyte for its 250 – 300 submarines with an estimated 100 to 120 doses per ship. The same characteristics that make Oxycyte attractive to the U.S. Army – portable, stable at room temp, easy to use – also fit well within what the U.S. Navy would be looking for on a disabled vessel.

…Preclinical SCI Data Shows Encouraging Neuroprotection with Oxycyte…

On June 3, 2010, Oxygen Biotherapeutics reported that two preclinical studies demonstrated Oxycyte delivered marked neuroprotective effects in rat a model of spinal cord injury. The data show histologically, Oxycyte improved the volume of preserved neuronal tissue in the spinal cord following injury. The data also show a favorable improvement in functional recovery as assessed by footprint analysis six weeks post treatment. The study was entitled, “Possible Role of Hyperbaric Oxygen Therapy (HBO) and Oxycyte After Spinal Cord Injury in Rats," and will be part of the poster sessions at the National Neurotrauma Symposium on June 14-16, 2010 at the Paris Hotel in Las Vegas. Results of the first study entitled "Evaluation of the Neuroprotective and Behavioral Effects of the Perfluorocarbon Oxycyte After Spinal Cord Injury (SCI) in the Rat" were presented in September 2009 at the annual National-International Neurotrauma Symposium by Dr. Ross Bullock, University of Miami Miller School of Medicine. Both studies received funding from Oxygen Biotherapeutics.

This is encouraging preclinical data and allows management to move closer toward filing an investigation new drug (IND) application in spinal cord injury perhaps at some point in the future. According to statistics from various studies compiled by the National Spinal Cord Injury Statistical Center in Birmingham, AL, an estimated 12,000 new cases of spinal cord injury occur each year in the U.S. The number of people living in the United States with SCI is estimated to be approximately 260,000 people. Neuroprotection with Oxycyte remains a core focus for the company. The company is currently seeking a development partner for SCI.

TOPICAL

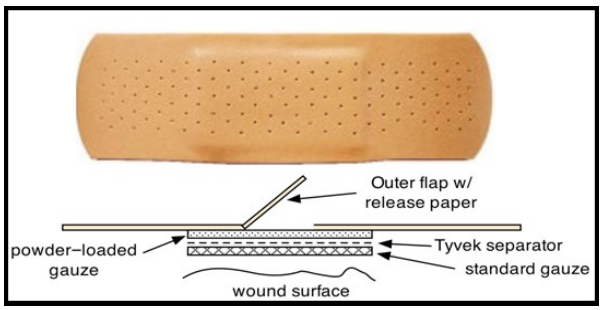
…Teaming Up To Advance Wundecyte…

In January 2011, Oxygen Bio announced it has signed a research contract with Hackensack University Medical Center (HUMC) to research the healing properties of Wundecyte and its novel oxygen-producing bandage for the treatment of full-thickness excisional wounds and partial thickness burns. The goal of the preclinical study will be to evaluate the ability of Wundecyte to prevent scar formation and improve infection control. The project is funded by the U.S. Department of Defense. Hackensack University Medical Center, a 775-bed teaching and research hospital affiliated with the University of Medicine and Dentistry of New Jersey -- New Jersey Medical School, is the largest provider of inpatient and outpatient services in the state of New Jersey.

In December 2010, Oxygen Bio announced that they have signed an agreement with privately held Sarasota Medical Products, Inc to determine the feasibility of pursuing a joint research and development venture for treating chronic ischemic wounds based on Oxygen Bio's Wundecyte formulation. These wounds can include diabetic ulcers, decubitus ulcers (bed sores or pressure ulcers), and stasis dermatitis (inflammatory skin disease associated with chronic venous insufficiency with venous hypertension).

