Zacks Small-Cap Research

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Umami Sustainable Seafd. (UMAM-OTCBB)

UMAM: A ship without a rudder in a sea of uncertainty. Stock now rated a sell. Dropping coverage.

Current Recommendation	**Underperform**
Prior Recommendation	Outperform
Date of Last Change	05/01/2013
Current Price (05/06/13)	$1.62
Six- Month Target Price	**$0.50**

OUTLOOK

Umami Sustainable Seafood Inc. is the global leader in producing and supplying high quality bluefin tuna for sushi and sashimi consumption in Japan. The company operates bluefin tuna farms in Kali Croatia and Baja, Mexico with a current inventory of tuna exceeding $65 million.

The company has stated that it does not have sufficient projected cash flow to fund its operations for the next twelve months.

SUMMARY DATA

52-Week High	**$2.60**
52-Week Low	**$1.30**
One-Year Return (%)	**-16.9**
Beta	**0.2**
Average Daily Volume (sh)	**5,671**
Shares Outstanding (mil)	**55.6**
Market Capitalization ($mil)	**$81.9**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
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/M**
P/E using N4Q Estimate	**N/A**
P/E using 2013 Estimate	**N/A**

Risk Level	**N/A**
Type of Stock	**Small-Growth**
Industry	**Food-Misc/Dvrsd**

ZACKS ESTIMATES

Revenue

(in millions of $)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	**$0.0 A**	**$4.8 A**	**$20.4 A**	**$0.2 A**	**$25.3 A**
2011	**$0.0 A**	**$14.4 A**	**$42.3 A**	**$0.3 A**	**$57.0 A**
2012	**$16.0 A**	**$55.6 A**	**$25.6 A**	**$0.3 A**	**$97.4 A**
2013	**$1.4 A**	**$20.8 A**	**$30.0 E**	**$0.5 E**	**$52.8 E**

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1 (Sep)	Q2 (Dec)	Q3 (Mar)	Q4 (Jun)	Year (Jun)
2010	**-$0.02A**	**$0.02A**	**$0.06A**	**-$0.01A**	**$0.06A**
2011	**-$0.03A**	**$0.03A**	**$0.15A**	**$0.01A**	**$0.17A**
2012	**$0.01A**	**$0.30A**	**$0.11A**	**-$0.01A**	**$0.40A**
2013	**-$0.14A**	**$0.02A**	**$0.08E**	**-$0.06E**	**-$0.07E**

EPS do not sum to the annual number due to changes in share count

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RECENT NEWS

When the company reported its second quarter results it stated that there was insufficient cash flow to meet its requirements over the next six months. The company is also in default on $30.0 million of debt due on Dec. 31, 2012, which has not been paid as of April 16, 2013, and debt due in one year is $56.6 million. There is also $16.9 million in receivables from Atlantis that is probably worthless.

Excluding the write off of $2.08 million (a provision for doubtful accounts) the company made a profit of $1.2 million and $0.02 a share. However, as shown below, gross margins declined on a Y/Y basis. Cash on the balance sheet declined from $10.8 million to $$4.3 million and that included borrowings of $25.2 million.

June 30 Fiscal year:		Revenue	Op. Inc.	Net Inc.*	GPM**
$ in millions	2009	$24.07	$5.72	$2.13	29.69%
	1Q10	$0.00	($0.41)	($0.53)	NM
	2Q10	$4.81	$0.63	$0.72	23.95%
	3Q10	$20.36	$3.09	$1.92	17.14%
	4Q10	$0.15	($1.15)	($0.37)	NM
	1Q11	$0.00	($1.37)	($1.49)	NM
	2Q11	$14.37	$0.91	$1.40	22.39%
	3Q11	$42.34	$6.35	$10.61	41.94%
	4Q11	$0.34	($3.29)	$0.32	NM
	1Q12	$15.97	$2.87	$0.55	48.02%
	2Q12	$55.56	$24.01	$18.29	49.93%
	3Q12	$25.59	$9.30	$7.04	51.55%
	4Q12	$0.32	($4.54)	($0.49)	NM
	1Q13	$1.44	($4.38)	($7.38)	15.26%
	2Q13	$20.84	$7.81	$1.18	46.45%

* Excludes charge for fair value adjustment, currency changes and warrant derivative charges.

