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Research Update

Investors should consider this report as only a single factor in making their investment decision.

OxySure Systems, Inc.

Rating: Speculative Buy

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OXYS $0.80 — (OTCQB)

December 9, 2013

	2012A	*2013E*	*2014E*	*2015E*
Total revenues (in millions)	$0.27	***$1.9***	***$2.7***	***$4.9***
Earnings (loss) per share	($0.04)	***($0.03)***	***($0.04)***	***($0.02)***

52 - Week range	$2.75 – $0.35	Fiscal year ends:	December
Shares outstanding as of Nov. 13, 2013	24.2 million	Revenue/share (ttm)	$0.06
Approximate float	3.6 million	Price/Sales (ttm)	15X
Market Capitalization	$19.4 million	Price/Sales (2014)E	11X
Tangible Book value as of Sep. 30, 2013	($0.03)	Price/Earnings (ttm)	NA
Price/Book	NM	Price/Earnings (2014)E	NA

OxySure Systems, Inc., based in Frisco, Texas, manufactures and markets the OxySure Model 615, a low cost, lightweight portable emergency device that administers acute oxygen therapy. The FDA-approved Model 615 is designed to be prepositioned in public settings for use by laypersons when life-threatening medical emergencies occur. The Model 615 aims to deliver emergency oxygen therapy before first responders arrive at the scene of medical emergencies. OXYS also distributes automatic external defibrillators manufactured by all of the major producers.

Reiterating Speculative Buy and maintaining a (12-month) price target of $2.10.

OxySure's oxygen generating technology has lifesaving potential in the treatment of cardiac arrest, acute asthma or pneumonia, severe trauma, smoke inhalation, carbon monoxide poisoning and air embolism.

Untrained nonmedical personnel using the OxySure Model 615 can provide emergency therapy safely and rapidly, supporting lifesaving resuscitation before the arrival of emergency medical personnel.

OXYS' Model 615, easy to use and quickly brought to bear, is a highly suitable companion for automatic external defibrillators (AEDs). There are an estimated 2.2 million AEDs in service worldwide, roughly 60% of them in the US. OxySure aims to position the Model 615 alongside AEDs in public and private venues.

We project a revenue ramp from $2 million in 2013 to $4.9 million in 2015.

As the OxySure's Model 615 gains traction, revenue should increase to $18 million by 2017. That long-term revenue estimate is based on moderate acceptance of the Model 615, mainly as a companion to AEDs.

In 3Q13 *(results released Nov. 14, 2013)****, OXYS earned revenue of $546,000, up from $103,000 in the year-earlier quarter, but incurred a small loss (breakeven on a per share basis). We projected a loss of ($0.01) per share on revenue of $626,000. We project continued losses through 2015 but a sharp increase in revenue should make operations cash flow positive during the latter half of 2015.***

By our estimates, cash needs will require further borrowing through 2015. The increase in debt will weigh on profitability due to increases in interest expense.

See disclosures on pages 13 - 15

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Investment Recommendation

Reiterating Speculative Buy with a (12-month) price target of $2.10.

A comparison group of 140 medical device and instrument stocks with market values under $250 million is trading at a trailing price to sales multiple, excluding outliers, of 7X, vs. 15X for OXYS. The market has clearly accorded the stock a valuation that is based on anticipation of significantly higher revenue.

We value the stock at 7X estimated 2017 revenue per share of $0.63, a target of $4.40, which we have discounted by 25% to a year-ahead value of $2.10. Our discount reflects acceptance and execution risks. Our target is based on an estimated 29 million shares outstanding in 2017, reflecting shares, warrants and options outstanding as of September 30, 2013, as well as shares issued in connection with additional borrowing through 2015.

In our view, acceptance and execution risks make OXYS shares suitable mainly for highly risk-tolerant accounts.

Overview

Oxysure was founded in 2004 and went public in 2011. In 2005 the Food and Drug Administration granted the Model 615 oxygen generator 510-K clearance for over the counter sale. The 615 is approved for emergency use only. Under a military subcontract, the company sells oxygen generator components to the US government.

In early 2013 the company started distributing automatic external defibrillators. The company sells replacement single-use oxygen cartridges, and face mask and tubing systems, and replacement batteries and other AED-related supplies.

The Model 615 was introduced to US school districts in 2008. Most of the company's sales to date have been to educational facilities in more than 40 states but distribution has broadened to commercial markets. Sales have increased steadily since 2010 and should begin a sharp ramp in 2013. In addition to oxygen generators, OxySure also distributes automatic external defibrillators (AEDs), which are widely used to resuscitate cardiac arrest patients.

