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INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

INITIATION REPORT

CryoCor, Inc. (CRYO)

Recent FDA Approval For Atrial Flutter Should Drive Strong Revenue Growth in 2008 **STRONG BUY**

August 29, 2007

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Current Price \$4.09 Target Price \$6.00

Investment Highlights:

1. CryoCor announced on August 27, 2007 that it had **completed patient enrollment in its pivotal trial** for the treatment of atrial fibrillation with its cryoablation system which also recently received FDA to treat atrial flutter, the only such approval in the industry. **CRYO plans to file a PMA in late 2008 in anticipation of FDA approval in 2009.**
2. Clinical trials strongly suggest that cryoablation (freezing) is safer than using high energy heat to treat both atrial flutter and atrial fibrillation. **CryoCor has the only FDA-approved endovascular system** which is easier to use because it avoids open heart or endoscopic access.
3. Given the company's cash burn rate and its need to finance the placement of systems in opinion leading accounts, **we believe the company will need to do an additional financing in 2007/ 2008.**
4. **Large, Underserved Market:** \$125 million in the U.S. in 2007 growing to \$550 million by 2011.
5. **Milestones:** Near-term placement of 30 control consoles into opinion leading electrophysiologists; submitting trial data to the FDA in late 2008 for atrial fibrillation indication; initiating and completing pilot trial for Quantum circumferential catheter.

Stock Data

52-Week Range	\$7.35-\$1.40
Shares Outstanding (Mill)	12.5
Market Capital. (\$Mill)	\$44.6
Average Daily Volume	224,078
Book Value/Share	\$1.09
Price/Book	3.2x
Cash / Securities (\$Mill)	\$20.27
Cash/Share	\$1.62
Insider Ownership	0.1%
Institutional Ownership	9.4%
Debt (\$Mill)	\$5.6
Dividend/Yield	N/A
Short Interest (\$Mill) / %	\$0.14 / 1.5%

<u>Estimates</u>	<u>2007E</u>	<u>2008E</u>	<u>2009E</u>
Sales	\$0.3	\$4.8	\$9.9
EPS	(\$1.30)	(\$0.73)	(\$0.33)
Net Inc. (Loss) (\$Mill)	(\$14.9)	(\$9.1)	(\$4.2)

Management

CEO & CEO	Edward Brennan, Ph.D.
CFO	Gregory Tibbitts
Chief Medical Officer	Helen Barold, M.D.



Price target and ratings changes over the past 3 years:
Initiated August 29, 2007 –Strong Buy – Price Target \$6.00

See last page for important disclosures and analyst certification.

INVESTMENT CONCLUSION & VALUATION

On August 27, 2007 CryoCor, Inc. announced that it had completed enrollment for its atrial fibrillation trial at 160 patients to insure that there are enough patients in the drug arm. A 12 month follow up is required for each patient and the company believes it will be ready to file its PMA with the FDA in late 2008 with approval expected in 2009.

Valuing CryoCor, Inc. shares is challenging because it has, until now, been a development stage company. However, with the FDA's approval of CryoCor's cryoablation system for the treatment of atrial flutter, and the strong prospect of an approval for treating the much larger indication of atrial fibrillation in 2008, we believe the company is on the verge of meaningful revenue generation. Profitability will not be immediate because the company will have a capital need to finance the placement of control consoles with opinion leading electrophysiologist who will appreciate the safety and ease of use of the only FDA approved *endovascular* treatment system. In addition to taking market share from high energy heat systems which have numerous shortcomings and complications, the aging of the baby boomer generation will contribute strongly to the potential patient population. As such, we project the catheter alone market for atrial treatments of both kinds in the U.S. will grow substantially from \$125 million in 2007 to over \$550 million in 2011.

Because CRYO is a developmental stage company and will not produce earnings for several years, we believe it is appropriate to value its shares based on a multiple of future revenues that would justify it as an acquisition candidate, which we believe may be the case. Based on our 2011 revenue estimate of roughly \$37 million and discounting it by 25% per annum and applying a 5X multiple, in line with other recent takeovers, we believe the stock could be worth \$6.00, our newly established price target, which would produce appreciation of more than 60%. As such, we rate the shares a **STRONG BUY**.

THE COMPANY

Located in San Diego, CA., CryoCor, Inc. is an innovative company developing cryoablation (freezing) systems to treat the prevalent conditions of atrial flutter and atrial fibrillation. These arrhythmias cause asynchronous beating of the atria, the upper chambers of the heart, resulting in inadequate or inappropriately timed firing of the ventricles.

Both of these conditions are the result of aberrant electrical signals in the heart that travel in chaotic patterns causing the atria to contract almost randomly. Most patients are unable to differentiate atrial flutter from atrial fibrillation because the symptoms are very similar and patients describe them as having a bad case of the flu.

