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2014 Stock Picks And Market Outlook

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Expect Micro Caps To Grow 15% In 2014 Limited By Valuation, Shrinking Margins, And Healthcare Uncertainty, In Our View

- ❑ **The Russell 2000 grew 32% in 2013, nearly doubling our 2013 Market Outlook estimate.** We expect gains to be curtailed and estimate the Russell 2000 to advance 15%. We contend that slimmer margins, interest rate pressure, uncertainty of the sustainability of the Affordable Care Act, and lower valuations will put pressure of a variety of sectors. With that said, we still project an above average return as investors continue to pour money into the equity markets. We expect corporate profits to grow 9% for 2014, aided by a strengthening US economy as small and micro cap companies generate a higher percentage of revenue from domestic sources, in our view. Margins have been widening since 2011, however we do not expect this trend to continue since companies are beginning to add expenses such as employee, research, marketing, as the economy recovers. We expect 2014 to be an above average year for biotech, especially companies in advanced stages of product development and with strong drug pipelines. Historically, when the market has a banner year, like in 2013, the following year serves muted gains.
- ❑ **We expect US Economy to grow 3% in 2014, driven by increasing business and consumer confidences.** We expect low interest rates pared with low inflation for much of the year. However, we do not expect monetary easing to continue. We expect the Fed will take more time to determine if more aggressive monetary policy easing is needed or if the economy can withstand a lessening of stimulus. The US stock market and the strengthened housing market have restored wealth and will continue through 2014, and we expect consumer spending to increase 4% as unemployment fears soften. However, historically, a new FED Chair is not favorable for stocks, but the new FED Chairwoman is highly concerned with employment levels, which we think will be her major theme for 2014, allowing the FED Funds Rate to remain low since unemployment is still elevated.
- ❑ **The implementation of the Affordable Healthcare Act (ACH) will hamper various segments of the healthcare sector, in our view.** The insurance exchanges will lead to commoditization and standardization of insurance products. Product standardization coupled with an increase in government price regulation will lead to shrinking gross margins for healthcare service providers through 2014. The ACH will add nearly 40 million uninsured people, however the top-line increases will not offset the industry's levies. Without the noise surrounding the ACH, health care remains well positioned to deliver further market-topping returns in 2014. Earnings revisions for the sector

remain positive, placing it in an ideal position to benefit from any pullback in the performance of cyclicals.

- ❑ **We expect M&A activity to be equally as strong in 2014.** The low cost of capital will fuel M&A activity, couple with strong, cash-weighted balance sheets that are earning small returns. Valuations are up and sellers are capitulating on price. After 2008, companies saw large devaluations, now valuations are robust and these combinations make for a strong M&A market.
- ❑ **Stocks are beginning to experience full valuations.** Current valuations already reflect solid earnings outlooks, which sets an expectation for an increase in share repurchases and higher dividends. The S&P has an average 15-year historical P/E ratio of 17x. Currently, the index is trading at 16x 2014 earnings, which signals value. However, the P/E ratio of the Russell 2000 index is nearly 88x versus 31x a year ago. In summary, low market multiples will give way to a market where we see multiples increase, however as many companies are experiencing full valuations, we expect a market correction during 2:H:14. We expect investors to seek stocks with strong balance sheets and moderate cash flow, as these companies have the leverage to formulate acquisitions, repurchase stock or pay dividends.

On The Radar For 2014

AMI has chosen five of our favorite stock names in the micro cap sector, which offer the most promise for growth in 2014, in our opinion. We have factored a host of analysis for our 2014 stock picks, including financial strength, growth catalysts, valuation and management style. Many of our choices are undervalued relative to their peers comparing a variety of metrics such as p/e, p/s, ev/ebitda, etc. Some stock picks have returned to our list from last year, as we continue to expect strong stock appreciation.

Cash Per Share	\$0.10
ROE	7.2%
Price/Sales	3.4x

NeoGenomics is the only publicly traded pure-play laboratory testing service provider specifically focused on high revenue cancer genetics testing.

Advances in technology and genetic research, combined with the complete sequencing of the human genome, have made sophisticated new scientific testing tools to diagnose and treat diseases possible. The company provides state of the art genetic testing at two facilities in Ft. Myers, Fla., and additional ones in Nashville, Tenn. and Irvine, Calif. NeoGenomics is fully certified to industry and government standards for genetics specimen testing nationwide.