Oxysure's technology rapidly generates medically pure oxygen by combining two inert powders, obviating the need for storage cylinders or tanks. The OxySure Model 615 can be prepositioned in educational institutions, manufacturing facilities, commercial and government office buildings, sports stadia, restaurants, airports, military installations and a wide variety of other public venues for emergency administration of acute oxygen therapy by untrained non-medical persons. Broad emergency application potential prior to arrival of first responders or admission to an emergency medical treatment facility underlies the appeal of the Model 615.

Oxysure's technology offers lifesaving potential in cases of major adverse cardiac events, severe trauma, and respiratory distress. The design of the Model 615 eliminates or minimizes the risks of fire or explosion seen in other portable oxygen delivery systems.

OxySure sells its products through more than 40 independent commission agents in the US and overseas distributors in Australia and New Zealand, the UK, Brazil, South Africa and Turkey.

One of the company's initial objectives is positioning the Model 615 alongside automatic external defibrillators, which are widely sold in markets targeted by Oxysure. Worldwide, there are an estimated 2.2 million AEDs currently in service, roughly 60% of those in the US and another 30% in Japan. Market penetration potential is very high. If OxySure successfully positions its Model 615 together with a modest number of the AED's in service, revenue potential would be substantial.

Outlook

There is substantial revenue potential for an effective, FDA-approved low-cost acute oxygen therapy system that is safe, easy to use and can be operated by untrained non-medical personnel. The National Center for Health Statistics reports 130 million visits to US emergency rooms in 2010. Most of these visits were not for severe or life threatening conditions, but emergency room diagnoses suggest that millions might have been. In 5.4 million visits, patients were diagnosed with chest pain and another 6.4 million with abdominal pain. There were 4.1 million cases of acute respiratory infection and 1.8 million cases of asthma. There were also 29,000 cases of accidental falls, and 10.5 million cases of injuries sustained in traffic accidents.

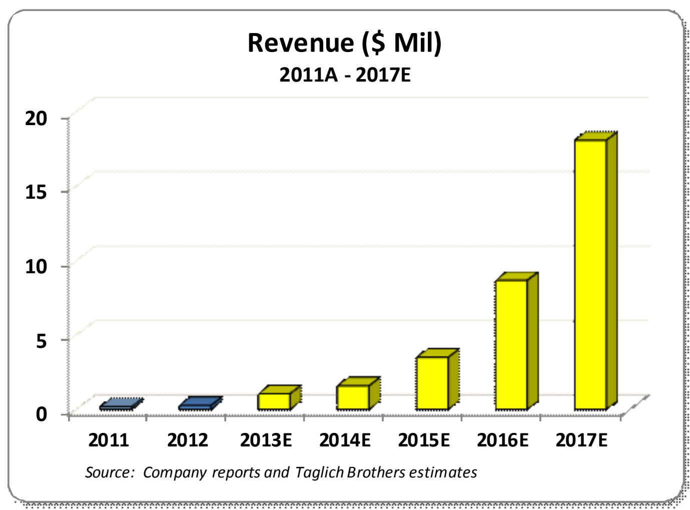
The benefit of acute oxygen therapy is probably demonstrated most clearly in first aid, or pre-hospital care of cardiac arrest patients. In the US, there were 382,000 cases of out-of-hospital cardiac arrest in 2012. Cardiopulmonary resuscitation was attempted on only 41% of them.

Longer term potential for emergency treatment devices such as AEDs and the Model 615 could rest on their availability in the home market. Most victims suffer cardiac arrest at home, where AED placement is low, rather than in public places. Of the 383,000 US cardiac arrest cases in 2012, only 11% survived (to hospital discharge), a dismal rate that some medical practitioners attribute to lack of defibrillators in the home. AED prices (they can range up to $2,000) and reimbursement issues probably limit patients' ability to purchase them for home use.

Oxysure would arguably optimize its initial impact by positioning the Model 615 in the same sites where AEDs have been installed, enabling cardiac arrest patients access to acute oxygen therapy as well as defibrillation. There are an estimated 2.2 million AEDs in service worldwide, 60% of those in the US and another 30% in Japan. Industry research services estimate that AED sales are increasing at around 10% annually, reflecting the increasing incidence of major adverse coronary events as the population ages, heightened awareness and wider public availability of AEDs, and a gradual decline in prices.

From an estimated $255 million, or 102,000 units, in 2002, AED global sales are projected by GII Research to increase to $837 million, around 875,000 units, by 2017. Based on estimated historical annual AED sales and an average service life of 7.5 years, we estimate the number of AEDs currently in service at 2.2 million units, a figure that should increase to an estimated 3.8 million by 2017.

