

January 6, 2012

AirTouch Communications, Inc. (OTCBB/ATCH)

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Buy – Providing Connectivity in the Developing World

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AirTouch Communications is a provider of fixed wireless terminals.

Investment Highlights

1) Strong positioning in emerging markets – Fixed wireless terminals such as AirTouch’s X1500 are a cost effective solution for delivering voice and data services to less populated areas in underdeveloped nations that are unlikely to be connected to traditional landline communication networks. We believe that the rapid Gross Domestic Product (GDP) growth of countries across Asia, Latin America, and Africa will create a burgeoning middle-class that will demand an increasing degree of connectivity. For example, we view the “ideal” consumer for an AirTouch product to be one who has access to electricity but resides in a location that lacks telecommunications infrastructure. Therefore, we believe that AirTouch’s potential market can grow at a double digit rate for the foreseeable future, driven by both a rising middle-class and the expansion of access to electricity.

2) Landline replacement and weak coverage areas in the U.S. – *The Economist* has noted that consumers are abandoning landline telephone services at a rate of up to 700,000 per month¹. However, many of these consumers will still require services that a cell phone cannot provide, such as faxes, alarm systems, and multiple room cordless handsets. Further, there is ample anecdotal evidence of consumers who experience weak cellular coverage - caused by structural interference - while inside their home or office. Additionally, Nielson estimates that up to 65% of cellular calls originate from the home or office. We believe that AirTouch’s products are well positioned to address both the landline replacement and weak cellular coverage markets within the United States, as they offer data services and amplified signal strength.

¹<http://www.economist.com/node/14214847>

3) Experienced management team – AirTouch’s management team is largely comprised of a group of former Uniden (TSE/6815/Not

Current Price **\$2.48**

Price Target **\$3.30**

Estimates	F2010A	F2011E	F2012E
Revenue(\$Mil's)	\$160	\$507	\$25,000
1Q March	-	227 A	900 E
2Q June	-	250 A	4,400 E
3Q September	-	0 A	8,800 E
4Q December	-	30 E	10,900 E

EPS	(F2010A)	(F2011E)	(F2012E)
1Q March	-	(0.27) A	(0.07) E
2Q June	-	(0.19) A	(0.03) E
3Q September	-	(0.12) A	0.02 E
4Q December	-	(0.07) E	0.04 E
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.77)	(\$0.31)	\$0.01
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$1.85-\$4.90
Shares Outstanding (mil.)	29.5
Market Capitalization (mil.)	\$73.2
Enterprise Value (mil.)	\$65.2
Debt to Capital (9/11)	0.00%
Book Value/Share (9/11)	\$0.31
Price/Book	7.9 X
Average Trading Volume (3-month)	10,200
Insider Ownership	11.0%
Institutional Ownership	0.0%
Short interest (mil.)	0.00
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
Initiated – January 6, 2012 – Buy - Price Target \$3.30

Rated) executives including Chief Executive Officer Hideyuki Kanakubo, Chief Technical Officer Hidekazu Nakama, Vice President of Marketing Michael Wyatt, Vice President of Sales David Lee, and Technical Support Manager Bryce McGuire. Further, the Company has more recently diversified its management team with experienced outsiders including Chief Financial Officer Jerome Kaiser and Executive Vice President Tom Quan. The success of the Company will ultimately be dependent on management's ability to execute its business plan, and we believe that the combined experience of AirTouch's management team gives the Company the potential to succeed in the uncertain and competitive market for fixed wireless terminals.

Conclusion

AirTouch's products address four potentially large markets:

- 1) Weak cellular coverage inside buildings;
- 2) Areas with underdeveloped telecommunications infrastructure;
- 3) Landline replacement; and
- 4) Mobile broadband.

AirTouch's products are differentiated from competitive offerings through features such as PureSound technology and signal amplification. We believe that hyper-growth in GDP across underdeveloped nations in Asia, Africa, and Latin America will create a burgeoning middle-class that demands a higher degree of connectivity. Further, we believe that fixed wireless terminals, such as AirTouch's X1500, are a cost effective solution to deliver this connectivity to rural areas where traditional wired telecommunications networks are unlikely to develop. Across Asia and Africa, we believe that the potential market for AirTouch's products will continue to grow over the next several years in line with expanded access to electricity. Additionally, large mobile telecommunications operators such as America Movil have placed a significant emphasis on providing additional connectivity to rural areas across Latin America. We believe that AirTouch's products, which feature amplified signal strength, are well positioned to compete across Asia, Africa, and Latin America. Therefore, we are initiating coverage on ATCH with a Buy rating and a 12 to 18 month price target of \$3.30, or 30X estimated earnings of \$0.11 per share for FY2013.