Atrial flutter is a tachyarrhythmia that results in the atria beating about 5X more than normal. In addition to not helping to properly fill the ventricles, atrial flutter can result in life threatening blood clots as well as palpitations, shortness of breath, dizziness, fainting and being tired. Atrial flutter affects approximately 88 out of 100,000 new patients each year. In the United States, this represents approximately 250,000 patients presenting with atrial flutter annually. Atrial flutter is treated using cardioversion, drugs or cardiac ablation.

The other condition that CryoCor seeks to treat is atrial fibrillation (AF). It is the most commonly occurring cardiac arrhythmia affecting over 2.3 million individuals in the U.S. annually. During atrial fibrillation the upper chambers of the heart (atria) beat at an irregular rate and in an irregular rhythm. This disorganized activity interrupts normal blood flow, makes the heart to form blood clots and results

in a 6x increase in stroke and a 2x increase in mortality. Over 80,000 strokes annually are caused by atrial fibrillation. Atrial fibrillation is initially treated chronically over the patient's lifetime with drugs that are frequently ineffective and result in numerous side effects such as other arrhythmias, blindness, pulmonary fibrosis, hemorrhage, liver damage, thyroid damage, depression, impotence, and even death. These patients are also given blood thinners such as warfarin sodium (Coumadin).

The course of therapy frequently begins with cardioversion to return the patient to normal sinus rhythm. However, the condition frequently returns (55%-60% recurrence in atrial flutter) and the patient is treated using drugs such as beta blockers and calcium channel blockers to control heart rate and antiarrhythmic drugs to control rhythm. More than 50% of patients on drug therapy fail treatment over time and many others suffer from drug induced side effects.

Both atrial flutter and fibrillation are frequently treated with ablation, a procedure whereby the aberrant electrical signals are mapped and then the abnormal pathways are destroyed or blocked using either heat in the form of radiofrequency (RF) or high intensity focused ultrasound (HIFU) energy to cauterize the tissue, or intense cold, which freezes, or cryoablates the tissue. Even though RF devices are used to perform ablation, they are not FDA approved and can cause serious side effects such as pulmonary vein stenosis (the narrowing of blood vessels between the lungs and the left atrium), atrial esophageal fistulas (a potentially fatal opening between the heart and the esophagus which results from too deep an ablation) and the potential for stroke forming clots. The risk of major complications for ablation using either RF or HIFU is estimated to be 6%.

The primary advantage of CRYO's cryoablation system over RF is that it is safer, easier to administer and results in fewer complications including the following:

- A higher incidence of stroke with RF
- Pulmonary vein shrinkage which can lead to limitation of blood flow
- Injury to the esophagus in an estimated 2% of treatments
- Esophageal fistula which is a puncture of the esophagus that can lead to massive internal bleeding and death in 0.05% of all cases
- Pain reported in 75% of patients receiving RF vs. 2% for cryo.

Even though the incidence of esophageal fistula may seem low, it is almost always fatal. More importantly, significant damage can be sustained by the esophagus in the form of an ulceration from RF. Initially unaware of the damage, patients typically present several days to weeks after ablation and may complain of fever, neurologic symptoms (numbness, tingling, hypersensitivity, paralysis), chest pain, odynophagia (pain on swallowing), or hematemesis (vomiting blood).

A study by Evonich, Nori and Haines of the William Beaumont Hospital, Royal Oak, MI. that appeared in the June 2007 edition of the *Journal of Interventional Cardiac Electrophysiology* states: "High tissue temperatures cause thermal denaturation of structural proteins, including collagen. In contrast, cryothermal ablation causes tissue injury by damage to organelles and the sarcolemmal membrane by ice lattice formation and dissolution. Structural cellular elements are left intact. We hypothesized that lesions created with cryoablation might be less prone to tissue disruption than those formed with RF ablation, and that this would, in turn, decrease the likelihood of esophageal tissue disruption. This finding might ultimately translate into a lower risk of esophageal perforation after ablation of the contiguous left atrium."

In addition, because the cryoablation catheter actually freezes to the tissue and remains immobile the EP does not have to hold in place and can turnoff the fluoroscopy thus reducing the amount of radiation exposure to both the patient and the physician.

CryoCor recently received FDA approval for the use of its Cardiac Cryoablation System for the treatment of atrial flutter and has an ongoing clinical trial for atrial fibrillation.

In the U.S. alone we estimate there are 250,000 new cases of atrial flutter diagnosed each year. Atrial fibrillation is the most commonly occurring cardiac arrhythmia affecting over 2.3 million individuals in the U.S. annually (5.5 million worldwide according to Medtronic). The lifetime risk fro development of atrial fibrillation or flutter is 1 in 4 for both men and women 40 years of age and older. Lifetime risk for AF are high, 1 in 6 even in the absence of congestive hear failure or myocardial infarct. AF is responsible for 15-20% of all strokes, 80,000 and is a significant risk factor for stroke recurrence and severity. In the US alone, it is estimated that healthcare expenses associated with the treatment of atrial fibrillation and its effects exceed \$9 billion each year.

