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May 13, 2014

AxoGen (Nasdaq/AXGN)
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BUY
Rapid Repair Revenue Rise
AxoGen develops and markets peripheral nerve repair products
Investment Highlights

1) AxoGen has been growing its revenues rapidly in recent periods, including 46% year-over-year in the most recent Q1/2014 quarter, and 42% in the most recent year 2013 over 2012. Fueled by an extension in the AxoGuard Nerve Connector product area as well as new sales initiatives, we expect revenues for the Company to continue to expand going forward, with estimated revenue growth of 37% for 2014E and 45% for 2015E. In addition, with plenty of financial resources AxoGen may be able to expand beyond its core three-product peripheral nerve repair line, through strategic alliances such as acquisitions, licensing, and/or co-development.

2) To achieve its past and future sales growth, AxoGen has implemented a number of marketing initiatives over the past 12 months. These include increasing both inside and outside sales reps and distributors, increasing penetration of all three products within existing accounts, adding new geographic territories outside the US, sponsoring professional education programs such as poster presentations and surgeon panel, participating in major clinical conferences focusing on regenerative nerve repair, and continuing major marketing-oriented clinical studies, including RANGER, CHANGE, and the new RECON, set to begin later this year.

3) Recognizing the need to focus on cost containment in the midst of rapid revenue growth, AxoGen has recently hired a new CFO to oversee spending and cash flow, Bob Johnston, with over twenty years of financial and operational experience in the medical products industry. At the same time, former CFO Greg Freitag will remain General Counsel (as well as serve on the Board of Directors), while transitioning to a new post as Senior VP for Business Development, providing a boost to the Company's ongoing efforts to sign new agreements such as those in the product development and distribution areas.

Current Price \$2.60
Price Target \$5.00

Estimates	F2012A	F2013A	F2014E
Revenues(\$000s)	\$7,692	\$10,947	\$15,008
1Q March	1,653	2,143	3,138 A
2Q June	2,013	2,862	3,580 E
3Q September	1,981	2,957	3,990 E
4Q December	2,044	2,985	4,300 E

EPS (diluted)	(\$0.85)	(\$1.08)	(\$0.90)
1Q March	(0.19)	(0.31)	(0.24) A
2Q June	(0.09)	(0.31)	(0.23) E
3Q September	(0.21)	(0.25)	(0.22) E
4Q December	(0.36)	(0.24)	(0.21) E
P/E (x)	N/A	N/A	-2.9

EBITDA/Share	(\$0.63)	(\$0.55)	(\$0.49)
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$2.42-\$5.20
Shares Outstanding (mil.)	17.4
Market Capitalization (mil.)	\$45.2
Enterprise Value (mil.)	\$28.4
Debt to Capital (12/13)	99.5%
Book Value/Share (12/13)	\$0.01
Price/Book	330.8 x
Average Trading Volume (3-month)	37,700
Insider Ownership	16.6%
Institutional Ownership	1.0%
Short interest	27,800
Dividend / Yield	\$0.00/0.0%


 Price target and ratings changes over the past 3 yrs:
 Initiated - May 13, 2014 - Buy - Price Target \$5.00

Conclusion

With a bolstered balance sheet, solid intellectual property, a diverse and growing product portfolio, and rapidly increasing revenues in a growing market in a well-placed demographic area, AxoGen shares have much to offer to both value- and growth-oriented investors. However, after reaching trading highs just one year ago following a flurry of investor and scientific publicity, AXGN shares have fallen off, perhaps reflecting an overall down market for life science stocks or profit-taking from earlier venture investors. Still, continued revenue growth expected for this year and next and improved bottom-line results may return AXGN shares to earlier upward share price momentum, and thus we are initiating coverage on AXGN shares with a BUY rating and 12-18 month price target of \$5.00 per share.

Company Business/History

AxoGen, Inc. (“AxoGen” or “AXGN”) develops and markets peripheral nerve repair solutions. The Company was founded in 2002 through technology originally developed and licensed from the University of Florida and the University of Texas, and today Axogen maintains its headquarters and facilities in Alachua, Florida, adjacent to Gainesville, Florida and the University of Florida campus. After inception, the Company was funded through institutional investors including Accuitive Medical Ventures, Cardinal Partners, De Novo Ventures, JAM Capital and Springboard Capital II. In 2011, AxoGen merged with publicly-traded LecTec Corporation, an intellectual property licensing and holding firm, and the combined companies began trading under the symbol “AXGN”.

