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Cambridge Heart (Nasdaq/CAMH)

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BUY Heart of the Matter

Cambridge Heart manufactures and markets cardiac diagnostic systems

Investment Highlights

1) Cambridge Heart has come a long way toward fulfilling its recent (started just over a year ago) strategy shift for its core MTWA technology into **OEM module applications**. Since last June, the Company has signed its first stress test OEM partner, **Cardiac Sciences**, and received FDA 510 (k) approval for the first module. Up next for CHI is **launch of the first product** from market-leader Cardiac Sciences and **potentially more marketing partners** in this space. In addition to Cardiac Sciences, the Company has a **strong history of attracting partners**, including current partner-investor St. Jude Medical. Other potential partners in the stress test manufacturing area include GE Medical Systems, privately-held Welch Allen, Philips, Schiller and Motara.

2) The Company is also making strides in advancing its existing marketing areas and partnerships, most notably through the recent receipt of **removal of existing limitations on Government (CMS) reimbursement** for both stress and CHI's MTWA tests during the same patient visit – a new regulation (or removal of one) which will make logistics much easier for physician and cardiology groups. Also in the works are efforts to expand the utility of MTWA testing systems and modules – for example by the **detection of active ischemia in cardiac disease at-risk patients**, with the initiation just this month of a new 200-patient study. All-in-all, the Company is progressing toward its stated goal of targeting a **larger patient population** – those patients at risk of Sudden Cardiac Arrest – rather than just those candidates for implantable cardiac defibrillators.

3) Finally, the Company has made great strides in **turning around financial operations** in a difficult economy for healthcare equipment and services providers – by completing several rounds of cost reductions since last year and a recent multi-phased round of equity capital raising. The end result is expected to be **decreased operating losses** this year and next, and a reduced need to raise capital in the near future until operations can turn profitable and cash flow positive.

Current Price \$0.26

Price Target \$0.50

Estimates	F2008A	F2009A	F2010E
Revenue(\$000s)	\$4,239	\$3,232	\$3,208
1Q March	1,177	836	658 A
2Q June	927	793	650 E
3Q September	1,122	798	850 E
4Q December	1,012	805	1,050 E

	(\$0.16)	(\$0.12)	(\$0.06)
EPS			
1Q March	(0.04)	(0.03)	(0.02) A
2Q June	(0.04)	(0.03)	(0.01) E
3Q September	(0.03)	(0.03)	(0.01) E
4Q December	(0.05)	(0.03)	(0.01) E
P/E (x)	N/A	N/A	N/A

EBITDA/Share	-\$0.15	-\$0.10	-\$0.03
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$0.06-\$0.75
Shares Outstanding (mil.)	65.3
Market Capitalization (mil.)	\$17.0
Enterprise Value (mil.)	\$14.8
Debt to Capital (3/10)	N/A
Book Value/Share (3/10)	N/A
Price/Book	N/A
Average Trading Volume (3-month)	190,000
Insider Ownership	23.3%
Institutional Ownership	2.7%
Short interest	15,000
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:
Initiated - July 19, 2010 – Target \$0.50

Conclusion/Stock Valuation

Cambridge Heart has re-arranged management, improved its balance sheet, and successfully embarked on a new sales and distribution strategy over the past 12-24 months, and now is on the brink of emerging from a recent industry slump with excellent prospects looking forward. Although it is difficult to compare CHI's valuation directly to other, more established cardiology device or diagnostic equipment providers with a connection to the Company such as St. Jude Medical (NYSE/STJ/Not Rated) or Cardiac Sciences (Nasdaq/CSCX/Not Rated) due to the lack of profitability for CHI, it is worth noting that shares of both of these companies have performed better than CHI's over the past 12-24 months, perhaps due to larger size and greater investor awareness. Alternatively, shares of several specialized cardiology/device companies have appreciated strongly this summer due to buy-outs, such as Ev3 (Nasdaq/EVVV/Not Rated), and Micrus Endovascular (Nasdaq/MEND/Not Rated) which have almost doubled and tripled, respectively, since lows one year ago. Thus we are initiating coverage on shares of CAMH with a BUY rating and an 18-24 month price target of \$0.50, still below trading ranges of earlier this year.

