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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**

Juan Noble

April 16, 2014

**OXYS \$0.62 — (OTCQB)**

	2012A	2013A	2014E	2015E
Total revenues (in millions)	\$0.27	\$1.8	\$2.6	\$4.9
Earnings (loss) per share	(\$0.04)	(\$0.03)	(\$0.02)	\$0.00

52 - Week range	\$0.90 – \$0.51	Fiscal year ends:	December
Shares outstanding as of Apr. 14, 2014	26 million	Revenue/share (ttm)	\$0.08
Approximate float	1 million	Price/Sales (ttm)	8.2X
Market Capitalization	\$16.1 million	Price/Sales (2015)E	6.4X
Tangible Book value as of Dec. 31, 2013	\$0.04	Price/Earnings (ttm)	NA
Price/Book	15.6X	Price/Earnings (2015)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.***

***OXYS's 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.***

***European regulatory approval and distribution agreements covering Europe, Asia and South America will support strong revenue gains. As the OxySure Model 615 gains traction, revenue should increase to \$18 million by 2017.***

***We project narrowing losses as revenue ramps from \$1.8 million in 2013 to \$4.9 million in 2015. By our estimates OXYS should turn cash flow positive in late 2014 and break even in 2015. We previously projected larger losses through 2015 but revised our forecast to reflect lower R&D expenses than projected earlier.***

***Equity raised in 2013 has strengthened the company's balance sheet considerably, potentially enabling OXYS to cover cash needs through 2015 without further borrowing.***

***In 4Q13 (results released Apr. 15, 2014), OXYS earned revenue of \$538,000, up from \$76,000 in the year-earlier quarter, but incurred a loss of (\$0.01) per share. We projected a loss of (\$0.01) per share on revenue of \$623,000. We project continued losses in 2014 but a sharp increase in revenue should enable the company to break even and turn cash flow positive in 2015.***

***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 7.5X, vs. 15.6X for OXYS. The market has clearly accorded the stock a valuation 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 December 31, 2013, as well as shares issued due to conversions through 2015.

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

### ***Recent Development***

CE Mark for Model 615 On April 2, 2014 OxySure announced CE (Conformité Européenne) mark approval for the company's Model 615 portable emergency oxygen device. The CE mark, which indicates that a product conforms with the European Economic Area's safety, health, and environmental protection standard, enables OXYS to market the Model 615 in all 27 member states of the European Economic Area, plus Norway, Switzerland and Turkey.

### ***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 rose sharply 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.

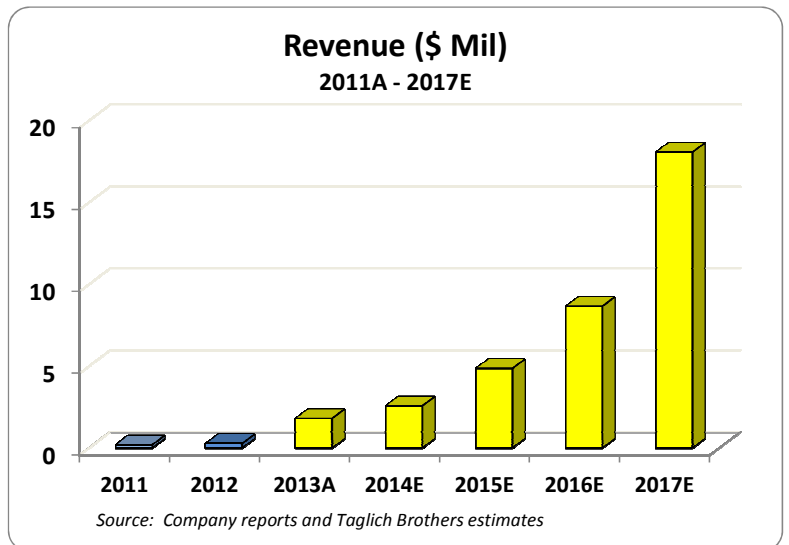
The benefit of acute oxygen therapy is probably demonstrated most clearly in first aid, or pre-hospital care of cardiac arrest patients. In the US, there were 382,000 cases of out-of-hospital cardiac arrest in 2012. Cardiopulmonary resuscitation was attempted on only 41% of them.

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 (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***

Operations 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 \$1.8 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.

