Apricus Biosciences, Inc.

Update | USA | Health Care Feb-2011

Rating: BUY
Target Price: $6.00
Current Price: $4.04

Price Chart

Stock Information
Reuters: APRI
Bloomberg: APRI
Country: USA
Sector: Health Care
Market-Cap: $51.9 million
52 Weeks H/L: $ 1.60 - $ 9.30

APRICUS BIOSCIENCES INC
Engages in designing and developing pharmaceutical products based on its patented NexACT drug delivery technology. Its most advanced product, Vitaros, is a topical alprostadil-based cream treatment for patients with erectile dysfunction. It was recently approved in Canada. Apricus Bio also has a full pipeline that includes a topical nail solution for the treatment of nail fungal infections; Femprox, an alprostadil-based cream product for the treatment of female sexual arousal disorder; and developing treatments for psoriasis, cancer inflammation, pain, and wound healing. Its subsidiary, Bio-Quant, Inc., serves as a specialty biotech contract research organization (CRO) in the areas of non-good laboratory practices and sells diagnostic kits. The company was founded in 1987 and is headquartered in San Diego, California.

Analyst: Cathy Reese
Michelle Boone

INTRODUCTION

The majority of this report focuses on events that occurred after NexMed Inc. and Bio-Quant merged their businesses at the end of 2009 and rapidly began to combine operations. In this report, the name Apricus Bio is used to refer to the NexMed/Bio-Quant combined company both before and after this combined company's name was changed to Apricus Biosciences, Inc. in September 2010. Our valuation suggests a price target for Apricus Bio's stock of $6.00 per share and we rate the company as a Buy.

NASDAQ LISTING RESOLVED

Up first on Apricus Bio's 2010 agenda was the need to resolve its NASDAQ listing status. Apricus Bio began to accomplish this task by February 1, 2010 when NASDAQ stated the company met some of the requirements for continued listing and granted an extension until May 24, 2010 for the company to meet additional requirements. In a letter, dated July 6, 2010, the NASDAQ Hearings Panel stated that Apricus Bio met the requirements for a continued NASDAQ listing.

CAPITAL RAISED

Another corporate focus for Apricus Bio in 2010 was to raise capital, which the company started by raising $2.3 million in a February 2010 private placement from two accredited U.S. investors. At this time, Apricus Bio also announced the sale of its New Jersey state tax credits and net operating losses (NOLs), which generated nearly $438,000 in net proceeds. On March 17, 2010, the company announced that it raised $1.4 million in gross proceeds from refinancing a mortgage on its manufacturing facility in New Jersey. On June 21, 2010, Apricus Bio did a reverse 15 for 1 stock split. Lastly, on October 5, 2010, Apricus Bio announced closing a securities offering that raised over $9.3 million in gross proceeds.

NAME CHANGE

On September 10, 2010, stockholders approved the name change from NexMed, Inc. to Apricus Biosciences, Inc. The common stock began trading under the symbol, NASDAQ: APRI on Tuesday, September 14, 2010.

VITAROS CANADIAN APPROVAL

In mid-November 2010, Apricus Bio announced that Health Canada had given Vitaros marketing approval as a first-time therapy for erectile dysfunction (ED). A mid-2011 launch is expected.

UPCOMING EVENT

We expect Apricus Bio to announce a major partner for Vitaros' commercialization in Canada.

NEW COMPANY FOCUS

Apricus Bio is now focused on leveraging its NexACT drug delivery technology through extensive partnership efforts.

Apricus Biosciences: Key Financial Data

$ millions	2008	2009e	2010e	2011e	2012e
Revenue	**5,957,491**	**2,845,353**	**5,303,597**	**12,703,988**	**25,603,988**
Operating income	**(5,173,854)**	**(3,819,842)**	**(9,817,823)**	**(2,975,997)**	**6,281,035**
Net Income	**(5,171,198)**	**(32,042,562)**	**(18,728,805)**	**(2,975,997)**	**6,281,035**
EPS, $	**(0.93)**	**(5.43)**	**(1.58)**	**(0.15)**	**0.31**

Source: OPUS

EXECUTIVE SUMMARY

We update Apricus Biosciences, Inc. with a BUY recommendation and a price target of $6.00 per share.

Increasing revenues should be a meaningful indication that Apricus Bio is capable of transitioning into a profitable company. We believe that Apricus Bio's Bio-Quant subsidiary will continually operate as a subsidiary with a focus on providing research and development and contributing only flat revenues. The primary value of Apricus Bio, in our opinion, resides in the potential of its NexACT drug delivery technology. Specialty pharmaceutical companies, such as Depomed (Nasdaq. DEPO. Not Rated), Antares (ASE.AIS.Not Rated) and BioSante (Nasdaq.BPAX.Not Rated) have stock prices reflecting revenue multiples of 6-40X. Due to Apricus Bio currently being in the early stage of its new corporate path, we believe that a 6X revenue multiple is appropriate. By using our 2012 revenue estimate, we provide Apricus Bio with adequate time to demonstrate its capability to meet corporate goals, but we also apply a 20% discount due to its new corporate structure.

We arrive at our $6.00 12-month price target by applying a 6X multiple to our 2012 revenue estimate of $25.6 million discounted back at 20%.

New Business model

Apricus Bio's business model combines the proven strength of the NexACT drug delivery technology with Bio-Quant's capabilities for early clinical research. Blending these competencies provides Apricus Bio with a unique competitive position by potentially improving its timelines for introducing products to prospective partners or the market. We believe Apricus Bio's ability to reformulate compounds in a manner that improves their delivery and conduct pre-clinical studies internally should also reduce development risks.

Leadership

Managements from Bio-Quant and NexMed are now unified toward accomplishing the new corporate goals. Apricus Bio's management is made up experienced and successful leaders as well as accomplished industry professionals with the expertise to attain the new objectives. New personnel recruited from outside NexMed or Bio-Quant have impressive histories in related businesses, such as successfully negotiating product partnering agreements.

NexACT Technology

Apricus Bio's NexACT technology is a collection of patented, flexible, effective and safe drug delivery technologies, which was recently proven with the Canadian approval of Vitaros. These technologies provide improved and focused drug absorption. These delivery mechanisms are also capable of providing systemic delivery throughout the body. The range of drugs that can be altered by NexACT includes small molecules, peptides, proteins, and antibodies. Potential drug delivery routes for the NexACT technology platform in addition to topical are oral, subcutaneous, buccal, rectal, nasal, and ophthalmic.

Intellectual Property Position

Apricus Bio's NexACT drug delivery technology has been developed over decades and undergone several generations of improvements. NexACT's composition of matter patent expires in 2019, and although individually provides protection, it also functions as a base for the planned establishment of an extensive intellectual property (IP) portfolio. The NexACT IP position should also be enhanced with Bio-Quant's pre-clinical proficiency and proprietary methods. An expected strengthening IP portfolio should provide increased significance for NexACT's spectrum of drug delivery mechanisms and the drugs being enhanced by these mechanisms.