Oxygen Bio's Wundecyte product is a novel gel perfluorocarbon emulsion designed to be used as a wound-healing agent that delivers oxygen to a wound alone, or in combination with a specialized oxygenating bandage. Sarasota Medical Products' oxygen delivery devices include WoundSeal I, a chambered device specifically designed to deliver liquids and gels to a wound surface; WoundSeal II, a dressing with a plurality of layers designed to deliver one or more beneficial materials to the skin for the treatment of chronic wounds and burns; and OxyShield, a topical oxygen chamber designed to deliver hyperbaric oxygen to acute and chronic wounds to aid in initiating angiogenesis. This represents an interesting and potentially very symbiotic relationship for Oxygen Bio.

We see this as a pretty significant opportunity for Wundecyte. There are an estimated 20 million diabetics in the U.S., roughly 15% of which go on to develop foot ulcers, with 1-2% requiring amputation. Decubitus ulcers are common on the scalp, back, buttocks, tailbone, hip heel or any other area to which pressure is applied while a person is lying down for extended periods of time. According to the 1999 National Pressure Ulcer Prevalence Survey, intensive care units have the highest prevalence rates among different hospital settings. The survey also found pressure ulcer prevalence in long-term care facilities is an estimated 10-30% of patients. Stasis dermatitis affects a significant portion of the elderly population. Studies have estimated the prevalence of stasis dermatitis affects 15 to 20 million people over age 50.



In July 2009, management filed a 510K on Wundecyte gel. The company cited previously approved oxygen-producing / oxygen-carrying devices as predicate. The U.S. FDA responded that the bandage will be regulated as a combination device, with the drug component (Oxycyte) requiring extensive preclinical and clinical studies to be conducted prior to the potential commercialization of the product. We note that Wundecyte is being developed in collaboration with a contract lab in Virginia.

COSMETIC

…Big Orders Drive Ex-U.S. Dermacyte…

In December 15, 2010, Oxygen entered into an agreement with Dermacyte Switzerland, Ltd (DSL), a privately owned and separate company from Oxygen Bio, whereby Oxygen Bio granted DSL exclusive rights to distribute Dermacyte products in the European Union, Switzerland and Russia, as well as a nonexclusive right to use the Dermacyte trademark. Oxygen Bio does not have an ownership stake in DSL. Under the terms of the agreement, DSL has committed to purchasing 40,000 units of product by December 31, 2011, with a 10% annual growth rate thereafter, based on the 40,000 units. If DSL purchases 60,000 units of product before December 31, 2011, Oxygen Bio will grant a 30-day option to DSL to expand the applicable territory to include South America. The term of the agreement begins on December 15, 2010 and will expire December 15, 2015. As of the end of January 2011, DSL has purchased 1,000 units in an initial order. This generated $25,850 in revenue. DSL recently placed an order for another 10,000 units in March 2011.

We believe this could be a significant revenue driver for Oxygen Bio. Using the above transfer price of $25.85 per unit, if DSL upholds its send of the agreement and purchases the remaining 39,000 units before December 31, 2011, it would generate over $1.0 million in revenues to Oxygen Bio. In calendar 2012, the commitment increased to 44,000 units. With no increase in transfer price, that should generate $1.1 million to Oxygen Bio alone.

On March 10, 2011, Oxygen Bio announced it has entered into an agreement with independently owned and operated Comercial Uni2, S.A. de C.V. of Mexico, for the sale of Dermacyte products. Under the terms of the agreement, Comercial Uni2 has exclusive rights to sell and distribute Dermacyte skin care products throughout Mexico. Comercial Uni2 has committed to purchase a total of 10,000 units of Dermacyte over the next year, with an escalating purchase requirement in effect for the following four years. The commitment increases to 20,000 for year two and 35,000 for year three. We are modeling a similar transfer price to the DSL deal above. In calendar 2011, this should generate $250,000 in revenues. The agreement also includes an option for Comercial Uni2 to add Central America as a territory.