History/Capitalization

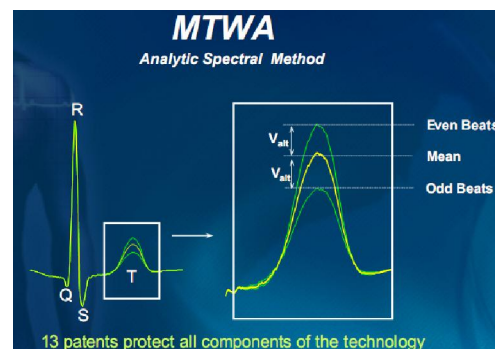
Cambridge Heart, Inc. (CHI) was formed in 1990 in Massachusetts to commercialize early research at MIT in the 1980's related to microvolt T-wave alternans (MTWA) technology. In 1994, a landmark publication on MTWA came out in *The New England Journal of Medicine*, concluding that MTWA was an independent marker of arrhythmic vulnerability equivalent to more invasive electrophysiology testing. Soon afterward, CHI completed its Initial Public Offering in 1996, and that same year the first 510 (k) product approval was received from the US FDA and the CH2000 was launched. In 1999, following the completion of an additional clinical study, the MTWA technology received additional labeling claims. In 2000 the HearTwave I System was launched, followed in 2005 by the HearTwave II. Further marketing milestones were achieved in 2006 with the granting of Medicare reimbursement for the test and insurance plan coverage by many private players, and beginning in 2007 a co-marketing agreement with St. Jude Medical. In 2009, CHI signed an agreement with Cardiac Sciences to develop and market an Alternans module for integration into existing stress test platforms, and in 2010 this MTWA Original Equipment Manufacturer (OEM) module received FDA 510 (k) clearance. In addition, in July 2010 the Company received additional Medicare reimbursement for the use of MTWA testing on the same day as other cardiac tests are performed. Cambridge Heart maintains has its corporate headquarters in Tewksbury, Massachusetts.

Products and Services

Technology

Microwave T Wave Alternans (MTWA) is a specific, non-invasive marker of arrhythmic vulnerability and risk of Sudden Cardiac Arrest (SCA). The MTWA technology refers to alternating, beat-to-beat fluctuations in amplitude and/or morphology of the T wave on an electrocardiogram (ECG). Cambridge Heart employs its patented Analytic Spectral Method to measure MTWA at the level of 1 microvolt, a measure so small that it is not detectable on a standard ECG. This method is based on technology originally developed at MIT, and is the only Medicare-reimbursed rest for measuring MTWA.

What's more, Cambridge Heart's third generation testing platforms administer MTWA testing in a non-invasive method very similar to a stress test. Patients typically walk on a treadmill for 5-10 minutes with a set of 14



electrodes placed on the torso – 7 standard and 7 proprietary, high resolution electrodes. Alternatively, patients' heart rates can be elevated through pharmacologic agents or pacing with electrical pulses.

A long history of past clinical studies has shown that MTWA can be useful in predicting SCA risk in patients with heart failure, cardiomyopathy, a history of heart attack and/or syncope. This high-risk population has been estimated at 12 million individuals in the US alone, based on a 2006 analysis from the American Heart Association. Sudden Cardiac Arrest is a leading cause of death in the US, accounting for an estimated 300,000-400,000 deaths each year. It has been estimated that 85%-90% of SCAs are the first arrhythmic event a patient ever experiences, and further that survival rates are less than 5% of patients who suffer SCAs outside the hospital, making early prediction and prevention critically important.