Vitaros, Approved

In mid-November 2010, Apricus announced that Health Canada (www.hc-sc.gc.ca) had given Vitaros marketing approval as a first-time therapy for erectile dysfunction (ED). Apricus Bio has selected Therapex, a division of EZ-EM Canada, which is a subsidiary of Bracco Pharma of Italy, as Vitaros' manufacturer for the Canadian market and potentially for Europe. A mid- 2011 Vitaros Canadian launch is expected. A near-term announcement of a Canadian commercialization partner for Vitaros is expected.

Pipeline

Strong pipeline of products in phase levels of development offers numerous partnering opportunities. In addition to Vitaros, Apricus Bio has several products either in late stage development, in mid-to-early clinical development and some about to enter the clinic. A few products have been partnered while others offer the prospect for partnerships. Due to the development range of the product portfolio, Apricus Bio should be able to monetize Vitaros and the later stage pipeline products to facilitate development of the earlier pipeline.

INVESTMENT RISKS

Economic Environment

Our price target is based on Apricus Bio being able to function in an environment conducive to its business practices, such as being able to obtain financings at reasonable terms and sign commercialization agreements for its technologies and pipeline. If this environment is not a reality, Apricus Bio may have trouble monetizing its technologies and potential products.

Platform Technology

Although Apricus Bio's NexACT technology platform provides the foundation for its 10 US technology and pipeline products' patents, any difficulties with clinical trials could create reservations about NexACT's overall potential. This risk should be considered crucial because Apricus Bio's principal business rests on partnering its NexACT platform and its associated pipeline. It seems reasonable that Apricus Bio will be focused on increasing its patent portfolio efforts throughout the world.

Sales/distribution Infrastructure

In the past Apricus Bio focused on research and development, so does not have proficiency in product sales and distribution. This situation places Apricus Bio in a slightly dependent position with its current and future partners. Without future partnering agreements, the company's operations would be noticeably hampered.

Succession of losses

Apricus Bio has had a succession of losses since it was launched (as NexMed Inc.). The addition of Bio-Quant's clinical research organization (CRO) services provide additional revenues and there is expectation of growth in the number of NexACT partnering agreements and the pipeline, but there can be no guarantee that Apricus Bio's operations will be profitable or cash flow positive in the future.

Large Competitors

Competition is prevalent in both the drug delivery and CRO markets. Many of the competitors are larger and stronger financially and operationally. Drug delivery competitors with impressive legal teams may make it difficult to do business by putting up legal hurdles whether these hurdles are meritorious or not. The CRO market has been consolidating into larger and more international companies, but Bio-Quant is a highly experienced CRO and has provided pre-clinical research to more than 300 clients. Bio-Quant is located in San Diego, California where biotechnology research and development is a major industry.

Clinical and manufacturing Risks

Clinical development and the regulatory approval processes pose noteworthy risks for Apricus Bio's product development and commercialization. Failures in product formulations also pose risks. These types of risks are expected to increase as Apricus Bio’s developmental compounds increase in number. Apricus Bio’s Vitaros manufacturing and commercialization as well as approvals for pipeline products will heightened regulatory attention. Creating value may be slow due to the time required to perform clinical trials and analyze the data.

Broad and Substantial Risk Profile

Health care reform is constantly in flux so cannot be fully predicted and may present additional obstacles for Apricus Bio, its suppliers, manufacturers and partners. Specific reform risks are also expected to change as Apricus Bio’s business changes with product approvals and achievement of pipeline milestones.

Recent Financing

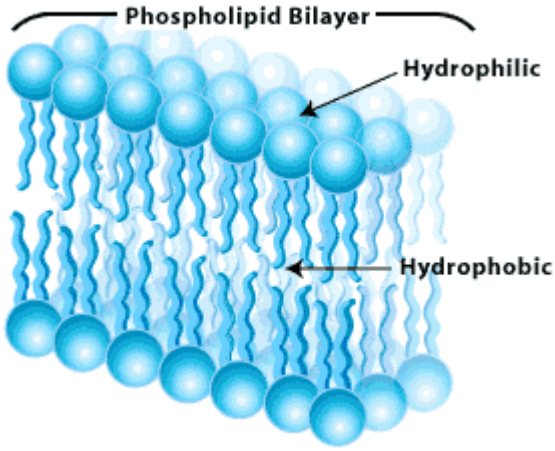
Apricus Bio's financing in October 2010 created dilution and makes it more difficult to improve its earnings per share. Multiple ongoing partnership discussions and the need to have a stronger balance sheet motivated the new management to move forward with this financing. Apricus Bio's current cash position and future revenues from partnership agreements are expected to fund research and development through 2012. Anticipated future partnership revenues cannot be guaranteed about if or when they may occur.

APRICUS BIOSCIENCES INC: COMPANY OVERVIEW

Nexmed/ Bio-Quant

Nexmed functioned as a drug delivery technology (NexACT technology) company since the early 1990s and developed a substantial patent portfolio over the two decades that it had been perfecting this technology. In its past, Nexmed focused primarily on developing its own product pipeline with only a very minimal focus on partnering its NexACT technology with other companies. On December 14th, 2009, Nexmed merged with Bio-Quant, a reputable drug discovery CRO for non-GLP (good laboratory practices) for in vitro and in vivo contract drug discovery and pre-clinical development. Both companies are now based in the same building in San Diego, California. The combined company changed its name to **Apricus Biosciences, Inc.** in September 2010.

TECHNOLOGY



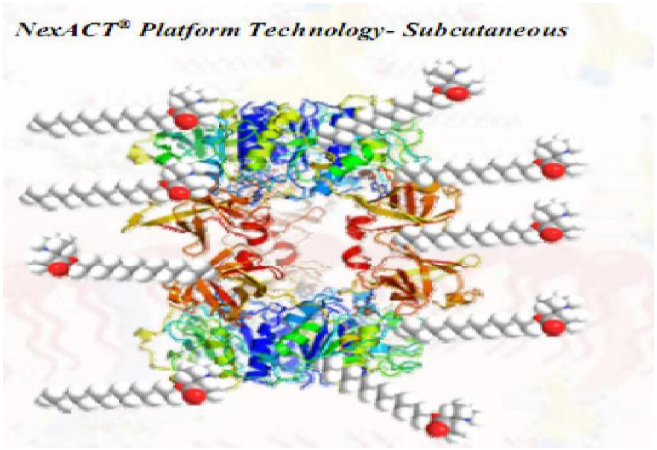
Phospholipid Bilayer of the Cell Membrane

NexACT

NexACT is a multi-route drug delivery technology that has been confirmed in clinical studies. It makes use of patented highly effective, novel excipients or "penetration enhancers" to radically improve a drug's absorption and bioavailability. By changing the concentration of the enhancers, the desired local or systemic drug delivery can be accomplished.