GPM: Gross profit margin

Baja Farms was acquired on Nov. 10, 2010 (2Q11)

Biomass by QTR		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Start (all data in metric tons)		1720	2027	5092	2971	3418	4357	2552	1918	2337	5375
Growth, net of mortality		307	631	126	349	514	419	261	303	480	735
Caught			0	0	133	1069	0	0	132	2611	0
sold			657	2158	36	644	2208	892	16	53	975
Purchased*			3230	0	0						
Storm losses & other			139	89	-1		16	3			
End		2027	5092	2971	3418	4357	2552	1918	2337	5375	5135
		1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Growth as % start INV>	58.17%	17.85%	31.13%	2.47%	11.75%	15.04%	9.62%	10.23%	15.80%	20.54%	13.67%
Revenue		$0.00	$14.37	$42.34	$0.34	$15.97	$55.56	$25.59	$0.32	$1.44	$20.84
ASP/Ton			21878	19619	9361	24797	25161	28688	19938	27075	21370

* Baja tuna acquisition of 3080 tons is included in tuna purchased.

The tuna catch in the first quarter was a record. Tons sold over the six months were well below the prior year numbers. Given the significant amount of tuna in inventory in the 60 to 90 Kg range ($31 million) at the end of the first quarter it is surprising that sales were not higher in the second quarter. Also, by our calculation (which is not the one the company uses), growth of the fish stock was a record in the first quarter and for the six months of the current fiscal year.

	4Q10	1Q11	2Q11	3Q11*	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	0.15	0.00	14.37	42.34	0.34	15.97	55.56	25.59	0.32	1.435	20.836
ASP/Kg	N/M	0.00	0.00	19.62	20.00	24.80	25.16	29.15	27.50	27.08	N/G
Tons sold		N/M	657.00	2158.00	36.00	644.00	2208.00	892.00	16.00	53.00	975.00
Calc price/Kg			21.88	19.62	9.36	24.80	25.16	28.69	19.94	27.08	21.37
N/G: Not Given in 10Q											

Umami Tuna in inventory @ QTR end											
	4Q10	**1Q11**	**2Q11**	**3Q11***	**4Q11**	**1Q12**	**2Q12**	**3Q12**	**4Q12**	**1Q13**	**2Q13**
Under 30kg	$7.13	$2.33	$30.98	$21.06	$24.36	$24.99	$11.28	$14.77	$9.79	$23.11	$28.03
31 to 60	$8.93	$20.23	$27.00	$17.97	$10.16	$8.81	$7.31	$9.94	$18.04	$18.18	$17.94
60 plus	$3.07	$3.72	$3.72	$2.17							
61 to 90					$12.65	$20.95	$16.02	$3.90	$5.44	$12.70	$13.00
90 plus					$1.27	$1.27	$1.00	$1.53	$1.83	$3.44	$5.36
In transit					$4.61				$5.56		
Total	$19.13	$26.28	$61.70	$41.20	$53.05	$56.02	$35.61	$30.14	$40.66	$57.43	$64.33
In million US dollars											
*Baja Farms acquired in 2Q11											

Despite a record price paid for the first tuna sold at the Japanese auction (which, in our opinion, has, in the past, been a reasonable guide to the season's pricing) the company recorded a significant decline in selling prices in the second quarter, as shown above. Part of this was due to a decline in the value of the yen versus the US dollar but the company recorded a decline in selling prices per kilogram.

The following table shows the principal customers and the amount purchased by each as a percentage of total sales:

Year Ended June 30:	6 Months. FY2013	2012	2011	2010
Atlantis Japan and Atlantis Group Subsidiaries	0.2%	30.2%	71.9%	---
Mitsubishi Corporation	---	---	10.8	—
Global Seafoods Co., LTD	18.9	7.1	9.3	—
Sirius Ocean Inc.	25.2	19.5	6.9	16.5 %
Daito Gyorui Co., Ltd	---	15.2	—	82.6%
Kyokuyo	46.5	12.4	---	---

On Dec. 20, 2012 Daito Gyorui acquired, by purchase, 13 million shares in Umami, representing close to 22% of the shares outstanding at that time. Daito Gyorui was the largest buyer of tuna from Umami in the 2010 fiscal but did not buy any fish in the first six months of fiscal 2013.

Effective Dec. 8, 2012 Oli Steindorsson, CEO Board Chairman, resigned from Umami and all of its subsidiaries. Subsequent to his resignation the Board of Directors determined that his resignation should be deemed a termination for cause, and all of his vested and unvested options were cancelled. Since then Mr. Steindorsson and The Atlantis Group, which he controlled, have declared bankruptcy.

Mr. Steindorsson was replaced by Mr. James White, a member of the Board since Jan. 2011. Mr. White has significant experience in the mining and gold industries. The company has stated that they are conducting a search for a new CEO. The company does not currently have a board member with the experience and knowledge of the Japanese tuna business of the previous CEO.