Company Business

Incorporated in 2008 and publicly-traded since July 2011, AirTouch Communications develops and markets fixed wireless terminals that are capable of converging traditional landline, cellular, and data services. In general, a fixed wireless terminal is a communications device that delivers service utilizing a cellular signal and resides in a semi-permanent location. Some fixed wireless terminals are similar in form to a traditional desk phone, while others are similar in appearance to a wireless router and require a stand-alone cordless handset. The Company predominantly markets its products directly to larger cellular carriers, but may market directly to consumers as well through its partnerships with LightSquared (Private) and Elephant Talk (AMEX/ETAK/Buy). To date, AirTouch's limited sales history has been within the United States, but the Company ultimately expects to derive a significant percentage of revenue from international markets (see Market Opportunities/Competition for additional information). Detailed below are AirTouch's four significant product lines:

- 1) DM1000 and X500;
- 2) X1500;
- 3) X2000; and
- 4) U250 and U300.



DM1000/X500

The DM1000 (above), AirTouch's original product, has accounted for roughly \$1 million in historical sales and is a voice only fixed wireless terminal. We believe that the two most critical differentiating factors of the DM1000 over its competitors' offerings are that its antenna is amplified to 10X the level of a traditional cell phone, greatly boosting signal strength, and that the product is directly linked to a cordless handset, as opposed to requiring a stand-alone cordless phone system. The DM1000 is currently certified for use on the networks of AT&T (NYSE/T/Not Rated), Verizon (NYSE/VZ/Not Rated), and Sprint (NYSE/S/Not Rated). The X500 (at right), slated to be market ready in the first half of 2012, is a voice only replacement for the DM1000 that updates the original with a more modern design and compact profile.



X1500



The X1500 (at left) is a second generation fixed wireless terminal that offers all of the features of the DM1000 and X500, in addition to the capability to deliver internet service to a computer or laptop over an Ethernet connection. We believe that the product's capability to deliver voice and data through a single device as well as built-in PureSound technology, which improves call quality, will be key differentiating factors over competition. The X1500 is currently Verizon certified, and our channel checks have indicated that the product is being test marketed by one of the larger franchise chains, Cellular Connection, across the Mid-West. We consider the X1500 to be AirTouch's flagship model and estimate that it has the greatest sales potential.

X2000

The X2000 (at right) has all of the capabilities of the X1500, but will also include a cordless handset with the features of a smartphone. AirTouch anticipates that the X2000 will be market ready by late 2012. We anticipate that the cordless smartphone will likely feature Google's (Nasdaq/GOOG/Not Rated) Android operating system and will be capable of running various mobile applications. Our discussions with the Company's management indicate that they



believe there is an opportunity to create recurring service revenues through subscriptions to mobile services such as banking.

U250/U300

The U250 and U300 allow a user to place a call over a traditional landline, while utilizing their cellular device as the handset. The U250 is a non-Wi-Fi bridging station, while the U300 has a built-in Wi-Fi module. The product allows the user to access cellular phones features, such as their contact list, but to place the call over a traditional landline improving call quality in areas with weak cellular signals. The product line is currently being tested by various carriers and is expected to be market ready by H1/2012.

Market Opportunities/Competition

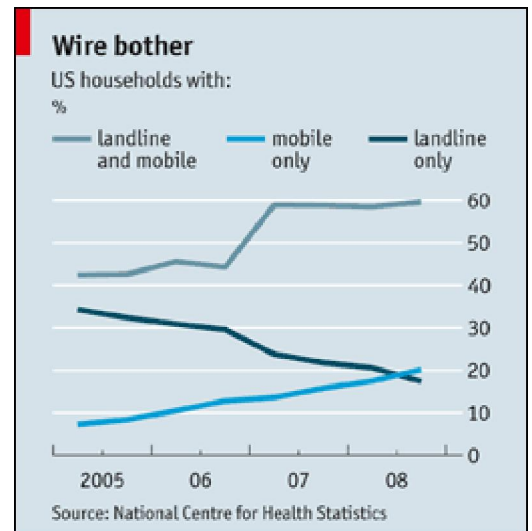
In broad terms, we believe that AirTouch's products address four potential markets: weak cellular coverage inside buildings, areas with underdeveloped telecommunications infrastructure, landline replacement, and mobile broadband. Addressable markets and potential competition are detailed below:

- **Weak Cellular Coverage** – We believe that locations with weak cellular coverage, such as inside buildings, represent AirTouch's largest potential opportunity in the United States. According to a five-city test conducted by *The New York Times* in February 2011², both AT&T and Verizon's networks experienced dead zones and dropped calls, with AT&T notably experiencing four dropped calls within 30 minutes in one market, San Francisco. Further, there is considerable anecdotal evidence that many consumers have weak cell reception within their homes or offices, and statistics published by Nielson indicate that over 65% of cellular calls originate from the home or office. Competition for the addressable weak signal market comes from **femtocells**, which utilize a broadband connection and a GPS receiver to create a "mini cell phone tower," **signal boosters**, which utilize a larger external antenna (usually mounted outdoors), **fixed wireless terminals** with amplified signals similar to AirTouch's products, such as the MV500 by Axesstel (OTCPK/AXST/Not Rated), and **dual mode cell phones** that utilize a Wi-Fi connection to place calls.

²<http://www.nytimes.com/2011/02/03/technology/personaltech/03pogue.html?pagewanted=all>

- **Underdeveloped Telecommunications** – We view the underdeveloped telecommunications market as two-fold: rural areas in developed nations and less-developed countries. **Within developed nations**, rural areas often face the dual problems of weak cell reception and no broadband internet access. This often forces consumers to maintain landline telephone service, as femtocells require a broadband internet connection, and to rely upon slower internet connections such as dial-up or satellite connections from Hughes (Nasdaq/SATS/Not Rated) or WildBlue (Nasdaq/VSAT/Not Rated). **In less-developed nations**, cellular communications are providing connectivity to areas that are lacking landline connections, which are unlikely to ever be installed. Similar to areas with weak cellular coverage inside buildings, AirTouch faces competition from several companies offering fixed wireless terminals with amplified signals, such as the MV400 by Axesstel that has already been successfully deployed in medical clinics across remote areas of Kenya.

- Landline Replacement** – *The Economist* has noted that consumers have been abandoning landline telephones at a rate of up to 700,000 per month (shown at right). Even for consumers that receive a strong wireless signal within their home, there is a demand for landline alternatives that enable the use of security systems, fax machines, and multiple cordless handsets in different rooms. Many products, such as eFax (Nasdaq/JCOM/Not Rated), broadband based security systems, and Bluetooth cordless phones address landline replacement demands on an individual basis. In addition, products such as Verizon Home Phone Connect (NYSE/VZ/Not Rated), by Huawei (Shenzen/002502/Not Rated), Sprint Phone Connect (NYSE/S/Not Rated), by Axisstel, and numerous offerings from Ericsson (Nasdaq/ERIC/Not Rated) address this market through fixed wireless terminals similar to AirTouch's upcoming X500.



- Mobile Broadband** – The mobile broadband market encompasses a wide variety of data usage outside of the home or office. This includes uses such as laptops on the move, boats, and recreational vehicles. The market is highly saturated as mobile broadband service is available via USB plug-ins and mobile hotspots on every major U.S. carrier, as well as smaller networks such as Clearwire (Nasdaq/CLWR/Not Rated). While we believe that this opportunity is relatively small, we would note that there is a potential addressable market for AirTouch's signal amplified fixed wireless terminal on boats further from shore, and recreational vehicles in remote areas.

Recent Results

AirTouch released results for its fiscal third quarter ended September 30, 2011 in mid-November. The Company reported no sales for Q3/11, compared to sales of \$139,000 in Q3/10. AirTouch reported a net loss of \$1.9 million for Q3/11, compared to a net loss of \$780,000 during Q3/10. The Company recorded a loss per share of (\$0.12) for Q3/11, compared to a loss per share of (\$0.15) for Q3/10. AirTouch's loss per share decreased at the same time that net losses increased due to an increase in average shares outstanding from 5.1 million in Q3/10 to 16.7 million in Q3/11. Revenue during Q3/10 was generated by sales of the legacy DM1000 product, and the lack of revenue during Q3/11 can be attributed to the Company redirecting its marketing and development focus towards next generation products such as the X1500.

