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## **Market Intelligence Report**

***June 25<sup>th</sup>, 2012***

**Epic Corporation (EPOR)**

makers of AcuPAD™ and AcuFAB™

## **Market Summary**

Given all the problems and challenges associated with dealing with the FDA, it is quite compelling when a company can have exposure to enormous healthcare markets without the large barriers to entry associated with the clinical trial process. Further, as we gravitate more and more into preventative medicines and chronic therapeutic regimens, it will become more and more mainstream to optimize the way we handle chronic patients particularly those with ambulatory issues. Unfortunately for the healthcare system, because of large spikes in obesity, diabetes, and an ever increasing sedentary lifestyle, we are dealing with the increasing need for handling wounds preemptively. As we have little control over the underlying healthcare issues that cause them and quite frankly once the damage is done, it really will always be about low blood circulation to surface tissue. Aside from continuous movement, massaging, or vascular improvement, it is highly unlikely that these issues can be handled without managing the many bed ridden patients over time.

This is where Epic Corporation comes into the picture with its AcuFAB™ and AcuPAD™ solutions. Because of its unique design, it can optimize the way that both the blood vessels and lymphatic system distribute fluids to and from the surface tissue. By so doing, it is quite possible that we can avoid pressure ulcers, diabetic ulcers, and various other surface tissue lesions cause by a lack of oxygen to these tissues. This is of course not limited to beds but is also quite useful in wheelchairs, automobile seats, standard chairs, operating tables, and shoe inserts. By facilitating blood flow and by extension oxygen offload to surface tissues, not only can the inception of these debilitating sores be prevented but also those that have started to come about can be addressed early with a combination of antibiotics and circulation management.

Given where we are economically and the incredible pressure on the healthcare system particularly with hospital bed stays, it would figure that one of the best ways to handle this is to mitigate these bed stays. Not everyone can be helped by prudent pressure overlay methodology but many patients definitely can be helped and the amount of money that could be saved is staggering and is in the billions. Epic Corporation is a very good way to capture this growing trend early on although the benefits of surface manipulation has always been acknowledged, it has not as of yet become mainstream thinking. This is a very good time to be investing in this upcoming trend which should be both economical and tremendously beneficial to an industry that currently needs all the help it can get.

### **Business Highlights**

- *Unique product architecture and design superior to competitors with proprietary processes and specific manufacturing processes that are surrounded by intellectual property.*
- *Demographic tailwinds hugely positive for product selection and placement as we have large problems with diabetes, obesity, cardiovascular disease, and chronic neurological disease which will bring about the need for attention to surface tissues.*
- *Uncertain environment has left a lack of commitment by larger players as reimbursement and customer traction has curtailed large investment in any area fraught with proof of concept or defined patient parameters.*
- *Very low valuation of a start up organization with a product in place and the capital to gather enough traction to take some share of a large existing market.*
- *Market size unknowable as the patient population is growing rapidly and the efficacy of such a solution in a large patient population over many modalities is not known.*
- *The cause and effect argument of surface tissue lesions is very straight forward as it is caused by a lack of blood circulation and the company's products have been shown to have positive impact on this.*

### **Company Description and Overview**

RX Healthcare Systems, Ltd., was incorporated as a wholly owned subsidiary on March 29, 2006 by R Tucker & Associates, Inc., a private company, and commenced commercial activities in October 2006. The Company acquired a license to fabricate and distribute an automatic, remote-controlled spraying and misting system from EPIC Corporation.

On August 3, 2007, RX Healthcare Systems qualified a public offering under Regulation A of the Securities Act of 1933, as amended (the "Act"). Since its inception, RX Healthcare Systems has been a development stage company with limited operations.

In September 2009, however, its business purpose was expanded to include the fabrication, marketing, distribution and sales of health care and medical products and services to consumers. At this time RX Healthcare Systems became a consolidated subsidiary of EPIC Corporation when it acquired more than 80% of the company.