Peripheral nerves provide the pathways for both motor and sensory signals throughout the body and are vital for proper muscle function and/or feeling. Nerves in the human body can be damaged in a number of ways, included traumatic injury or surgery, and if functionality of the nerve is compromised such that the nerve can no longer carry signals to and from the brain then a surgical repair is generally necessary. The traditional methods of nerve repair have included suturing the nerve ends together or bridging the gap between the severed nerve ends with a nerve (typically a less important one) that has been surgically removed from elsewhere in a patient’s own body. This last procedure is referred to as a nerve autograft. AxoGen has developed patented regenerative medical technologies to improve on existing peripheral nerve repair procedures. AxoGen’s advanced technologies employ a natural scaffold ExtraCellular Matrix, or ECM, derived from porcine (pig) tissue or off-the-shelf commercially available nerve allograft, or human nerve tissue obtained from a donor.

AxoGen’s product portfolio includes:

Avance Nerve Graft

Avance Nerve Graft is peripheral nerve allograft for the reconstruction of peripheral nerve discontinuities (severed nerve gaps) in order to guide and structurally support axonal regeneration across a nerve gap caused by traumatic injury or surgical intervention. Avance is a decellularized and sterile extracellular matrix processed from human peripheral nerve tissue through a proprietary method for processing recovered human peripheral nerve tissue, in a manner that preserves the essential structure of the ECM. Avance has been processed to remove



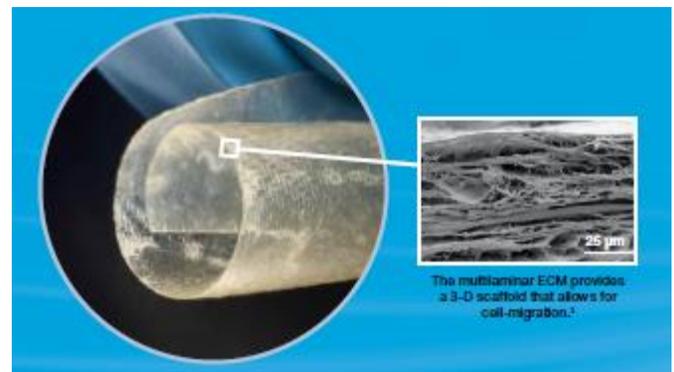
Avance® Nerve Graft is a decellularized and sterile extra-cellular matrix scaffold processed from human peripheral nerve tissue (i.e. nerve allograft)

cellular and noncellular factors such as cells, fat, blood, axonal debris and chondroitin sulfate proteoglycans while preserving the three dimensional scaffold and basal lamina tubular structure of the peripheral nerve. Avance is comprised of bundles of small diameter tubes that are held together by an outer tube or sheath. After processing, Avance is flexible and pliable, and its open tubular ECM structure can be sutured in place allowing for tension-free approximation of the proximal and distal peripheral nerve stumps. During the healing process, the body revascularizes and gradually remodels the graft into the patient's own tissue while allowing the graft to physically support axonal growth across the nerve discontinuity. AxoGen believes that Avance is the only commercially available allograft nerve for bridging nerve discontinuities. Unlike autograft procedures, however, Avance surgical repair requires no donor nerve surgery and therefore no surgical second site or loss of donor nerve function.

Avance is offered in a variety of sizes with lengths between 15mm and 70mm and diameters up to 5mm. This allows the surgeon to choose the correct length for the relevant nerve gap, as well as to match the diameter to the proximal and distal end of the severed nerve. Avance is stored frozen at or below -40° C/F and utilizes packaging that maintains the graft in a sterile condition. The packaging is typical for medical products so the surgical staff is familiar with opening the package for transfer of the product into the sterile surgical field. Additionally, to protect the product during transit and storage, Avance is placed inside a hard plastic clamshell that also provides a reservoir for the addition of sterile fluid to aid in thawing the product. The Avance product material thaws in less than 10 minutes, and once thawed, it is ready for implantation.

