Zacks Small-Cap Research

August 16, 2013

Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Aethlon Medical (AEMD-OTCBB)

AEMD: Remain Encouraged By Ongoing Progress

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	03/12/2012
Current Price (08/16/13)	$0.18
Target Price	**$0.20**

OUTLOOK

AEMD's novel blood filtration device could have utility in the treatment of Hepatitis-C, HIV, sepsis, cancer and bioterror applications. Data from key clinical trial for HCV in India was announced throughout 2012. AEMD just got FDA approval to run a human study which is a major milestone and helps to de-risk the company in our opinion. Compassionate use recently commenced in India. In Sept 2011 AEMD was awarded U.S. DARPA gov't contract related to development of a sepsis treatment device. AEMD completed the initial $2.0MM portion and is now booking revenue from the year 2 contract. An additional $3.2MM could be awarded in the following years. DARPA contracts provide near-term revenue/cash while also providing credibility of the technology and potentially facilitating the quest towards regulatory approval and commercialization. Material risks remain but AEMD has made meaningful progress in mitigating some of these.

SUMMARY DATA

52-Week High	**$0.26**
52-Week Low	**$0.06**
One-Year Return (%)	**92.50**
Beta	**0.15**
Average Daily Volume (sh)	**554,080**
Shares Outstanding (mil)	**176**
Market Capitalization ($mil)	**$32**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**16**
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	**High,**
Type of Stock	**N/A**
Industry	**Med-Hmo**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2012	0.0 A	0.0 A	1.0 A	0.4 A	1.4 A
2013	0.2 A	0.4 A	0.2 A	0.4 A	1.2 A
2014	0.2 A	0.4 E	0.4 E	0.3 E	1.4 E
2015					1.5 E

Earnings per Share

	Q1 (Jun)	Q2 (Sep)	Q3 (Dec)	Q4 (Mar)	Year (Mar)
2012	-$0.03 A	-$0.00 A	-$0.01 A	-$0.04 A	-$0.08 A
2013	-$0.01 A	-$0.01 A	$0.00 A	-$0.02 A	-$0.03 A
2014	-$0.00 A	-$0.00 E	-$0.00 E	-$0.01 E	-$0.02 E
2015					-$0.02 E

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

© Copyright 2013, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW….

Q1 10-Q (ending 6/30/2013)

Aethlon filed their 10-Q for the fiscal first quarter ending 6/30/2013 on August 13th. Revenue came in in-line with our number with operating income coming in much better than our estimate as a result of AEMD doing a nice job of cutting operating expenses and conserving resources. AEMD booked $196k in DARPA contract revenue in Q1 which was in-line with our number. Revenue relates to the twelfth milestone under the DARPA contract (the fourth milestone under the year-2 contract). Subsequent to the end of fiscal Q1 AEMD invoiced for and was paid another $404k which relates to the thirteenth and fourteenth milestones.

AEMD also disclosed in the 10-Q that they have submitted to Battelle their first invoice for work the company is doing under the previously announced subcontract agreement that the company has with Battelle related to the $22.8 million systems integrator contract with DARPA. AEMD's initial invoice is for just over $20k which we assume will be recorded and collected in fiscal Q2. As a reminder, AEMD's subcontract is a time and materials contract so the total that AEMD will eventually bill will not be known until their work is completed. We do, however, think it's likely that there will be additional revenue contribution from this contract throughout the year.

The milestone paid in Q1 related to the year-2 DARPA contract is (per AEMD's 10-Q);

Milestone 2.3.2.2 – Formulate initial design based on work from previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment was $195,596. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to build and test selected instrument design and tubing sets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Through July 2013 AEMD has booked approximately $3.2 million in DARPA revenue and had approximately $390k remaining to invoice under the year 2 contract. As a reminder, DARPA has the option of entering into the remainder of the proposed contract for years three through five, which would pay Aethlon up to an additional $3.2 million, annual payments under which would range between $775k and $1.6 million.