RX Healthcare Systems, in November 2010, imported sleep pads made of a unique and complex material from Asia. After a market study, it was determined the importation of these sleep pads was too expensive. The management of RX Healthcare then conducted an extensive search to find a US mill that produced a similar therapeutic spacer fabric.

None could be found until early 2011, when contact was made with Highland Industries, Inc., of North Carolina, a producer of industrial fabrics including spacer fabrics. EPIC Corporation and Highland Industries, Inc., entered into a strategic alliance to develop and produce the EPIC therapeutic spacer fabric.

This fabric is both sold to original equipment manufacturers (OEMs), as well as used to produce several health care products available to consumers and commercial customers.

From the Company's Website: [http://www.epiccor.com/EPIC\\_Corporation\\_About\\_Us\\_La\\_Quinta\\_CA.html](http://www.epiccor.com/EPIC_Corporation_About_Us_La_Quinta_CA.html)

### **Epic Solutions for Real Painful Problems**

#### Pressure Ulcers

"According to Gosnell and VanEtten, approximately 1 million pressure ulcers occur in the United States; however, definitive information on the epidemiology and natural history of this condition is still limited. Unfortunately, studies to date have been encumbered by methodologic issues and variability in describing the lesions.

The incidence in hospitalized patients ranges from 2.7% to 29%, and the prevalence in hospitalized patients is 3.5% to 69%. Patients in critical care units have an increased risk of pressure ulcers, as evidenced by a 33% incidence and 41% prevalence. Elderly patients admitted to acute care hospitals for nonelective orthopedic procedures, such as hip replacement and treatment of long bone fractures, are at even greater risk, with a 66% incidence.

In the nursing home environment, the prevalence of pressure ulcers is in the range of 2.6-24%. The incidence is 25% in residents admitted from an acute care hospital. Patients with preexisting pressure ulcers demonstrate a 26% incidence of additional pressure ulcer formation over a 6-month period. The incidence in chronic care hospitals is reported to be 10.8%, whereas 33% of those admitted to a chronic care hospital have pressure ulcers. Long-term follow-up demonstrates that most ulcers healed within a year.

Persons with spinal cord injury (SCI) and associated comorbidity are also at increased risk. The incidence of pressure ulcers in this population is in the range of 25-66%.

One study of the prevalence of pressure ulcers in community residents with SCI demonstrated that those with higher-level SCI lesions carry a greater risk of developing pressure ulcers than those with lower-level lesions. Of 100 patients with pressure ulcers, 33 had ulcers that were classified as stage 2 or greater. Blacks (n=13) had more severe ulcers than other racial groups in the study. Some authors speculate that detecting erythema can be more difficult with skin that has darker pigmentation. This difficulty can result in undetected grade I pressure ulcers, as prolonged nonblanching erythema is typically an early warning sign of pressure ulcer risk and development.

## Economic impact

### \$18 billion per year in hospitalization cost

In 2011, a market study was performed to estimate the treatment costs and the costs of hospital stays for patients who developed ulcers during hospitalization. These costs were estimated to be as much as \$18 billion a year. In elderly populations and in those who are institutionalized, pressure ulcers are one of the most costly diseases to treat.

These ulcers add an estimated burden of over \$3 billion of expenditures and an additional 4.3 million Medicare hospital days to the United States healthcare system. The cost of treatment is \$2000-\$40,000 per pressure ulcer, depending on the stage of development.

For reconstructive surgery, costs are estimated at \$25,000 per patient. These costs alone, without the cost of human suffering, demonstrate the importance of preventing pressure ulcers and of cost-effective treatment practices.