If Model 615 unit sales ramp to as little as 5% to 6% of AEDs sold annually by 2017, the company's annual revenue should grow to $18 million by then. (see chart right).



Strategy

The company is positioning the Model 615 as a companion product to AEDs, and plans to place the Model 615 alongside as many AEDs as possible. In the long term the Model 615 could become a standard issue emergency treatment device in public and private settings, including private homes. Cost makes a persuasive case for installing emergency oxygen generators next to AEDs; the Model 615 is priced at around $350, a fraction of an AED's $1,500 to $2,000 price.

OXYS aims to increase penetration of school districts and educational institutions, and continue its expansion into other commercial markets, including places of worship, manufacturing facilities and government and office buildings.

The company is increasing partnerships with distributors of AEDs, safety products and medical devices and aims to invest resources in training that will facilitate distributors' sales of the Model 615. OXYS may undertake collaborations with industry, medical opinion leaders, and community organization aimed at promoting awareness of the need for early administration of emergency or supplemental oxygen in medical emergencies.

The company will increase the number of its US and overseas distributors, seeking those with relationships in medical emergency and industrial safety markets, especially ones already manufacturing or distributing AEDs, and specialty medical distributors that sell into at-risk patient populations in the cardiovascular disease, asthma and COPD (chronic obstructive pulmonary disease) markets.

OxySure sells its Model 615 through more than 40 independent US distributors that sell AEDs, medical products and safety products. The company also has overseas distributors in Australia, New Zealand, the UK, Brazil, South Africa and Turkey.

OxySure's addition of AED's to its product line aims to broadly support its sales efforts by offering distributors another major first-aid technology to market to the same call point as the Model 615, and expanding the company's presence in medical emergency markets.

Projections

<u>Operations</u> Revenue growth will be driven by sales of the Model 615 and single-use oxygen cartridges. Cartridges must be replaced at least once every two years, an annualized replacement rate of at least 50% of 615s in service, excluding replenishment due to their use. Sales should begin to accelerate sharply by 2015, rising to $4.9 million from $2 million in 2013 as widening acceptance gives the Model 615 greater traction. Our sales forecast is based mainly on a rise in unit sales of the model 615 to almost 8,000 by 2015 and concomitant gains in sales of oxygen cartridges. That unit sales figure could double by 2017. Our revenue forecast also reflects substantive contributions from licensing agreements with overseas manufacturers and service revenue earned on training and regulatory advisory services to those manufacturers. Sales to the government under a military subcontract, also a major revenue source, currently consist mainly of breathing devices for use at high altitudes.

For 2013 and 2014 we project losses of $677,000, or ($0.03) per share, and $952,000, or ($0.04) per share, respectively. For 2015, we project a loss of $552,000, or ($0.02) per share. Our per share forecasts reflect the issuance of more shares due to additional financing.

We raised our 2013 gross margin forecast to around 71.6% to reflect a mix tilt toward higher margin overseas license, royalty and service revenue. License, royalty and service revenue will recur to the extent that OXYS initiates new agreements covering different marketing areas. As those gains slow and figure less prominently in the revenue mix, gross margins should recede to around 65%. We anticipate narrowing expense margins as the business expands. Operating losses should narrow significantly, from $846,000 in 2012 to an estimated $243,000 in 2015. By our estimates the company will turn cash flow positive in 2H15. Bottom line improvement, however, will be constrained by an increase in (non-cash) interest expenses stemming from the issuance of more convertible notes, and related warrants and options.

<u>Finances</u> At this time, OxySure is totally debt financed. As of September 2013 notes to related parties, note payable (mainly to the company's landlord) and convertible notes totaled around $650,000, up from $400,000 at the end of 2012. By our estimates these borrowings will increase to almost $800,000 by the end of 2015, a projection based in part on reduced DSO. Reliance on trade credit will increase in dollar terms but the company should be able to steadily shorten its vendor payment periods. By our estimates, cash burn will increase to

$360,000 in 2013, up from $351,000 in 2012, increase to $479,000 in 2014 and shrink considerably as OXYS turns cash flow positive in 2H15.

We have forecasted issuance of short-term notes under roughly the same terms as notes payable to the company's landlord, convertible notes with attached options and warrants. In connection with these new notes, charges for fair value of warrants and beneficial conversion options will be recorded as debt discounts amortized over the term of the notes and charged as interest expense. These new notes account for the jump in interest expense, largely non-cash, in 2014. If OxySure is able to secure conventional financing within the next year or two, interest charges could be significantly less that we project.