Q1 operating expenses were $980k, well below our $1.2 million estimate and the lowest since fiscal Q2 2012 (ending 9/30/2011). This is a result of management's focus on conserving resources and keeping op expenses to a minimum as well as lower litigation and investor relations expense. Operating loss was $784k, significantly better than our $1.0 million loss estimate. Q1 net income and EPS of ($304)k and ($0.00) were better than our ($1.2) million and ($0.01) estimates and benefitted from a $609k non-cash gain from change in value of derivative liabilities.

Cash

Aethlon exited fiscal Q1 with $32k in cash and equivalents, compared to $125k at the end of fiscal 2013 (3/31/2013). However, subsequent to fiscal Q1 quarter end the company raised an additional $500k through the sale of a combination of common stock ($100k) and 90 day notes ($400k from two company directors). And, as noted, subsequent to the end of the quarter AEMD collected $404k from the 13th and 14th DARPA milestones. AEMD also recently signed an agreement with a broker-dealer to raise additional capital. The company also continues to make progress with cleaning up its balance sheet with converting some outstanding and non-performing debt to equity.

Cash used in operations was $221k in Q1, which is significantly less than recent periods (including $522k used in Q4. As we've noted in the past, AEMD has been very successful in raising operating capital on an ongoing basis.

Along with their ongoing ability to continue to raise operating capital, we have been encouraged, from the standpoint of strengthening their financial position and balance sheet, by the success of converting some of their outstanding debt to stock. While a substantial portion of debt remains in default, the company continues to make progress on cleaning up their balance sheet, which we view as meaningful from a de-risking perspective. We reiterate, however, as we have in the past, that Aethlon will need to raise a substantial amount of cash, enter into partnering arrangements or score additional valuable contracts/grants in order to complete the recently announced U.S. safety study and to be able to maintain operations for the longer-term. Nonetheless, we believe management's recent progress should not be marginalized.

Using DCF To Value AEMD

Since initiating coverage of Aethlon Medical back in March 2012 we listed several risks and concerns, some of which we felt precluded us from assigning a reasonable value on the company. Among the greatest concerns, which we felt had the potential to essentially stop the company in its tracks, were AEMD's outstanding and non-performing debt as well as the real uncertainty of whether FDA would ever green-light the company to run U.S. human trials. And while the debt issue remains an overhang, we feel that the company's success in continuing to raise financing (particularly financing that is subordinate to the debt) and ongoing progress with converting some debt to equity, provides us much more comfort that their still tattered balance sheet can continue to meaningfully improve. We also view, as we explain below, the IDE approval as major positive and while this does not necessarily get the company substantially closer to eventual U.S. commercialization, it removes the most near-term hurdle that AEMD had to clear for that to happen and one that had it not happened, in our opinion could have doomed the company.

For those reasons, since our July 17th update we have used a discounted cash flow model to value the company as we now feel the company's future is less uncertain (or near-term risks are at least meaningfully mitigated). We continue to expect somewhat insignificant revenue in the near-to-mid term, largely from the DARPA contract and the subcontract with Battelle. We also think there may be a small revenue contribution from compassionate use of Hemopurifier in India. But, as we noted recently, a favorable decision by the FDA on the IDE application to begin U.S. studies would potentially provide some upside to our current financial estimates over the longer term. Following the FDA green-lighting the human study, we built a 10-year DCF model through fiscal 2024. AEMD continues to make meaningful progress with de-risking including cleaning up the balance sheet, raising additional operating capital and diversifying revenue sources, including the Battelle contract (which we view as positive from both a revenue standpoint and a vote of confidence in AEMD's technoloogy), which is reflected in the slight change in our discount rate from 15% to 14%. We note, however, that meaningful risk will likely remain for some time given the potentially lengthy runway until AEMD begins to generate meaningful commercial sales, which we still believe is contingent on launching Hemopurifier in the U.S. Based on our current DCF model AEMD is valued at about $0.20/share. We are maintaining our Neutral recommendation. We feel that continued progress in hitting operational and financial milestones would provide additional de-risking and potentially further upside to the value of the company.

FDA Grants IDE, Approving Human Study With Hemopurifier

After a years-long quest, Aethlon Medical (AEMD) cleared what we view as a major milestone, announcing in late June that they received IDE approval to initiate a human feasibility study with Hemopurifier. Whether FDA would approve an IDE was an ongoing question in our mind and, given that such an approval would be required as a first step towards potential U.S. commercialization (where we believe the bulk of potential opportunity lies) of the device, was something that could have been highly detrimental to AEMD had FDA denied the IDE request.