Our R&D expense forecasts have been cut, improving our profitability outlook. We project a 2014 loss of \$491,000, or (\$0.02) per share and a small profit (breakeven on a per share basis) in 2015. Previously, we projected 2014 and 2015 losses, respectively, of (\$0.04) and (\$0.02) per share.

Our 2014 revenue estimate is slightly lower, reflecting a production interruption (for retooling to accommodate overseas markets' product design preferences) that will reduce 1Q14 sales. But resurgence in sales to the US military as budget cuts mandated by the Budget Control Act of 2011 are restored will compensate for a slower 1Q.

## OxySure Systems, Inc.

License, royalty and service revenue will recur to the extent that OXYS initiates new agreements covering different marketing areas. As those gains moderate 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 from \$488,000 in 2012 to an estimated \$255,000 in 2014. Rising revenue in 2015 will enable the company to earn an operating profit of \$371,000.

**Finances** The issuance of equity shares in 4Q13 has significantly improved the company's balance sheet. At this time, OxySure is totally debt financed. From being totally debt financed (with negative equity) as of September 2013, the company had more than half of its tangible assets financed with equity.

Borrowings should remain stable at around \$600,000 through the end of 2015. By our estimates, OXYS will turn cash flow positive in 2H14 and show some cash earnings in 2014. Our cash flow forecast reflects expiration of the debt moratorium agreement with Vencore and a \$309,000 payment in 1H14. As operations become profitable, cash earnings should increase cash balances to \$903,000 and \$1.4 million by the end, respectively, of 2014 and 2015.

### 4Q13 and Full-Year Results

**Operations** 4Q13 revenue increased fourfold due to an increase in overseas license, royalty and service revenue, and sales of kits and components under a military subcontract.

Gross profit for the quarter increased sevenfold due to revenue gains and an increase in the gross margin to 68% from 51%. The gross margin improvement stemmed from a tilt in sales mix to more license and service revenue.

Operating expenses more than doubled to \$476,000 due mainly to an increase in G&A expenses driven by higher compensation and professional fees. Sales/marketing expense increased due to higher sales commissions and more extensive marketing activity.

	Quarter ending Dec 31:				Year ending Dec 31:		
	2013A	2013E	2012A	% +/-	2013	2012	% +/-
Revenue	538	623	103	421%	1,800	270	566%
Cost of revenue	174	218	50	244%	490	144	241%
Gross profit	364	405	53	590%	1,310	127	934%
Expenses							
R&D	2	249	1	159%	356	26	NM
Sales & marketing	83	156		NM	353	132	168%
G&A	392	203	207	89%	1,089	1,107	(2%)
Total	476	608	207	130%	1,798	1,265	42%
Operating loss	(112)	(203)	(154)	(27%)	(488)	(1,138)	(57%)
Other income (expense)	(2)	40	76	(102%)	26	210	(88%)
Interest expense	(154)	(70)	(55)	178%	(250)	(217)	15%
Net income (loss)	(268)	(232)	(134)	100%	(712)	(1,145)	(38%)
Average shares out. (000)	25,108	24,577	20,762		23,754	19,880	
Earnings (loss) per share	(0.01)	(0.01)	(0.01)		(0.03)	(0.06)	(48%)
Margin Analysis							
Gross margin	68%	65%	51%		73%	47%	
R&D	0%	40%	1%		20%	10%	
Sales & marketing	15%	25%	0%		20%	49%	
G&A	73%	33%	200%		60%	409%	

Source: Company reports and Taglich Brothers estimates

Gross margin gains and some expense leverage slightly reduced OXYS's operating loss but due to a threefold increase in interest expense, the net loss for the quarter doubled to \$268,000. Interest expense included accrued interest relating to notes payable and non-cash interest related to debt discount amortization and amortization of warrant fair values.

## OxySure Systems, Inc.

For 2013, revenue increased almost sevenfold to \$1.8 million, driven by an increase in US product sales to \$1.3 million from \$147,000, and a ramp in overseas license and service revenue to \$498,000 from \$124,000. Sales under a military subcontract accounted for 35% of 2013 revenue. Overseas licenses and services accounted for 28% of the company's revenue. Higher sales and an increase in the gross margin to 73% from 47% increased gross profit tenfold to \$1.3 million.