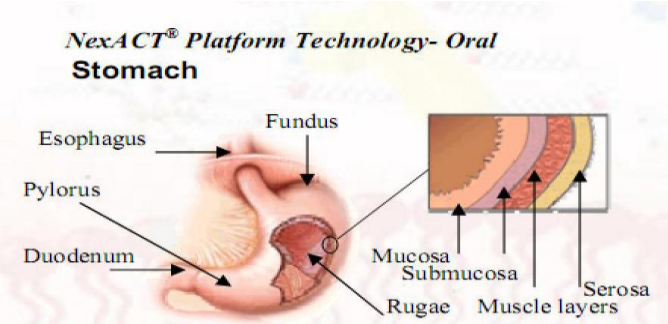
Topical/transdermal delivery of drugs
NexACT utilizes effective permeation enhancers to overcome the skin's normal barriers. This permits fast penetration of a drug directly to a targeted area of the skin. The permeation enhancers create a transient alteration of the skin's permeation characteristics so the drug can be rapidly absorbed through the skin. The enhancers can be used to also aid the effectiveness of generic drugs creams, gels, sprays, ointments, lotions, solutions and patches. NexACT enhancers are composed of esters of fatty acids and amino alcohols/acids. These semi-replicate natural proteins and lipids. NexACT-88 (DDAIP HCl) permeation enhancer is now commercially available as a topical alporostadil product for male impotence. Apricus Bio also has data for over 22 small molecule and protein formulations. Example of drugs with available study data are alprostadil, ketoprofen, ondansetron, and terbinafine.

Subcutaneous
NexACT subcutaneous technology uses depot deposition to improve a drug's bioavailability. This use of the NexACT technology provides robust bioavailability and extended release. This platform utilizes the same components as NexACT's topical/transdermal delivery. These components surround the active pharmaceutical ingredients (API) to permit a rapid departure from the subcutaneous "space" into the systemic circulation. Data is available for prototype drug formulations, such as taxol and insulin formulations that have been tested in rodents. The subcutaneous NexACT platform's benefits include the ability to administer drugs in a more patient-friendly manner, e.g., once-a-day, once-a-week and topical application versus routine multiple injections.



Oral
NexACT oral delivery technology also utilizes the same permeation enhancers that are used in its other platforms. The oral NexACT application has the capability to alter active ingredients and provide a slow or more enhanced release of the API into the systemic circulation. NexACT permeation enhancers alter the body's lipid bilayer permeation dynamics to allow faster entry through the stomach and/or intestine. Data is available for several formulations, including taxol and lansoprazole. The objective of this oral platform is to replace the injection of some drugs with oral dosing.

Transbuccal (mouth's inner lining)
Apricus Bio has published study data for NexACT transbuccal technology. The study was conducted by Rutgers' School of Pharmacy, and discusses NexACT ability to improve ondansetron's (Zofran) permeation. Zofran is used to treat nausea and vomiting that is often associated with chemotherapy and surgical procedures. Transbuccal drug delivery may allow delivery of drugs that cannot currently be orally, transdermally or intravenously dosed.



Rectal
Apricus Bio has published pre-clinical results for a pharmacokinetic (PK) study demonstrating that rituximab (Rituxan) formulated with NexACT and delivered rectally produced comparable blood levels to rituximab delivered subcutaneously.

Additional NexACT Qualities
NexACT technology has been qualified as an antimicrobial preservative. It has demonstrated an ability to kill more than 23 strains of bacteria, fungus and mold and passed a US Pharmacopeia (USP) preservative efficacy test (PET). NexACT may potentially compete with common preservatives because of it potential to decrease allergic reactions.

CLINICAL DEVELOPMENT PIPELINE

Vitaros
Vitaros is a topical alprostadil-based cream treatment intended for patients with erectile dysfunction. Alprostadil is a vasodilator approved by the Food and Drug Adminstration (FDA) for erectile dysfunction (ED) and has been formulated as gels, suppositories and as an injectable. Alprostadil is also indicated for specific neo-natal/pediatric indications.

In mid-November 2010, Apricus Bio announced that Health Canada (www.hc-sc.gc.ca) had given Vitaros marketing approval as a first-time therapy for erectile dysfunction (ED). Apricus Bio selected Therapex, a division of EZ-EM Canada, which is a subsidiary of Bracco Pharma of Italy, as Vitaros' manufacturer for the Canadian market and potentially for Europe. A mid- 2011 Vitaros Canadian launch is expected. We anticipate a near-term announcement of a strong Canadian commercialization partner for Vitaros.

ED Market: This market is rather mature and competitive but very large. The ex-US market is estimated at nearly $2 billion.

Vitaros advantages:

- Direct application on the penis as a cream allows the active ingredient in Vitaros (alprostodil) to bypass systemic absorption; this is in contrast to the oral approved ED therapies; such as Viagra, Cialis, and Levitra. Bypassing the systemic system reduces side effects and provides a better user profile.
- Alprostadil is effective due to its localized action, which is a different mechanism of action than the approved oral medications. Also, alprostadil has demonstrated that it can cause a more rapid onset erection (within minutes) versus the nearly 30 minutes claimed by one of the most rapid oral ED drugs. Apricus Bio is currently seeking Vitaros partnerships for Europe (EU). Vitaros commercialization partnerships may be regional or for a specific country. Regulatory agencies throughout the EU may be dealt with by either Apricus Bio or its partners. Apricus Bio has been in contact with the appropriate regulatory agencies in the United Kingdom, Germany and the Netherlands, which are considered the largest European ED markets. The initial EU regulatory filing is expected in 2011 with a launch in 2012.

Apricus Bio initially licensed the U.S. rights for Vitaros to Warner Chilcott in 2007. This licensing agreement was terminated in 2009 and Warner Chilcott bought the U.S. rights to Vitaros for $2.5 million upfront and $2.5 million upon an FDA marketing approval for Vitaros. Warner Chilcott also paid $350,000 in 2009 for Vitaros manufacturing equipment. Under this new purchase agreement, Apricus Bio does not have the requirement to obtain US marketing approval for Vitaros, and Warner Chilcott is not obligated to continue its development. A Carcinogenicity Advisory Committee (CAC) assessment package addressing issues raised about Vitaros' carcinogenicity studies was submitted by Warner Chilcot in late 2009. At this point in time, it does not seem that Warner Chilcott is pursuing development of Vitaros, and we do not anticipate any revenues from U.S. sales.

Examples of current commercialization agreements for Vitaros include (1) an agreement with Neopharm Group for in Israel and the Palestinian Territories of the Gaza Strip and the West Bank and (2) an agreement with Elis Pharmaceuticals for the Gulf and part of the Middle East.

MycoVa (formerly NM100060) - Phase IIII

MycoVa is a topical anti-fungal solution in development to treat chronic persistent nail bed fungal infections (onychomycosis). Onychomycosis causes nails to thicken and become discolored. Treatment of this type of infection is known to be arduous. The market for nail fungal infections is large (globally about $2 billion in 2010) and typically affects the elderly.

MycoVa was initially partnered in September 2005 with Novartis. The partnership was terminated in July 2009 without Novartis submitting an NDA to the Food and Drug Administration (FDA). In 2009, Novartis also decided that the Phase III's (performed in the EU) results were insufficient to seek an EU approval. In accordance with a subsequent termination agreement, Novartis provided Phase III data and assisted with transfer of other data. For Novartis' efforts, Apricus Bio will pay Novartis 15% of milestones and upfront payments when received and royalties in the range of 2.8%-6.5% based on annual net sales. Without upfront or milestone payments, royalty fees, the royalty range is 4%-6.5%. Apricus Bio is sharing Phase III data with potential partners. The company is evaluating the feasibility of an MAA filing for MycoVa in the EU.