The system is covered by 72 exclusively licensed patents and patent applications from CryoGen (now American Medical Systems) in various stages of patent prosecution - 21 U.S. and 18 foreign patents issued to date. As part of the spin-off from CryoGen in August 2000, CryoCor has rights to a perpetual, worldwide exclusive, paid up, royalty free license of the CryoGen patent estate for the field of use in cardiac arrhythmias. There are approximately 110 proprietary patent applications/disclosures in the CryoCor IP portfolio in various stages of patent prosecution. CryoCor has 36 employees.

THE TECHNOLOGY

If a patient with atrial flutter is unstable, the first intervention can be cardioversion, where the patient's heart is shocked back into normal sinus rhythm. The subsequent treatment is to administer drugs in an attempt to slow the flutter. Verapamil or diltiazem may be the appropriate initial treatment. Should these prove to be ineffective the drug regiment continues with digoxin alone or administered with either a calcium antagonists or beta-blockers. Regardless of what drugs are administered and in what combinations, antiarrhythmic drugs alone control atrial flutter in only 50-60% of patients. Beginning in the early 1990s, radiofrequency (RF) catheter ablation has been used to interrupt the re-entrant circuit in the right atrium and prevent recurrences of atrial flutter. Early literature suggests that radiofrequency ablation is immediately successful in more than 90% of cases and avoids the long-term toxicity observed with antiarrhythmic drugs. However, more recent data suggests that ablation is effective in 60-70% of patients on the first treatment with approximately 1/3 of those receiving ablation requiring a second procedure bringing the final success rate to near 90%.

Equally difficult to control but certainly much more prevalent is atrial fibrillation which affects 2.5 million Americans or about 1% of the total U.S. population. The prevalence of atrial fibrillation increases almost exponentially with age (0.1% in persons 55 years or younger; 3.8% in persons 60 years to 80 years old; and 10% in persons over 80 years of age.

Although the symptoms may be similar between atrial flutter and atrial fibrillation the long term consequences of fibrillation may be more severe and can not be ignored as easily as may be the case for flutter. The rate of ischemic stroke among patients with non-rheumatic AF averages 5% a year, which is somewhere between 2-7 times the rate of stroke in patients without AF. The total mortality rate is approximately doubled in patients with AF compared with patients in normal sinus rhythm and is linked with the severity of underlying heart disease. AF complicates acute myocardial infarction (AMI) in 5-

10% of cases. The causes of AF in AMI are thought to be due to any number of factors, such as atrial infarction, atrial ischemic injury, atrial distension, or, perhaps, pericarditis.

As in the case of atrial flutter, the course of therapy for atrial fibrillation is similar, usually beginning with restoring the normal heart rhythm using either electrical or pharmacologic cardioversion. Electrical cardioversion is more effective than pharmacologic cardioversion, although it requires anesthesia. This is followed by a similar drug regimen often with the addition of anticoagulation which carries highly undesirable side effects. An estimated 30-50% of patients on drug therapy fail the first drug prescribed and an additional 15-20% fail the second drug therapy. Some patients may also be implanted with a pacemaker.

CryoCor's system is comprised of three parts: the Cryoablation Console which controls the temperature; the bi-polar CryoBlator catheter which delivers the freezing energy to the treatment site; and the Cryoablation Sheath/Dilator Kits that facilitate access to the cryoablation site. The catheter is usually delivered via the femoral vein (the only FDA approved for endovascular administration) and the cryoablation is generally performed at the ostium where the pulmonary vein enters the left atria. The electrophysiologist lays down a ring of ablations in each of the four pulmonary veins which disrupts the aberrant electrical signal causing the flutter or fibrillation.



Figure 1.—CryoCor's Cryoablation Console
Source: CryoCor, Inc.