Balance Sheet and Operating Cash Flow

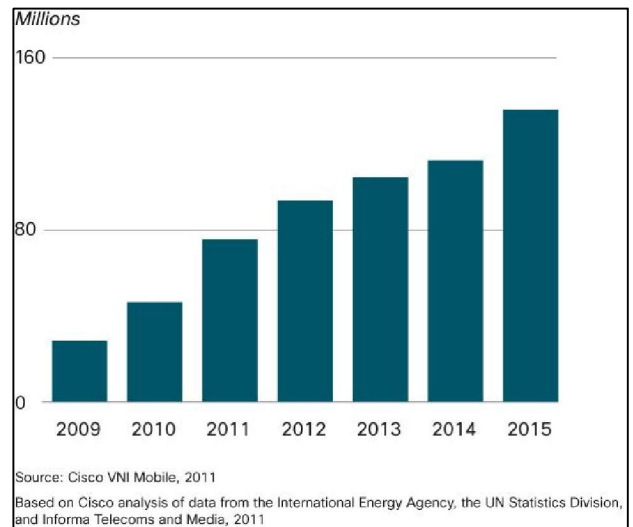
AirTouch had cash and equivalents of \$7.9 million on September 30, 2011, compared to \$201,000 on December 31, 2010. The increase in cash and equivalents was the result of a \$12.0 million private equity financing that was completed in August 2011. The Company had no debt on the balance sheet as of September 30, 2011, compared to \$3.1 million in convertible notes as of December 31, 2010 that were converted into common stock. For the nine months ended September 30, 2011, AirTouch reported negative operating cash flow of \$5.5 million, compared to negative cash flow of \$2.8 million for the nine months ended September 30, 2010.

Outlook/Growth Drivers

We believe that there is a viable addressable market in developed countries for a device that can be used to augment signal strength within buildings, or in rural areas lacking strong cellular coverage and broadband

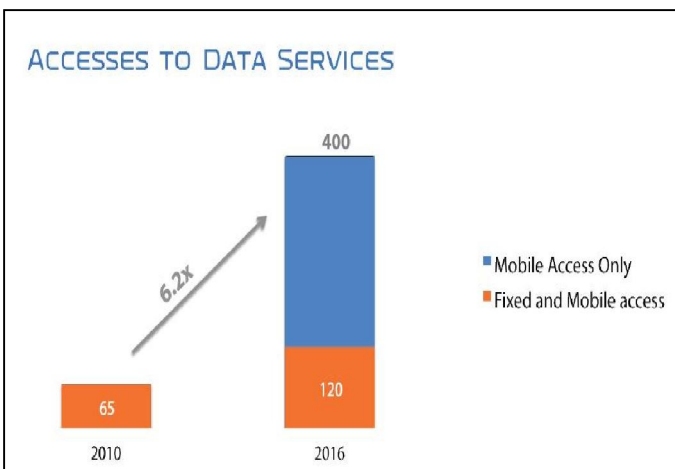
access. Further, we believe that a growing middle class in less-developed nations will demand more connectivity every year, and AirTouch's products can deliver both voice and data to remote areas with weak cellular signals where landline connections (fiber) are unlikely to be developed.

According to Cisco's most recent Visual Networking Index³, the off-grid, on-net population will reach 138 million people by 2015, meaning that 138 million people will have a mobile device, but no access to electricity across **Asia, Africa, and the Middle East**. The chart at right displays the off-grid, on-net population forecasts for 2009-2015. The report goes on to cite anecdotal evidence that the demand for mobile devices is so high that cottage industries have developed in areas without electricity utilizing adapted car batteries or wired charger banks to charge mobile phones. Further, many countries in Africa and Asia are currently experiencing hyper-growth in GDP, with Ghana posting the fastest worldwide GDP growth rate for 2011 at 20.1%. We believe that rising GDP in Africa and Asia will create a growing middle class that demands a higher degree of connectivity. In fact, Africa is now the second largest cell phone market by connections, behind only Asia, according to the GSMA Africa Mobile Observatory. Cisco ultimately believes that after 2015 the number of people who are off-grid, but on-net will begin to decrease as more regions of the world are connected to electricity. We feel this presents an excellent long-term opportunity for AirTouch. We view the "ideal" consumer for an AirTouch product in an emerging market to be one who has access to electricity, but lacks telecommunications infrastructure. With demand for mobile connectivity demonstrating a significant degree of strength across developing nations, we believe that the potential market for AirTouch's products will grow in conjunction with access to electricity as traditional wired telecommunications networks are unlikely to be developed, even as electricity access expands.