Femprox - Phase III

Femprox is a topical cream with the active ingredient alprostadil. Femprox is being developed for treatment of female sexual arousal disorder (FSAD). Apricus Bio has completed several clinical studies that include a 98-patient US trial and a 400-patient Chinese trial. A development partner is being sought and no additional clinical studies will be completed until a partnership is initiated. The potential market opportunity for Femprox may challenge that of Vitaros' available market.

PrevOnco - Phase III
PrevOnco was acquired in March of 2010. It contains the active ingredient, lansoprazole (Takeda Pharmaceutical's Prevacid), an anti-ulcer medication. In vivo mouse models indicated that PrevOnco has potential to treat human hepatocellular carcinoma (HCC; liver cancer) as well as other cancers (renal cancer). The FDA has given Apricus Bio permission to submit a Phase III Special Protocol Assessment (SPA), which Apricus Bio submitted in November 2011. An SPA is a protocol that the FDA and a company agree on all aspects of a trial's design and analysis before the trial begins. This type of a clinical development path may provide PrevOnco with a more efficient development path but it may require very strong clinical data. On February 17, 2011, Apricus Bio announced that it is now in discussions with the FDA concerning PrevOnco's SPA and that the company's Clinical Advisory Board will be meeting to focus on the next step to move PrevOnco's SPA forward. The global liver and renal cancer markets are estimated to be about $2.5 billion combined. A development partner is being sought that will run the phase III program(s).

RayVa - Phase II
RayVa is another topical alprostadil (vasodialator) product for treatment of Raynaud's Syndrome. Raynaud's causes a person's fingers and/or toes to abruptly suffer from decreased blood circulation. This decrease in circulation causes skin coloration changes and typically occurs due to exposure to cold or stress. Often this condition is just an inconvenience but recurrent Raynaud's can produce skin, tissue or muscle atrophy and may lead to ulcers and gangrene. Apricus Bio will be submitting the Phase III protocol for RayVa during 2011 and is currently seeking a development partner.

ADDITIONAL ONCOLOGY PIPELINE

Several combinations of common therapies with NexACT have been tested pre-clinically.

- **Taxol (paclitaxel)** that is now sold as a generic drug is a leading drug for breast, lung and ovarian cancers. It is dosed through an intravenous infusion (IV). Apricus Bio's pre-clinical results support NexACT ability to deliver taxol via an oral or subcutaneous formulation.
- **Nupen** is Apricus Bio's topical formulation of **Neupogen (filgastim)** that is sold by Amgen to increase neutrophils (white blood cells) following chemotherapy and bone marrow transplants. Apricus Bio has announced that the Moores Cancer Center at the University of California, San Diego filed an Investigation New Drug Application (IND) with the FDA to test Nupen.
- **Rituxan (Rituximab)** is an IV dosed monoclonal antibody marketed by Genentech and Biogen IDEC to treat a variety of cancers, such as non-Hodgkin's lymphoma (NHL) and chronic lymphocytic leukemia (CLL). It is also used to treat rheumatoid arthritis. Apricus Bio has completed animal studies with its NexACT formulated rituximab for subcutaneous delivery.
- **Fluorouracil (5-Fu)** is also known as 5-Fu and sold under the trade names of Adrucil, Carac, Efudex and Fluoroplex. It is an old chemotherapy dosed systemically and topically. Apricus Bio has conducted feasibility studies for its topical formulation encompassing 5-Fu with NexACT for treatment of pre-cancerous lesions, such as actinic keratoses and genital warts. A reduced dose of 5-Fu may be used because of the enhanced absorption provided by NexACT.

EXAMPLES OF ADDITIONAL POTENTIAL PIPELINE THERAPEUTICS

PsoriaVa – PsoriaVa is a topical formulation containing calcipotriene and betamethasone dipropionate, the active ingredients in Leo Pharma's Taclonex that is indicated for psoriasis. NexACT is used in PsoriaVa to increase the active ingredients penetration into the skin and potentially reduce the amount of the active ingredients necessary.

Lidocaine – Lidocaine is an old mild to moderate local anesthetic used for minor surgery and before needle and catheter insertions. Lidocaine typically has a slow onset of action which has hindered its use. Apricus Bio has developed a faster-acting lidocaine gel using EMLA cream, a common active ingredient, and NexACT.

Insulin – Apricus Bio has shown in pre-clinical studies that insulin can be successfully delivered subcutaneously over a 24-hour period by a slow release formulation.

PRECLINICAL PIPELINE/ PARTNERING OPPORTUNITIES

NexACT technology and Bio-Quant's pre-clinical development expertise should continue to create opportunities and are expected to be large contributors to Apricus Bio's future. We believe that the NexACT technology could be of interest to Bio-Quant's client base as well as other potential partners being sought out. Due to Bio-Quant's pre-clinical expertise now located "in house", Apricus Bio can be quite efficient in validating targets while also leveraging its NexACT technology. We believe as Apricus Bio continues to expand both the types and number of compounds that its NexACT technology can deliver and as it continues to incorporate Bio-Quant capabilities into its development efforts, pharmaceutical companies in need of technologies to help them with their product life cycle management will take notice. By Apricus Bio now becoming involved in this industry dynamic; it should help it to create proprietary knowledge, intellectual property and know-how that will help increase its corporate value.

PLAN OF OPERATIONS

Apricus Bio's strategy is now focused on monetizing its approved product (Vitaros), its existing NexACT pipeline of pre-clinical and clinical candidates through out-licensing and commercial partnerships. Apricus Bio also intends to out-license the NexACT technology for multiple compounds and different delivery methodologies and uses. This multi-focus but interrelated strategy should provide the company with numerous opportunities to bring in non-dilutive revenues to finance future revenue generators.

DISCUSSION OF MODEL AND PRICE TARGET

We anticipate that Apricus Bio's revenues in the upcoming quarters will primarily be generated from new partnerships for its approved product, Vitaros. Our revenues expectations in 20011 include a launch of Vitaros mid-year into the Canadian market with an associated stocking order. We also expect partnering deals for Apricus Bio's other pipeline products and programs but we are currently only considering any revenues from these agreements as potential upside, not included in our earnings projection until we see more momentum. Our belief is that it should take into 2012 for Apricus Bio to strongly gain prospective clients' attentions for its potential pipeline and also heighten investors' interest and confidence. Once attention has refocused on Apricus Bio and its new found direction and the company regularly executes its goals, we believe Apricus Bio stock price will strongly increase accordingly.