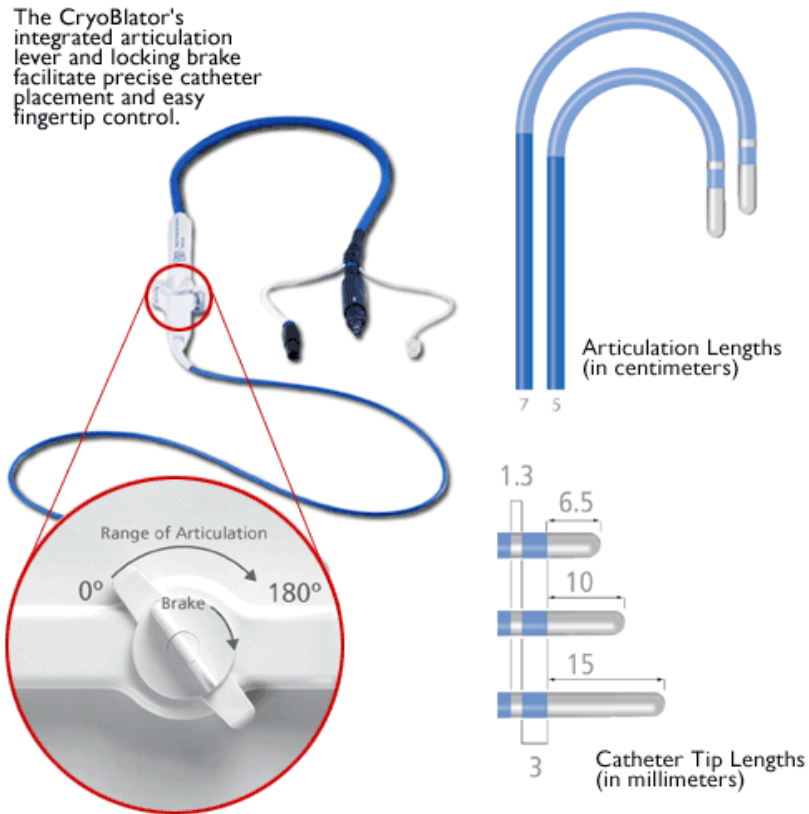


Figure 2.—Cryoablation Catheter
Source: CryoCor, Inc.

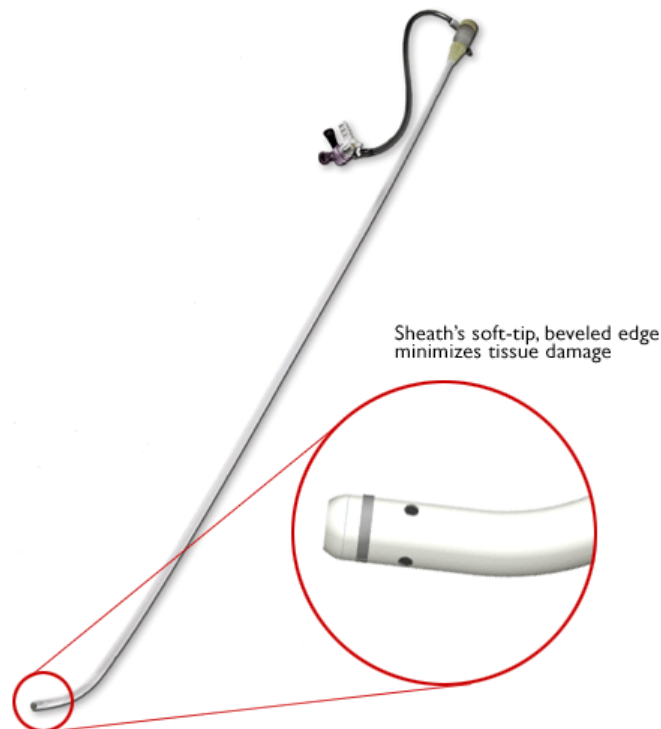


Figure 3.—Cryoablation Sheath/Dilator Kit
Source: CryoCor, Inc.

Clinical Trials and New Product Development

The FDA approval for treatment of atrial flutter is indeed significant, but the greater opportunity lies in the treatment of atrial fibrillation. Although we expect off label use of CryoCor's cryoablation system for the treatment of atrial fibrillation, the company is presently conducting a pivotal clinical trial seeking approval for this specific indication.

The trial calls for 140 patients to be randomized 1:1 between cryoablation and drug therapy to be followed for 12 months. On August 27, 2007 the company announced that it has completed enrollment at 160 patients to insure that there are enough patients in the drug arm. A 12 month follow up is required for each patient and the company believes it will be ready to file its PMA with the FDA in late 2008 with approval expected in 2009. The primary end points of the trial are: 1.) to prove ablation as safe as drug therapy; 2.) to be 15% more effective than drug therapy. Because the atria remodel after ablation as part of the healing process, there is a 90 day blanking period for both drug and ablation therapy beginning when the patients are enrolled in either arm, in which recurrent episodes are not considered as a failure. A failure in either arm would be an episode of atrial fibrillation occurring from day 90 through day 360. The company had some difficulty in enrolling patients because most candidates have failed drug therapy at least once and were reluctant to be randomized to drug therapy again, desiring rather to undergo ablation. However, the company has enrolled 70 eligible patients in each group and is confident that this number of patients will be acceptable to the FDA for evaluation. Under a continued use protocol (CAP) CryoCor will continue to enroll patients and can go 180 in total. The trial also allows for cross over from patients that have failed drug therapy to ablation. Because cryoablation has similar results to RF but fewer complications, and both have superior efficacy as measured against drug therapy, the 15% greater efficacy threshold should be easily achieved in our opinion.

In development, CryoCor has a very novel catheter called the Quantum which we believe could enter human clinical evaluation in early 2008. The Quantum is a catheter with multiple energy points that can be shaped to fit the irregular ostium of the pulmonary vein and deliver simultaneous ablations in a single engagement. The primary advantage of such a catheter to deliver circumferential therapy would be to shorten the treatment time by about 50% to two hours, which would be a considerable competitive advantage over RF. The company has completed animal testing and is now in final design validation with the goal of performing a small feasibility trial in early 2008 followed by a pivotal trial with no control group.