Sales and Marketing

All the Company's products, including the first generation **CH2000 Cardiac Stress Test System**, (at right) the first generation **HearTwave** and second generation **HearTwave II systems**, (see below) and related Micro-V Alternans Sensors (see next page) have received 501 (k) clearances from the US FDA as well as the CE mark for sale in Europe. In addition, the Japanese Ministry of Health Labor and Welfare has approved the CH2000 and HearTwave System for sale in that country. Initially, CHI's marketing strategy was to target those patients at highest risk for SCA who were likely candidates to receive implantable cardiac defibrillation devices (ICD), an approximate market in the US of 300,000 to 1 million patients. With that focus in mind, the Company signed a co-marketing agreement in March 2007 with St. Jude Medical (concurrently with a \$12.5 million equity investment by St. Jude) whereby St. Jude would market the HearTwave II system and sensors to cardiologists and electrophysiologists, in particular to patients who might be candidates for ICDs (St. Jude remains one of the largest manufacturers of ICDs) while CHI would continue to market its products to primary care and internal care physician practices.



CH2000 Cardiac Diagnostic System



HearTwave II MTWA System

In 2009, the Company announced a new strategy to increase the adoption of MTWA testing through the development and marketing of an Original Equipment Manufacturer (OEM) Module to be integrated into stress test system platforms and sold by these providers. Later that year, the Company announced the first such partnership with Cardiac Sciences Corporation (the largest provider of stress test systems with approximately 39% of the market) in a 5-year non-exclusive arrangement; after FDA approval for the module earlier this year, the two companies are targeting a Q3/2010 launch of this new product. Other major players in the stress test equipment manufacturing market include General Electric (30% market share), Welch Allyn (6%), Schiller (5%), Mortara and Philips (less than 4% combined). Approximately 4,000 stress system units are sold per year. The economics of the OEM module approach compare favorably with the manufacture and sale of stand-alone MTWA diagnostic systems: End-user pricing between \$5,000-\$8,000 per system; Sensor pricing in line with current price for stand-alone systems of \$64-\$84 per sensor; lower costs of goods sold for the OEM unit; and equivalent other (many recurring) revenues such as service and maintenance revenues.

Cambridge Heart maintains a sales and marketing staff of five direct sales representatives for the United States market, as well as ten clinical application

specialists to install systems, train customers and enhance sensor utilization. In the near future, the Company's marketing strategy will focus on positioning MTWA as a tool to assess and manage an individual risk's of SCA, especially in the high risk population, and re-organize its current resources to focus on value drivers, such as sensor utilization.

Longer-term, the Company will focus on making its product line more accessible to the high-risk cardiac population through:

- 1) **Multiple product line extensions and industry partnerships**, for example Cardiac Sciences and possibly other stress test system providers. The recent initiative toward an ischemia diagnostic indication is also a step in this direction;
- 2) **An attractive physician return on investment** – The recent “bundling” Medicare reimbursement decision is expected to make MTWA testing simple and more profitable for physician practices, as is a lower-cost OEM module alternative for initial set-up; and
- 3) **Simplify practice integration** through enhanced training and electronic medical records connectivity capabilities.



Micro-V Alternans Sensors

In the most recent full fiscal year, 2009, Cambridge Heart received approximately 14% of total revenue from product sales outside of the US, specifically through a network of country specific distributors. For the first quarter of 2010, international sales increased to 23% of total revenues from 14% in the previous year ago period, and the Company hopes to continue this trend through the signing of additional distribution partnerships in new territories.

Competition

In general terms, Cambridge Heart competes with other modalities for the diagnoses of heart disease, including electrocardiogram stress tests, electrophysiology testing, holter monitors, ultrasound testing and implantable ICDs. More specifically, GE Medical Systems received FDA 510 (k) approval for their T-Wave Alternans Algorithm for use with GE's Case 8000 Stress Exercise System, but in May 2008 the US Centers for Medicare and Medicaid Services issued a memo reaffirming reimbursement coverage of MTWA using only CHI's spectral analysis method and no other method, such as GE's T-Wave Alternans Algorithm, for example. Thus, adoption of GE Medical's alternative technology has been slow to develop, despite that company's more extensive marketing resources.