2013 operating expenses were up 42% to \$1.8 million, an increase driven, in dollar terms, mainly by steep rise in 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 operating loss for 2013 to \$488,000 from \$1.1 million. The narrower operating loss, offset in part by a decline in non-operating income, reduced the company's loss for the year by 38% to \$712,000. The decrease in the loss per share was disproportionately smaller due to an increase in shares outstanding.

Finances In 4Q13 OXYS showed nominal cash burn and increases in working capital. Cash of \$34 used in operations and capital expenditures were well covered by financing raised during the quarter. Proceeds from the issuance of common and preferred stock, and cash received from convertible notes, increased cash by \$650,000 to \$657,000 at the end of the quarter.

For 2013 OxySure burned cash of \$226,000. Working capital increased by \$634,000 due to mainly to increases in receivables (principally on licensing fees), inventory, and reductions in deferred revenue and payables. Proceeds from the issuance of common and preferred shares, and cash received on convertible notes covered cash of \$861,000 used in operations, increased cash by \$644,000 to \$657,000 at the end of the year.

Debt As of December 31, 2013 the company had notes payable with a total face value of \$569,000, consisting mainly of \$465,000 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%.

### ***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

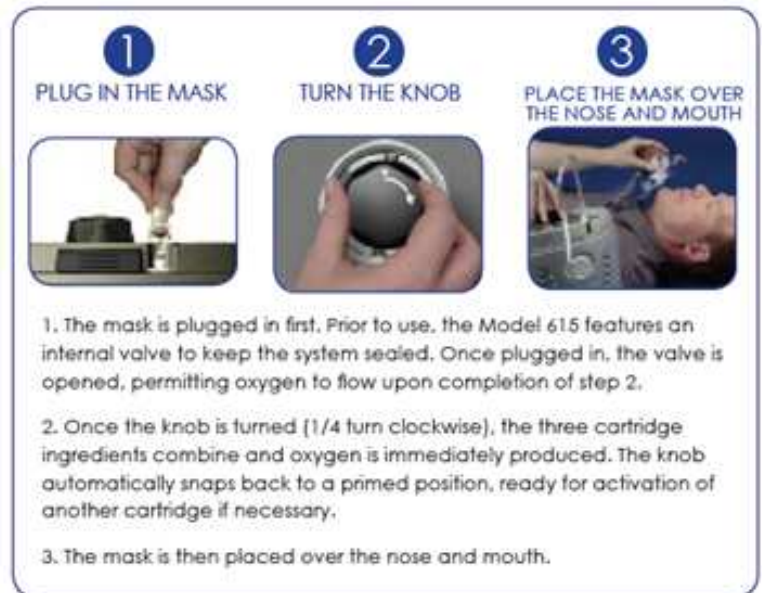
The Model 615, illustrated at right, is a catalytic portable oxygen generator that releases 99%-pure oxygen when two inert chemical powders within its single use cartridge are combined. Use of the 615 requires no prescription; the device is available over the counter.

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.

*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.

*Intervening Technology/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 60% 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.

*Customer Concentration* While customer mix may vary from quarter to quarter, only three customers accounted for 98% of 2013 sales. The loss of revenue to any one of these customers would have a significant adverse effect on performance.

*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 one million shares in the float. On average, approximately 14,200 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.



OxySure Systems, Inc.

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

	2011A	2012A	2013A	2014E	2015E
<b>ASSETS</b>					
Current assets					
Cash + equivalents	65	14	658	903	1,427
Accts receivable	3	18	47	321	606
Inventory	248	221	288	224	283
License fee receivable			500		
Prepayments and other		37	107	107	107
<b>Total</b>	<b>316</b>	<b>290</b>	<b>1,600</b>	<b>1,448</b>	<b>2,316</b>
Fixed assets (net)					
Intangibles	134	46	70	104	153
Other	445	418	393	361	329
	53	124	290	500	500
<b>TOTAL ASSETS</b>	<b>948</b>	<b>879</b>	<b>2,352</b>	<b>2,413</b>	<b>3,298</b>
<b>LIABILITIES AND EQUITY</b>					
Current liabilities					
Accts pay & accruals	245	302	148	470	746
Related party payable		207	119	120	120
Capital lease obligations - current	328	309	309		
Notes payable - current	1,565	32	44	40	40
Convertible notes payable		367	230	230	230
Deferred revenue	422	499	3	5	5
<b>Total</b>	<b>2,560</b>	<b>1,716</b>	<b>852</b>	<b>865</b>	<b>1,141</b>
Capital lease obligations	3	3	1		
Notes payable	1,162	76	76	76	76
Shareholders' equity	(2,777)	(916)	1,423	1,470	2,082
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>948</b>	<b>879</b>	<b>2,352</b>	<b>2,413</b>	<b>3,298</b>