³http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-520862.html

Equally as important as Asia and Africa to the future potential of AirTouch is **Latin America**. America Movil (NYSE/AMX/Not Rated), by far the largest mobile telecommunications operator across Latin America,



estimates that the amount of consumers with access to data services will increase six-fold from 2010-2016, with 70% having access to data only through a mobile connection in 2016⁴. The projection is displayed visually, at left. The company further outlines several positive externalities of expanding data access throughout Latin America including more efficient markets, greater productivity, better healthcare, improved governmental services, and less income inequality (also applicable across Asia and Africa). Finally, in its most recent investor presentation, America Movil outlined that an essential goal for the company is to "reach marginal subscribers in rural areas, poor urban neighborhoods, and remote communities" to "give them access to voice and

data services in an affordable manner, and open for them the doors to modernity." We believe that AirTouch's signal amplified wireless terminals, especially the X1500 with data capabilities, can cost effectively address the demands of telecom operators in Latin America.

⁴<http://www.americamovil.com/amx/en/cm/investor/institucional.pdf>

Based upon initial expressions of interest from worldwide cellular carriers, AirTouch's management has forecasted sales for FY2012 of \$50-\$75 million. From our discussions with the Company's management, we believe that purchase orders will initially be smaller in size as carriers test demand for AirTouch's products, with the potential for larger subsequent purchase orders. Thus, in order to reach sales of \$50 million for FY2012, which will require unit sales of 350,000 – 500,000 depending on the product mix, the Company will need to receive smaller test purchase orders in the earlier part of the year in order to allow subsequent larger purchase orders in time to meet its sales forecast. If the Company does not receive initial smaller purchase orders from multiple worldwide cellular carriers during Q1/2012 or Q2/2012 at the latest, we believe that it will be difficult to reach sales expectations. One of AirTouch's main competitors, Axisstel, has achieved annual revenue in excess of \$50 million, of which over 90% is generated by four customers. Therefore, we believe that AirTouch will need to announce at minimum five smaller purchase orders in early 2012, assuming an 80% conversion rate of test purchases to larger orders, to potentially meet the sales goal of \$50 million. As none of the projected sales for FY2012 are based upon already signed contracts, we are discounting the low-end of Company's estimates by 50% and forecasting sales of \$25 million for FY2012. We believe that the Company's FY2012 forecast will be more achievable during FY2013, and as such are estimating sales for FY2013 of \$50 million.

Management

Hideyuki Kanakubo has served as President, Chief Executive Officer, and member of the Board of Directors of AirTouch since its inception in 2004. Prior to founding the Company, he had three decades of experience in the wireless industry, last serving as President of U.S. Operations for Uniden. Mr. Kanakubo graduated from Bucknell University in 1983. We would note that his last startup, a joint venture between Uniden and Memorex (NYSE/IMN/Not Rated), filed for a Chapter 7 bankruptcy.

Jerome Kaiser has served as Chief Financial Officer of AirTouch since 2010. Prior to joining the Company, he served as Chief Financial Officer of ORYXE Energy International from 2006-2009, and as a Vice President at Liz Claiborne (NYSE/LIZ/Not Rated) from 2005-2006. Mr. Kaiser is a Certified Public Accountant who holds a master's degree in Business Taxation from California State University and a bachelor's degree in Accounting from Pepperdine University.

Hidekazu Nakama has served as Chief Technical Officer of AirTouch since 2004. He has prior experience with Uniden from 1982-2004, ending as an Engineering Director.

Tom Quan has served as Head of Global Sales, Marketing, and Merchandising of AirTouch since 2011. He has over 20 years of experience in retail and sales, ending as Vice President of Wireless Communications for RadioShack (NYSE/RSH/Not Rated).

Outside directors include **Larry Paulson**, Chairman of the Board of AirTouch, Chief Marketing Officer of Brightpoint (Nasdaq/CELL/Not Rated) and a former Senior Vice President of Nokia (NYSE/NOK/Not Rated); **Dr. James Canton**, the Chairman and Chief Executive Officer of the Institute for Global Futures and a senior fellow at the Kellogg School of Management; and **J. Steven Roush**, a former partner at PricewaterhouseCoopers.