INTELLECTUAL PROPERTY (IP)

Apricus Bio owns 10 US patents and numerous patent applications have been filed relating to its NexACT technology and/or its NexACT product candidates. Patent expirations extend from 2017 through 2026. These patents should provide adequate protection of Apricus Bio's IP. Apricus also has international applications under the Patent Cooperation Treaty. NexACT's major patent is its, "Crystalline Salts of dodecyl 2-(N,N-Dimethlyamino)-propionate", which is the DDAIP-related composition of matter patent for the NexACT technology:

Patent Names and Expiration Dates:
Compositions and Methods for Amelioration of Human Female Sexual Dysfunction 2017
Topical Compositions for PGE1 Delivery 2017 Topical Compositions for Non-Steroidal Anti-Inflammatory Drug Delivery 2017
Medicament Dispenser 2019
Crystalline Salts of dodecyl 2-(N,N-Dimethlyamino)-propionate 2019
Topical Compositions Containing Prostaglandin E1 2019
CIP: Topical Compositions Containing Prostaglandin E1 2019
Topical Stabilized Prostaglandin E Compound Dosage Forms 2023
Antifungal Nail Coat Method of Use 2026
Stabilized Prostaglandin E Composition 2026

MANAGEMENT

Bassam Damaj, Ph.D. is President, Chief Executive Officer and Director of Apricus Biosciences. Dr. Damaj was a co-founder of Bio-Quant Inc. in 2000 and was appointed to his current positions at the company in December 2009 in connection with the acquisition of Bio-Quant. Prior to joining Bio-Quant; Dr. Damaj served in executive and scientific positions with Tanabe Research Laboratories, Pharmacopeia, Genentech, Pfizer and the National Institutes of Health. Dr. Damaj holds a Ph.D. degree in Immunology/Microbiology from Laval University and completed a postdoctoral fellowship in molecular oncology from McGill University, both located in Quebec, Canada.

Mark Westgate has been Vice President, Chief Financial Officer and Treasurer of the Company since December 2005. From March 2002 until December 2005, Mr. Westgate served as Controller of the company. Prior to joining Apricus, Mr. Westgate served in financial positions with Lavipharm Laboratories and Richard A. Eisner Company. Mr. Westgate is a Certified Public Accountant and holds a BBA degree in public accounting from Pace University.

Edward Cox has been Vice President, Investor Relations and Corporate Development of Apricus since December 2009 and served as the President and a director of Bio-Quant since January 2007. Prior to joining the Company, Mr. Cox served as a Director of TomCo Energy and acted as a Business Strategist and Consultant for a number of companies. Mr. Cox holds a Master of Science degree in Business from the University of Florida.

Other key employees of Apricus include:
Linda Smibert, Vice President of Business Development since May 2010 after previously holding Business Development management positions at Santarus, Bristol-Myers Squibb and Zeneca;

Mark S. Wilson, Vice President of Technology Development since May 2010 after prior positions in Business Development at CONNECT and Halozyme Therapeutics**;**

Richard Martin, Ph. D., Vice President of Chemistry since April 2010, after prior positions with RetroVirox, Inc., Tanabe Research and Exelixis; and

Mohammed Hachicha, Ph.D., Vice President, Research and Development of NexMed since July 2010, after previous experience with Forest Laboratories and Purdue Pharma.

BOARD OF DIRECTORS

In addition to management team members Dr. Damaj and Dr. Esber**,** Executive VP of Bio-Quant, Apricus' board includes **Dr. Roberto Crea**, currently President and CEO of ProtElix and a former scientific co-founder of Genentech; **Dr. Deirdre Gillespie,** currently President and CEO of La Jolla Pharmaceutical; **Leonard Oppenheim,** formerly a principal at Montgomery Securities; and **Rusty Ray**, currently a partner with Brocair Partners, a healthcare focused investment bank.

FINANCIAL PROJECTIONS

Apricus Biosciences, Inc. Income Statement Projections	Actual		Projected			
	Annual 2008	Annual 2009	Annual 2010	Annual 2011	Annual 2012	Annual 2013
License fee revenue	$ 5,957,491	$ 2,681,271	$ 40,048	$ 7,940,048	$ 20,840,048	$ 22,924,053
Contract service revenue	-	292,437	5,263,549	4,763,940	4,763,940	4,763,940
Total revenue	5,957,491	2,973,708	5,303,597	12,703,988	25,603,988	27,687,993
Cost of services	-	128,355	4,130,005	4,144,628	4,144,628	4,144,628
Gross profit	5,957,491	2,845,353	1,173,592	8,559,360	21,459,360	23,543,365
Costs and expenses						
Research and development	5,410,513	1,883,458	1,931,799	3,175,997	6,400,997	6,921,998
General and administrative	5,720,832	4,196,359	9,059,616	8,359,360	8,777,328	9,216,194
Acquisition costs	-	585,378	-	-	-	-
Total costs and expenses	11,131,345	6,665,195	10,991,415	11,535,357	15,178,325	16,138,193
Income (loss) from operations	(5,173,854)	(3,819,842)	(9,817,823)	(2,975,997)	6,281,035	7,405,172
Interest income (expense) and other	(935,001)	(28,660,514)	(8,910,982)	-	-	-
Income (loss) before taxes	(6,108,855)	(32,480,356)	(18,728,805)	(2,975,997)	6,281,035	7,405,172
Benefit from income taxes	937,657	437,794				
Net income (loss)	$ (5,171,198)	$ (32,042,562)	$ (18,728,805)	$ (2,975,997)	$ 6,281,035	$ 7,405,172
Basic and diluted loss per share	$ (0.93)	$ (5.43)	$ (1.58)	$ (0.15)	$ 0.31	$ 0.37
Basic and diluted WA shares	5,578,987	5,906,455	11,819,043	20,000,000	20,000,000	20,000,000

Assumptions

License fee revenue:

1. 4 new agreements in 2H 2011, 8 in 2012 and 8 in 2013 - at $2.5 million each
2. TTM License fee revenue as of 9/30/11
3. Vitaros Revenues (20% of $5m *80% py (*.5 for 2011)
4. 10% increase in revenue in 2013 over 2012

Contract service revenue: hold constant Q3 2010 and annualize for 2011+

Cost of services: hold Q3 2010 GPM constant @ 13%

Costs and expenses

Research and development: Q3 2010 constant with Q4, then 25% of total revenues 2011+

General and administrative: hold Q3 2010 constant plus 5% py 2012+

Acquisition costs: none

Interest income (expense) and other: hold Q3 2010 constant in Q4 2010 but for 2011+ expect interest income and expense to offset each other