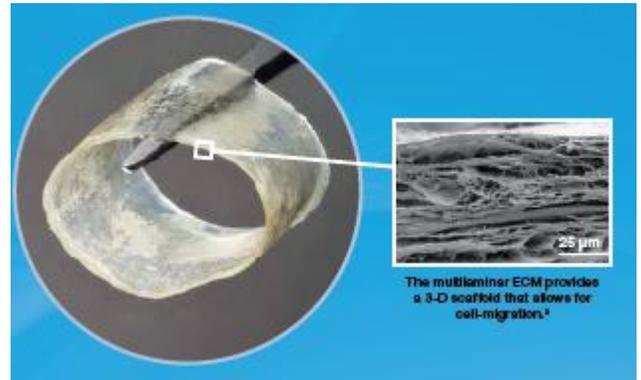
AxoGuard Nerve Protector

The AxoGuard Nerve Protector is designed to wrap and protect injured peripheral nerves and reinforce reconstructed nerve gaps while at the same time preventing soft tissue attachments during the healing process after surgery. AxoGuard Nerve protector also employs the Company's patented multilaminar extracellular matrix technology, in which the patient's own cells incorporate into the extracellular matrix to remodel and form a tissue similar to the nerve epineurium, or the outermost layer of dense irregular connective tissue surrounding a peripheral nerve. AxoGuard Nerve Protector is provided sterile, for single use only, and in a variety of sizes to meet the surgeon's needs. The key advantages in using the product include its ability to be stored at room temperature with an 18-month shelf life, its strength and flexibility, its ease in suturing, and how it easily conforms and wraps the injured nerve. AxoGen's product competes against off-the-shelf biomaterials such as reconstituted collagen (typically bovine-sourced) as well as autograft tissues such as vein and hypothenar fat pad (obtained from the palm of the hand area) wrapping. AxoGuard Nerve Protector can be employed to wrap injured nerves, either alone or in conjunction with a nerve repair, or protect partially severed nerves.

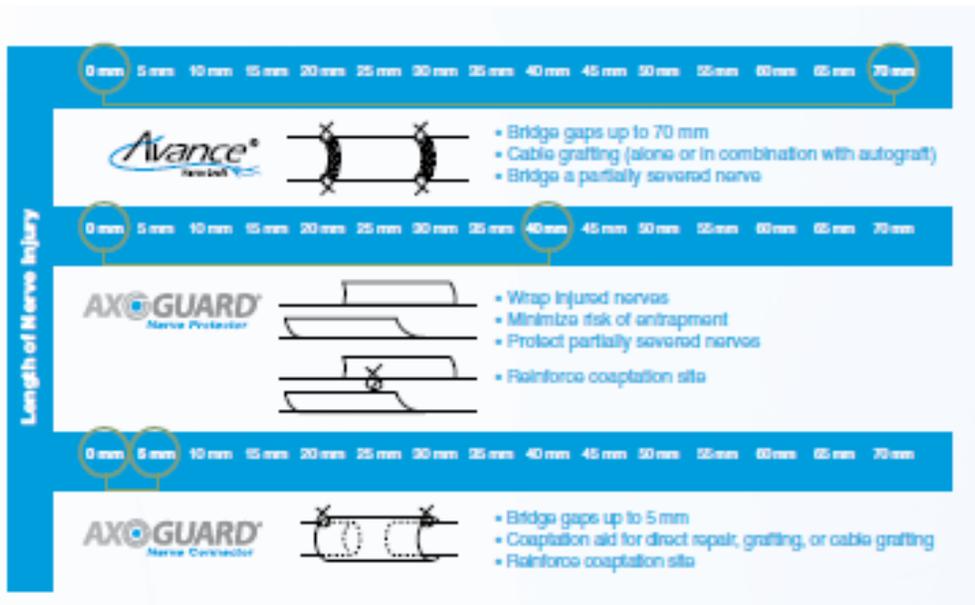


AxoGuard Nerve Connector

The AxoGuard Nerve Connector is an Extracellular Matrix for tensionless repair of completely severed nerves, beyond the protection offered partially severed nerves by the Nerve Protector product. In these cases, AxoGuard can be used as a coaptation aid to align and connect nerve ends, using the product's tubular, multilaminar extracellular matrix with an open lumen where the severed nerve ends are placed. The product is typically used in cases where the gap between severed nerve ends is less than 5mm. The products' unique material allows the body's natural healing process to repair the nerve by isolating and protecting it during the healing process, and the patient's own cells incorporate into the extracellular matrix to remodel and form a tissue similar to the outermost layer of the nerve, or nerve epineurium. AxoGuard Nerve Connector is provided sterile, for single use only, and in a variety of sizes to meet the surgeon's needs. Because of the short distance between the severed nerve ends in these cases, the AxoGuard Nerve Connector product typically competes with the common and less elegant direct suture repair method, however, Nerve Connector offers the advantages of reduced tension at the coaptation site and also reduces the number of sutures required at the repair site, allowing vascular channels to remain open and promoting more rapid healing. The Company continues to extend its product line offerings in this area, for example in February 2014 AxoGen introduced a new longer 15mm AxoGuard Nerve Connector product.