3Q13 and Nine-Month Results

Operations 3Q13 revenue was up sharply due to an increase in overseas license, royalty and service revenue, sales of kits and components under a military subcontract, Model 615 gains. Roughly half of 3Q revenue was earned through product sales in the US; almost two-thirds of US sales were made under a military subcontract. Overseas licensing of manufacturing and distribution rights, and training and regulatory guidance services, accounted for the other half of 3Q revenue.

	Quarter ending Sep. 30:				Nine months ending Sep. 30:		
	2013A	*2013E*	2012A	% +/(-)	2013	2012	% +/(-)
Revenue	546	*626*	103	428%	1,262	194	550%
Cost of revenue	111	*219*	50	120%	317	88	259%
Gross profit	435	*407*	53	722%	946	106	794%
Expenses							
R&D	134	*219*	1	NM	355	2	NM
Sales & marketing	78	*157*		NM	270	28	871%
G&A	266	*188*	207	29%	697	718	(3%)
Total	479	*564*	207	131%	1,322	747	77%
Operating loss	(44)	*(157)*	(154)	(72%)	(376)	(642)	(41%)
Other income (expense)	8	*40*	76	(89%)	27	134	(80%)
Interest expense	(47)	*(54)*	(55)	(15%)	(96)	(171)	(44%)
Net income (loss)	(83)	*(171)*	(134)	(38%)	(445)	(678)	(34%)
Average shares out. (000)	24,077	*23,667*	20,762		23,308	19,476	
Earnings (loss) per share	(0.00)	*(0.01)*	(0.01)	(47%)	(0.02)	(0.03)	(45%)
Margin Analysis							
Gross margin	80%	65%	51%		75%	54%	
R&D	25%	35%	1%		28%	1%	
Sales & marketing	14%	25%	0%		21%	14%	
G&A	49%	30%	200%		55%	370%	

Source: Company reports and Taglich Brothers estimates

Gross profit increased more than eightfold as revenue increased and the gross margin widened to 80% from 51% due to more license and service revenue in the sales mix.

Operating expenses more than doubled to $479,000. In the year-earlier quarter, there were no R&D or sales & marketing expenses. In 3Q13, the company recognized R&D relating to a military subcontract and spent more on G&A as business activity expanded. Increases in R&D and sales/marketing were offset in part by a reduction in G&A stemming mainly from a drop in stock compensation expenses.

Sales gains, expense leverage and a slight reduction in interest expense narrowed the loss for the quarter to $83,000, essentially breakeven on a per share basis.

For the first nine months of 2013, revenue increased almost sevenfold to $1.3 million, driven by an increase in US product sales to $763,000 from $106,000, and a ramp in overseas license and service revenue to $496,000 (vs. none in the year-earlier period). For the nine months through September 2013, overseas licenses and services accounted for 40% of the company's revenue. Higher sales and an increase in the gross margin to 75% from 54% increased gross profit ninefold to $946,000.

Nine-month operating expenses were up 77% to $1.3 million, an increase driven mainly by R&D relating to a military subcontract, and sales & marketing expenses reflecting the ramp in revenue. The gross profit gain offset the rise in expenses, narrowing the nine-month operating loss to $376,000 from $642,000. Non-operating expenses doubled to almost $70,000 as the decline in interest expense was offset by a drop in other income. The nine-month net loss narrowed by 34% to $445,000; the decrease in the loss per share was disproportionately smaller due to an increase in shares outstanding.

Finances In 3Q13 operations were nominally cash flow positive ($12,000) but working capital increased by $371,000 due to a reduction in deferred revenue and increases in receivables and inventory. An increase in borrowings and proceeds from stock sales fell short of cash of $360,000 used in operations so cash dropped by $92,000 to $5,000 at the end of the quarter.

For the first nine months of 2013 OxySure burned cash of $204,000. Working capital increased by $630,000 due to reduction in deferred revenue and payables, and increases in receivables and inventory. Proceeds from additional borrowing and the sale of common stock largely covered cash used in operations and capital expenditures but cash decreased by $9,000 to $5,000 as of September 30, 2013.

Debt As of September 30, 2013 the company had notes payable with a total face value of $803,000, consisting mainly of $700,000 in short-term notes (mainly convertible debt payable to the company's landlord) and a long-term note of $104,000, of which $44,000 was due in the coming year.