Benefit from income taxes: none

Source: Analyst's Estimates

FINANCIALS

Prepared 2/1/11

9/30/10 10-Q Filed 11/12/10

APRI Financials

Apricus Biosciences, Inc.
Income Statement

	Q3 9/30/10	Q2 6/30/10	Q1 3/31/10	Q4 12/31/09	Q3 9/30/09	Q2 6/30/09	Q1 3/31/09	Annual 2009	Annual 2008	Annual 2007
License fee revenue	$ 2,550	$ 32,550	$ 2,550	$ 2,398	$ 109,590	$ 102,613	$ 2,466,670	$ 2,681,271	$ 5,957,491	$ 1,270,367
Contract service revenue	1,190,985	1,438,377	1,443,202	292,437	-	-	-	292,437	-	-
Total revenue	1,193,535	1,470,927	1,445,752	294,835	109,590	102,613	2,466,670	2,973,708	5,957,491	1,270,367
Cost of services	1,035,411	1,021,951	1,037,232	128,355	-	-	-	128,355	-	-
Gross profit	158,124	448,976	408,520	166,480	109,590	102,613	2,466,670	2,845,353	5,957,491	1,270,367
Costs and expenses										
Research and development	513,920	477,566	426,393	254,650	309,989	716,453	602,366	1,883,458	5,410,513	5,022,671
General and administrative	2,089,840	2,640,400	2,239,536	1,696,524	714,039	694,749	1,091,047	4,196,359	5,720,832	5,634,479
Acquisition costs	-	-	-	585,378	-	-	-	585,378	-	-
Total costs and expenses	2,603,760	3,117,966	2,665,929	2,536,552	1,024,028	1,411,202	1,693,413	6,665,195	11,131,345	10,657,150
Income (loss) from operations	(2,445,636)	(2,668,990)	(2,257,409)	(2,370,072)	(914,438)	(1,308,589)	773,257	(3,819,842)	(5,173,854)	(9,386,783)
Interest income (expense) and other	(160,639)	(1,609,657)	(6,980,047)	(28,178,282)	(276,178)	(117,569)	(88,485)	(28,660,514)	(935,001)	(206,354)
Income (loss) before taxes	(2,606,275)	(4,278,647)	(9,237,456)	(30,548,354)	(1,190,616)	(1,426,158)	684,772	(32,480,356)	(6,108,855)	(9,593,137)
Benefit from income taxes	-	-	-	437,794	-	-	-	437,794	937,657	805,909
Net income (loss)	$ (2,606,275)	$ (4,278,647)	$ (9,237,456)	$ (30,110,560)	$ (1,190,616)	$ (1,426,158)	$ 684,772	$ (32,042,562)	$ (5,171,198)	$ (8,787,228)
Basic and diluted loss per share	$ (0.20)	$ (0.47)	$ (1.25)	$ (4.66)	$ (0.20)	$ (0.25)	$ 0.12	$ (5.43)	$ (0.93)	$ (1.61)
Basic and diluted WA shares	12,756,875	9,140,451	7,378,847	6,459,109	5,914,921	5,625,895	5,625,895	5,906,455	5,578,987	5,467,727

Apricus Biosciences, Inc.
Common Size Income Statement

	Q3 9/30/10	Q2 6/30/10	Q1 3/31/10	Q4 12/31/09	Q3 9/30/09	Q2 6/30/09	Q1 3/31/09	Annual 2009	Annual 2008	Annual 2007
License fee revenue	0.2%	2.2%	0.2%	0.8%	100.0%	100.0%	100.0%	90.2%	100.0%	100.0%
Contract service revenue	99.8%	97.8%	99.8%	99.2%	0.0%	0.0%	0.0%	9.8%	0.0%	0.0%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of services	86.8%	69.5%	71.7%	43.5%	0.0%	0.0%	0.0%	4.3%	0.0%	0.0%
Gross profit	13.2%	30.5%	28.3%	56.5%	100.0%	100.0%	100.0%	95.7%	100.0%	100.0%
Costs and expenses										
Research and development	43.1%	32.5%	29.5%	86.4%	282.9%	698.2%	24.4%	63.3%	90.8%	395.4%
General and administrative	175.1%	179.5%	154.9%	575.4%	651.6%	677.1%	44.2%	141.1%	96.0%	443.5%
Acquisition costs	0.0%	0.0%	0.0%	198.5%	0.0%	0.0%	0.0%	19.7%	0.0%	0.0%
Total costs and expenses	218.2%	212.0%	184.4%	860.3%	934.4%	1375.3%	68.7%	224.1%	186.8%	838.9%
Income (loss) from operations	-204.9%	-181.4%	-156.1%	-803.9%	-834.4%	-1275.3%	31.3%	-128.5%	-86.8%	-738.9%
Interest income (expense) and other	-13.5%	-109.4%	-482.8%	-9557.3%	-252.0%	-114.6%	-3.6%	-963.8%	-15.7%	-16.2%
Income (loss) before taxes	-218.4%	-290.9%	-638.9%	-10361.2%	-1086.4%	-1389.8%	27.8%	-1092.3%	-102.5%	-755.1%
Benefit from income taxes	0.0%	0.0%	0.0%	148.5%	0.0%	0.0%	0.0%	14.7%	15.7%	63.4%
Net income (loss)	-218.4%	-290.9%	-638.9%	-10212.7%	-1086.4%	-1389.8%	27.8%	-1077.5%	-86.8%	-691.7%

Source: Company Filing

FINANCIALS cont.