Stock Valuation/Comparables

We have compiled a five-stock comparable group to AirTouch that includes two companies that design and manufacture fixed wireless terminals, Axisstel and Telular (Nasdaq/WRLS/Not Rated); two companies that specialize in providing wireless broadband solutions, Sierra Wireless (Nasdaq/SWIR/Not Rated) and Alvarion (Nasdaq/ALVR/Not Rated); and a single large wireless conglomerate whose products include fixed wireless

terminals, LM Ericsson (Nasdaq/ERIC/Not Rated). Table 1 below outlines price/revenues for FY2012E and price/earnings where applicable for FY2011E and FY2012E for AirTouch and five comparable fixed wireless terminal and mobile broadband companies:

Company	Symbol	Price	Shares		Market Cap		Calendar Year		Revenues (\$Millions)		Calendar Year		Price/Revs		Earnings		52 Week		Notes
			(millions)	(\$Millions)	EPS '11E	EPS '12E	2012E	P/E '11E	P/E '12E	2012E	Growth	Low	High						
Telular Corp	WRLS	\$7.72	15.18	\$117.19	\$0.30	\$0.54	\$52.5	25.6	14.4	2.2	78.1%	\$5.40	\$8.90	Fixed Wireless Terminal					
Sierra Wireless Inc	SWIR	7.25	31.30	226.91	0.11	0.56	638.3	65.9	12.9	0.4	409.1%	\$6.02	\$16.50	Wireless Broadband					
Alvarion Ltd	ALVR	1.00	57.97	57.97	-0.11	-0.01	192.8	N/A	N/A	0.3	N/A	\$0.81	\$2.52	Wireless Broadband					
Axesstel Inc	AXST	0.34	23.70	8.06	0.06	0.24	54.5	5.4	1.4	0.1	278.1%	\$0.04	\$0.37	Fixed Wireless					
LM Ericsson	ERIC	9.60	3273.35	31,424.18	0.90	0.94	35,690.0	10.7	10.2	0.9	4.4%	\$8.83	\$15.44	Wireless Conglomerate					
Average								26.9	9.7	0.8	192.4%								
AirTouch Communications Inc	ATCH	\$2.48	29.51	\$73.19	(\$0.52)	(\$0.04)	\$25.0	N/A	N/A	2.9	N/A	\$1.85	\$4.90	Fixed Wireless					

We believe that there is clearly an addressable market in developing nations and in areas with weak cellular coverage for fixed wireless terminals, and that AirTouch's products have some degree of differentiation that separates them from competing offerings. Therefore, we are initiating coverage on ATCH with a Buy rating and a 12 to 18 month price target of \$3.30, or 30X FY2013 earnings of \$0.11 per share.

Catalysts/Investor Timeline

- Smaller purchase orders from various global carriers are announced – H1 2012
- Product launch of the U250 and U300 family of products – H1 2012
- Product launch of the X500 family of products – H1 2012
- Announcement of larger subsequent purchase orders as a result of successful test rollouts – H2 2012
- Product launch of the X2000 family of products – H2 2012
- LightSquared potentially launches cellular network – 2012-2013

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by AirTouch with other companies in the industry, we believe the primary risks to our price target include the following:

- **Lack of profitability** – AirTouch has not yet produced a fiscal year with positive net income and there are no assurances that they will be able to do so in the future. Further, the Company had no sales in its most recent fiscal quarter. AirTouch may need to raise additional capital, exposing existing investors to the risk of dilution.
- **Currency exchange risks** – AirTouch's management anticipates that sales to international markets will comprise a large degree of future revenue. A strengthening dollar may cause international demand for the Company's products to weaken. Further, sales denominated in foreign currencies expose AirTouch to currency exchange risks.
- **Share price issues** – Because shares of AirTouch trade on the over the counter bulletin boards, there is the potential for a high degree of price volatility and the possibility of reduced liquidity.
- **Reliance on outsourced manufacturing** – AirTouch currently has contracts in place to outsource the manufacturing of its products to two third-party companies in Shenzhen, China. While having contracts with two distinct manufacturers provides some degree of redundancy, AirTouch would face significant delays if its outsourcing partners experience difficulties that fall outside of the Company's control.

Further, with all manufacturing outsourced to Chinese companies, AirTouch could face significant delays based upon future unfavorable laws or regulations resulting from a potential trade war between China and the United States.