The short term notes were issued in satisfaction of rent obligations to the company's landlord. Relative fair value of warrants issued in connection with issuance of the notes and beneficial conversion options were recorded as debt discounts amortized over the term of the notes and charged as interest expense. The notes are convertible to common stock, some at the option of the landlord and some at the option of the company, at an exercise price of either $1.00 per share, or $1.50 per share, depending on the note. In connection with each note, the company also issued penny warrants to the landlord exercisable at varying dates at a price of $0.01 per share.

The long-term note is payable to the City of Frisco (TX) in annual payments of $44,000 for 2013, and $52,000 for each of 2014 and 2015. The note is non-interest bearing but interest has been imputed at 12.34%.

Moratorium/Debt Settlement – Capitalized Lease Obligations On August 6, 2013 the company announced an agreement with Vencore Solutions, which holds a number of equipment leases executed between October 30, 2006 and August 20, 2007. Vencore will grant a moratorium on payments on the balance of $308,000 in debt until December 31, 2013, and will consider the obligation settled in full if, by December 31, 2013, Oxysure pays Vencore $150,000 and grants Vencore 75,000 unrestricted common shares.

Oxygen Delivery Systems

Major medical emergencies in which patients need high concentrations of oxygen immediately include cardiac arrest, shock, major trauma, severe hemorrhage, sepsis (severe inflammatory response to a bacterial infection), anaphylaxis (a severe whole-body allergic reaction to a food, drug or insect bite) and carbon monoxide poisoning. Most of these can occur outside of a medical facility so a timely response by an adequately equipped layperson is essential to restoring normal breathing.

Oxygen is delivered through a variety of masks but most oxygen storage systems are not suitable in out-of-hospital medical emergencies, as they are too large or must be operated by a relatively knowledgeable user. In hospitals, oxygen is piped in from large storage cylinders and administered by medical staff. Some storage cylinders are some small enough to be easily portable, as are electrical and chemical reaction-based oxygen generators, but the operation of even relatively simple home and travel systems requires some experience.

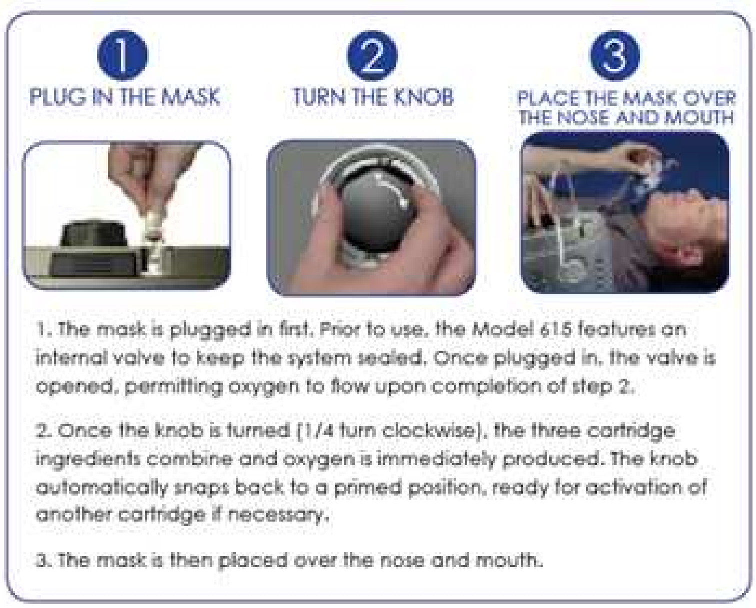
Chemical reaction-based oxygen generators release oxygen when chemicals (usually sodium chlorate, barium peroxide and potassium perchlorate) are released and combine with each other. This type of oxygen generator is widely used on passenger aircraft and submarines and by firefighters and mine rescue crews. They are compact, have a long shelf life and are well suited to emergency use. However, as the chemical reactions are exothermic, activation of these generators can increase external temperatures significantly, posing a risk of fire. The Model 615 is based on a different oxygen generation technology.

The Model 615

The Model 615, illustrated at right, is a catalytic portable oxygen generator that releases 99%-pure oxygen when two inert chemical powders within its single use cartridge are combined. Use of the 615 requires no prescription; the device is available over the counter.

The 615 is housed in a thermoplastic, lightweight (less than 11 pounds) dispenser which holds a cartridge containing two powders and an accelerant that combine to create oxygen when the cartridge is activated. The 615 dispenses oxygen rate of six liters per minute for approximately 15 to 20 minutes.

The chemicals are combined within an easily removable, single-use cartridge that has a shelf life of two years. As shown in the illustration (below right), operation of the 615 is a simple and straightforward three step process that requires no training or experience. So is the removal and replacement of an empty or expired cartridge. The system requires no maintenance other than replacement of the oxygen cartridge after use or at the end of its shelf life.