NeoGenomics is focused on the genetic and molecular testing segment of the medical laboratory market, which is growing rapidly as a result of significant innovations in the field. Numerous reports estimate that the genetic testing segment is growing 20% to 25% per year as new applications are developed and commercialized.

The company services oncologists, pathologists and hospitals throughout the United States offering superior service and faster turn around times. NeoGenomics has developed a suite of products, such as the Tech-only FISH product, specifically intended to

DIAGNOSTICS PLAY

NeoGenomics Inc (NEO)

Market Cap (Mil)	\$220
Current Stock Price	\$4.50
52 Week Range	\$2.05-4.69
Avg. Daily Trading Volume	305K
Basic Shares Outstanding	49M
Insider Holding	41%
Lt Debt-to-Total Capital	11.7%

allow pathologists and providers to capture the professional interpretation component of the revenue stream that labor-intensive tests provide. This innovative business model has turned these types of customers into strategic partners as they have direct financial incentives to keep using the company's services.

NEO's stock price has grown an average of 50% annually since we first recommended it in our 2011 outlook. 2014 marks NEO's fourth year as an AMI favorite. Management estimates the total cancer testing market is \$10 billion to \$12 billion nationwide. NeoGenomics currently addresses approximately 40% - 50% of this market, approximately \$4.0 billion to \$6.0 billion.

Growth Catalysts

NEO's strong 3Q:13 was attributed to solid growth in test volume driven by continued success with new products and growth in the number of customer accounts.

Management improved productivity of its sales team with gains in all geographic territories across the country. Five sales representatives and two product managers have joined the company since the end of 2Q:13, helping to accelerate NEO's growth.

Improved productivity and efficiency during 3Q:13 also resulted in strong reductions in average-cost-per-test, which allowed the company to drive 85% of the incremental \$2.7 million of revenue to gross profit. The company said it is redesigning and expanding its Ft. Myers, Florida laboratory to incorporate lean workflow concepts and improved automation. The project is expected to be completed during 1Q:14.

Over 30 new molecular tests and profiles have been introduced by the company to its menu since the beginning of 2013. It expects to launch several more tests and next generation sequencing for clinical use by early 2014. The company said it now has the broadest oncology-focused clinical testing menu in the country and is beginning to see increasing interest in its comprehensive genetic capabilities from the pharmaceutical industry.

NEO's revenue guidance for 2013 is \$65.7M to \$66.2M with EPS of \$0.03 - \$0.04. For 4Q:13, the company expects revenue of \$17.6M to \$18.1M and earnings of \$0.01 to \$0.02.

Competition

Quest Diagnostics Inc. (NYSE: DGX, NC) and Laboratory Corporation of America Holdings (NYSE: LH, NC) are the two largest clinical labs in the US. Quest has captured over 15% or \$7.5 billion of the total US diagnostic testing market. Other independent clinical labs comprise 20% of the market, hospital based laboratories have captured 60% of the market and the remaining 5% of the market is physician office labs. Pure-play genetic testing labs are significantly smaller without any single player having a substantial market share, however growth rates experienced by these players typically range from the mid to upper double-digits.

Competitive Advantages

NEO has been successful in achieving a high accuracy rate and has been able to set and maintain turn-around times for test results that have become industry benchmarks.

TECHNOLOGY PLAY

Net Medical Xpress (NMXS)

Market Cap (Mil)	\$13.1
Current Stock Price	\$0.07
52 Week Range	\$0.03-0.14
Avg. Trading Volume	40K
Float Shares	115M
Insider Holding	35%
Lt Debt-to-Total Capital	Nil
5-year Revenue CAGR	25%
Revenue per Share	\$0.03
Price/Sales	2.5x

NMXS' stock price increased 130% in 2013 and is on our list for the third year in a row. Net Medical Xpress (NMXS) is which is emerging as the fastest growing segment of the healthcare industry. Medical information is exchanged from one site to another via electronic communications for the health and education of the patient or healthcare provider as part of providing real time consultative, diagnostic and

patient treatment services. This is particularly valuable for rural hospitals, their patients and the families of the patients who benefit from real time effective specialist care in high stress and emergency situations. More than 5 million Americans had their medical images read remotely in 2012. Approximately 10% of all intensive care beds in the U.S. use telemedicine. More than 10 million Americans benefited from telemedicine technology in 2012. Now, growing pressure from rising costs, provider shortages and increasing demand are forcing policy makers to further ramp up uses for telemedicine. Net Medical Xpress Solutions is headquartered in Albuquerque, NM.