The Market Trends for Ablation

In 2006 it is estimated that there were 26,000 AF ablations performed in the U.S. and about 50,000 atrial flutter procedures (76,000 total atrial ablation procedures), which is barely scratching the surface in relation to over 2.3 million individuals in the U.S. with atrial fibrillation and 250,000 new cases of atrial flutter each year. The number of AF procedures is projected by industry sources to grow by almost 50% this year to 38,500 AF with the number of flutter procedures remaining flat at around 50,000. By 2011 as the baby boomer population continues to age, there should be approximately 140,000 AF procedures and about 82,000 flutter procedures for a total of over 220,000 ablations. It should be noted that about one third of these procedures are re-treatments so the rate of treatment in initial cases is even lower than these projections would suggest. Even assuming that drug therapy works in 50% of the cases, an aggressive estimate, there are still over 1 million potential patients that could benefit from ablation.

We estimate that most RF catheters used today have an ASP of approximately \$1,300 to \$1,400 suggesting a U.S. catheter only market today of over \$125 million admittedly small by most medical

device market standards. However, we believe the market could indeed grow as projected by industry sources reflecting a number of trends. First, it is apparent that drug therapy is not very effective in treating either flutter or fibrillation. The use of pacemakers to treat these conditions appears to have reached a plateau due to the cost of the therapy and some skepticism on the part of cardiologists as to their overuse. We also believe that the use of RF catheters has been limited by the side effect issues and the procedure times which can average 3 to 4 hours.

Cryoablation, in our opinion, addresses all of the side effect and economic issues with equal or better efficacy relative to RF. With the development of the Quantum, we further postulate that reducing the procedure time will significantly increase the number of procedures that can and will be performed. EPs will have the ability to increase case loads resulting in greater economic incentive.

With respect to catheter pricing we believe several trends will develop. First, an approval of a catheter to treat AF should carry a premium to one approved for flutter. Secondly, a catheter such as Quantum, which could reduce treatment and procedure times, should also command a premium price. We could easily postulate that a catheter such as Quantum could have an ASP of between \$2,500 and \$3,000 making the market substantially larger than it would currently appear. Assuming such an ASP would generate a \$550 million market for catheters alone, by 2011, based on industry projections. We see no reason why much of this market would not convert to cryoablation from RF due to safety concerns and ease of use.

As with all medical technologies, cryoablation must overcome physician inertia which we believe will be changed with the development of a body of positive clinical data and the adoption of the technology by industry leaders willing to be its proponent. Recently there have been several positive clinical trials reported touting the superiority of cryoablation over the use of high energy heat which will continue to have a positive impact on physician acceptance. These include: “Time Course of Esophageal Lesions After Catheter Ablation with Cryothermal and Radiofrequency Ablation: Implication for Atrio-Esophageal Fistula Formation After Catheter Ablation for Atrial Fibrillation” by Kenneth Lauren Ripley, M.S.E.E., et al.- *Journal of Interventional Cardiac Electrophysiology* and “High Incidence of Asymptomatic Esophageal Ulceration After Pulmonary Vein Antrum Isolation In Patients with Atrial Fibrillation” by Hiroshi Nakagawa, MD et al.-University of Oklahoma Health Sciences Center-*HR Supply* May 2007.

Competition

There are no FDA approved devices for the treatment of atrial fibrillation. CryoCor has the only FDA approved ***endovascular*** device for the ablation treatment of atrial flutter and in our opinion, is more than likely to achieve the first endovascular approval of a device to treat atrial fibrillation. All of this said, there are a host of companies that have FDA approval of RF and High Intensity Focused Ultrasound (HIFU) systems to “ablate cardiac tissue”. The major distinction to be made is that these systems are used in open heart and endoscopic procedures both of which apply either RF or HIFU epicardially (to the outside surface of the heart muscle). We believe that epicardial treatment requires high energy levels that result in more collateral tissue damage, the cause of blood clots that can lead to stroke.

We believe that the endovascular approach will be strongly preferred by physicians because of its ease of use and especially by patients and payors as it should result in faster recovery, shorter hospital stays and fewer complications than either an open heart procedure or even an endoscopic intervention. The following table attempts to summarize the competitive landscape.

ATRIAL ABLATION COMPETITIVE PRODUCTS

Company	Product	Energy Source	Approved Indication	Surgical Approach	AF pivotal trial start date	Status
CryoCor	Cardiac Cryoablation System	Cryogenic	Atrial Flutter	Endovascular	Dec-04	Approaching full enrollment
J&J	THERMOCOOL Irrigated Tip Catheter	Irrigated RF	Atrial Flutter	Endovascular	Jul-05	Estimated at 100/240
CryoCath	Arctic Front Cryoablation Balloon	Cryogenic	N/A	Endovascular	Sep-06	96/270 at mid-August
ProRhythm	HIFU Ablation Balloon Catheter	HIFU	N/A	Endovascular	Jan-07	No info available
C.R. Bard	RFMesh Bard Ablation System	RF	N/A	Endovascular	In feasibility	No info available
St. Jude	Therapy Cool Path Catheter	Irrigated RF	Atrial Flutter	Endovascular	None	
Medtronic	Cardioblate Surgical Ablation System	Irrigated RF	Tissure Ablation	Open chest	CURE-AF	
St. Jude	Epicor Cardiac Ablation System	HIFU	Tissure Ablation	Open chest	No info available	
AtriCure	Isolator(R) bipolar ablation clamps	RF	Tissure Ablation	Open chest/endoscopic	No info available	
BSC (Guidant)	FLEX Microwave surgical ablation	Microwave	Tissure Ablation	Endoscopic	No info available	

Source: Company Reports and Dawson James Securities, Inc.