The Model 615 apparatus and method of operation are covered by six US and three foreign patents, most of which do not expire for at least another 10 years. Two of the US patents cover a "breathing device utilizing a catalytic oxygen generation method" and another two cover methods (and apparatus) for controlled production of a gas, including its control, containment and delivery.

OxySure does not disclose the chemicals used by its technology. The Model 615 might use a solid form of hydrogen peroxide, e.g., sodium percarbonate or carbamide peroxide, both available in powder form, that generates oxygen when combined with water and a catalyst. Both these forms of hydrogen peroxide are easy to transport and safe to

handle.
As FDA clearance hinges in large measure on product safety, we infer that potential safety hazards, such as fire risks stemming from the heat generated by chemical reactions, are well contained, a key objective in the design of the 615 and its cartridge.

Risks

In our view, these are the principal risks underlying the stock:

Acceptance Hurdles Penetration achieved so far in the company's initial target markets may not be sustained, curtailing growth and leaving revenue short of levels essential to satisfactory profitability.

Liquidity The company's operations are financed largely with trade credit and notes extended by its landlord. Reducing dependence on those sources will hinge on OXYS's ability to turn cash flow positive and raise more equity through the sale of common stock for cash. Based on our operating forecasts and the company's debt position, OXYS should be able to sustain operations through 2015 without having to take on substantial additional borrowing. But if OxySure is unable to obtain adequate financing, the company may have to curtail its sales efforts.

Execution Product launch is still in a relatively early stage. Without broad distribution capability and production scalability, sales may fall short of potential, leading to a failure to achieve critical mass.

InterveningTechnology/Competition There does not appear to be any directly competing emergency oxygen therapy systems. But while the company's catalytic oxygen generation technology and the Model 615 apparatus are covered by US patents, other medical technology companies might develop alternative oxygen generation technology. The chemicals that OxySure uses in the Model 615 are trade secrets but are not patent protected and could potentially be used in competing systems.

Concentration of Ownership Julian Ross controls two-thirds of outstanding common shares, a position that underlies a strong commitment to the success of the business. However, he is able to influence business decisions in ways that may not be in the best interest of the shareholders at large.

Potential Dilution The issuance of common shares to raise capital and pay down debt would dilute the ownership interests of current shareholders.

Microcap Concerns Shares of OXYS have risks common to the stocks of other microcap (which we define as market capitalizations of $250 million or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately 3.8 million shares in the float. On average, approximately 8,900 shares are traded daily.

Miscellaneous Risks The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Annual Balance Sheets
($ 000)
2011A –2015E

	2011A	2012A	3Q13A	2013E	2014E	2015E
ASSETS						
Current assets						
Cash + equivalents	65	14	5	66	28	135
Accts receivable	3	18	54	288	334	616
Inventory	248	221	271	178	234	287
Total	316	253	330	533	596	1,038
Fixed assets (net)	134	28	24	29	63	112
Intangibles	445	418	400	392	360	328
Other	53	516	447	500	500	500
TOTAL ASSETS	948	1,216	1,201	1,454	1,519	1,979
LIABILITIES AND EQUITY						
Current liabilities						
Accts pay & accruals	245	596	469	821	1,130	1,723
Related party payable			108	150	120	120
Capital lease obligations - current	328	296	308	308	308	308
Notes payable - current	1,565	399	41	50	300	250
Convertible notes payable			503	500	500	500
Deferred revenue	422	499	3	189	535	985
Total	2,560	1,790	1,433	2,018	2,893	3,887
Capital lease obligations	3	2	2	2		
Notes payable	1,162	76	76	76	76	76
Shareholders' equity	(2,777)	(652)	(310)	(643)	(1,452)	(1,984)
TOTAL LIABILITIES AND EQUITY	948	1,216	1,201	1,454	1,519	1,978