As a reminder, in early January 2013 AEMD announced that they submitted an IDE to the FDA seeking approval to commence a 10-patient safety and effectiveness feasibility study of Hemopurifier. Included in the submission was data from the recent and ongoing studies at hospitals in India as well as HCV capture data, the latter which that the FDA had requested at a pre-IDE meeting in 2011. Then in late-March, following response from FDA which included comments and study design considerations, AEMD resubmitted the IDE.

FDA subsequently communicated that they were withholding clearance of the IDE until AEMD addressed the agency's safety concern, namely that the company detail their training and monitoring procedures for heparinization - the anticoagulant used during dialysis and with the Hemopurifier. AEMD noted in early May that they were gathering the requested information and expected to have it submitted to FDA in the coming week (i.e. - by mid-May). Given this recent news of the approved IDE, FDA's safety concerns have clearly been satisfied.

The feasibility study will enroll 10 end stage renal disease patients infected with HCV to demonstrate safety of Hemopurifier therapy. The patients, which must not have received any HCV drug therapy for at least the preceding 30 days, will receive three treatments of standard dialysis in the first week (i.e. - control phase), followed by a total of six dialysis treatments using Hemopurifier over the next two weeks. The rate of adverse events during the control and Hemopurifier treatments will be compared. Viral load changes will also be measured in order to provide an indication of efficacy. AEMD also notes that they may also collect HCV capture data (another efficacy metric with positive results in trials in India and which FDA had previously indicated interest in). AEMD had previously announced that the study is expected to be conducted by the Renal Research Institute, a partnership between Fresenius Medical Care (FMS), a leader in dialysis products and services, and Beth Israel Medical Center in NYC. AEMD is now in the process of preparing for the study.

Assuming positive results, the expectation is this will lead to larger U.S. studies to support an eventual FDA approval filing. And while we do not expect U.S. commercialization to be a near-term event, IDE approval to conduct human studies is a huge positive, meaningful hurdle that's now cleared and significantly increases the likelihood of initiation of larger studies to support an eventual FDA filing.

Cancer / Infectious Disease Presentation

Dr. Annette Marleau, AEMD's Director of Tumor Immunology, made a poster presentation titled, "Extracorporeal Exosome Removal: A Therapeutic Strategy to Address an Evolutionary Survival Mechanism Shared by Cancer and Infectious Viral Pathogens" in April at the 2013 International Society of Extracellular Vesicles conference in Boston.

The presentation addressed cancer-secreted exosomes and the role these exosomes play in cancer progression. Aethlon's Hemopurifier directly targets exosomes in infectious diseases and is also being investigated to target cancer-secreted exosomes, something that current cancer drugs fail to sufficiently address. Pre-clinical studies with the Hemopurifier have shown that it can capture exosomes of various cancers including breast, melanoma, ovarian and colorectal.

While cancer currently remains somewhat of a back-burner application for AEMD, the company has been fairly active in pursuing additional research into the role Hemopurifier could play in cancer therapy. Aethlon's focus with cancer had until recently been mostly in the treatment of HER2 breast cancer, although they are also seriously looking at other cancers including melanoma, ovarian, colorectal and lymphoma as they believe their device could also have potential utility with targeting different pathogens and with treating other types of tumors. In particular and based on recent research, melanoma may hold promise for treatment with the Hemopurifier which Aethlon may also pursue in the near future. Furthering AEMD's quest towards application of Hemopurifier in treatment of cancers, in October 2012 the company announced that a U.S. patent was issued to them entitled "Extracorporeal Removal of Microvesicular Particles" which gives AEMD the exclusive right to remove immune suppressive microvesicular particles, which include but are not limited to exosomes from the circulation of treated patients.

Relative to melanoma Aethlon noted in a press release in June 2012 that based on findings from a study led by Cornell University and published in the (online version) journal *Nature*, that the company may pursue a melanoma treatment study that has been proposed by a (unnamed) U.S. cancer research institute.