Manufacturing

Cambridge Heart maintains an in-house manufacturing capability for inspection and final assembly of purchased outside components, as well as a shipping center in its Tewksbury, Massachusetts headquarters. The Company moved into its present facility in early 2008.

Recent Results

Cambridge Heart reported promising financial results for their fiscal Q1/2010 in mid-May, including revenues of \$658,000, down 21% from the prior year period's \$836,000 and 18% from the prior quarter's \$805,000 in revenues. However, due to cost cutting measures implemented in March 2009 and more in March 2010, CCHI was able to reduce the quarterly loss to \$1.45 million or (\$0.02) per share in Q1/2010 from \$2.15 million or (\$0.03) in Q1/2009 and also (\$0.03) in Q4/2009. Revenues included the sale or placement of eight HearTwave II systems in Q1/2010, versus 13 in the prior year period. Revenues of non-Alternans products, including stress test diagnostic systems and miscellaneous products, most of which are recurring in nature such as supplies or service agreements, actually increased year-over-year, to \$270,000 from \$266,000, or an increase of 2%. System sales were hampered by a slow economy and decreased capital spending, and also possibly by the anticipated transition in the Company's focus to OEM modules rather than stand-alone systems and a new key distribution partner. International sales increased during the quarter, both in actual terms and as a percentage of revenues. Despite a \$102,000 charge in Q1/2010 for the write-off of old inventory, and slightly higher R&D costs, a large decrease in selling, general and administrative expenses allowed CHI to lower its losses during the first quarter vis-a-vis the same period last year. After factoring out the inventory reserve adjustment in Q1/2010, gross margins slipped to 38% from 41% the prior year, reflecting primarily an increase in the percentage of revenues received from international sales. Cash burn during the quarter was approximately \$1.1 million. The chart below outlines revenues, gross profit, operating expenses, net loss, earnings per share and shares outstanding for Cambridge Heart for the most recent Q1/2010 financial results as compared with the prior year period:

Quarter ended	March 31, 2009	March 31, 2010
Revenues	\$836,000	\$659,000
Gross Profit	\$343,000	\$149,000
Operating expenses	\$2,507,000	\$1,599,000
Net loss	(\$2,155,000)	(\$1,451,000)
Earnings per share	(\$0.03)	(\$0.02)
Shares outstanding (Millions)	64.543	65.296

Balance Sheet and Operating Cash Flow

Cambridge Heart ended the first quarter (March 31, 2010) with \$2.2 million in cash and \$400,000 in restricted cash related to a facility lease, offset by under \$100,000 in capital lease obligations. In addition, Cambridge Heart holds a little under \$12.9 million in two series of preferred stock, much of which is owned by marketing partner St. Jude Medical, with cash dividend rates of 8%. Subsequent to the end of the quarter, the Company raised over \$1.4 million from the exercise of short-term and long-term warrants issued in the December 2009 Series D institutional financing. We are projecting that the Company will continue to lose money and burn cash for the rest of this year and into next year, but at levels decreasing as compared to last year and the first quarter. At current levels of cash burn, barring additional funding or stepped-up R&D spending, we estimate that Cambridge Heart has approximately 6-12 months of operating cash burn on hand. The table below outlines cash and equivalents, restricted cash, convertible preferred stock, and stockholders' equity for Cambridge Heart for the most recent Q1/2010 ended March 31st as compared with the prior year-ended December 31st, 2009 period:

	<u>December 31st, 2009</u>	<u>March 31, 2010</u>
Cash and equivalents	\$3,159,000	\$2,228,000
Restricted cash receivable	\$500,000	\$400,000
Convertible preferred stock	\$12,871,000	\$12,871,000
Stockholders' equity (deficit)	(\$8,726,000)	(\$9,666,000)