- **Dependency on LightSquared** – AirTouch has announced that it intends to offer cellular service directly to consumers utilizing LightSquared’s pending cellular network. According to a report by Bloomberg⁵, recent tests by regulators have indicated that LightSquared’s network caused interference with up to 75% of GPS devices, calling into question LightSquared’s ability to filter its cellular signal. AirTouch currently has no redundancy plan in the event that LightSquared’s launch is delayed or denied.

⁵<http://www.bloomberg.com/news/2011-12-09/falcone-s-lightsquared-said-to-disrupt-75-of-gps-in-u-s-tests.html>

Airtouch, Inc.
Consolidated Statements of Operations
(In \$000's)

FY/December	2008	2009	2010	1Q11	2Q11	3Q11	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E
				Mar	June	Sept	Dec		Mar	June	Sept	Dec		
Revenues	\$150.4	\$147.7	\$160.4	\$226.7	\$250.5	\$0.0	\$30.0	\$507.2	\$900.0	\$4,400.0	\$8,800.0	\$10,900.0	\$25,000.0	\$50,000.0
Cost of revenues (excluding depreciation)	115.3	116.9	328.0	246.8	107.6	0.0	18.0	372.4	540.0	2,640.0	5,280.0	6,540.0	15,000.0	30,000.0
Gross Profit	35.1	30.8	(167.6)	(20.1)	142.9	0.0	12.0	134.8	360.0	1,760.0	3,520.0	4,360.0	10,000.0	20,000.0
Operating Expenses:														
Selling, general & administrative expenses	566.3	914.3	2,162.7	572.0	407.4	1,048.3	1,100.0	3,127.7	1,300.0	1,400.0	1,500.0	1,600.0	5,800.0	9,000.0
Research and development	109.6	79.1	1,803.8	170.7	869.5	639.1	800.0	2,479.3	900.0	1,000.0	1,100.0	1,200.0	4,200.0	6,000.0
Impairment charges & other one-time	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	675.8	993.4	3,966.5	742.7	1,276.9	1,687.4	1,900.0	5,607.0	2,200.0	2,400.0	2,600.0	2,800.0	10,000.0	15,000.0
Income (loss) from operations	(640.7)	(962.6)	(4,134.1)	(762.8)	(1,134.0)	(1,687.4)	(1,888.0)	(5,472.2)	(1,840.0)	(640.0)	920.0	1,560.0	0.0	5,000.0
Other Income														
Interest income/(expense), net	(169.8)	(63.4)	(427.3)	(132.4)	(568.4)	(11.9)	(10.0)	(722.7)	(10.0)	(10.0)	(10.0)	(10.0)	(40.0)	(40.0)
Other expenses, including discontinued ops.	0.0	0.0	(289.0)	(1,409.5)	(333.9)	(250.4)	(300.0)	(2,293.8)	(300.0)	(300.0)	(300.0)	(300.0)	(1,200.0)	(1,200.0)
Income (loss) before tax	(810.5)	(1,026.0)	(4,850.4)	(2,304.7)	(2,036.3)	(1,949.7)	(2,198.0)	(8,488.7)	(2,150.0)	(950.0)	610.0	1,250.0	(1,240.0)	3,760.0
Provision for income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss)	(810.5)	(1,026.0)	(4,850.4)	(2,304.7)	(2,036.3)	(1,949.7)	(2,198.0)	(8,488.7)	(2,150.0)	(950.0)	610.0	1,250.0	(1,240.0)	3,760.0
Basic income per share	(\$0.21)	(\$0.24)	(\$0.98)	(\$0.27)	(\$0.19)	(\$0.12)	(\$0.07)	(\$0.52)	(\$0.07)	(\$0.03)	\$0.02	\$0.04	(\$0.04)	\$0.11
Diluted income per share	(\$0.21)	(\$0.24)	(\$0.98)	(\$0.27)	(\$0.19)	(\$0.12)	(\$0.07)	(\$0.52)	(\$0.07)	(\$0.03)	\$0.02	\$0.04	(\$0.04)	\$0.11
Basic shares outstanding	3,943.3	4,329.7	4,969.6	8,431.0	10,519.7	16,729.8	29,512.0	16,298.1	30,000.0	31,000.0	32,000.0	33,000.0	31,500.0	35,000.0
Diluted shares outstanding	3,943.3	4,329.7	4,969.6	8,431.0	10,519.7	16,729.8	29,512.0	16,298.1	30,000.0	31,000.0	32,000.0	33,000.0	31,500.0	35,000.0
Key ratios:														
Revenue growth		-1.8%	8.7%					216.1%	297.0%	1656.5%	N/A	36233.3%	4828.9%	100.0%
Gross margin	23.4%	20.8%	-104.5%	-8.9%	57.0%	0.0%	40.0%	26.6%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
S,G&A/revenues	376.4%	619.2%	1348.0%	252.3%	162.6%	0.0%	3666.7%	616.6%	144.4%	31.8%	17.0%	14.7%	23.2%	18.0%
Profit margin	-538.8%	-694.8%	-3023.2%	-1016.5%	-812.9%	0.0%	-7326.7%	-1673.6%	-238.9%	-21.6%	6.9%	11.5%	-5.0%	7.5%
Operating margin	-425.9%	-651.9%	-2576.7%	-336.4%	-452.7%	0.0%	-6293.3%	-1078.9%	-204.4%	-14.5%	10.5%	14.3%	0.0%	10.0%
Depreciation, amortization, & non-cash comp	105.7	420.6	328.1	49.7	218.8	35.9	50.0	354.4	75.0	75.0	75.0	75.0	300.0	350.0
Cash Flow/share	(\$0.18)	(\$0.14)	(\$0.91)	(\$0.27)	(\$0.17)	(\$0.11)	(\$0.07)	(\$0.50)	(\$0.07)	(\$0.03)	\$0.02	\$0.04	(\$0.03)	\$0.12
EBITDA/share	(\$0.14)	(\$0.13)	(\$0.77)	(\$0.08)	(\$0.09)	(\$0.10)	(\$0.06)	(\$0.31)	(\$0.06)	(\$0.02)	\$0.03	\$0.05	\$0.01	\$0.15