The Cornell study found that exosomes released by melanoma cancer cells facilitated the spread of the disease throughout the body and to other organs and bones. There was also a predictive relationship between exosome levels and severity of cancer with late-stage (IV) patients presenting with much greater exosomes levels compared to earlier stage patients. This indicates that removal of exosomes from circulation could reduce progression of the deleterious effects of melanoma to other parts of the body and potentially improve patient outcomes. Aethlon has previously demonstrated in pre-clinical testing that their Hemopurifier can capture exosomes from patients with late stage melanoma.

Melanoma, the incidence of which is growing rapidly, is the most deadly form of skin cancer, accounting for approximately 4% of all skin cancer cases. Melanoma can be lethal, especially if it penetrates the lowest skin layer and enters the lymph system. Statistics show that five-year survivability is as high as 97% if melanoma if diagnosed and treated at its earliest stage (IA) but this drops precipitously as the disease progresses. As such, a device that could effectively treat these late-stage melanoma patients would have massive appeal, not just in the U.S. but worldwide.

As a melanoma study is still in the early proposal stage and Aethlon remains focused on the near-term opportunities with HCV and the DARPA contract, management does not currently have a timeline when a melanoma or other cancer study may commence. This proposed melanoma study could potentially speed Aethlon's cancer program along, although still likely to be more of a back-burner application as Aethlon pursues their near-term endeavors. Nonetheless, we view this as a positive development, potentially offering another opportunity for Aethlon and their Hemopurifier.

In September 2012 AEMD made a presentation at the MD Anderson Cancer Center in Houston entitled, "The extracorporeal removal of tumor-secreted exosomes: An adjunct strategy to reverse immune suppression and inhibit metastases in melanoma". The presentation focused on the potential of the Hemopurifier to be combined with chemo and immunotherapies as a strategy to improve melanoma treatment outcomes.

Battelle Subcontract

In mid-April AEMD announced that they have been selected as a subcontractor by Battelle Memorial Institute under Battelle's $22.8 million systems integrator contract with DARPA related to the sepsis DLT program. The systems

integrator is responsible for integrating the various component technologies developed under the DLT program by the various participating organizations, including AEMD. The contract could last as long as four years. Aethlon and NxStage are the two subcontractors which will work with Battelle to design, develop and test a mobile device to be used to treat sepsis in wounded warfighters. The device could potentially also be used with civilian patients. AEMD's focus under this contract is to develop and distribute the blood separation component technologies for the system. We view AEMD being chosen as one of the key subcontractors as a significant vote of confidence in their technology. The contract will pay AEMD on a cost (time and materials) plus margin basis so the total that AEMD will eventually bill will not be known until their work is completed. AEMD noted that they began work on this subcontract in early April and subsequent to fiscal Q1 2014 (ending June 30, 2013) AEMD submitted their first invoice under this contract, for $20k.

AEMD's Bioterror Program Potentially Revitalized

Another somewhat back-burner application for AEMD's technology has been bioterrorism. Earlier in vivo studies conducted by Aethlon and in conjunction with other organizations, including the Centers for Disease Control and Prevention (CDC), have shown the Hemopurifier was able to rapidly clear viral particles and remove glycoproteins in cell cultures fluids. Pre-clinical studies have shown success with the capture of several Category A (i.e. most serious) pathogens including the Ebola virus, Dengue virus, Lassa virus, West Nile virus, Monkeypox virus, H5N1 Avian flu virus and the H1N1 Swine flu virus.

Aethlon, in collaboration with the United States Army Medical Research Institute for Infectious Diseases (USAMRIID) and other organizations, have worked in the past to validate Hemopurifier for use against Category A threats. Studies have yet to move forward, however - possibly as enrolling for a trial with Ebola infected patients would present serious challenges. As a result, Aethlon's bioterror program had been in somewhat of a holding pattern.

AEMD's bioterror program could potentially be revitalized, however, and sparked by renewed federal funding for bioterror countermeasures (including medical countermeasures) through the Pandemic and All-Hazards Preparedness Reauthorization Act (PAHPRA) of 2013. The CBO estimates that $11 billion will be spent on PAHPRA from 2014 to 2018. Included in the scope of the program is countermeasures against the new strains of bird flu. Given Hemopurifier's success in pre-clinical studies in capturing the H5N1 Avian flu virus and the H1N1 Swine flu virus, AEMD may be in a solid position to pursue any grant funding targeting the new strains of bird flu.