Source: Company reports & Taglich Brothers estimates

Annual Income Statements
($ 000)
2011A – 2015E

	2011A	2012A	2013E	2014E	2015E
Revenue	185	270	1,885	2,674	4,927
Cost of revenue	103	96	535	936	1,724
Gross profit	82	174	1,351	1,738	3,203
Expenses					
R&D		26	604	904	1,120
Sales & marketing	15	76	426	669	1,232
G&A	1,135	918	900	882	1,094
Total	1,151	1,020	1,929	2,454	3,445
Operating loss	(1,069)	(846)	(579)	(716)	(243)
Other income (expense)	145	225	67	200	200
Interest expense	(608)	(207)	(166)	(436)	(509)
Net income (loss)	(1,532)	(828)	(677)	(952)	(552)
Average shares outstanding (000)	15,930	19,862	23,622	25,827	27,736
Earnings (loss) per share	(0.10)	(0.04)	(0.03)	(0.04)	(0.02)
Margin Analysis					
Gross margin	44.2%	64.6%	71.6%	65.0%	65.0%
R&D	0.0%	9.6%	32.0%	33.8%	22.7%
Sales & marketing	8.2%	28.3%	22.6%	25.0%	25.0%
G&A	NM	NM	47.7%	33.0%	22.2%
Operating income	NM	NM	NM	NM	(4.9%)
Net income (loss)	NM	NM	NM	NM	(11.2%)

Source: Company reports and Taglich Brothers estimates

Quarterly Income Statements
($ Thousands)
2013E - 2015E

	1Q13A	2Q13A	3Q13A	4Q13E	**2013E**	1Q14E	2Q14E	3Q14E	4Q14E	**2014E**	1Q15E	2Q15E	3Q15E	4Q15E	**2015E**
Revenue	240	476	546	623	**1,885**	473	546	747	908	**2,674**	927	1,096	1,331	1,573	**4,927**
Cost of revenue	53	152	111	218	**535**	166	191	261	318	**936**	325	384	466	551	**1,724**
Gross profit	187	324	435	405	**1,351**	307	355	486	590	**1,738**	603	712	865	1,022	**3,203**
Expenses															
R&D	37	183	134	249	**604**	189	219	224	272	**904**	232	274	299	315	**1,120**
Sales & marketing	58	134	78	156	**426**	118	137	187	227	**669**	232	274	333	393	**1,232**
G&A	236	195	266	203	**900**	189	219	224	250	**882**	278	274	266	275	**1,094**
Total	331	512	479	608	**1,929**	497	574	635	749	**2,454**	742	822	898	983	**3,445**
Operating loss	(144)	(188)	(44)	(203)	**(579)**	(189)	(219)	(149)	(159)	**(716)**	(139)	(110)	(33)	39	**(243)**
Other income (expense)		19	8	40	**67**	50	50	50	50	**200**	50	50	50	50	**200**
Interest expense	(25)	(24)	(47)	(70)	**(166)**	(87)	(103)	(118)	(128)	**(436)**	(135)	(135)	(128)	(112)	**(509)**
Net income (loss)	(169)	(193)	(83)	(232)	**(677)**	(226)	(271)	(218)	(237)	**(952)**	(224)	(194)	(111)	(23)	**(552)**
Average shares outstanding	22,666	23,167	24,077	24,577	**23,622**	25,077	25,577	26,077	26,577	**25,827**	27,077	27,666	27,809	28,393	**27,736**
Earnings (loss) per share	(0.01)	(0.01)	(0.00)	(0.01)	**(0.03)**	(0.01)	(0.01)	(0.01)	(0.01)	**(0.04)**	(0.01)	(0.01)	(0.00)	(0.00)	**(0.02)**
Margin Analysis															
Gross margin	78%	68%	80%	65%	**72%**	65%	65%	65%	65%	**65%**	65%	65%	65%	65%	**65%**
R&D	15%	39%	25%	40%	**32%**	40%	40%	30%	30%	**34%**	25%	25%	23%	20%	**23%**
Sales & marketing	24%	28%	14%	25%	**23%**	25%	25%	25%	25%	**25%**	25%	25%	25%	25%	**25%**
G&A	98%	41%	49%	33%	**48%**	40%	40%	30%	28%	**33%**	30%	25%	20%	18%	**22%**
Operating loss					**NM**					**NM**					**NM**
Net income (loss)					**NM**					**NM**					**NM**