*Source: Company reports & Taglich Brothers estimates*

OxySure Systems, Inc.

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

	2011A	2012A	2013A	2014E	2015E
Revenue	185	270	1,800	2,564	4,850
Cost of revenue	103	144	490	898	1,698
Gross profit	82	127	1,310	1,667	3,153
Expenses					
R&D		26	356	435	495
Sales & marketing	15	132	353	641	1,213
G&A	1,135	1,107	1,089	846	1,074
Total	1,151	1,265	1,798	1,922	2,781
Operating loss	(1,069)	(1,138)	(488)	(255)	371
Other income (expense)	145	210	26	200	200
Interest expense	(608)	(217)	(250)	(436)	(509)
Net income (loss)	(1,532)	(1,145)	(712)	(491)	62
Average shares outstanding (000)	15,930	19,880	23,754	26,358	28,255
Earnings (loss) per share	(0.10)	(0.06)	(0.03)	(0.02)	0.00
Margin Analysis					
Gross margin	44.2%	46.8%	72.8%	65.0%	65.0%
R&D	0.0%	9.5%	19.8%	17.0%	10.2%
Sales & marketing	8.2%	48.8%	19.6%	25.0%	25.0%
G&A	NM	NM	60.5%	33.0%	22.1%

*Source: Company reports and Taglich Brothers estimates*

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

	1Q13A	2Q13A	3Q13A	4Q13A	2013A	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E
Revenue	240	476	546	538	<b>1,800</b>	458	525	717	864	<b>2,564</b>	891	1,073	1,321	1,564	<b>4,850</b>
Cost of revenue	53	152	111	174	<b>490</b>	160	184	251	303	<b>898</b>	312	376	463	547	<b>1,698</b>
Gross profit	187	324	435	364	<b>1,310</b>	298	341	466	562	<b>1,667</b>	579	698	859	1,017	<b>3,153</b>
Expenses															
R&D	37	183	134	2	<b>356</b>	115	105	107	108	<b>435</b>	111	134	132	117	<b>495</b>
Sales & marketing	58	134	78	83	<b>353</b>	115	131	179	216	<b>641</b>	223	268	330	391	<b>1,213</b>
G&A	236	195	266	392	<b>1,089</b>	183	210	215	238	<b>846</b>	267	268	264	274	<b>1,074</b>
T total	331	512	479	476	<b>1,798</b>	412	447	502	562	<b>1,922</b>	602	671	727	782	<b>2,781</b>
Operating loss	(144)	(188)	(44)	(112)	<b>(488)</b>	(115)	(105)	(36)	0	<b>(255)</b>	(22)	27	132	235	<b>371</b>
Other income (expense)	19	8	(2)	26	<b>26</b>	50	50	50	50	<b>200</b>	50	50	50	50	<b>200</b>
Interest expense	(25)	(24)	(47)	(154)	<b>(250)</b>	(87)	(103)	(118)	(128)	<b>(436)</b>	(135)	(135)	(128)	(112)	<b>(509)</b>
Net income (loss)	(169)	(193)	(83)	(268)	<b>(712)</b>	(151)	(158)	(104)	(78)	<b>(491)</b>	(107)	(58)	54	173	<b>62</b>
Average shares outstanding	22,666	23,167	24,077	25,108	<b>23,754</b>	25,608	26,108	26,608	27,108	<b>26,358</b>	27,608	28,183	28,326	28,901	<b>28,255</b>
Earnings (loss) per share	(0.01)	(0.01)	(0.00)	(0.01)	<b>(0.03)</b>	(0.01)	(0.01)	(0.00)	(0.00)	<b>(0.02)</b>	(0.00)	(0.00)	0.00	0.01	<b>0.00</b>
Margin Analysis															
Gross margin	78%	68%	80%	68%	<b>73%</b>	65%	65%	65%	65%	<b>65%</b>	65%	65%	65%	65%	<b>65%</b>
R&D	15%	39%	25%	0%	<b>20%</b>	25%	20%	15%	13%	<b>17%</b>	13%	13%	10%	8%	<b>10%</b>
Sales & marketing	24%	28%	14%	15%	<b>20%</b>	25%	25%	25%	25%	<b>25%</b>	25%	25%	25%	25%	<b>25%</b>
G&A	98%	41%	49%	73%	<b>60%</b>	40%	40%	30%	28%	<b>33%</b>	30%	25%	20%	18%	<b>22%</b>