Prepared 2/1/11

APRI Financials

9/30/10 10-Q Filed 11/12/10

Apricus Biosciences, Inc.
Balance Sheet

	Q3 9/30/10	Q2 6/30/10	Q1 3/31/10	Q4 12/31/09	Q3 9/30/09	Q2 6/30/09	Q1 3/31/09	Annual 2009	Annual 2008	Annual 2007
Assets										
Current Assets										
Cash and cash equivalents	$ 1,767,943	$ 4,215,095	$ 2,546,720	$ 479,888	$ 1,538,709	$ 2,811,315	$ 3,758,044	$ 479,888	$ 2,862,960	$ 3,485,940
Accounts receivable	345,914	641,716	583,608	708,898	-	-	-	708,898	-	-
Other receivable	-	-	-	437,794	-	-	175,000	437,794	-	-
Restricted cash	603,000	-	-	-	-	-	-	-	-	-
Prepaid expenses and other	262,609	257,581	141,563	140,521	111,849	149,558	91,123	140,521	83,761	127,659
Total current assets	2,979,466	5,114,392	3,271,891	1,767,101	1,650,558	2,960,873	4,024,167	1,767,101	2,946,721	3,613,599
Fixed assets, net	5,517,225	5,620,741	5,535,575	5,616,811	4,928,215	5,013,680	5,104,610	5,616,811	5,519,652	6,956,986
Goodwill	9,084,476	9,084,476	9,084,476	9,084,476	-	-	-	9,084,476	-	-
Restricted cash	-	603,000	250,000	-	-	-	-	-	-	-
Deferred financing costs	92,275	-	-	-	-	-	-	-	-	-
Intangible assets, net	3,875,120	3,965,082	4,055,044	4,145,006	-	-	-	4,145,006	-	-
Due from related party	-	-	-	204,896	-	-	-	204,896	-	-
Debt issuance cost, net	83,687	92,972	94,509	115,047	68,363	75,955	83,547	115,047	91,139	102,121
Total assets	$ 21,632,249	$ 24,480,663	$ 22,291,495	$ 20,933,337	$ 6,647,136	$ 8,050,508	$ 9,212,324	$ 20,933,337	$ 8,557,512	$ 10,672,706
Liabilities and stockholders' equity										
Current liabilities										
Notes payable - Bio-Quant shareholders	$ -	$ -	$ 9,898,809	$ 12,129,010	$ -	$ -	$ -	$ 12,129,010	$ -	$ -
Accounts payable and accrued expenses	980,168	1,333,499	1,776,031	1,453,621	292,571	830,903	727,252	1,453,621	1,029,486	621,668
Payroll related liabilities	256,397	418,083	73,890	279,960	84,476	63,413	161,879	279,960	296,135	693,774
Short-term borrowings	401,000	401,000	-	-	-	-	-	-	-	-
Deferred revenue	135,001	107,108	166,420	118,115	10,200	60,200	10,200	118,115	-	953,528
Capital lease payable	26,607	25,811	25,023	24,530	-	-	-	24,530	-	-
Due to related parties	-	-	-	99,682	-	-	-	99,682	-	-
Deferred compensation	68,596	68,596	68,000	70,000	66,200	65,421	63,135	70,000	74,245	60,929
Total current liabilities	1,867,769	2,354,097	12,008,173	14,174,918	453,447	1,019,937	962,466	14,174,918	1,399,866	2,329,899
Long term liabilities										
Convertible notes payable	4,000,000	4,000,000	4,000,000	2,990,000	3,590,000	4,340,000	4,690,000	2,990,000	4,690,000	-
Note payable	-	-	-	-	-	-	-	-	-	2,538,705
Deferred revenue	74,800	77,350	79,900	82,450	85,000	87,550	90,100	82,450	-	-
Capital lease payable	94,405	101,374	108,131	114,965	-	-	-	114,965	-	-
Deferred compensation	830,352	839,510	856,668	865,602	885,641	902,468	920,611	865,602	935,517	999,345
Total liabilities	6,867,326	7,372,331	17,052,872	18,227,935	5,014,088	6,349,955	6,663,177	18,227,935	7,025,383	5,867,949
Stockholders equity										
Common stock	12,826	12,626	8,469	6,988	6,095	5,763	5,627	6,988	5,623	5,538
Additional paid-in capital	202,606,337	202,343,672	186,199,472	174,430,276	143,248,255	142,125,476	141,548,048	174,430,276	141,215,806	139,317,321
Accumulated deficit	(187,854,240)	(185,247,966)	(180,969,318)	(171,731,862)	(141,621,302)	(140,430,686)	(139,004,528)	(171,731,862)	(139,689,300)	(134,518,102)
Total stockholders equity	14,764,923	17,108,332	5,238,623	2,705,402	1,633,048	1,700,553	2,549,147	2,705,402	1,532,129	4,804,757
Total liabilities and stockholders equity	$ 21,632,249	$ 24,480,663	$ 22,291,495	$ 20,933,337	$ 6,647,136	$ 8,050,508	$ 9,212,324	$ 20,933,337	$ 8,557,512	$ 10,672,706

Source: Company Filings

FINANCIALS cont.

Prepared 2/1/11

APRI Financials

9/30/10 10-Q Filed 11/12/10

Apricus Biosciences, Inc.
Common Size Balance Sheet

	Q3 9/30/10	Q2 6/30/10	Q1 3/31/10	Q4 12/31/09	Q3 9/30/09	Q2 6/30/09	Q1 3/31/09	Annual 2009	Annual 2008	Annual 2007
Assets										
Current Assets										
Cash and cash equivalents	8.2%	17.2%	11.4%	2.3%	23.1%	34.9%	40.8%	2.3%	33.5%	32.7%
Accounts receivable	1.6%	2.6%	2.6%	3.4%	0.0%	0.0%	0.0%	3.4%	0.0%	0.0%
Other receivable	0.0%	0.0%	0.0%	2.1%	0.0%	0.0%	1.9%	2.1%	0.0%	0.0%
Restricted cash	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Prepaid expenses and other	1.2%	1.1%	0.6%	0.7%	1.7%	1.9%	1.0%	0.7%	1.0%	1.2%
Total current assets	13.8%	20.9%	14.7%	8.4%	24.8%	36.8%	43.7%	8.4%	34.4%	33.9%
Fixed assets, net	25.5%	23.0%	24.8%	26.8%	74.1%	62.3%	55.4%	26.8%	64.5%	65.2%
Goodwill	42.0%	37.1%	40.8%	43.4%	0.0%	0.0%	0.0%	43.4%	0.0%	0.0%
Restricted cash	0.0%	2.5%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred financing costs	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Intangible assets, net	17.9%	16.2%	18.2%	19.8%	0.0%	0.0%	0.0%	19.8%	0.0%	0.0%
Due from related party	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%
Debt issuance cost, net	0.4%	0.4%	0.4%	0.5%	1.0%	0.9%	0.9%	0.5%	1.1%	1.0%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and stockholders' equity										
Current liabilities										
Notes payable - Bio-Quant shareholders	0.0%	0.0%	44.4%	57.9%	0.0%	0.0%	0.0%	57.9%	0.0%	0.0%
Accounts payable and accrued expenses	4.5%	5.4%	8.0%	6.9%	4.4%	10.3%	7.9%	6.9%	12.0%	5.8%
Payroll related liabilities	1.2%	1.7%	0.3%	1.3%	1.3%	0.8%	1.8%	1.3%	3.5%	6.5%
Short-term borrowings	1.9%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deferred revenue	0.6%	0.4%	0.7%	0.6%	0.2%	0.7%	0.1%	0.6%	0.0%	8.9%
Capital lease payable	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Due to related parties	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%
Deferred compensation	0.3%	0.3%	0.3%	0.3%	1.0%	0.8%	0.7%	0.3%	0.9%	0.6%
Total current liabilities	8.6%	9.6%	53.9%	67.7%	6.8%	12.7%	10.4%	67.7%	16.4%	21.8%
Long term liabilities										
Convertible notes payable	18.5%	16.3%	17.9%	14.3%	54.0%	53.9%	50.9%	14.3%	54.8%	0.0%
Note payable	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.8%
Deferred revenue	0.3%	0.3%	0.4%	0.4%	1.3%	1.1%	1.0%	0.4%	0.0%	0.0%
Capital lease payable	0.4%	0.4%	0.5%	0.5%	0.0%	0.0%	0.0%	0.5%	0.0%	0.0%
Deferred compensation	3.8%	3.4%	3.8%	4.1%	13.3%	11.2%	10.0%	4.1%	10.9%	9.4%
Total liabilities	31.7%	30.1%	76.5%	87.1%	75.4%	78.9%	72.3%	87.1%	82.1%	55.0%
Stockholders equity										
Common stock	0.1%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%
Additional paid-in capital	936.6%	826.5%	835.3%	833.3%	2155.0%	1765.4%	1536.5%	833.3%	1650.2%	1305.4%
Accumulated deficit	-868.4%	-756.7%	-911.8%	-820.4%	-2130.6%	-1744.4%	-1508.9%	-820.4%	-1632.4%	-1260.4%
Total stockholders equity	68.3%	69.9%	23.5%	12.9%	24.6%	21.1%	27.7%	12.9%	17.9%	45.0%
Total liabilities and stockholders equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company Filings

FINANCIALS cont.