Given the cash flow problems of the company and the apparent problems in appointing an experienced CEO we have decided to rate the company "Underperform" and discontinue coverage.

INCOME STATEMENT & BALANCE SHEET

Umami Sustainable Seafood													
Consolidated Statements of Operations													
(Dollars in millions except per share data)													
Fiscal Year June 30.	2010A	1Q11	2Q11	3Q11	4Q11	2011A	Q12 adjuste	2Q12	3Q12	4Q12	2012 E	1Q13	2Q13
Net sales	**$25.33**	**$0.00**	**$14.37**	**$42.34**	**$0.34**	**$57.05**	**$15.97**	**$55.56**	**$25.59**	**$0.32**	**$97.43**	**$1.44**	**$20.84**
% Change												(91.01)	(62.49)
Cost Goods	20.07	0.00	11.16	32.38	(0.31)	43.23	9.60	27.82	12.52	0.46	50.40	1.22	11.16
G & A	3.09	1.31	1.96	2.64	3.58	9.48	3.14	2.95	3.21	4.29	13.59	4.53	3.91
Other op. exp. Including commissions	0.00	0.00	0.29	0.85	0.01	1.14	0.32	0.71	0.51	0.00	1.54	0.00	0.00
R&D	0.00	0.06	0.06	0.12	0.36	0.60	0.04	0.07	0.04	0.11	0.26	0.07	0.04
Depr. & Amort.	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
Op Income GAAP	2.16	(1.37)	0.91	6.35	(3.29)	2.60	2.87	24.01	9.30	(4.54)	31.64	(4.38)	5.73
Interest Expenses	0.98	0.49	1.32	2.26	2.36	6.43	3.25	1.62	1.11	0.68	6.66	1.78	2.44
Interest Income	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
Non Op Income	(0.29)	0.47	1.31	0.29	3.97	6.05	0.11	0.12	(0.03)	1.01	1.22	(2.75)	(3.66)
Other	(1.37)	0.02	0.28	0.03	0.03	0.36	0.07	0.04	(4.20)	3.91	(0.18)	0.10	0.14
Calc.Pretax	(0.48)	(1.37)	1.18	4.41	(1.64)	2.58	(0.20)	22.55	3.96	(0.30)	26.01	(8.81)	(0.22)
Taxes	0.46	0.03	0.40	1.68	0.20	2.31	0.81	5.64	1.41	4.54	12.40	(0.38)	0.80
Tax Rate	(96.86)	(2.20)	33.87	38.02	(12.45)	89.48	(405.00)	25.02	35.48	(1528.28)	47.65	4.36	(358.11)
Other Income	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
Pro-forma adj.	1.30	0.00	0.00	7.80	2.00	9.80	1.30	0.90	4.20	3.91	10.31	0.00	2.08
Net Income	0.44	(1.49)	1.40	2.81	(1.68)	1.04	(0.75)	17.39	2.56	(4.40)	14.80	(8.23)	(0.90)
Pro-forma net income	1.74	(1.49)	1.40	10.61	0.32	10.84	0.55	18.29	7.04	(0.49)	25.40	(8.23)	1.18
Net For Common GAAP	$0.44	-$1.49	$1.40	$2.81	-$1.68	$1.04	-$0.75	$17.39	$2.84	-$4.40	$15.09	-$8.23	-$0.90
Shares Used, millions	30.04	46.29	52.15	58.41	60.00	54.45	59.51	61.31	62.98	60.00	63.05	59.52	57.38
Earnings Per Share													
EPS	**$0.01**	**($0.03)**	**$0.03**	**$0.05**	**($0.03)**	**$0.02**	**($0.01)**	**$0.29**	**$0.05**	**($0.07)**	**$0.24**	**($0.14)**	**($0.02)**
Pro Forma EPS	**$0.06**	**($0.03)**	**$0.03**	**$0.15**	**$0.01**	**$0.17**	**$0.01**	**$0.30**	**$0.11**	**($0.01)**	**$0.40**	**($0.14)**	**$0.02**