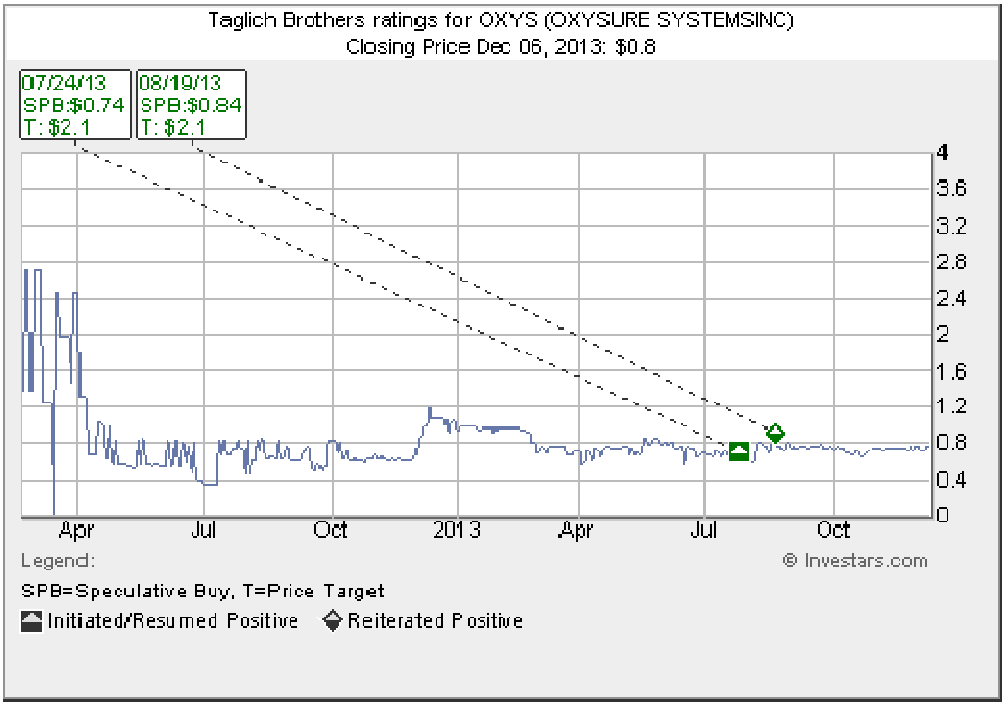
Source: Company reports and Taglich Brothers estimates

Annual Cash Flow Statements
($ 000)
2011A –2015E

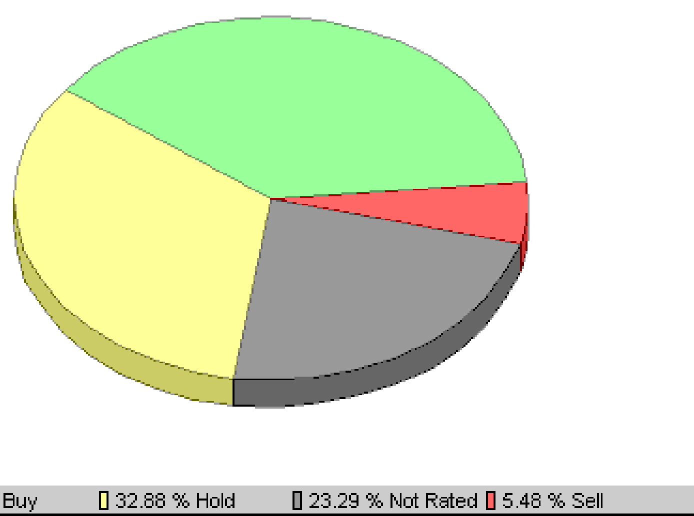
	2011A	2012A	3Q13A	2013E	2014E	2015E
Operating activities			(quarter only)			
Net Income	(1,532)	(828)	(83)	(677)	(952)	(552)
Depreciation	174	139	4	19	26	31
Amortization of intangibles	30	55	8	30	32	32
Prior period adjustment						
Amortization of debt discount/warrant fair value	546	190	29	112	335	408
Amortization of original issuance/discounts on notes			5	5		
Changes in deferred rent/leasehold improvement	(18)	65	10	31		
Amortization of other assets			23	70		
Stock based compensation - employees	104	8	25	12		
Stock based compensation - others	29	21		47	80	80
Other			(10)	(10)		
Changes in working capital	(23)	230	(371)	(234)	553	709
Net cash from operations	(689)	(120)	(360)	(594)	74	708
Investing activities						
Capital expenditures	(3)	(33)	(5)	(21)	(60)	(80)
Purchase of intangibles	(1)	(3)		(4)		
Other	(40)					
Net from investing activities	(45)	(36)	(5)	(25)	(60)	(80)
Financing activities						
Loan proceeds (repayments)	764	(9)	241	245	149	(121)
Payment - capital lease obligations	(28)	(32)	(25)	(162)	(202)	
Proceeds - issuance of common stock on conversion		41	(60)			(398)
Proceeds - issuance of preferred stock		(1)				
Common stock subscribed/issued			117	586		
Proceeds - exercise of options/warrants	23	104		4		
Net cash from financing	760	104	273	673	(53)	(519)
Net change in cash	25	(53)	(92)	54	(39)	109
Cash - beginning	40	65	97	13	66	28
Cash - ending	65	13	5	66	28	135

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	4
Hold	1	14
Sell		
Not Rated		

Important Disclosures

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I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.