Growth Catalysts

The company has launched its mobile and web-based app, WebRTC, which is available through Apple's App Store. The WebRTC (Real Time Communications) Telemedicine conferencing tool will facilitate doctor-patient and hospital ER/ICU communications. This technology brings telemedicine to the iPhone, iPad, PC and Mac. With the utilization of the application, physicians will now have instant face-to-face communications with their patients for more precise diagnosis and patient care. Ultimately calls will be interfaced with NMXS' XR-Xpress technology for home telemedicine services. We were able to use the App, and visually communicate with management using Iphone and Ipad devices. Today's earning conference call utilized the NMXS videoconference software and was successful, without pixelization or video delays, both essential for clear physician-patient interaction. We do not know of any competitor with a similar HIPPA-compliant mobile application and view this as a competitive advantage for NMXS

We continue to expect a positive bottom-line. In our view, the NMXS story has passed its inflection point and is on its way to become a global player in telemedicine. Various strategic agreements and an accretive acquisition have reinforced our confidence in NMXS' management, which has remained on track with the mission to grow a profitable telemedicine company and has increasingly done what it said it was going to do. Management previously set profitability as its first priority, a goal achieved in 4Q:12. Management had also said NMXS was open to acquiring telemedicine businesses that can be leveraged. It completed the MedTel acquisition in 2Q:13 and recognized revenue in 3Q:13. Most recently, an agreement was completed with the University of New Mexico to provide expanded neuro-specialist and neuro-surgery coverage in New Mexico using NMXS' technology. The arrangement will materially expand the usage of NMXS' telemedicine program in rural hospitals in New Mexico. There are approximately 25 rural hospitals in

New Mexico with limited specialist availability and this partnership will help alleviate that shortage. The University of New Mexico will provide additional physician services to help rural hospitals with optional educational training, stroke certification and quality assurance programs coupled with NMXS' hardware, software and services. Consultations for neurosurgery will be made available 24/7 through NMXS for a fee of around \$1100. We estimate that NMXS will realize a 25% margin. We contend that this arrangement will materially expand the use of NMXS' telemedicine program in rural hospitals statewide in New Mexico and will lead to expansion into new market segments, such as dermatology, thus further expanding NMXS' Specialist reach. We expect NMXS' top-line to recognize revenue during 4Q:13 from this agreement. Additionally, in the pipeline is NMXS' partnership with Scanadu. Scanadu is a device company that offers a technology that uses smart phones to scan the body for quick diagnoses of everyday ailments. We would expect revenue recognition from this by 3Q:14.

NMXS financials are strengthening. At the end of 3Q:13, NMXS' had \$0.413 million in cash, up from \$0.109 million at the end of 2012 and no debt. The balance sheet showed strong improvements in current assets and total assets. This also included a decrease in accounts receivable and a much improved cash position. We expect management to acquire complementary companies and/or technologies.

International expansion will be a future catalyst for NMXS. NMXS' CEO recently joined the Board of Doctors On Call Services (DOCS) Nigeria Ltd. He sees opportunity in the growth of telemedicine in Africa and specifically Nigeria. NMXS contends that there will be an opportunity to provide primary care services for the program. DOCS Nigeria has introduced an array of innovative telemedicine and mobile health solutions including remote patient monitoring services and medical records storage. These services are the first of their kind in West Africa. The DOCS platform is connected to thousands of clinics, hospitals, doctors, pharmacies, diagnostic centers and laboratories across Nigeria with the unique ability to send medical information to these facilities in real time via text or email. In addition, the company's remote patient monitoring service allows for real time remote monitoring of blood pressure, electrocardiogram (ECG), blood oxygen, glucose and weight of patients who subscribe to the service. Initially NMXS' technology will be deployed in three facilities. We expect an agreement in 1Q:14.