Umami Sustainable Seafood											
Consolidated Balance Sheet (in $ millions)											
Fiscal Year June 30.											
	4Q10	1Q11	2Q11	3Q11	4Q11	LQ12 adjusted	2Q12	3Q12	4Q12	1Q13	2Q13
ASSETS											
Cash & Equiv.	0.22	0.27	0.42	4.57	1.10	5.77	13.34	17.64	10.83	5.59	4.32
A/R	2.38	0.10	7.10	14.30	3.32	6.09	22.12	16.47	17.38	18.91	1.48
Inventories	19.77	27.01	62.95	43.03	55.03	59.16	39.35	33.83	44.75	62.41	67.18
Other	0.78	0.90	2.95	3.14	2.68	3.19	5.35	7.19	5.61	7.61	10.85
Total current assets	23.14	28.28	73.41	65.04	62.12	74.21	80.17	75.13	78.57	94.52	83.83
Gross Plant	8.67	9.22	14.86	15.67	16.75	15.85	17.04	17.61	16.98	24.39	24.34
Acc. Deprn	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Farming concessions	0.00	12.94	0.00	0.00	11.54	11.45	11.41	11.45	11.11	11.16	11.44
Intangibles	0.00	0.00	3.00	3.00	0.29	0.27	0.26	0.27	0.50	0.53	0.53
Other	0.01	0.01	1.19	0.67	1.02	0.81	1.11	2.40	2.61	4.03	3.76
All Assets	31.83	50.44	92.46	84.38	91.72	102.59	109.98	106.84	109.77	134.63	123.90
LIABILITIES AND NET WORTH											
Debt Due 1 Yr	0.00	0.00	25.64	23.69	24.00	7.35	20.40	18.81	27.53	48.52	56.62
Notes Payable	12.70	13.66	12.08	6.27	7.59	32.94	8.12	0.00	0.00	0.00	0.00
A/P	2.07	4.67	6.54	5.84	9.47	6.54	2.58	2.31	5.34	5.81	3.73
Taxes	0.29	0.24	0.62	1.93	1.39	2.59	6.30	7.47	7.45	2.56	9.00
Other	0.63	0.85	1.37	3.64	3.50	1.76	1.88	2.26	5.46	12.06	4.22
Total current liabilities	15.70	19.42	46.26	41.36	45.95	51.18	39.28	30.85	45.77	68.95	73.57
Conv. Debt	0.00	0.00	8.00	4.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
L.T.Debt	0.00	2.12	4.13	1.11	6.42	13.43	16.74	15.83	14.73	20.69	20.84
Other LT	0.73	11.59	1.55	2.29	2.30	3.01	2.76	5.02	1.74	4.04	0.00
Def. Taxes & ITC	0.00	0.00	1.90	1.22	0.00	2.21	2.21	2.21	1.46	1.46	1.46
Other	0.00	0.76	0.00	0.02	3.02	0.82	0.01	0.01	0.04	0.04	4.07
All Liabilities	16.42	33.88	61.83	50.00	57.68	70.65	61.02	53.92	63.74	95.18	99.95
Pref.Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.05	0.05	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Surplus	6.31	7.63	22.63	22.76	23.57	23.64	24.54	24.72	24.99	25.55	25.78
Retained Earnings	7.51	6.03	7.42	10.23	8.55	7.80	25.21	28.06	23.35	15.12	14.22
Other-Lubin & Marpesca	1.54	2.85	0.52	1.33	1.86	0.44	-0.85	0.08	-2.37	-1.28	-1.29
Treasury Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14.82
Net Worth	15.41	16.56	30.63	34.38	34.03	31.94	48.97	52.92	46.03	39.45	23.96
Total liabilities & stockholders' equity	31.83	50.44	92.46	84.38	91.72	102.59	109.98	106.84	109.77	134.63	123.90