Prepared 2/1/11

APRI Financials

9/30/10 10-Q Filed 11/12/10

Apricus Biosciences, Inc.	Q3 9/30/10	Q2 6/30/10	Q1 3/31/10	Q4 12/31/09	Q3 9/30/09	Q2 6/30/09	Q1 3/31/09	Annual 2009	Annual 2008	Annual 2007
Depreciation and amortization	$ 240,628	$ 219,108	$ 252,290	$ 101,591	$ 84,350	$ 92,885	$ 108,882	$ 387,708	$ 486,420	$ 621,869
Cash flows from operating activities	$ (2,282,845)	$ (1,457,892)	$ (1,207,471)	$ (1,893,324)	$ (1,272,608)	$ (1,068,801)	$ 720,084	$ (3,514,649)	$ (2,712,451)	$ (6,587,633)
Cash flows from investing activities	$ (47,160)	$ (214,311)	$ (81,403)	$ (2,600)	$ 2	$ 172,072	$ 175,000	$ 344,474	$ 796,012	$ 149,125
Cash flows from financing activities	$ (720,147)	$ 3,693,578	$ 3,605,706	$ 686,077	$ -	$ (50,000)	$ -	$ 636,077	$ 2,043,459	$ (1,894,685)
Net increase (decrease) in cash	$ (3,050,152)	$ 2,021,375	$ 2,316,832	$ (1,209,847)	$ (1,272,606)	$ (946,729)	$ 895,084	$ (2,534,098)	$ 127,020	$ (8,333,193)
Ratios										
Liquidity										
Working Capital	$ 1,111,697	$ 2,760,295	$ (8,736,282)	$ (12,407,817)	$ 1,197,111	$ 1,940,936	$ 3,061,701	$ (12,407,817)	$ 1,546,855	$ 1,283,700
Quarter to quarter growth	*-59.73%*	*N4*	*N4*	*N4*	*-38.32%*	*-36.61%*	*97.93%*	*N4*	*20.56%*	
Current Ratio	1.60	2.17	0.27	0.12	3.64	2.90	4.18	0.12	2.11	1.55
Cash per WA share	$ 0.14	$ 0.46	$ 0.35	$ 0.07	$ 0.26	$ 0.50	$ 0.67	$ 0.08	$ 0.51	$ 0.64
Total cash and investments	$ 1,767,943	$ 4,215,095	$ 2,546,720	$ 479,888	$ 1,538,709	$ 2,811,315	$ 3,758,044	$ 479,888	$ 2,862,960	$ 3,485,940
Sequential increase (decrease)	$ *(2,447,152)*	$ *1,668,375*	$ *2,066,832*	$ *(1,058,821)*	$ *(1,272,606)*	$ *(946,729)*	$ *895,084*	$ *(2,383,072)*	$ *(622,980)*	
Quarter to quarter growth	*-58.06%*	*65.51%*	*430.69%*	*-68.81%*	*-45.27%*	*-25.19%*	*31.26%*	*-83.24%*	*-17.87%*	
WA shares outstanding	12,756,875	9,140,451	7,378,847	6,459,109	5,914,921	5,625,895	5,625,895	5,906,455	5,578,987	5,467,727
Total liabilities to total assets	31.75%	30.11%	76.50%	87.08%	75.43%	78.88%	72.33%	87.08%	82.10%	54.98%
Total debt to total assets	20.34%	17.98%	62.35%	72.70%	54.01%	53.91%	50.91%	72.70%	54.81%	23.79%
Book value per WA share	$ 1.16	$ 1.87	$ 0.71	$ 0.42	$ 0.28	$ 0.30	$ 0.45	$ 0.46	$ 0.27	$ 0.88
Book value per WA share excluding Goodwill	$ 0.45	$ 0.88	$ (0.52)	$ (0.99)	$ 0.28	$ 0.30	$ 0.45	$ (1.08)	$ 0.27	$ 0.88
Profitability										
Revenue	$ 1,193,535	$ 1,470,927	$ 1,445,752	$ 294,835	$ 109,590	$ 102,613	$ 2,466,670	$ 2,973,708	$ 5,957,491	$ 1,270,367
Quarter to quarter growth	*-18.86%*	*1.74%*	*390.36%*	*169.03%*	*6.80%*	*-95.84%*	*-29.53%*	*-50.08%*	*368.96%*	
License fee revenue	$ 2,550	$ 32,550	$ 2,550	$ 2,398	$ 109,590	$ 102,613	$ 2,466,670	$ 2,681,271	$ 5,957,491	$ 1,270,367
Comparable quarter growth	*-97.07%*	*-63.28%*	*-99.90%*	*-99.05%*	*-64.18%*	*-91.45%*	*159.16%*	*-54.99%*	*368.96%*	*-31.95%*
Quarter to quarter growth	*-92.17%*	*1170.47%*	*6.34%*	*-97.81%*	*6.80%*	*-95.84%*	*-29.53%*			
Contract service revenue	$ 1,190,985	$ 1,438,377	$ 1,443,202	$ 292,437						
Quarter to quarter growth	*-20.77%*	*-0.34%*	*79.74%*							
Gross profit from contract service revenue	$ 155,574	$ 416,426	$ 405,970	$ 164,082						
Quarter to quarter growth	*-62.64%*	*2.58%*	*147.42%*							
GPM from contract service revenue	13.1%	29.0%	28.1%	56.1%						
EBIT	$ (2,445,636)	$ (2,668,990)	$ (2,257,409)	$ (2,370,072)	$ (914,438)	$ (1,308,589)	$ 773,257	$ (3,819,842)	$ (5,173,854)	$ (9,386,783)
EBITDA	$ (2,205,008)	$ (2,449,882)	$ (2,005,119)	$ (2,268,481)	$ (830,088)	$ (1,215,704)	$ 882,139	$ (3,432,134)	$ (4,687,434)	$ (8,764,914)
Net income (loss)	$ (2,606,275)	$ (4,278,647)	$ (9,237,456)	$ (30,110,560)	$ (1,190,616)	$ (1,426,158)	$ 684,772	$ (32,042,562)	$ (5,171,198)	$ (8,787,228)
EPS	$ (0.20)	$ (0.47)	$ (1.25)	$ (4.66)	$ (0.20)	$ (0.25)	$ 0.12	$ (5.43)	$ (0.93)	$ (1.61)
Revenue per WA share - Quarterly	$ 0.09	$ 0.16	$ 0.20	$ 0.05	$ 0.02	$ 0.02	$ 0.44			
Revenue per WA share - Annualized	$ 0.37	$ 0.64	$ 0.78	$ 0.18	$ 0.07	$ 0.07	$ 1.75	$ 0.50	$ 1.07	$ 0.23
Revenue per WA share - TTM	$ 0.50	$ 0.42	$ 0.28	$ 0.52	$ 1.10	$ 1.13	$ 1.33			

Source: Company Filings

MEANING OF RATINGS

Buy
We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy
We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical "buy" recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral
We will remain neutral pending certain developments.

Underperform
We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell
We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations.

Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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