Zacks Small-Cap Research

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Oxygen Biotherapeutics, Inc. (OXBT-NASDAQ)

OXBT: Fiscal Q1 Numbers In-Line With Expectations, Waiting on STOP-TBI…

UPDATE

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	12/10/2010
Current Price (09/20/11)	$2.12
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	**$3.01**
52-Week Low	**$1.71**
One-Year Return (%)	**-16.92**
Beta	**0.28**
Average Daily Volume (sh)	**37,911**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$51**
Short Interest Ratio (days)	**4.05**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**31**
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)
2011	0.01 A	0.04 A	0.05 A	0.23 A	0.32 A
2012	0.06 A	0.75 E	0.20 E	0.25 E	1.51 E
2013					1.50 E
2014					2.25 E

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

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2011	-$0.13 A	-$0.09 A	-$0.11 A	-$0.12 A	-$0.45 A
2012	-$0.12 A	-$0.10 E	-$0.12 E	-$0.11 E	-$0.44 E
2013					-$0.42 E
2014					-$0.36 E

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

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WHAT'S NEW

Q1 Financial Review

On September 20, 2011, Oxygen Bio reported financial results for its fiscal first quarter 2012. The company reported revenues of $59,477 million during the quarter, all from sales of Dermacyte. Sales were $33,477 in the U.S. (wholesaler and retail) and $26,000 in Latin American (distributor). Cost of sales was $34,604, resulting in a net gross margin of $24,873, or 42%.

As noted above, all Dermacyte sales were in North America or Latin America. There were no sales in Europe via Dermacyte Switzerland Limited (DSL). We remind investors that DSL ordered 40,000 units for calendar 2011. Based on the revenues reported so far this year, about $300,000 total, it looks as though DSL is coming up far short on its commitment. In fact, we estimate that DSL has purchased only about 10,000 of its 40,000 commitment. Sales in Latin American through Comercial Uni2, which placed a 10,000 unit order in calendar 2011, also seem to be coming up shy of forecasts.

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 $0.65 million during the fiscal first quarter. R&D expense should begin to ramp over the next few quarters as the phase 2b STOP-TBI (Safety and Tolerability of Oxycyte in Patients with Traumatic Brain Injury) program resumes enrolling patients and expands in Israel and India. We remind investors that the first cohort has completed enrollment and enrollment in the second cohort should commence as soon as the company can secure a new GMP manufacturer and finalize the protocol. We expect the trial to initiate shortly and continue into the second half of 2012. Management also plans to continue testing on the topical formulation of Oxycyte for pruritus in the coming months. Eventually the plan is to bring Wundecyte into the clinical for pruritus, dermatitis, and acne in 2012.

In March 2011, Oxygen Bio received confirmation of a $2.07M, two-year cost reimbursement award from the U.S. Army to conduct safety related studies for Oxycyte. The 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 studies under this grant will be conducted to evaluate the pharmacokinetics of PFCs in relevant species. The goal of these studies will be to support the safety profile of Oxycyte PFC emulsion, and convince the U.S. FDA to release the clinical hold allowing U.S. clinical trials. We note the U.S. Navy remaining in preclinical animal studies with Oxycyte in decompression sickness (DCS) as well.

SG&A expense in the fiscal first quarter was $1.80 million, which included $0.23 million of marketing and sales expense around Dermacyte and $1.57 million of general and administrative expenses. We expect total SG&A to grow in the coming quarters as management expands the commercial infrastructure around Dermacyte. Additionally, we expect the company to incur costs associated with the CEO search after the ousting of former CEO, Chris J. Stern.

Net loss reported during the fiscal first quarter 2012 totaled $2.87 million, or 12 cents per share. This was generally in-line with our forecast for a loss of 11 cents per share. Oxygen Bio exited the fiscal first quarter ended July 31, 2011 with $4.00 million in cash and investments. This includes a $4.5 million private placement convertible note offering in June 2011. Management sold notes convertible into 2.2 million shares of common stock (@ $2.255 per share) and warrants to purchase 0.72 million shares of common stock with an exercise price of $2.15 per share, warrants to purchase 0.72 million shares of common stock with an exercise price of $2.60 per share, and warrants to purchase 0.72 million shares of common stock with an exercise price of $2.85 per share. We believe management now has adequate cash on hand to fund operations into calendar 2012. Future dilution is our major concern for the stock right now, and our primary reason for the 'Neutral' rating despite very encouraging potential Dermacyte sales.