Source: Company reports and Taglich Brothers estimates

OxySure Systems, Inc.

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

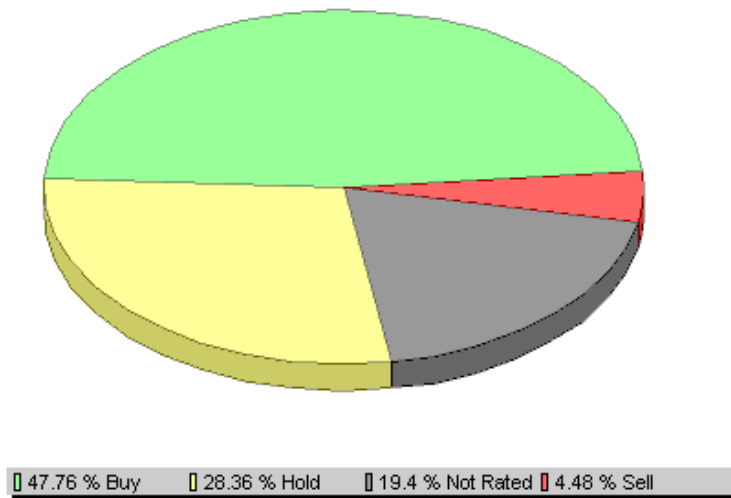
	2011A	2012A	2013A	2014E	2015E
Operating activities					
Net Income	(1,532)	(1,145)	(712)	(491)	62
Depreciation	174	166	53	26	31
Amortization of intangibles	30		207	32	32
Amortization of debt discount/warrant fair value	546	202		335	408
Expenses paid by related parties	(18)	21	37		
Gain on forgiveness of debt		(164)			
Stock based compensation - employees	104	134	61	60	60
Stock based compensation - others	29	76	127	80	80
Changes in working capital	(23)	331	(634)	614	(68)
Net cash from operations	(689)	(377)	(861)	656	606
Investing activities					
Capital expenditures	(3)	(33)	(12)	(60)	(80)
Purchase of intangibles	(1)	(3)	(4)		
Other	(40)				
Net from investing activities	(45)	(36)	(16)	(60)	(80)
Financing activities					
Common stock issued for cash		41	347		
Pref stock issued for cash and warrants			750		
Common stock issued for cash and warrants	23		217		
Cash received from related parties		556	42		
Payments made to related parties	764	(265)	(269)		
Cash received on convertible notes		125	432		
Payments on convertible notes		(86)			
Payments on capital leases	(28)	(19)	(2)	(351)	(1)
Net cash from financing	736	362	1,521	(351)	(1)
Net change in cash	25	(51)	644	245	525
Cash - beginning	40	65	14	657	903
Cash - ending	65	14	657	903	1,427

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
<u>Rating</u>	<u>#</u>	<u>%</u>
Buy	2	7.7
Hold	1	12.5
Sell		
Not Rated		

### **Important Disclosures**

At this writing, none of Taglich Brothers' affiliates, officers, directors or stockholders, or any member of their families have a position in OxySure Systems, Inc. Taglich Brothers, Inc. does not have an investment banking relationship with the subject of this report and was not a manager or co-manager of any offering for the company within the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In June 2013 the company paid an initial monetary engagement fee of US\$4,500 to Taglich Brothers, Inc. representing payment for the first three months of the creation and dissemination of research reports, after which the company will pay Taglich Brothers, Inc. a monetary fee of US\$1,500 per month for a minimum of three more months of such services.

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### **Analyst Certification**

**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.**

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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.