Between DSL and Comercial Uni2, we should see over 50,000 units of Dermacyte sold outside the U.S. in calendar 2011. These sales are admittedly lower margin than the U.S. direct market and online sales. In the U.S., a 10ml vial of Dermacyte retails for $85. Nevertheless, it provides management with much needed cash. The Dermacyte story is starting to take hold. We see the product generating $2 million in revenues in calendar 2012. Upside to this figure can come from the signing of an Asia/Japan distribution agreement. We believe this could provide for another 20,000 to 40,000 units in 2012.

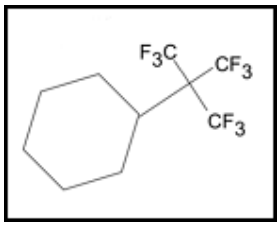
…U.S. Rollout Slow Going…

Back in the U.S., Dermacyte sales are being driven by a mix of online sales and direct marketing. The majority of the sales are coming in areas where management has sales managers, including New York City, Michigan, and Arizona. We note that in October 2010, management hired a sales director with 15 years of experience in dermatological and skin care sales to elevate Dermacyte's effort to date and focus on increasing sales in the future. The company currently has 3 full-time reps in the field promoting Dermacyte skin care products. These reps are focusing on dermatologists and plastic surgeons. The direct sales model is being driven by online sales, specifically from Skin Care & Beauty website: www.Dermstore.com:



COMPANY BACKGROUNDER

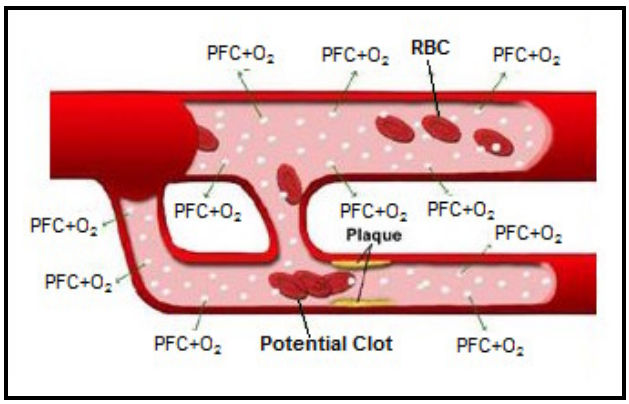
Oxycyte (perfluoro-*tert*-butylcyclohexane, $C_{10}F_{20}$) is the company's third generation perfluorocarbon (PFC) therapeutic oxygen carrier. It is designed to enhance oxygen delivery to damaged tissues. When used as an intravenous emulsion, Oxycyte can carry as much as 4x the amount of oxygen as a normal red blood cell (RBC) despite being nearly 1/50th the size. Oxycyte has 50x greater O_2 solubility and diffusibility than RBCs and can move through the circulatory system at rates up to 2x the speed of hemoglobin. Thus, Oxycyte is highly efficient for transporting oxygen to tissues and carrying carbon dioxide (CO_2) to the lungs for disposal. Oxycyte is not a blood substitute because it does not include white blood cells, antibodies, or plasma. There are no supply issues and no disease transmission / typing or cross-matching limitations. It also has a shelf-life far greater than the 42 days for human donated blood. Oxygen Bio expects to market Oxycyte with a 12 to 18 month shelf-life, although in theory the product could last much longer given its chemically and thermally stable structure. And, because Oxycyte is not based on animal hemoglobin, it does not have the safety issues or antibody formation associated with hemoglobin-based products. In fact, Oxycyte is metabolically inert and offers acceptable organ elimination yielding a very favorable risk-benefit profile for its potential indications.



- ✓ Forms stable emulsion – Superior safety profile
- ✓ Metabolically inert – No antibody formation / No disease transmission
- ✓ Acceptable Organ Clearance / Appreciable Residence Time
- ✓ Carries 4x more O_2 than RBCs, 50x smaller than RBCs
- ✓ Offers 50x higher O_2 solubility and diffusibility
- ✓ Moves 2x faster than hemoglobin through blood stream
- ✓ No supply issues / No cross-matching limitations / Stable at room temp

The above characteristics of Oxycyte massively enhance the ability of oxygen to get from the blood stream to the target tissues. Oxycyte acts as a sort of conduit by facilitating transport of oxygen through plasma. Oxycyte improves the solubility and diffusibility of blood plasma, a rather poor O_2 dissolving substance, by filing in the gaps between RBCs and plasma that previously inhibited transport. Size and movement, along with solubility, play a significant role in this process.