Competition

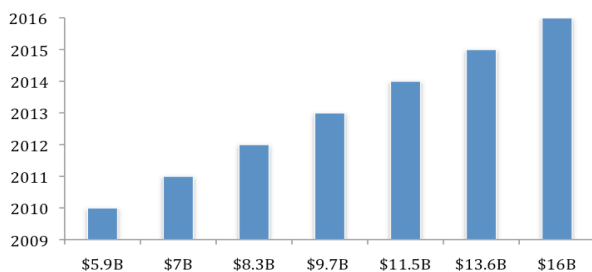
The Internet technology marketplace is extremely competitive with initial low barriers of entry. However, the current market for telemedicine and teleradiology is growing rapidly. Some highly capitalized companies have recognized the potential of digital image management products and telemedicine. To remain competitive NMXS must continually enhance its advantages such as turnaround time and logistic expansion.

Competitive Advantages

NMXS operates in a large, fast growing and fragmented market with numerous larger players. Barriers to entry include widespread adoption of remote monitoring, equipment costs, technical training, credentialing, certifications, and evaluation time. Additionally, poor quality transmitted records, such as images or patient progress reports, and lack of access to relevant clinical information are quality assurance risks that can compromise the quality and continuity of patient care for the reporting doctor.

However, the barriers to entry are beginning to ease driven by federal funding that provides direct incentives for the use of telemedicine technology. Industry acceptance is also lowering the barriers to entry. The market is large and growing at an estimated rate of 18.5%.

Telemedicine Market Growth



Unlike competitors, NMXS has the flexibility to offer its services to both large and small organizations. For large health systems with multiple organizations, NMXS has the ability to run all of the telemedicine technology. For smaller, rural health systems, NMXS can provide telemedicine services to assist clinicians more efficiently and expand hospital's specialist services in limited areas such as cardiology, dermatology, nephrology, infectious diseases, pulmonology, and psychiatry.

NMXS is the only player that we know of that offers both technology, hardware, call center and physician services. The company competes with larger organizations, such as Cerner Corporation (NASDAQ:CERN) and private company, Medcome, the latter in the process of dissolving some of its assets. Given competitors with deeper pockets, NMXS has managed to develop an impressive client list. We attribute this to the company's coupled offerings of quality service, reasonable pricing, hardware and custom built software.

Biotech PLAY

Advanced Medical Isotope Corp. (ADMD)

Market Cap (Mil)	\$8
Current Stock Price	\$0.07
52 Week Range	\$0.03-0.24
Avg. Daily Trading Volume	327M
Float Shares	109M
Insider Holding	33%
Assets 09/30/2013	\$0.522M
Liabilities 09/30/2013	\$9m
Estimated 5yr revenue CAGR	325%
Current Ratio	0.01

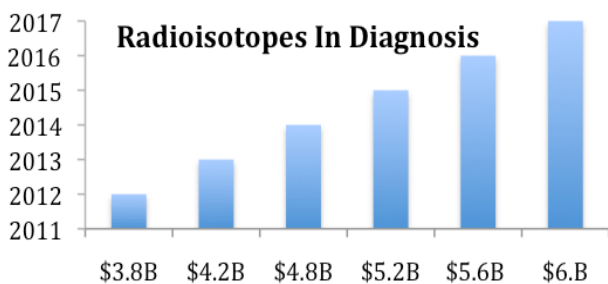
Advanced Medical Isotope Corporation engages in the development, production and distribution of medical isotopes and medical isotope technologies. ADMD's medical isotopes are used in molecular imaging, therapy and nuclear medicine to diagnose, manage, and treat diseases. The company offers a line of stable isotopes, as well as radiopharmaceuticals for use in connection with positron emission tomography (PET). ADMD is in the process of developing next-generation brachytherapy. It also provides consulting services. The company's partners include a range of hospitals, universities, research centers and national laboratories as well as academic and government institutions in the US and internationally. ADMD is headquartered in Kennewick, WA.

ADMD operates in the large and growing medical isotope market. The global market for medical isotopes used in diagnostic testing was valued at \$3.8 billion in 2012 and is expected to grow an average of 10% annually through 2015. We expect ADMD to capture nearly 3% of this market by 2015. In the US alone there are approximately 18 million nuclear medical procedures annually. We find the demand for medical isotopes compelling with at least 10,000 hospitals utilizing medical isotopes, 90% for patient diagnose, such as PET scans.