The Company's product lines, capabilities, and range of sizes available are detailed in the graphic below:



Sales and Marketing

AxoGen is the only company solely focused on peripheral nerve repair, a market characterized by approximately 700,000 nerve repair procedures performed annually in the US alone. These procedures result from an estimated 1.4 million traumatic injuries to peripheral nerves suffered each year in the US, which can occur due to motor vehicle accidents, collisions, gun wounds, dislocations, fractures, lacerations or other types of penetrating trauma. These can often occur as a result of military service where personnel may suffer severe wounds as a result of explosions and other mishaps. Peripheral nerves typically injured in these type of injuries include the digital, median, ulnar, radial, facial, spinal accessory and brachial plexus nerves. In addition to traumatic injury, peripheral nerve damage can also occur due to surgical intervention or procedures, such as dental and oral surgery, the removal of cancerous tissues (such as in a prostatectomy or breast reconstruction), or as a result of severe and recurrent carpal tunnel syndrome.

The table below outlines the target market in the US for AxoGen's product lines, including estimated number of annual procedures and size of the market measured in \$US Millions:

<u>US Target Market for AxoGen Products</u>	<u>Market</u> <u>\$US (Millions)</u>
Extremity Market - 719,000 annual procedures	
Nerve Repair - transected with gap	\$668
Nerve Protection	483
Nerve Repair - transected no gap	<u>161</u>
Total Extremity	\$1,312
Carpal Tunnel Revision - 100,000 annual procedures	\$160
Oral/Maxillofacial - 68,000 annual procedures	<u>\$129</u>
Total target market - 887,000 annual procedures	\$1,601

In terms of future target markets, AxoGen believes it can expand the use of its product lines into new surgical areas, including the following:

- 1) Facial Reconstruction;
- 2) Podiatry;
- 3) Breast Reconstruction;
- 4) Prostatectomy; and
- 5) Pain Management.

Currently, AxoGen maintains a growing sales organization, with 24 direct sales professionals and 23 independent distributors. The Company is focusing its marketing efforts this year on high and medium-quality potential accounts, and increasing market penetration into existing accounts through the sale of all three products (Avance, AxoGuard Nerve Protector and AxoGuard Nerve Connector), rather than just one or two. The Company's sales plan also includes further penetration into markets outside of the US, where the total potential market size is approximately equal to the domestic market, and AxoGen currently sells its products in Canada, Italy, Austria, the Netherlands, the United Kingdom, Israel and Switzerland.

In a recent management presentation at a medical conference, AxoGen outlined its 4-Pillar approach for driving increased sales and bottom-line results, including

- 1) Building market awareness;
- 2) Expanding surgeon education and advocacy;
- 3) Growing the existing body of clinical evidence on products; and
- 4) Executing the Company's sales plan.

In building market awareness among surgeons and patients, AxoGen has increased participation at major clinical conferences, through the use of an educational sales booth (see photo to the right), podium presentations by key management, and sponsorship of panels of surgeons and key opinion leaders. Educational efforts have included programs on best clinical practices and the science of nerve repair, as well as data presentations, panel events and publications. In addition, a number of publications which relate to the clinical use of Avance and AxoGuard products are available to clinicians for reference, including articles in journals such as *Microsurgery*, *Journal of Hand Surgery*, *Annals of Plastic Surgery*, *Hand*, and *Oral and Maxillofacial Surgery Journal*.



Finally, AxoGen has completed or is planning several clinical studies to provide a growing body of clinical evidence on the use and value of regenerative medicine and peripheral nerve repair, including:

- 1) RANGER Study – The largest multi-center, ongoing registry study in peripheral nerve repair using a nerve allograft (Avance) with 18 contributing centers across the US;
- 2) CHANGE clinical study – A multi-center prospective randomized comparative pilot study of the use of hollow tube conduits versus Avance nerve grafts in nerve reconstruction in the hand; and
- 3) RECON clinical study – A multi-center prospective randomized comparative pivotal study of the use of hollow tube conduits versus Avance nerve grafts set to begin enrollment later this year.