Outlook/Growth Drivers

Our forecasts for Cambridge Health extend through next calendar year, and key drivers over the next 12-18 months include OEM module sales through Cardiac Sciences beginning H2/2010, increased new unit sales as well as greater across-the-board utilization thanks to new reimbursement, and potentially the use of MTWA technology to detect ischemia by late 2011. For the upcoming Q2/2010, cost cuts accomplished over the last 12-15 months are projected to help decrease the quarterly loss to approximately \$0.8 million or (\$0.01) per share, based on revenues of \$650,000, while new more favorable reimbursement and a new OEM agreement with Cardiac Science is expected to keep revenues on the upward rise and losses decreasing for the rest of the calendar year. For 2010 as a whole, we are estimating that Cambridge Health will accrue \$3.2 million in revenues, on par with those from 2009, with a net loss of \$4.0 million or (\$0.06) per share.

For 2011, we are estimating that new product initiatives will help boost revenues by 50% over 2010 for Cambridge Heart, to \$4.8 million, while simultaneously decreasing losses at the Company to \$2.8 million or (\$0.04) per share. We are estimating that gross margins will continue to improve next year, due to economies of scale from higher volumes, to 50%, while R&D costs will rise moderately and other overhead costs will decrease slightly due to recent cost cutting measures. With the \$2.8 million loss, and backing out estimated amortization, depreciation and non-cash stock compensation expense, Cambridge Heart could be very close to cash flow positive next year. There is some potential upside for next year and perhaps even later this year for CHI, such as an additional OEM agreement with other stress test manufacturers, notably General Electric, or increased use of MTWA technology in diagnosing cardiac ischemia, for example.

Management

Roderick de Greef has served as Chairman of the Board of Cambridge Heart since November 2008, having previously served as Chief Financial Officer of the Company. Prior to joining Cambridge Heart, Mr. De Greef served as CFO of Cardiac Science, and as a principal of Taveyenne Capital Advisors, a corporate finance consulting firm. Mr. de Greef also serves on the Board of Directors of Endologix, BioLife Solutions, and Elephant Talk Communications.

Ali Haghghi-Mood, Ph.D., is Chief Executive Officer of Cambridge Heart. He joined the Company in 1997 as a research scientist, and subsequently served as Manager of R&D, Director of Research, and finally CEO. Dr. Haghghi-Mood is the inventor of a number of US and European patents including the company's proprietary technology. Dr. Haghghi-Mood holds bachelors and master's degrees in Electrical Engineering and a Ph. D. in Biomedical Engineering from the University of Sussex UK.

Vincenzo LiCausi is Chief Financial Officer of Cambridge Heart, having joined the Company in October 2006 as Corporate Controller. Prior to joining the Company, Mr. LiCausi served in various positions with Bard Electrophysiology, Tropicana Products, and Deloitte & Touche. Mr. LiCausi is a CPA.

In March 2010, Cambridge Heart reduced the size of its Board of Directors from 7 members to 5. In addition to Mr. de Greef and Dr. Haghghi-Mood, other Board members include **Paul J. McCormick**, currently Executive Chairman of Cardiogenesis, **John F. McGuire**, former President and CEO of American Red Cross and Whatman Filtration Products, and **Jeffrey Wiggins**, former Principal of Dresdner RCM Capital Management.