Since Oxycyte is so small and moves so fast compared to RBCs, the candidate has obvious advantages in patients in low-oxygen stress post myocardial infarction or stroke. Oxycyte has the ability to quickly enter these areas or squeeze by a blockage or clot in the arteries far superior to RBCs. However, Oxycyte also offers potential uses for when damaged tissue requires oxygen for survival, such as in the area of traumatic brain injury, decompression sickness and arterial gas embolism, and severe wound treatment.



RECOMMENDATION

Does Oxycyte do what management says it does? (Key Efficacy Question)

In theory, Oxycyte has the potential to be a wonder drug – a sort of WD-40 of medicine. Preclinical data suggests that Oxycyte has astounding potential for the treatment of traumatic brain injury, decompression sickness, carbon monoxide poisoning, sickle cell crisis, organ preservation, and as a neuroprotectant in patients with spinal cord injury, myocardial infarction or stroke. The effects in TBI were clearly evident in the phase 1 program conducted by Oxygen Bio in 2006. Data from the phase 2b STOP-TBI will become available in 2012. However, data from small animal studies show that intravenous injection of Oxycyte following lateral fluid percussion injury acts as a neuroprotectant in preserving neuronal cell counts and improving brain tissue oxygen consumption. Other small animal studies suggest that Oxycyte can improve circulating oxygen levels and cerebral blood flow following an induced ischemic stroke. These results suggest that Oxycyte treatment can greatly improved the cognitive recovery and prevent cell damage in patients with TBI, spinal cord injury, or ischemia due to MI or stroke. The high gas solubility characteristics of Oxycyte suggest significant potential in treating decompression sickness, carbon monoxide poisoning, and surgical iatrogenic air embolism. Our research turned up a significant number of journal articles and abstracts that support the empirical efficacy of PFC's and Oxycyte. We are extremely pleased to see the U.S. Army offer Oxygen Bio a 2-year, $2.075 million grant to study the effects of Oxycyte on the immune system, platelet function and distribution, pharmacokinetics, and safety.

- In our opinion, the science and theory behind Oxycyte is outstanding. Additionally, preclinical data is very encouraging. What the company lacks real clinical trial data showing potential in pharmaceutical applications. Oxygen Bio is limited in this respect by cash and the ability to fund these studies. A major partnership would be a tremendous win for shareholders.

Is it safe? (Key Safety Question)

Oxycyte is biochemically and metabolically inert. It is thermally stable, and produces no immune response or antibody formation. Fluosol's clinical development was held up by concerns the drug initiated an immuno-suppressive effect. To date, Oxycyte has been shown to offer no interaction with the immune system. PFC's are clearly safer than hemoglobin based oxygen carrying solutions (HBOCs) when it comes to risk of vasoconstriction. Oxycyte also offers a significant advantage over donated blood in terms of type matching, stockpiling, and infection. The FDA's concern, which ultimately delayed the initiation of a phase 2 program in the U.S., was on the risk of thrombocytopenia (low platelet count). Theoretically there should be no reason why a small injection of Oxycyte should cause low platelet count. There were no signs of thrombocytopenia in the preclinical or phase I program.

For the phase 2 STOP-TBI program, management has established a "platelet and thrombocytopenia" task force to assess data collection along with an independent data safety monitoring board (DSMB). If management can alleviate the FDA's concerns on thrombocytopenia as a result of STOP-TBI, U.S. registration trials shouldn't be too far off. Besides TBI, we could see Oxycyte in clinical programs for decompression sickness (DCS) and spinal cord injury through collaboration with the U.S. Navy. The U.S. Navy has established a $3.9 million budget through 2012 to determine he safety and effectiveness of PFCs in the treatment of DCS and arterial gas embolism (AGE). The porcine model data publish in June 2010 from the Office of Naval Research certainly helps move this goal forward.