AxoGen's products compete with a number of off-the-shelf repair options such as hollow-tube conduits and bio-absorbable wraps, such as NeuraGen, a hollow bovine collagen tube and NeuraWrap, a reconstituted bovine collagen biomaterial nerve wrap marketed by Integra LifeSciences (Nasdaq/IART/Not Rated), Neurotube, a hollow tube comprised of polyglycolic acid marketed by the Synovis division of Baxter International (NYSE/BAX/NR), and NeuroMatrix, NeuroMend and Neuroflex bovine collagen-based products offered by Stryker International (NYSE/SYK/NR).

Axogen owns or is the exclusive licensee for six issued US patents, four pending US patent applications, three issued international patents and nine pending international patent applications with regards to its peripheral nerve repair products, with estimated expiration dates ranging from 2021 to 2028 for the US issued patents.

Recent Results and Balance Sheet/Cash Flow

AxoGen reported positive financial results for their first quarter 2014 (March), including revenues of \$3.14 million, up 46% year-over-year, and a net loss of \$4.2 million or (\$0.24) per share, as compared with a net loss of \$3.4 million or (\$0.31) per share in the prior year period. Revenue increases in Q1/2014 were led by strong sales to new accounts as well as increased product use by existing accounts. Gross margins improved to 77.7% in Q1/2014 from 73.9% one year ago, reflecting manufacturing efficiencies as well as product price increases implemented over the past twelve months. Operating expenses increased to \$5.4 million from \$3.9 million in the prior year period, primarily due to higher marketing-related costs, such as commissions and sales force expansion, but also due to increased R&D expenses from the Company's stepped-up clinical activity. A portion of the increased R&D costs in the quarter related to new programs emanating out of research grant funding, which were reimbursed. AxoGen used approximately \$3.2 million in cash for operations in Q1/2014, up from roughly \$2.7 million in Q1/2013, and at the end of the quarter the Company held \$16.8 million in cash in the bank.

Outlook/Growth Drivers

AxoGen management provided financial guidance related to certain metrics for year 2014 at the time of their earnings release for Q1/2014, including revenues of \$16 million while accomplishing a 75% overall gross margin rate for the year. Bearing recent management guidance in mind, as well as considering operating results for AxoGen from the first quarter of the year, we are estimating that the Company will post revenues of \$15.0 million for 2014A, representing a 37% increase over 2013, which is below guidance but allows the Company some flexibility in the case that new sales initiatives are somewhat slow to show a positive effect. We are also estimating that gross margins will come in at 76% for the year, operating expenses will increase to \$22.8 million, and that net loss for 2014 will be \$15.7 million, or (\$0.90) per share, an improvement over (\$1.08) per share loss in 2013. Our estimates for 2015E include revenues of \$21.8 million, up 45% year-over-year, gross margins of 77%, and a net loss of \$10.6 million, or (\$0.60) per share.

AxoGen is also exploring forming new product strategic alliances to fuel growth, including potentially development, licensing or even acquisition opportunities. The Company is also pursuing growth in international markets, either through existing territories or new country approvals.

Catalysts/Investor Timeline

- 1) Q2/2014 (June) quarterly earnings announcement – late July 2014
- 2) New product strategic alliances – Ongoing 2014-2015
- 3) Clinical Conferences – Including potentially ASSH (hand Surgery), AAOMS and ACOMS (Oral and Facial Surgery), AAPS (Pharmaceutical Scientists), and AAOS (Orthopedic Surgery) – Ongoing 2014-15
- 4) New product line extensions - Ongoing 2014-2015
- 5) Continuation of clinical studies and initiation of new RECON study – Ongoing 2014-15

Management

Karen Zaderej has served as President, CEO and a member of the Board of Directors of AxoGen since September 2011. Prior to joining AxoGen in 2006 as Vice President of Marketing and Sales, Ms. Zaderej held senior positions in marketing, business development, R&D and manufacturing at the Ethicon division of Johnson & Johnson (NYSE/JNJ/NR). Ms. Zaderej holds an MBA degree from the Kellogg Graduate School of Business of Northwestern University and a BS in Chemical Engineering from Purdue University.

Lee Robert Johnston, Jr. was appointed Chief Financial Officer of AxoGen in May 2014. Prior to joining the Company, Mr. Johnston held financial and business development executive positions at Scientific Protein Laboratories, Ascension Orthopedics, and Tutogen Medical.