APPENDIX

Milestones Related to DARPA Year-2 Contract

Milestone 2.2.1.1 – Write requirements definition for the extracorporeal blood purification system and acquire necessary equipment with a milestone payment of $358,284. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We worked on this concept for a number of months beginning with a presentation to DARPA in late 2010. We subsequently filed for IP protection on certain of the key concepts in March 2011 and our management visited selected potential vendors to work out many of the details in the summer of 2011 before we were awarded the contract on September 30, 2011. We ordered the breadboard device from one of our vendors before the milestone payment was made. We designed the breadboard prototype and then presented the design to DARPA in order to achieve the milestone.

Milestone 2.2.1.2 -- Fabricate breadboard prototypes for anticoagulation-free anti-sepsis extracorporeal system (ASEPSYS) device. Fabricate prototype blood tubing sets. Acquire anti-thrombogenic surface modified hollow fiber plasma separators with a milestone payment $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of having the breadboard prototype developed to our specifications, hiring an engineer to supervise the project, acquiring specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.2.2.1 – Begin to develop the ADAPT device to efficiently capture sepsis precursors and acquire important equipment and supplies with a milestone payment of $426,424. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. It was critically important to obtain certain pieces of lab equipment as early as possible after winning the contract in order to measure the binding ability of sepsis precursors. We demonstrated that we were able to capture one of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead.

Milestone 2.2.2.2 - Perform initial screening of the different proposed capture agents by measuring binding affinity and kinetics using surface plasmon resonance (SPR) or biolayer surface interferometry (BLI) with a milestone payment amount of $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture several of the identified possible sepsis precursors as part of our submission for approval. The consideration was also designed to cover the salaries of new and existing scientists, lab space, materials as well as fringe and corporate overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.1.3 - Assemble and test breadboard ASEPSYS devices. Evaluate the use of different techniques and approaches to eliminating anticoagulants. The milestone payment amount was $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The consideration for this milestone covers the cost of assembling and testing the breadboard prototype that we had developed to our specifications, hiring an engineer to supervise the project, testing specially coated cartridges and associated overhead. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter. DARPA made the milestone payment in full.

Milestone 2.2.2.3 - Perform preliminary quantitative real time PCR to measure viral load, and specific DNA or RNA targets. The milestone payment was $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to measure viral load of one or more targets as part of our submission for approval. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.2.1.4 - Obtain all necessary IRB documentation and obtain both institutional and Government approval in accordance with IRB documentation submission guidance prior to conducting human or animal testing. The milestone payment was $183,367. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We obtained all of the required documentation from both institutional and Government authorities. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M2 – Target capture > 50% in 24 hours for at least one target in blood or blood components. The milestone payment was $216,747. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours of one of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestones Related to DARPA Year-2 Contract

Milestone 2.3.3.1 – Build the ADAPT capture cartridges with the identified affinity agents. Measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able build the ADAPT capture cartridges with the identified affinity agents and to measure the rate of capture of the specific targets from in ex vivo recirculation experiments from cell culture and blood. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.1 – Demonstrate the effectiveness of the prototype device in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The milestone payment amount was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. The prototype device was successfully used in vivo in animals preventing platelet activation or clotting in at least a 2 hour blood pumping experiment at 75 mL/min blood flow. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone M4 – Target capture > 50% in 24 hours for at least 5 targets in blood or blood components. The milestone payment was $208,781. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to capture > 50% in 24 hours for at least 5 of the agreed targets in blood or blood components. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.2 – Formulate initial design based on work from previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment amount was $195,581. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we had

begun to build and test selected instrument design and tubing sets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.3.2.2 – (booked in fiscal Q2 2014) Formulate initial design based on work from previous phase. Begin to build and test selected instrument design and tubing sets. The milestone payment was $195,596. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we were able to build and test selected instrument design and tubing sets. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