A Dermacyte Catalyst

On the fiscal first quarter conference call, held on September 20, 2011, we asked management about distributor sales of Dermacyte to DSL. Management noted that DSL placed a "large" order late in the fiscal fourth quarter 2011 – estimated at around 10,000 units – and that there were no placements in the fiscal first quarter 2012. In total, we estimate that DSL has purchased only 11,000 units. The commitment was for a total of 40,000 units in 2011. That means DSL should be placing an order for 29,000 units in the next three months. We have calculated that the distributor transfer price is around $26 per unit, meaning the company should be receiving an order totaling just over $750,000 worth of Dermacyte before year-end.

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. The scandal with former CEO, Chris J. Stern, has also cast a dark cloud over the company, and we believe the stock remains squarely in "show me" mode. We are big fans of Oxycyte and believe it has real potential in the future, but upside may be limited until we see the clinical data in 2012.

PROJECTED FINANCIALS

Oxygen Biotherapeutics, Inc. – Income Statement

	Apr-10	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Apr-12	Apr-13	Apr-14
Fiscal Year	**2010 A**	**2011 A**	**Q1 A**	**Q2 E**	**Q3 E**	**Q4 E**	**2012 E**	**2013 E**	**2013 E**
Total Product Sales	**$0.05**	**$0.32**	**$0.06**	**$0.75**	**$0.20**	**$0.25**	**$1.26**	**$1.25**	**$2.00**
YOY Growth	-	*580.3%*	-	-	-	-	-	*-0.8%*	*60.0%*
Licensing & Collaborative	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0.25**	**$0.25**
YOY Growth	-	-	-	-	-	-	-	*0.0%*	*0.0%*
Total Revenues	**$0.05**	**$0.32**	**$0.06**	**$0.75**	**$0.20**	**$0.25**	**$1.51**	**$1.50**	**$2.25**
YOY Growth	-	*580.3%*	-	-	-	-	*368.3%*	*-0.6%*	*50.0%*
Cost of Goods Sold	$0	$0.22	$0.03	$0.41	$0.10	$0.13	$0.67	$0.75	$0.85
Product Gross Margin	-	*32.0%*	*41.8%*	*45.0%*	*50.0%*	*50.0%*	*46.6%*	*40.0%*	*57.5%*
SG&A	$7.24	$7.98	$1.80	$1.90	$2.05	$2.10	$7.85	$8.75	$9.00
% SG&A	-	*2476.9%*	-	-	-	-	*520.1%*	*583.3%*	*400.0%*
R&D	$2.92	$2.68	$0.65	$0.65	$0.70	$0.70	$2.70	$3.00	$3.50
% R&D	-	*831.9%*	-	-	-	-	*179.0%*	*200.0%*	*155.6%*
Operating Income	($10.11)	($10.56)	($2.43)	($2.21)	($2.65)	($2.68)	($9.72)	($11.00)	($11.10)
Interest & Other Net	($0.35)	$0.11	($0.44)	($0.35)	($0.40)	($0.40)	($1.59)	($1.50)	($1.50)
Pre-Tax Income	($10.46)	($10.45)	($2.87)	($2.56)	($3.05)	($3.08)	($11.31)	($12.50)	($12.60)
Taxes / Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*5%*	*5%*
Net Income	($10.46)	($10.45)	($2.87)	($2.56)	($3.05)	($3.08)	($11.31)	($12.50)	($12.60)
YOY Growth	-	-	-	-	-	-	-	-	-
Reported EPS (Basic)	**($0.54)**	**($0.45)**	**($0.12)**	**($0.10)**	**($0.12)**	**($0.11)**	**($0.44)**	**($0.42)**	**($0.36)**
YOY Growth	-	-	-	-	-	-	-	-	-
Wt. Ave. Shares Outstanding	19.5	23.3	24.1	24.8	25.5	28.5	25.8	30.0	35.0