Sales and Marketing

The company has limited sales and marketing capabilities having focused most of its resources, both managerially and financially on having achieved FDA approval for atrial flutter and pursuing a clinical trial for the a similar agency approval for the indication of atrial fibrillation. The company’s strategy over the next 18 months is to place between 120 and 160 consoles in hospitals with opinion leading physicians in order to develop a body of clinical data that will confirm the superiority of cryoablation over RF. Management believes it currently has the financial resources to place an additional 30 consoles to the 20 it already has in the field and has stated that it will need to raise additional capital to fulfill its plan. The company presently has two field clinical specialists that are nurses experienced in cardiac ablation call on electrophysiologists and plans to hire three additional reps to support its initial launch.

MANAGEMENT

Edward F. Brennan, Ph.D., is Chief Operating Office and our Chief Executive Officer and a member of our board of directors. From January 2001 to December 2003, Dr. Brennan was Managing Director for Perennial Ventures, a venture fund focused on early-stage investing in technology companies. From January 2000 to December 2000, Dr. Brennan served as Vice President of Tredegar Investments, a venture capital investment company. Dr. Brennan was also Executive Vice President for CardioGenesis Corp., a medical device company, from June 1995 to December 1999, where he was responsible for domestic and international clinical programs, regulatory affairs, quality systems and scientific research activities. He is the Chairman of Hemosense, Inc., and serves on the boards of directors of a number of privately-held technology companies. Dr. Brennan received a B.A. in Chemistry and Biology and a Ph.D. in Biology from the University of California, Santa Cruz.

Gregory Tibbitts is the company’s Chief Financial Officer He was the chief financial officer at Elitra Pharmaceuticals, a San Diego-based biotechnology company, responsible for financing

and strategic transactions. Prior to Elitra, he was a senior manager at Ernst & Young LLP, specializing in the biotechnology, medical device and pharmaceutical industries. Mr. Tibbitts has a B.A. in Business Administration from the University of San Diego and a M.B.A. from San Diego State University. He is a Certified Public Accountant in the State of California.

Helen S. Barold has served as the Chief Medical Officer since August 2006. Previously, Dr. Barold worked as a Medical Officer for the Food and Drug Administration, in the office of device evaluation of the Center for Devices and Radiological Health, and practiced in cardiology and cardiac electrophysiology at the National Naval Medical Center in Bethesda, Maryland. She received her medical degree from the University of Rochester, completed her Internal Medicine residency at Johns Hopkins Hospital, and her Cardiology and Electrophysiology residency at Duke University.

FINANCIALS

Key Modeling Assumptions

In modeling the revenue and earnings potential of CryoCor there is little historical data since the company has, for all intents and purposes, been a developmental stage company. We have approached modeling from two directions in order to check the reasonableness of our projections. Our estimates are for the U.S. only. The first approach is a top-down, market driven growth, market penetration and market share model. In our model we divide the ablation market into both atrial flutter and atrial fibrillation. Presently, about twice as many flutter patients receive some form of ablation therapy than those with atrial fibrillation, even though the potential patient population of the later category is much larger. We believe the percentage of flutter patients treated will increase slightly but that the patient population will continue to increase because of an aging population. We believe the faster growth will occur in treating patients with atrial fibrillation because the symptoms are worse and the treatment alternative, such as drug therapy, are not very effective in achieving long-term control. In the case of AF the potential market is approximately 10X that of atrial flutter but we believe we are being conservative in estimating the penetration rate rising to only 4.5% of all AF patients in 2011 up from 2.6% in 2008. Utilizing this methodology, we project U.S. revenues for CRYO growing from \$4.4 million in 2008 to \$35.2 million in 2011.

Our gut check method is to estimate the number of consoles the company can install in leading electrophysiology sites over the next four years and project the number of catheters that will be used with each console on a quarterly basis. In the U.K. where the company has been selling its system for some time, the average console generates approximately 6 catheters per month or 18 per quarter. We start our projection at 9 catheters per quarter and do not reach the levels achieved in the U.K until the third quarter of 2010. This is largely the result of constantly adding consoles to the base which has the dilutive effect of lowering average use. As our model based on console installations suggests, the revenue generation would be very similar to our top-down penetration model.