Nearly 90% of all the non-PET radioisotopes used in the US are imported from two companies, Nordion and Covidien. The remaining 10% that are produced in the US are manufactured in a fragmented, piecemeal manner with companies producing a single isotope instead of a wide variety. The market is large and growing at an estimated rate of 18.5% and we expect ADMD to capture nearly 3% by 2015.

The cornerstone equipment selected for ADMD's Kennewick production center is a proton linear accelerator. The proton linear accelerator is designed to replace large and demanding cyclotron systems for the production of positron emitting isotopes. Many of the compounds that have the ability to be produced in the accelerator can be used in oncology, cardiology, neurology and molecular imaging.

Flexibility is a competitive advantage. We do not know of any other accelerator in North America that has sufficient flexibility to produce the full spectrum of PET imaging radioisotopes, as well as other high-demand isotopes, both short and long lived, for diagnostic and therapeutic applications.



Growth Catalysts

ADMD's brachytherapy technology is a key growth catalyst. ADMD is focused on allocating the majority of its resources to the successful commercial launch of its brachytherapy platform. We had the opportunity to speak with management and learned that the company is on

track with its Biodegradable Polymer Seeds, versatile Y-90 RadioGel and an additional surgical, topical paste. In early November, ADMD filed a 510(K) with the FDA, the next step in bringing the RadioGel medical device to market. Management's strategy is to file two additional 510(K) applications with the FDA for ADMD's Biodegradable Polymer Seeds and topical paste when RadioGel clearance is received –before 2Q:14. These new technologies will initially address the 50,000 annual prostate procedures or nearly \$300 million globally that use current brachytherapy technologies. ADMD's novel Y-90 RadioGel will allow for the treatment of tumors in areas where seed implantation is impossible. When ADMD's seed technology is launched, we expect the medical community to recognize it as superior to the welded-metal seeds, the industry's gold standard, as it preserves healthy tissue by localizing radiation and lowers the half-life. The surgical paste can be used in surgeries to ensure that cancer cells around the parameter of surgical point tissue are eradicated. We expect ADMD's brachytherapy RadioGel to begin its commercial launch 2H:14 and for the entire brachytherapy platform to be available before 2H:15. We model an uptick in revenue of \$10 million and \$15 million for 2H:14 and 2015.

A planned isotope facility in Los Angeles will offer ADMD an opportunity to enter into a substantial metropolitan market and should be operational in 2015, versus our original estimate of late 2014. Discussions between ADMD management and Cedars-Sinai have been ongoing. Cedars-Sinai is seeking space for procurement and once space is determined, construction and nuclear permits will soon be filed. We expect the construction to begin after 1Q:14, and expect isotopes to be available by 1H:15 and yield \$1 million to ADMD revenue through licensing fees and production in that year.

We model robust revenue growth in 2014 to \$11.7 million as ADMD transitions from a developmental stage company. Nearing 3Q:14, we expect ADMD to begin to commercialize its brachytherapy technology, which we project to be responsible for 95% of 2014 revenue. Also fueling top-line growth during 2014 is the linear accelerator then to be operational and contributing about \$0.500 million to the top-line. We estimate the product gross margin will widen, and model the consolidated gross margin at 75%, an increase of 500 basis points over 2013. We estimate profitability and model the bottom-line coming in at \$2.9 million or \$0.02 per share.

As a result we model \$0.04 EPS for 2015. We expect top-line to continue to expand significantly in 2015 and model a 60% increase to \$18.7 million as ADMD's commercialization of its brachytherapy efforts begin to move the company out of its development stage to becoming a true global player. We expect more isotope offerings to be rolled out in 2015 and pushed through the channel quicker with the help of additional production facilities and partners. Operating expenses should begin to level off during 2015. We model the gross margin steadily increasing 200 basis points to 77%. The revenue generated from new isotope offerings, increased use of brachytherapy Polymer Seeds, surgical paste and Y-90 RadioGel, and new production facilities will create a profitable trajectory and we model net income of \$5.7 million.