Greg Freitag has been General Counsel of Axogen and a member of the Board since June 2010, and was recently appointed Senior Vice President of Business Development. Prior to joining the Company, Mr. Freitag was CEO of LecTec Corporation (renamed AxoGen), the Director of Business Development at Pfizer Health Solutions (NYSE/PFE/NR), and held positions at HTS Biosystems, Quantech, and Guidant Corporation. Mr. Freitag also practiced corporate and securities law in Minneapolis.

Jill F. Schiaparelli has served as AxoGen's Senior Vice President, Business Strategy and Marketing since February 2012. Prior to joining the Company, Ms. Schiaparelli held business development and marketing positions at ApaTech, Johnson & Johnson, and Integrated Resources. Ms. Schiaparelli holds MBA degrees from New York University and a BS degree in business administration from Boston University.

Other key members of the AxoGen management team include **John P. Engels**, Vice President, and previously at Saffron Hill Ventures, PA Early Stage Partners and CACM; **Mark Friedman**, Ph.D., Vice President of Regulatory Affairs and Quality Assurance, previously with Enable Medical and AtriCure; **Erick DeVinney**, Vice President of Clinical and Translational Sciences, and previously with PRA International, Angiotech, and National Clinical Research; **Mike Donovan**, Director of Operations, previously with Zimmer Holdings; **David Hansen**, Corporate Controller, previously with Perma-Fix Environmental Services (Nasdaq/PESI/NR) and Kraft Foodservice (Nasdaq/KRFT/NR); and **Shawn McCarrey**, Senior Vice President of Sales, and previously with Bayer Healthcare (OTC/BAYRY/NR), Possis Medical and CR Bard (NYSE/BCR/NR).

In addition to Ms. Zaderej and Mr. Freitag, AxoGen's Board of Directors includes **Jamie M. Grooms**, Chairman of the Board, a co-founder of the Company and currently CEO of the Florida Institute for the Commercialization of Public Research; **Dr. Mark Gold**, Professor at the University of Florida's McKnight Brain Institute; **John Harper**, previously CEO at ATI Medical, Menlo Care and Indigo Medical; **Joe Mandato**, currently a Managing Director of DeNovo Ventures; **John P. McLaughlin**, President and CEO of PDL BioPharma (Nasdaq/PDLI/NR); and **Robert J. Rudelius**, presently Managing Director and CEO of Noble Ventures.

Stock Valuation/Comparables

We have compiled a six-stock comparison group for AxoGen, comprised of larger orthopedic and diversified medical products companies as well as several smaller, more focused orthobiologic companies. Our comparison group includes Baxter International, Stryker, Integra LifeSciences, mentioned above as competitors for AxoGen's products, as well as ArthroCare (Nasdaq/ARTC/NR), Orthofix (Nasdaq/OFIX/NR) and RTI Surgical (Nasdaq/RTIX/NR). On average, our comparable stock group shows valuation multiples of 2.3X estimated revenues for calendar 2014E, 2.2X estimated revenues for calendar 2015E, and 2.8X book value. Multiples of price/earnings for this year and next year are not applicable, as AxoGen is not profitable, nor is multiple of book value as AxoGen's most recent shareholders equity is only slightly positive. AxoGen's valuation metrics related to price/revenues estimates for 2015E show a discount to our comparable group, but perhaps the most appropriate comparison for the Company would be valuation ratios for ArthroCare, the best performing stock in our group due to the pending acquisition of the Company by Smith & Nephew (NYSE/SNN/NR), with valuation multiples over 4X revenues for this year and next. Thus, employing the price/revenue multiple estimated for next calendar year (2015E) of 4.1X granted by the market for ArthroCare, multiplied by our estimated revenues for AxoGen of \$21.8 million for 2015E, we have derived a valuation price target of \$5.00 for AXGN shares, thus, we are initiating shares of AXGN with a Buy rating and 12-18 month price target of \$5.00 per share.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by AxoGen with other companies in the industry, we believe an investment in AXGN involves the following risks:

- **Reliance on key management** – At present, AxoGen relies on several key members of its management team who either founded the Company or have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, AXGN could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on government funded-programs** - Currently, AxoGen relies on various government-funded programs, including Medicare and Medicaid, to provide funding for its customer base. However, for the past several years the US Congress and Executive branch have considered several initiatives to change healthcare reimbursement rates and processes, and there can be no assurance in the future that current reimbursement rates for many types of medical products are not reduced or even eliminated.
- **Limited stock liquidity** – Trading volume in AXGN stock is comparatively light and these shares have a relatively limited history of trading compared with other healthcare stocks. As such, news regarding AXGN, its target market, partners and/or competitors could lead to significant volatility in the stock price.
- **Competitive Markets** – The Company competes in its target medical products markets with a number of companies, many of which are considerably larger than the Company. There can be no assurance that the Company will be able to successfully compete and launch new products into these competitive markets in the future.
- **FDA and regulatory risks** - AxoGen is subject to regulatory review for its ongoing research and development activities, principally the US Food and Drug Administration's 510(k) and BLA application processes. In addition, the quality assurance and assembly of the Company's medical products are

subject to ongoing oversight and regulation, and any negative correspondence from the FDA could have an adverse effect on the ongoing operations of the Company.