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

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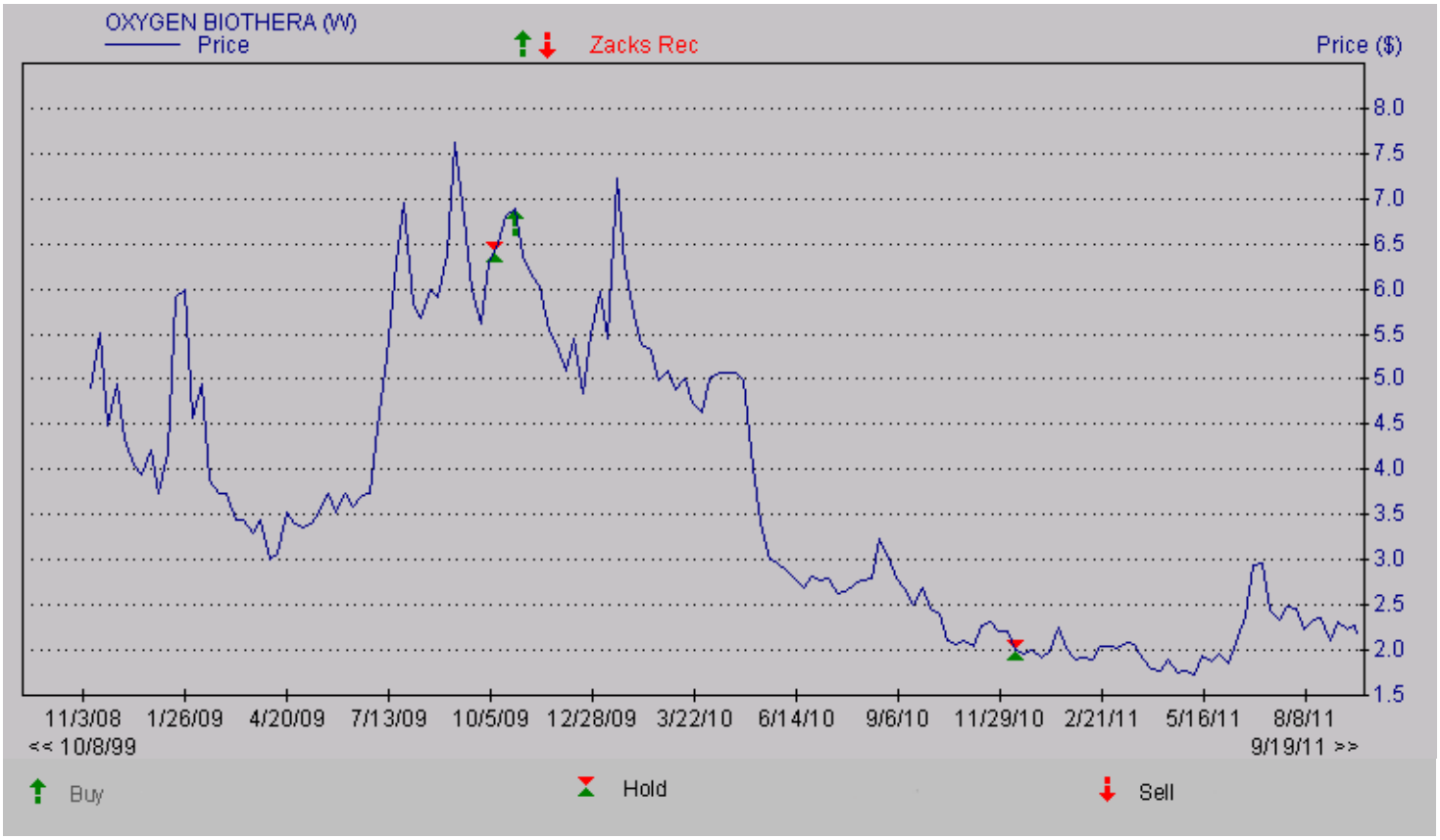

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