- We have little reason at this point to be concerned with the safety profile of Oxycyte. The preclinical profile is clean and so far there have been no issues to warrant concern in the phase IIb STOP-TBI program, or from topical or cosmetic use.

Conclusion

We currently have a Neutral rating and $3 target on Oxygen Bio. The company's strong science background and seemingly limitless potential for Oxycyte certainly make for an attractive biotech investment. Additionally, with Dermacyte on the market, the company is starting to generate real revenues and create shareholder value through non-clinical applications. That being said, the company is limited by the cash they can raise and the pace at which they can generate the necessary data to keep investors enthused. We are big fans of Oxycyte and believe it has real potential in the future, but the cash situation keeps us on the side-lines.

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	Apr-14
Fiscal Year	**2009 A**	**2010 A**	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 E**	**2011 E**	**2012 E**	**2013 E**	**2013 E**
Total Product Sales	**$0**	**$0**	**$0.01**	**$0.04**	**$0.05**	**$0.25**	**$0.35**	**$1.15**	**$1.60**	**$2.05**
YOY Growth	-	-	-	-	-	-	-	-	*39.1%*	*28.1%*
Licensing & Collaborative	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0.25**	**$0.25**	**$0.25**
YOY Growth	-	-	-	-	-	-	-	-	*0.0%*	*0.0%*
Total Revenues	**$0**	**$0**	**$0.01**	**$0.04**	**$0.05**	**$0.25**	**$0.35**	**$1.40**	**$1.85**	**$2.30**
YOY Growth	-	-	-	-	-	-	-	*305.2%*	*32.1%*	*24.3%*
Cost of Goods Sold	$0	$0	$0.00	$0.01	$0.03	$0.14	$0.17	$0.54	$0.70	$0.84
Product Gross Margin	-	-	*95.1%*	*75.2%*	*50.6%*	*46.0%*	*50.7%*	*50.9%*	*53.1%*	*54.6%*
SG&A	$7.00	$7.24	$1.88	$1.51	$2.28	$2.15	$7.83	$8.00	$8.50	$9.00
% SG&A	-	-	-	-	-	-	*2265.2%*	*571.4%*	*459.5%*	*391.3%*
R&D	$1.60	$2.92	$1.15	$0.57	$0.50	$0.60	$2.82	$3.00	$3.25	$3.50
% R&D	-	-	-	-	-	-	*815.1%*	*214.3%*	*175.7%*	*152.2%*
Operating Income	($8.60)	($10.12)	($3.02)	($2.06)	($2.755)	($2.64)	($10.47)	($10.14)	($10.60)	($11.04)
Interest & Other Net	($24.86)	($0.35)	$0.03	($0.00)	$0.21	$0.14	$0.37	$0.14	$0.12	$0.11
Pre-Tax Income	($33.46)	($10.47)	($3.00)	($2.06)	($2.54)	($2.50)	($10.10)	($10.00)	($10.48)	($10.93)
Taxes / Other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*5%*	*5%*
Net Income	($33.46)	($10.47)	($3.00)	($2.06)	($2.54)	($2.50)	($10.10)	($10.00)	($10.48)	($10.93)
YOY Growth	-	-	-	-	-	-	-	-	-	-
Reported EPS (Basic)	**($2.90)**	**($0.54)**	**($0.13)**	**($0.09)**	**($0.11)**	**($0.10)**	**($0.43)**	**($0.33)**	**($0.30)**	**($0.27)**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Wt. Ave. Shares Outstanding	11.6	19.5	23.2	23.4	23.4	25.0	23.7	30.0	35.0	40.0