We forecast a 3-year revenue CAGR of 325% (2012 base-year) and expect \$11.7 million, and \$18.7 million in 2014 and 2015, respectively. We also expect increased in-house production and benefits from licensing and production revenue from technologies in its current pipeline. Thus, we model the gross margin widening nearly 700 basis points in 2015 to 77% from 70.6% in 2012. We estimate that the global market for medical isotopes used in diagnostic testing was valued at \$3.8 billion in 2012 and is expected to grow an average of 10% annually through 2015. In the US alone there are approximately 18 million nuclear medical procedures annually. The demand for medical isotopes is compelling with at least 10,000 hospitals using medical isotopes, 90% for patient diagnose, such as PET scans.

Orthopedic PLAY Exactech Inc. (EXAC)

Market Cap (Mil)	\$320
Current Stock Price	\$24
52 Week Range	\$16.80-25.14
Avg. Daily Trading Vol.	30K
Float Shares	14M
Insider Holding	30%
Cash/Share	\$0.50
Price to Sales	1.3x
ROE	8.7%
Rev. per Share	\$17.15

Exactech develops, manufactures, markets, distributes and sells its orthopaedic implant devices, including knee, shoulder and hip implant systems, surgical instrumentation, spine products and biologic services to hospitals and physicians in the U.S. and over 30 markets in Europe, the Americas, Asia and the Pacific. International sales represent about 37% of total company sales. The company's products are used in the restoration of bones and joints that have deteriorated as a result of injury or disease such as arthritis.

An estimated one million knee replacement procedures are performed worldwide each year. To help meet this demand, Exactech continues to develop next generation knee systems that respond to the needs of the hospital and surgical community. In 2011 Exactech introduced its new Logic knee system, which has received strong initial acceptance from its surgeon customers. Logic and the earlier generation Optetrak® differentiated knee implant products provided 34.3% of the company's revenue in 2013 YTD. Representing 26.8% of the company's 2013 YTD revenues, the Equinoxe® shoulder implant system is Exactech's fastest growing product line posting 27% growth in 2012. Hip products, which accounted for 17.5% of company revenues in 2013 YTD, use materials such as ceramic bearing surfaces and enhanced polyethylene for industry leading wear performance.

Exactech's biologic and spine products together represented 10.8% of 2013 YTD revenue. The company began distribution of biologic tissue materials in 1998, and entered the spine market with an acquisition of a spine products company in early 2008. Exactech offers a variety of allograft tissue material for grafting and repairing bone defects, and a spine platform that provides a portfolio of spine products with the potential to expand domestically and internationally.

Growth Catalysts

New product lines. New product lines are meeting performance expectations with favorable feedback from surgeons and other customers. Strong cost controls supported in part by efficiencies from internal manufacturing operations.

Shoulder sales. The overall revenue gain of 9% to \$55.7 million in 3Q:13 was led by 24% growth in shoulder sales and a 6% rise in hip segment revenue. Management expressed satisfaction with the continued robust growth of the Equinoxe shoulder,

attributing the growth to clinical advantages of the system.

Global. International sales increased 4% to \$16.6 million. On a constant currency basis, international sales increased 6% and worldwide sales grew 9% for the quarter. For the first nine months, revenue was up 6% to \$175.5 million and net income rose 22% to \$10.8 million or \$0.79 per diluted share.

Widening margins. Management said they were encouraged by the gross margin improvement to 71% of sales. The company expects expense increases below 11% in Q4.

2013 Guidance

Exactech narrowed its 2013 sales guidance to \$237 - \$239 million and increased its diluted EPS target to \$1.09 - \$1.11. For 4Q:13, we anticipate sales of \$61.5 - \$63.5 million and diluted EPS of \$0.30 - \$0.32.

LIFE SCIENCE PLAY

Pressure BioSciences Inc (PBIO)

Market Cap (Mil)	\$3.1
Current Stock Price	\$0.25
52 Week Range	\$0.16-0.51
Avg. Daily Trading Vol.	35K
Float Shares	11M
Insider Holding	<10%
Lt Debt-to-Total Capital	nil
Price to Sales	2.3x
5-year Revenue CAGR	67%
Rev. per Share	\$0.15

PBIO is a life science, medical device company that develops and commercializes pressure cycling technology-based (PCT) instruments and consumables. The PCT platform technology instrumentation cycles pressure between ambient and ultra-high levels (up to 45k psi) at controlled temperatures

to control the interactions of bio-molecules. PBIO's technology also is used for genomic, proteomic and small molecule sample preparation as well. PCT represents the core of PBIO's products, enabling customers to perform biological sample preparation and enzymatic digestion in unique ways that deliver quality, speed and reproducibility previously unavailable to the industry. PBIO is the only player we know employing this patented technology.