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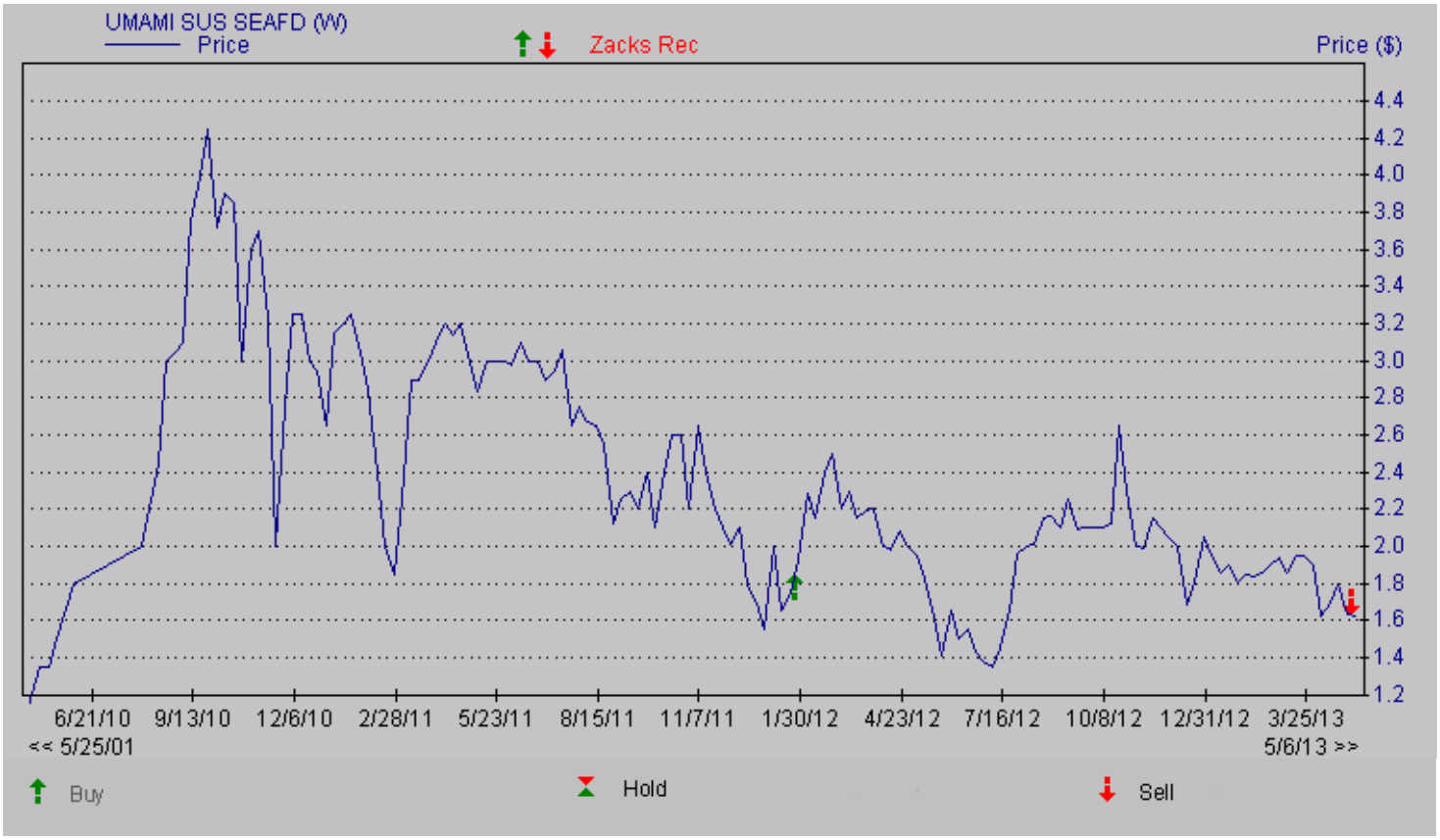
Umami Sustainable Seafood				
Condensed Consolidated Statements of Cash Flows				
Fiscal Year June 30.				
	2010A	2011A	2012A	2013 E
Cash flow from operations:				Dec. 31 2012
Net (Loss) Income as reported	0.44	1.04	15.09	-9.44
Depreciation & amortization	1.15	1.42	1.50	0.86
Amortization of goodwill & finance costs			3.442	1.58
Adjustment of business combination		7.10		
Gain on stock warrants			-0.85	
Stock based compensation			0.58	0.73
Impairment of machinery				
In-process R&D				
Other	-3.89	-10.56	-10.95	-22.04
Net cash provided by (used in) operating activites	**($2.30)**	**($1.00)**	**$8.80**	**($28.31)**
Cash flow from investments:				
Purchase of PP&E	(2.41)	(20.09)	(4.45)	(2.86)
Proceeds from disposal of PP&E			0.06	0.02
Other				(3.50)
Net cash provided by (used in) investing activities	**($2.41)**	**($20.09)**	**($4.39)**	**($6.33)**
Cash flow from financing activities:				
Proceeds from issuance of common stock		4.88	0.05	
Proceeds (payment) on lines of credit, net			(12.34)	1.27
Proceeds from debt - related parties	11.79	8.80	1.32	
Proceeds from debt	24.15	49.72	40.46	25.24
Payment on debt - related parties	(12.57)	(1.86)	(11.41)	
Payment on debt	(21.93)	(39.42)	(14.00)	
Other, inc. currency change	2.04	(0.13)	1.23	1.63
Net cash provided by (used in) financing activities	**$3.49**	**$21.99**	**$5.31**	**$28.14**
Increase (decrease) in cash and equivalents	($1.21)	$0.90	$9.72	($6.50)
Cash & equivalents at beginning of period	$1.42	$0.21	$1.10	$10.82
Cash & equivalents at end of period	$0.21	$1.10	$10.82	$4.32

HISTORICAL ZACKS RECOMMENDATIONS



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