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

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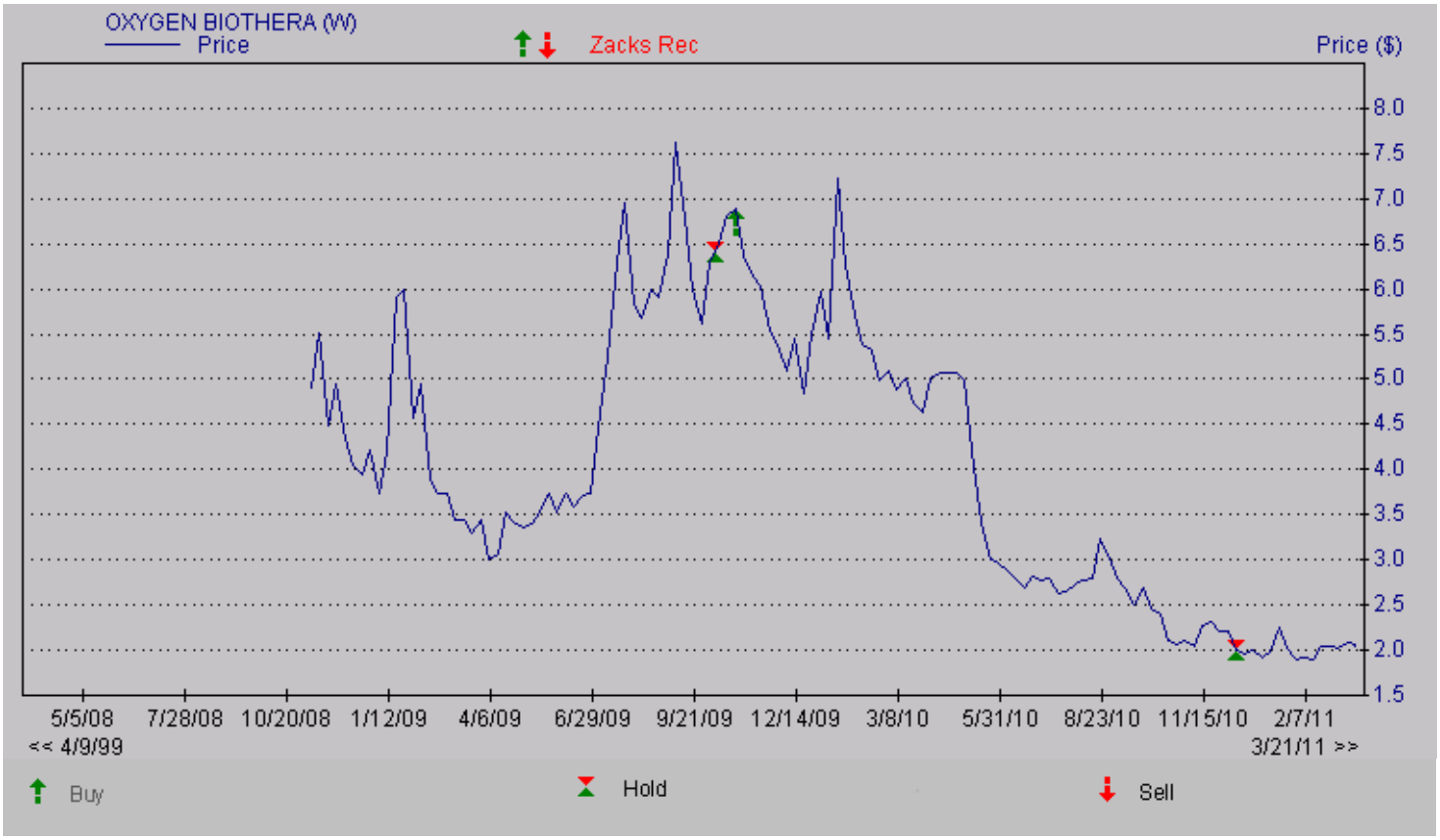

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