- **Lack of historic profitability** - AxoGen has not achieved operating profitability on an annual basis for several years, and according to our forecasts is not expected to do so in the near future. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should these operating losses continue.
- **Need to defend patents and other intellectual property** – AxoGen currently holds 6 US and 3 International patents on its products, some of which expire as soon as 2021. The Company may be required to defend its patents in the US and overseas in the future, and there can be no assurance these defenses will be successful.

Axogen, Inc.
Consolidated Statements of Income
 (In 000s, except per share data)

Calendar Year	2010	2011	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E
Revenues	\$3,004	\$4,849	\$7,692	\$2,143	\$2,862	\$2,957	\$2,985	\$10,947	\$3,138	\$3,580	\$3,990	\$4,300	\$15,008	\$21,760
Cost of goods sold	1,379	2,427	1,962	560	633	650	596	2,440	701	820	960	1,080	3,561	5,000
Gross Profit	1,626	2,423	5,730	1,583	2,229	2,307	2,389	8,508	2,437	2,760	3,030	3,220	11,447	16,760
Costs and expenses														
Sales and marketing	3,007	4,379	6,884	1,894	2,526	2,757	3,082	10,259	2,721	2,860	2,990	3,010	11,581	13,060
Research and development	436	697	1,427	407	498	594	627	2,125	813	850	870	890	3,423	3,500
General and administrative	2,664	4,316	5,221	1,606	1,399	1,233	1,477	5,715	1,895	1,930	1,960	1,980	7,765	8,160
Total costs and expenses	6,107	9,392	13,532	3,906	4,423	4,584	5,186	18,100	5,428	5,640	5,820	5,880	22,768	24,720
Operating income (loss)	(4,482)	(6,969)	(7,802)	(2,324)	(2,194)	(2,277)	(2,798)	(9,592)	(2,991)	(2,880)	(2,790)	(2,660)	(11,321)	(7,960)
Other (income) expense														
Interest expense	(814)	(1,095)	(1,391)	(1,068)	(1,224)	(1,215)	(1,314)	(4,820)	(1,191)	(1,100)	(1,000)	(900)	(4,191)	(2,500)
Interest expense - deferred financing	(1,322)	(1,223)	(987)	(44)	(41)	(61)	(32)	(179)	(51)	(50)	(50)	(50)	(201)	(200)
Other income	1,196	67	24	(2)	1	0	35	34	(6)	10	10	10	24	100
Total other income (expense)	(941)	(2,250)	(2,354)	(1,114)	(1,263)	(1,276)	(1,311)	(4,965)	(1,248)	(1,140)	(1,040)	(940)	(4,368)	(2,600)
Income (loss) before tax	(5,423)	(9,219)	(10,156)	(3,438)	(3,458)	(3,553)	(4,109)	(14,557)	(4,240)	(4,020)	(3,830)	(3,600)	(15,690)	(10,560)
Income tax expense (benefit)	0	0	738											
Net income (loss)	(5,423)	(9,219)	(9,418)	(3,438)	(3,458)	(3,553)	(4,109)	(14,557)	(4,240)	(4,020)	(3,830)	(3,600)	(15,690)	(10,560)
Preferred stock dividends	(1,566)	(1,028)												
Net income (loss) available to common	(6,989)	(10,248)	(9,418)	(3,438)	(3,458)	(3,553)	(4,109)	(14,557)	(4,240)	(4,020)	(3,830)	(3,600)	(15,690)	(10,560)
Basic income per share	(\$8.35)	(\$2.77)	(\$0.85)	(\$0.31)	(\$0.31)	(\$0.25)	(\$0.24)	(\$1.08)	(\$0.24)	(\$0.23)	(\$0.22)	(\$0.21)	(\$0.90)	(\$0.60)
Diluted income per share	(\$8.35)	(\$2.77)	(\$0.85)	(\$0.31)	(\$0.31)	(\$0.25)	(\$0.24)	(\$1.08)	(\$0.24)	(\$0.23)	(\$0.22)	(\$0.21)	(\$0.90)	(\$0.60)
Basic shares outstanding	837	3,697	11,089	11,125	11,138	14,320	17,417	13,500	17,384	17,450	17,500	17,550	17,471	17,600
Diluted shares outstanding	837	3,697	11,089	11,125	11,138	14,320	17,417	13,500	17,384	17,450	17,500	17,550	17,471	17,600
Key ratios:														
Revenue growth		61.4%	58.6%	29.6%	42.2%	49.3%	46.0%	42.3%	46.4%	25.0%	35.0%	44.0%	37.1%	45.0%
Gross margin	54.1%	50.0%	74.5%	73.9%	77.9%	78.0%	80.0%	77.7%	77.7%	77.0%	76.0%	75.0%	76.3%	77.0%
Sales & marketing/revenue	100.1%	90.3%	89.5%	88.4%	88.3%	93.2%	103.3%	93.7%	86.7%	80.0%	75.0%	70.0%	77.2%	60.0%
R&D/revenue	14.5%	14.4%	18.6%	19.0%	17.4%	20.1%	21.0%	19.4%	25.9%	23.7%	21.8%	20.7%	22.8%	16.1%
General & admin/revenue	88.7%	89.0%	67.9%	74.9%	48.9%	41.7%	49.5%	52.2%	60.4%	54.0%	49.0%	46.0%	51.7%	37.5%
Tax Rate	0.0%	0.0%	-7.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deprec, amort & non-cash comp.	1,970	1,850	1,322	260	260	260	270	1,050	410	450	450	450	1,760	2,000
Cash Flow/share	(\$4.13)	(\$1.99)	(\$0.80)	(\$0.29)	(\$0.29)	(\$0.23)	(\$0.22)	(\$1.00)	(\$0.22)	(\$0.20)	(\$0.19)	(\$0.18)	(\$0.80)	(\$0.49)
EBITDA/share	(\$1.57)	(\$1.37)	(\$0.52)	(\$0.19)	(\$0.17)	(\$0.14)	(\$0.14)	(\$0.63)	(\$0.15)	(\$0.14)	(\$0.13)	(\$0.13)	(\$0.55)	(\$0.49)