Balance Sheets

(\$000's)

Assets:	12/31/10	9/30/11
Cash and equivalents	\$201.3	\$7,944.4
Inventory	329.1	710.5
Prepaid expenses	1.0	318.2
Deferred financing costs	46.4	0.0
Total current	577.8	8,973.1
Property & equipment, net	155.8	240.6
Deposits	23.4	19.0
Intangible assets, net & other	183.2	183.4
TOTAL ASSETS	940.3	9,416.0
Liabilities:		
Accounts payable	390.6	85.3
Accrued expenses	576.4	64.5
Notes payable	3,129.5	0.0
Capital lease obligation	6.2	7.7
Derivative liability	55.4	0.0
Total current	4,158.2	157.5
Capital lease obligation	8.3	2.3
Total liabilities	4,166.5	159.8
Stockholders' equity	3,226.2	9,256.2
TOTAL LIAB & EQ	940.3	9,416.0

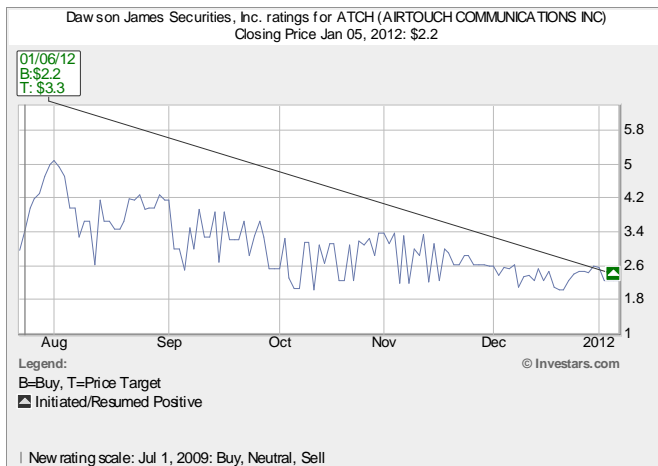
Quarterly Earnings Comparisons

	Mar	June	Sept	Dec	Total
Revenues (in 000's)					
2011E	\$226.7	\$250.5	\$0.0	\$30.0	\$507.2
2012E	900.0	4,400.0	8,800.0	10,900.0	25,000.0
Earnings per Share					
2011E	(\$0.27)	(\$0.19)	(\$0.12)	(\$0.07)	(\$0.52)
2012E	(0.07)	(0.03)	0.02	0.04	(0.04)

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

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – January 6, 2012 – BUY - Price Target \$3.30

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Ratings definitions: **1) Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; **2) Neutral:** the stock is fairly valued for the next 12-18 months; and **3) Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	16	64%	6	38%
Neutral	8	32%	5	63%
Sell	1	4%	0	0%
Total	25	100%	11	44%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISK FACTORS” sections of this report.

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