PROJECTED INCOME STATMENT

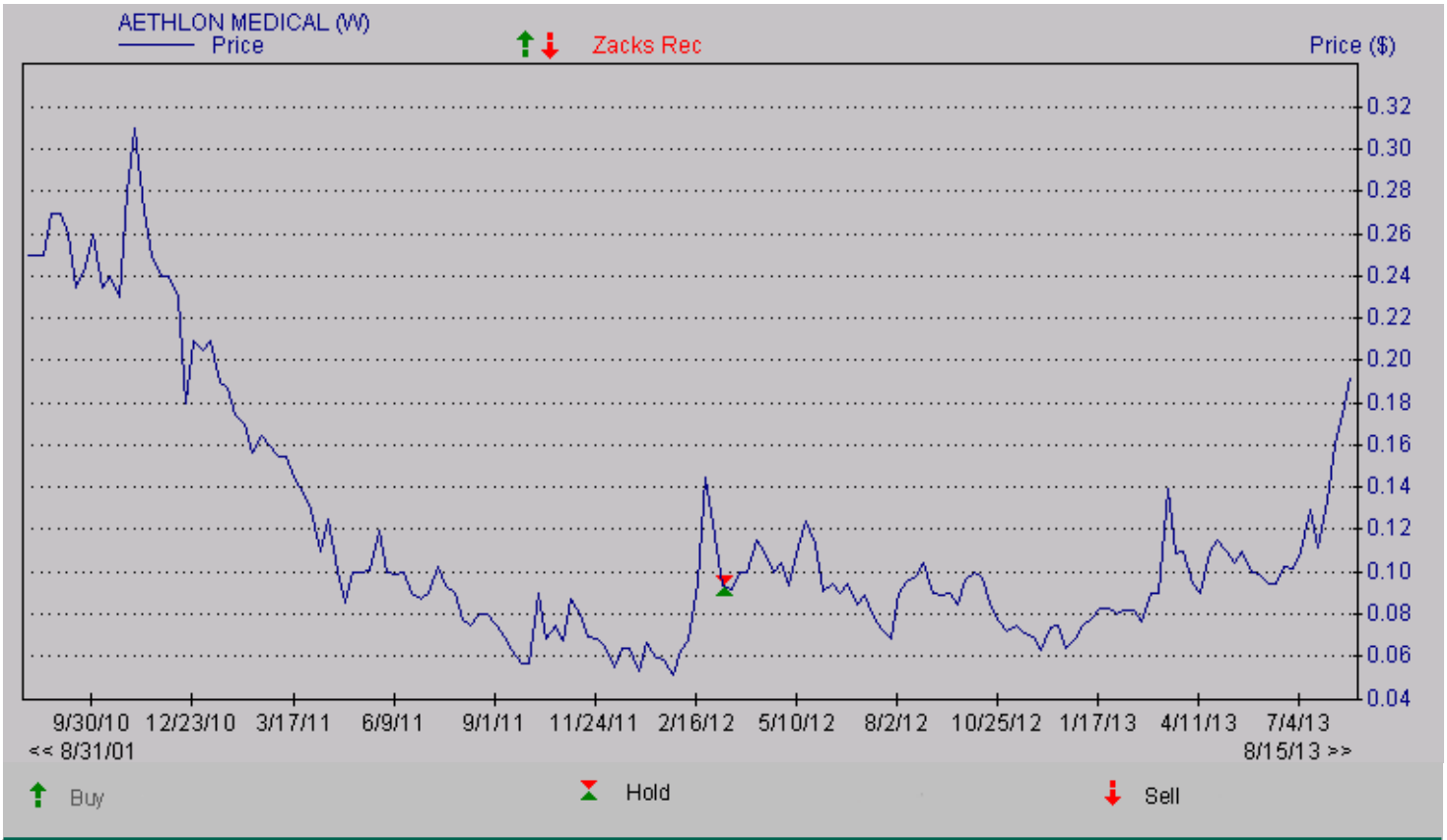
Aethlon Medical, Inc.