PBIO has a broad customer base. Customers include academic laboratories, government agencies and biotechnology, pharmaceutical and other life science companies in the US. Outside of the US, customers are distribution partners. There are over 140 customers who have purchased or leased the PCT platform. In early 2012, PBIO began its commercialization initiative of these instruments and has gained traction, which is reflected in PBIO's product revenue growth year-over-year and sequentially.

Growth Catalysts

We contend 3Q:13 was an inflection point for PBIO. The company achieved record quarterly total revenue, quarterly products and services revenue and record quarterly consumable products sales. In addition, sales for PBIO's high-margin Shredder System were highest to date. PBIO has now reported three consecutive quarters with total revenue exceeding the prior year period. We expect the current trajectory to continue and 4Q:13 to be the fourth consecutive quarter that total revenue exceeds the prior year period with estimated revenue of \$0.270 million.

The highlights for PBIO still remain the leveraging of two recent breakthroughs. In June the company announced the capability of processing high throughput multi-well plate formats. The multi-plate will integrate with current laboratory automation. In another potentially significant second breakthrough, independent studies showed PBIO's PCT technology can offer a non-invasive approach to lipid analysis in the GI track. Both breakthroughs are win-wins for PBIO and have the potential to transform PBIO's operations. We expect to have a revenue-producing product before the end of 2H:14.

We expect total revenue to grow at a 4-year CAGR of 37% (2011 base-year) and expect \$1.4 million, \$2.4 million and \$3.5 million in 2013, 2014, and 2015, respectively.

On December 26, 2013, Management paid off its December convertible debt without further dilution of the stock.

In our view, the potential stock dilution had been a risk for PBIO stock. In the past, the company raised capital as needed by issuing convertible debt. Management has a track record of paying the debt off before it converts and erodes the shares. On December 26, 2013 the convertible debt was paid, without further dilution of the stock.

PBIO remains on track with its multi-well device. In June PBIO announced that after years of investment, the company is now ready to focus on labs that need devices able to host multiple samples, simultaneously. Up until now, PCT was used for the analysis of only one sample at a time. One of the largest obstacles was developing a resin that could withstand the pressure associated with PCT and finding a manufacturer that could mold the resin into a multi-well strip and plate format. Management has found a manufacturer able to assemble a tray that will withstand PCT's high-pressure, while holding dozens of biological samples and integrating into existing labs' automation. PBIO contends that the new HT design will allow its PCT platform to integrate with the automated, universally accepted HT sample preparation and analytical system formats installed in tens of thousands of biological research laboratories worldwide. In our view, this breakthrough has the potential to significantly accelerate PBIO's growth in existing and new PCT-based applications and products while enhancing its ability to attract and form new strategic partnerships and accelerate its revenue ramp up going forward. HT systems generally use sample handling robotics and multi-well test plates in standardized formats for processing and testing large numbers of samples simultaneously. The multi-well plate is often processed in an automated fashion, allowing scientists to perform other important tasks while samples are being processed unattended. We expect beta testing by 1Q:14 and a commercial product during 2Q:14. The ability to multi-sample has gotten the attention from larger marketing partners, which is how PBIO will commercialize this product in our opinion.

The use of PCT to extract and analyze fully intact lipids may be a growth catalyst for PBIO. During 2Q:13, researchers at Harvard University published a scientific paper describing a method that uses PCT and certain chemicals to extract intact lipids from fecal material. This is a simple, non-invasive method to get information about what is happening in the GI system, which has a direct relation to a number of diseases such as: colon cancer, inflammatory bowel disease, chronic diarrhea, autism, allergies and obesity. This new method

could be a way to get vital information about the health of a premature baby, a newborn, an elderly person or someone from whom taking blood is just not feasible. It is possibly a new way to screen for multiple diseases and disorders. Currently, there are no other non-invasive methods to diagnose these conditions. If PCT becomes the industry standard for the diagnoses of these GI conditions, we would expect upside to our estimates.