Catalysts/Investor Timeline

- 1) Full Medicare reimbursement for both stress and MTWA test during the same patient visit – July 2010
- 2) Q2/2010 financial results announced – mid-August 2011
- 3) Launch of Cardiac Sciences OEM Module – Q3/2010
- 4) Additional OEM partnerships for MTWA module – 2010-2011
- 5) Completion of enrollment in ischemia trial – mid-2011
- 6) New distribution for HearTwave II product line – 2010/2011
- 7) New strategic initiative for MTWA technology (drug development/clinical trials) – 2010/2011

Risk Factors

We believe an investment in Cambridge Heart involves the following risks:

- **FDA and regulatory risks** – Cambridge Heart is subject to regulatory review for its ongoing research and development activities, principally the US Food and Drug Administration’s 510 (k) application process but also with other regulatory agencies as well, including in Europe and Asia. In addition, the manufacture and testing of the Company’s OEM modules, testing systems and sensors are subject to additional oversight and regulation by the FDA on an ongoing basis. The Company, however, has a good track record with FDA oversight, including the approval of an OEM MTWA module just this year.
- **Reliance on marketing partners and distributors** — Currently, Cambridge Heart has relied heavily but not exclusively on marketing partnerships with St. Jude Medical in the US and distributors in Europe and Asia, especially Japan. Most recently, the Company has signed a marketing partnership in the US with Cardiac Sciences for an MTWA OEM module, expected to be launched this year, and hopes to sign additional partnerships in the future in a similar vein. Should any of the Company’s major partners or distributors experience financial difficulty or a change in business strategy (through a merger, for example) CHI’s near-term revenues could suffer a downturn. The Company’s client list still remains very diverse, even with large partners, which may soften the negative effect of a loss of a key partner in the future.
- **Need to raise additional capital** – Cambridge Heart is currently not operating at a profit or with positive cash flow, and is not expected to do so in the near future, thus most likely requiring the need to raise additional capital in the next 9-12 months. The Company has been able to raise such capital in the recent past, however, including late last year and so far this year as well, and may be able to do so again in the future before projected positive operating cash flow can be achieved.

Cambridge Heart, Inc.
Consolidated Statements of Operations
 (In 000s, except per share data)

FYE December	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10E	3Q10E	4Q10E	2010E	2011E
				March	June	September	December		March	June	September	December		
Revenue	\$13,654	\$12,992	\$4,239	\$836	\$793	\$798	\$805	\$3,232	\$658	\$650	\$850	\$1,050	\$3,208	\$4,810
Cost of goods sold	7,001	5,646	3,179	493	463	456	430	1,842	510	360	470	530	1,870	2,410
Gross Profit	8,653	7,346	1,060	343	330	342	374	1,390	149	290	380	520	1,339	2,400
Operating Expenses:														
Research and development	1,763	1,863	542	74	92	92	123	381	148	130	170	190	638	840
Selling, general & administrative	2,701	3,081	10,847	2,433	2,018	1,932	1,998	8,380	1,451	980	1,060	1,210	4,701	4,330
Total operating expenses	4,464	4,944	11,389	2,507	2,110	2,023	2,120	8,761	1,599	1,110	1,230	1,400	5,339	5,170
Income (loss) from operations	4,189	2,402	(10,329)	(2,165)	(1,780)	(1,681)	(1,746)	(7,371)	(1,450)	(820)	(850)	(880)	(4,000)	(2,770)
Interest income	(35)	(20)	347	12	2	1	15	30	0	1	1	1	3	1
Interest expense & other	50	64	(48)	(2)	(2)	(2)	(109)	(115)	(1)	(5)	(5)	(5)	(16)	(5)
Income (loss) before tax	4,204	2,446	(10,030)	(2,155)	(1,779)	(1,681)	(1,840)	(7,456)	(1,451)	(824)	(854)	(884)	(4,013)	(2,774)
Provision for income taxes	(58)	369	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	4,262	2,077	(10,030)	(2,155)	(1,779)	(1,681)	(1,840)	(7,456)	(1,451)	(824)	(854)	(884)	(4,013)	(2,774)
Basic income per share	\$0.43	\$0.20	(\$0.16)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.12)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.04)
Diluted income per share	\$0.40	\$0.20	(\$0.16)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.12)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.04)
Basic shares outstanding	10,013	10,183	64,543	64,543	64,543	64,602	64,609	64,575	65,296	70,000	76,000	76,500	71,949	76,700
Diluted shares outstanding	10,612	10,183	64,543	64,543	64,543	64,602	64,609	64,575	65,296	70,000	76,000	76,500	71,949	76,700
Key ratios:														
Revenue growth	34.4%	-17.0%	-67.4%	-29.0%	-14.5%	-28.9%	-20.5%	-23.8%	-21.2%	-18.0%	6.5%	30.4%	-0.7%	50.0%
Gross margin	55.3%	56.5%	25.0%	41.0%	41.7%	42.9%	46.5%	43.0%	22.6%	45.0%	45.0%	50.0%	41.7%	50.0%
R&D/revenue	11.3%	14.3%	12.8%	8.9%	11.6%	11.5%	15.2%	11.8%	22.5%	20.0%	20.0%	18.0%	19.9%	17.5%
S G & A/revenues	#REF!	#REF!	#REF!	291.2%	254.4%	242.0%	248.2%	259.3%	220.4%	150.0%	125.0%	115.0%	146.5%	90.0%
Depreciation, amort, non-cash comp	320.0%	\$400	\$399	\$524	\$99	\$152	\$164	\$939	\$496	\$500	\$525	\$550	\$2,071	\$2,000
Operating margin	26.8%	18.5%	-243.7%	-259.1%	-224.4%	-210.6%	-216.9%	-228.1%	-220.3%	-126.2%	-100.0%	-83.8%	-124.7%	-57.6%
Cash Flow/share	\$0.40	\$0.24	(\$0.15)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.10)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)	(\$0.01)
EBITDA/share	\$0.40	\$0.28	(\$0.15)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.10)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.03)	(\$0.01)