	2011 A	2012 A	Q1 A	Q2 A	Q3 A	Q4 A	2013 A	Q1 A	Q2 E	Q3 E	Q4 E	2014 E	2015 E
Revenue	$0.0	$1,359.6	$216.7	$400.1	$208.8	$404.4	$1,230.0	$195.6	$424.3	$413.0	$325.0	$1,387.9	$1,450.0
YOY Growth	-	-	-		*-78.2%*	*0.7%*	*-9.5%*	*-9.8%*	*6.1%*	*97.8%*	*-19.6%*	*12.8%*	*4.5%*
Cost of Goods Sold	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$5.0	$5.0	$10.0	$65.0
Gross Income	$0.0	$1,359.6	$216.7	$400.1	$208.8	$404.4	$1,230.0	$195.6	$424.3	$408.0	$320.0	$1,377.9	$1,385.0
Gross Margin	-	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*98.8%*	*98.5%*	*99.3%*	*95.5%*
SG&A	$4,117.1	$3,385.0	$915.7	$839.8	$774.4	$835.4	$3,365.4	$641.5	$730.0	$650.0	$630.0	$2,651.5	$3,800.0
% SG&A	-	*249.0%*	*422.5%*	*209.9%*	*370.9%*	*206.6%*	*273.6%*	*328.0%*	*172.0%*	*157.4%*	*193.8%*	*191.0%*	*262.1%*
R&D	$440.0	$1,089.0	$291.9	$360.1	$371.2	$416.8	$1,440.0	$337.9	$450.0	$555.0	$625.0	$1,967.9	$2,500.0
% R&D	-	*80.1%*	*134.7%*	*90.0%*	*177.8%*	*103.1%*	*117.1%*	*172.8%*	*106.0%*	*134.4%*	*192.3%*	*141.8%*	*172.4%*
Impairment	$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
Operating Income	($4,557.1)	($3,114.3)	($990.8)	($799.8)	($936.8)	($847.9)	($3,575.4)	($783.8)	($755.7)	($797.0)	($935.0)	($3,241.5)	($4,915.0)
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	$3,306.3	$77.3	$0.0	$71.1	$26.7	$42.0	$139.8	$22.8	$55.0	$60.0	$65.0	$202.8	$250.0
(Gain)/ loss on derivative liability	($6,079.8)	$766.9	($687.6)	$326.1	($1,384.3)	$1,790.4	$44.7	($609.1)	$0.0	$0.0	$0.0	($609.1)	$0.0
Interest (income), net	$3,927.7	$3,792.7	$688.6	$224.3	$106.8	$87.5	$1,107.1	$106.0	$115.0	$110.0	$105.0	$436.0	$375.0
Other expense	$0.0	$360.2	$25.0	$0.0	$0.0	$0.0	$25.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($5,711.4)	($8,111.4)	($1,016.8)	($1,421.3)	$313.9	($2,767.9)	($4,892.0)	($303.5)	($925.7)	($967.0)	($1,105.0)	($3,271.2)	($5,540.0)
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
Tax Rate	*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%*
Net Income	($5,711.4)	($8,111.4)	($1,016.8)	($1,421.3)	$313.9	($2,767.9)	($4,892.0)	($303.5)	($925.7)	($967.0)	($1,105.0)	($3,271.2)	($5,540.0)
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	*-382.1%*
EPS	($0.08)	($0.08)	($0.01)	($0.01)	$0.00	($0.02)	($0.03)	($0.00)	($0.00)	($0.00)	($0.01)	($0.02)	($0.02)
YOY Growth	-	-	*-72.7%*		*-136.9%*	*-58.6%*	*-58.9%*	*-78.6%*	*-51.7%*	*-338.5%*	*-69.0%*	*-49.6%*	*36.7%*
Diluted Shares O/ S	69,611	101,766	126,316	144,701	158,759	167,119	149,224	176,222	195,000	205,000	215,000	197,805	245,000

Brian Marckx, CFA

© Copyright 2013, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR"), Zacks & Company (ZCO") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their 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 non-investment banking services. 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 blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. 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. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the 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. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned.

ZCO and Zacks SCR are separate legal entities. ZCO is U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corp. This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments through ZCO.

Zacks SCR uses the following rating system for the securities it covers. 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 of Zacks Ratings is as follows on the 1028 companies covered: Buy/Outperform- 15.3%, Hold/Neutral- 77.3%, Sell/Underperform – 6.2%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2013, Zacks Investment Research. All Rights Reserved.