We are less confident in projecting specific levels of loss and profit but making some rough assumptions on gross margin and costs, we believe that significant sales leverage in 2010 should result in positive earnings but to what level is difficult to predict. We do believe that once the company becomes profitable its earnings should grow rapidly as additional sales leverage in existing accounts will carry a lower sales and marketing expense and should further leverage the imbedded costs of the console.

Valuation & Recommendation

We believe that CryoCor is in a unique position to capitalize on a superior technology to treat two widely occurring medical conditions, atrial flutter and atrial fibrillation that are not satisfactorily treated with existing therapies. Drug therapy clearly has a very low success rate and atrial ablation using either RF or HIFU, produce side effects and mortality risks that can be avoided using cryoablation. CryoCor has the only endovascular, FDA approved product to treat atrial flutter and we believe over the next 12 months stands a very good chance of also achieving the agency's approval for atrial fibrillation. As is the case with other ablation therapies that are not specifically approved for either condition and are used off label, we believe that CryoCor's cryoablation system will be used in a similar manner to treat AF until the company achieves an FDA approval. With FDA approval for atrial fibrillation, CryoCor's cryoablation system could become the standard of care in our opinion based on its safety profile and the fact that it will be the first endovascular system available on the market. The endovascular approach avoids major cardiac intervention reducing complications and leading to faster recovery, factor that should be attractive to both patient and physician alike.

Because CRYO is a developmental stage company and will not produce earnings for several years, we believe it is appropriate to value its shares based on some multiple of future revenues that would justify it as an acquisition candidate, which it well might be. Based on our 2011 revenue estimate of roughly \$37 million and discounting it by 25% per annum and applying a 5X multiple, in line with other recent takeovers, we believe the stock could be worth \$6.00, our newly established price target, which would produce appreciation of more than 60%. As such, we rate the shares a **STRONG BUY**.

RISKS

We believe a **STRONG BUY** position with CRYO involves the following risks:

- **Clinical Indications** – CRYO continues to explore technology upgrades such as the Quantum circumferential catheter. Its inability to discover and commercialize new applications and product improvements could relegate revenue growth to high single digits. While CRYO has a competitive product line with an innovative power source and delivery system, the atrial ablation market is highly competitive and the requirement for innovation and new clinical indications is enormous. A set-back or delay in such an initiative would negatively impact the company.
- **Regulatory** – CRYO relies on all of its products receiving approval from the Food and Drug Administration. The company currently has several products under development that must go through the approval process prior to commercial availability. Any delay will negatively impact the company.
- **Litigation**—From time to time CRYO may be engaged in litigation that is normal for the medical device industry. At the present time the company is not engaged in any major outstanding legal matters. However, the outcome of potentially unknown litigation could have an adverse impact on CRYO. In 2004 CRYO did file an interference complaint with the U.S. Patent Office against CryoCath alleging that the later violated CRYO's originally issued patent on pre-cooling of the nitrous oxide gas uses to cool the tip of the catheter. While it is not possible to predict when the patent office might issue a ruling, upholding CRYO's patent would be negative for its only potential cryoablation competitor, CryoCath. A ruling against CRYO would be neutral in our opinion.
- **Reimbursement** – Since many of the patients being treated with CRYO's products are elderly,

there is significant governmental reimbursement, especially through Medicare and some from private insurance. Although endovascular treatment of atrial flutter and atrial fibrillation is economically appealing relative to open surgery, changes in reimbursement could have a negative effect on revenues.

- **Shareholder Dilution**—We believe that CRYO will require additional funding in order to finance the placement of 160 consoles by the end of 2008. While we do not know how large a financing the company might undertake, a reasonable estimate would be approximately \$5 million which we have included in our financial model in 2008.
- **Competition** – The atrial ablation device industry is highly competitive, from both private and public companies.
- **Sector Rotation** – CRYO is a medical device company and is often held in a portfolio with other device companies. A material event affecting one company many times affects the entire group.

CryoCor, Inc.

Quarterly Earnings Model 2007E-2009E
Fiscal Year Ends December 31
(\$ millions, except per share)