Balance Sheets

(\$000s)

Assets:	12/31/13	3/31/14
Cash and equivalents	\$20,070	\$16,808
Accounts receivable, net	1,894	1,965
Inventory	3,398	3,466
Prepaid expenses & other	297	195
Total current	25,659	22,434
Property, plant & equip., net	382	543
Intangible assets, net	570	568
Deferred financing costs & other	1,074	1,022
TOTAL ASSETS	\$27,684	\$24,568
Liabilities:		
Accounts payable and accrued expenses	\$2,084	\$1,909
Current portion of deferred revenue	14	14
Total current	2,098	1,923
Note Payable - PDL biopharma	25,364	26,256
Long-term portion of deferred revenue	86	82
Total liabilities	27,548	28,261
Stockholders' equity	137	-3,693
TOTAL LIAB & EQ	\$27,684	\$24,568

Quarterly Earnings Comparisons

Revenues (in \$Mill)

	March	June	Septem	Decem	Total
2010					3,004
2011	1,121	1,225	1,140	1,361	4,849
2012	1,653	2,013	1,981	2,044	7,692
2013	2,143	2,862	2,957	2,985	10,947
2014E	3,138	3,580	3,990	4,300	15,008

Earnings per Share (diluted)

	2010	2011	2012	2013	2014E
2010	(\$0.06)	(\$0.05)	(\$0.32)	(\$0.22)	(\$0.85)
2011	(2.21)	(1.65)	(2.63)	3.72	(2.77)
2012	(0.19)	(0.09)	(0.21)	(0.36)	(0.85)
2013	(0.31)	(0.31)	(0.25)	(0.24)	(1.08)
2014E	(0.24)	(0.23)	(0.22)	(0.21)	(0.90)

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:
Price Chart:

Price target and ratings changes over the past 3 years:

Initiated – May 13, 2014 – Price Target \$5.00

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- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
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The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	15	79%	9	60%
Market Perform (Neutral)	4	21%	2	50%
Market Underperform (Sell)	0	0%	0	0%
Total	19	100%	11	58%

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