With two major breakthroughs, we expect PBIO to continue to increase its worldwide distributors. PBIO now has agreements with over 11 distributors, up from three in 2011. In our opinion, the sharp increase in outreach supports management's commercialization initiative and reinforces our estimates. PBIO now has a presence in over 20 countries and with distribution partners, such as Cole-Parmer, a subsidiary of Thermo Fisher Scientific, Inc (TMO, NYSE; N/C) now distributing PBIO's higher margin PBI Shredder SG3 System. We expect the multi-well sampling to garner attention of another large strategic partner. We also expect an additional distributor before 2013 year-end.

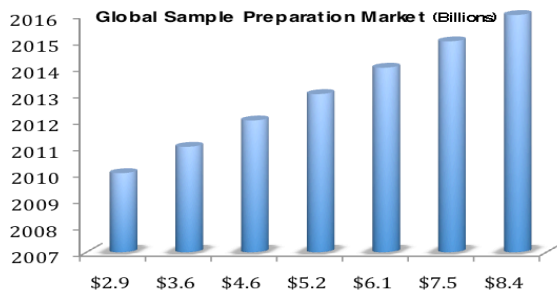
Expansion of current technology will eventually add to the top line. Nationwide, there are 400,000 unprocessed rape kits awaiting examination and an estimated 180,000 new sexual assault cases annually. PBIO is developing a new procedure for the selective extraction of male DNA from mixtures of male and female cells. This may significantly increase the throughput of samples processed, which in turn could decrease the number of unprocessed rape kits, thus reducing the backlog of kits sitting on shelves nationwide. Consequently, this decrease in backlog could mean that more rapists will be caught, prosecuted and put in jail. A study by researchers at the International Forensic Research Institute (IFRI) demonstrated that PCT has the potential to significantly decrease rape kit processing time, increase throughput, decrease costs and improve results. Earlier in April, Ms. Deepthi Nori, a graduate student in the laboratory of Dr. Bruce McCord (Associate Director of FIU's International Forensic Research Institute and principal investigator of the study), presented encouraging results from their studies of the application of PCT to improve rape kit testing. In a separate presentation, Dr. Pero Dimsoski, a post-doctoral researcher in the Department of Chemistry and Biochemistry at FIU, reported on a novel cell capture method that, when used in combination with PCT, could potentially allow a greater number of the sperm cells in the rape kit sample to be

available for testing, and fewer epithelial cells from the victim, resulting in an even better DNA profile of the perpetrator. Management has indicated that PBIO's method could be commercially available during 2014.

We model profitability in 2015. We expect 44% top-line growth over 2014's \$2.4 million estimate to \$3.5 million as PBIO's commercialization efforts begin to shift PBIO out of a development stage company to the beginning of a true global player. We expect more product offerings to be rolled out in 2015 and pushed more rapidly through distribution channels. We expect operating expenses to begin to level off during 2H:15, resulting in profitability during 4Q:15. We model the gross margin increasing steadily to 67.4%. The revenue generated from strategic partners, more distributors, an efficient sales force and leveled operating expenses should produce PBIO's first positive net income of \$0.009 million or \$0.00 in EPS.

Competition & Competitive Advantages

PBIO operates in a large, fast growing and fragmented market with numerous players. Barriers to entry are low as competitors can enter using inexpensive, yet less efficient sample preparation methods to extract nucleic acids, proteins, and small molecule from cells and tissues. The market is large and growing at an estimated rate of 18.5%.



PBIO is the only player that we know of that uses PCT technology versus methods such as mortar and pestle grinding, sonication, rotor-stator homogenization, French Press, bead beating, freezer milling, enzymatic digestion and chemical dissolution. We contend that PBIO's technology overcomes significant issues related to the use of competitors' methods, such as; complexity, sample containment, cross-contamination, shearing of bio-molecules of interest, limited applicability to different sample types, ease-of-use, reproducibility, quality of biomolecules extracted and cost.

PBIO's PCT Sample Preparation System offers a number of significant advantages over these methods, including labor reduction, temperature control, accuracy, reproducibility, versatility, efficiency, simplicity and safety -- all of which offset additional costs associated with the PCT sample preparation system. PBIO has strong patent

protection, holding 14 US and 10 foreign patents covering multiple applications of PCT in the life sciences field.

About AMI

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