	2006A	2007	2008	2009	2010	2011
Patients w/ Atrial Flutter	250,000	250,000	275,000	295,000	315,000	330,000
Percent Treated	20%	20%	20%	22%	24%	25%
Total Flutter Procedures	50,000	50,000	55,000	64,900	75,600	82,500
Revenue Per Procedure	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Total Revenues	\$ 65,000,000	\$ 65,000,000	\$ 71,500,000	\$ 84,370,000	\$ 98,280,000	\$ 107,250,000
CRYO Market Share			5%	7%	12%	14%
Revenues from Atrial Flutter			\$ 3,575,000	\$ 5,905,900	\$ 11,793,600	\$ 15,015,000
Patients w/ Atrial Fibrillation	2,300,000	2,300,000	2,500,000	2,780,000	3,100,000	3,100,000
Percent Treated	1.1%	1.6%	2.3%	2.7%	3.2%	4.5%
Total AF Procedures	25,990	36,800	57,500	75,060	100,440	139,500
Revenue Per Procedure	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,450	\$ 1,450
Total Revenues	\$ 36,386,000	\$ 51,520,000	\$ 80,500,000	\$ 105,084,000	\$ 145,638,000	\$ 202,275,000
CRYO Market Share			1%	3%	8%	10%
Revenues from Atrial Fibrillation			\$ 805,000	\$ 3,152,520	\$ 11,651,040	\$ 20,227,500
Total Procedures	75,990	86,800	112,500	139,960	176,040	222,000
Total Revenues	\$ 101,386,000	\$ 116,520,000	\$ 152,000,000	\$ 189,454,000	\$ 243,918,000	\$ 309,525,000
Total U.S. Revenues	\$ -	\$ -	\$ 4,380,000	\$ 9,058,420	\$ 23,444,640	\$ 35,242,500
International Revenues	\$ 540,000	\$ 300,000	\$ 400,000	\$ 800,000	\$ 1,200,000	\$ 1,700,000
CRYO Total Revenues	\$ 540,000	\$ 300,000	\$ 4,780,000	\$ 9,858,420	\$ 24,644,640	\$ 36,942,500
Cost of Sales	2,468,000	2,600,000	3,500,000	4,000,000	9,800,000	14,750,000
Gross Profit	\$ (1,928,000)	\$ (2,300,000)	\$ 1,280,000	\$ 5,858,420	\$ 14,844,640	\$ 22,192,500
R & D	5,835,000	7,000,000	5,000,000	4,500,000	4,000,000	4,000,000
S,G & A	7,360,000	5,400,000	6,000,000	6,800,000	8,000,000	10,000,000
Total Costs & Expenses	13,195,000	12,400,000	11,000,000	11,300,000	12,000,000	14,000,000
Operating Income (Loss)	\$ (15,123,000)	\$ (14,700,000)	\$ (9,720,000)	\$ (5,441,580)	\$ 2,844,640	\$ 8,192,500
Interest Income	1,147,000	800,000	1,500,000	1,500,000	1,145,000	1,500,000
Interest Expense	(1,076,000)	(1,000,000)	(900,000)	(250,000)	(100,000)	(100,000)
Net Loss	\$ (15,052,000)	\$ (14,900,000)	\$ (9,120,000)	\$ (4,191,580)	\$ 3,889,640	\$ 9,592,500
Basic/FD EPS (Loss)	\$ (1.40)	\$ (1.24)	\$ (0.70)	\$ (0.32)	\$ 0.29	\$ 0.73
Shares Outstanding	10,773,000	12,000,000	13,000,000	13,200,000	13,200,000	13,200,000

Source: Dawson James Securities, Inc.

CryoCor, Inc.

Revenue Model Based on Console Placement--2008E-2011E
Fiscal Year Ends December 31

2008						2009					
2008	Consoles	Catheters/Q	Total Catheters	ASP	Revs	2009	Consoles	Catheters/Q	Total Catheters	ASP	Revs
Q1	35	9	315	\$ 1,300	\$ 409,500	Q1	140	10	1400	\$ 1,300	\$ 1,820,000
Q2	70	9.5	665	\$ 1,300	\$ 864,500	Q2	160	10	1600	\$ 1,300	\$ 2,080,000
Q3	105	9.5	998	\$ 1,300	\$ 1,296,750	Q3	180	10	1800	\$ 1,300	\$ 2,340,000
Q4	140	10	1400	\$ 1,300	\$ 1,820,000	Q4	200	11	2200	\$ 1,300	\$ 2,860,000
Total U.S. Revenues					\$ 4,390,750	Total U.S. Revenues					\$ 9,100,000
Top Down Model					\$ 4,380,000	Top Down Model					\$ 9,058,420
2010						2011					
2010	Consoles	Catheters/Q	Total Catheters	ASP	Revs	2011	Consoles	Catheters/Q	Total Catheters	ASP	Revs
Q1	220	12	2640	\$ 1,400	\$ 3,696,000	Q1	300	20	6000	\$ 1,400	\$ 8,400,000
Q2	240	15	3600	\$ 1,400	\$ 5,040,000	Q2	315	20	6300	\$ 1,400	\$ 8,820,000
Q3	260	18	4680	\$ 1,400	\$ 6,552,000	Q3	325	20	6500	\$ 1,400	\$ 9,100,000
Q4	280	20	5600	\$ 1,400	\$ 7,840,000	Q4	340	20	6800	\$ 1,400	\$ 9,520,000
Total U.S. Revenues					\$ 23,128,000	Total U.S. Revenues					\$ 35,840,000
Top Down Model					\$ 23,444,640	Top Down Model					\$ 35,242,500

Source: Dawson James Securities, Inc.

DISCLOSURES



Initiated August 29, 2007 – STRONG BUY – Price Target \$6.00

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

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	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	4	14%	1	25%
Strong Buy	3	10%	1	33%
Buy	17	59%	1	6%
Neutral	3	10%	0	0%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	2	7%	2	100%
Total	29	100%	5	17%

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

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