Balance Sheets

	(\$000s)	
Assets:	12/31/09	3/31/10
Cash and equivalents	\$3,159	\$2,228
Restricted cash	100	100
Accounts receivable, net	459	445
Inventory	1,153	991
Prepaid expenses & other current	118	147
Total current	4,989	3,910
Fixed assets	240	238
Restricted cash	400	300
Other assets	43	54
TOTAL ASSETS	\$5,672	\$4,502
Liabilities:		
Accounts payable	\$384	\$258
Accrued expenses	1,117	1,004
Capital leases	14	4
Total current	1,514	1,265
Capital leases	14	33
Total liabilities	1,528	1,298
Convertible preferred stock	12,871	12,871
Stockholders' equity	(8,726)	(9,666)
TOTAL LIAB & EQ	\$5,672	\$4,502

Quarterly Earnings Comparisons

	March	June	September	December	Total
Revenues (in \$Mill)					
2008	\$1,177	\$927	\$1,122	\$1,012	\$4,239
2009	836	793	798	805	3,232
2010E	658	650	850	1,050	3,208
Earnings per Share					
2008	(\$0.04)	(\$0.04)	(\$0.03)	(\$0.05)	(\$0.16)
2009	(0.03)	(0.03)	(0.03)	(0.03)	(0.12)
2010E	(0.02)	(0.01)	(0.01)	(0.01)	(0.06)

Operating Statistics

	2007	2008	2009	2010E
Sales by Region (\$000s)				
US	\$9,445	\$3,569	\$2,770	\$4,100
Rest-of-world	662	670	462	710
Total	\$10,106	\$4,239	\$3,232	\$4,810
Sales by Product Line (\$000s)				
Alternans	\$8,910	\$3,135	\$2,281	\$3,600
Non-alternans	1,196	1,103	950	1,210
Total	\$10,106	\$4,239	\$3,232	\$4,810

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

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – July 19, 2010 – Target \$0.50

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	11	69%	4	36%
Neutral	5	31%	4	80%
Sell	0	0%	0	0%
Total	16	100%	8	50%

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

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