A 2011 cost-effective analysis study by Pham et al determined that both clinical and economic evidence maintains that pressure redistribution mattresses should be used to prevent pressure ulcers in long-term care patients. In addition, the study found that perineal foam cleansers and dry skin emollients are also economical ways to stop pressure ulcers from developing. Pham et al also concluded in a separate study that pressure redistribution foam mattresses should also be used to help improve elderly patients' health and save hospital expenses in the emergency department." <http://emedicine.medscape.com/article/319284-overview>

## Diabetes

### 74 million Americans (diabetics and pre-diabetics)

The numbers for diabetes are staggering. According to the American Diabetes Association (ADA), there are over 20 million diabetics in this country and 54 million people with pre-diabetes. Of the 20 million diabetics, over 6 million do not know they have the disease. Most diabetics are Type 2 diabetics, meaning they are unable to properly utilize or produce enough insulin. A much smaller group are Type 1 diabetics, which means that they do not produce insulin and are insulin dependent. The medical issues associated with diabetes are well known and include both cardiovascular and vascular complications, nerve disorders, and kidney disorders, among other things. The total annual economic cost of this disease in 2007 was \$174 billion according to the ADA, and with the present diet and obesity issues in the United States, this number will be growing robustly for multiple years to come. As Diabetes cause a lack of circulation coupled with bed time, this brings about ulcers, tissue damage, and chronic wounds. The belief is that with a shift in the environment for those who are bedridden, most notably to those surfaces in direct contact with the skin, that much of the cost associated with severe infections, amputations, and the like, could be mitigated.

According to the lancet on June 27, 2011, 350 million people worldwide have diabetes and further stated that global diabetes rates have doubled from 1980 to 2008. The same study said that 70% of this increase was driven by growth and aging but 30%, as was alluded to above, came from obesity and other risk factor increases.

- **Diabetes is not a new problem and it will continue to be a bigger problem worldwide**

## Prevalence of diabetes



The World Health Organization is one of several organizations that monitor the worldwide patterns in diabetes. Some of the salient points extracted from recent reports on the state of diabetes clearly highlight the life-threatening nature of the disease and its alarming rise in frequency:

- Worldwide 3.2 million diabetes-related deaths are reported annually, a number equivalent to that of HIV/AIDS-related deaths.
- One in every 20 deaths is attributed to diabetes equating to 8,700 deaths per day, or 6 deaths every minute.
- In the age group of 35-64 years, 1 out of 10 deaths are attributed to diabetes, a ratio that increases to 1 out of 4 in certain vulnerable populations.
- Diabetes contributes significantly to premature adult mortality – out of all deaths of diabetic people under the age of 35, three-fourths are attributable directly to the disease.
- Based on 2005 figures, at least 171 million people worldwide have diabetes. This number is expected to double by the year 2030.
- The condition is worse in developing countries, where the number of people afflicted by the disease are expected to increase by 150% by the year 2030.

<http://www.hope4diabetes.info/general-information/diabetes-a-worldwide-epidemic.html>

### **Strategy**

The most important thing for the company is to stay nimble. It is likely that if the company can figure out a very scalable strategy where email, internet website, trade shows, etc., get the message out and establish the value proposition. It appears that the best way to get someone or some company to embrace the product in this space is to get them either into a bed or to show them the medical results from a history of success.

The best direction for the company is to find out what the weaknesses are in particular product classes of the competition and at first take on only those areas where you think you can prevail. The company can figure out which products are not really meeting their customer's expectations and they can choose a product target based on this due diligence. However, if the company feels that it has something technologically innovative that stands "head and shoulders" above the competition, then it can just wield that. That said, with a company of this size, the best route will always be to either show where the company stands out or find out where one of its competitors does not fit the bill. However, with reimbursement codes in flux, it is possible that they could prove medical benefit for pressure sores, diabetic foot ulcers, etc., and get a particular code which is better reimbursed than another. This would be a huge competitive advantage but whether or not this can be achieved remains to be seen.

Although the competition is large, many of these competitors, as stated, are larger with many different types of products and they do not have the ability to stay totally focused on one. This is to Epic's advantage as it is able to keep focused and can make sure that it serves its customers effectively and changes its business model for these niche markets if/when it is needed. This "building process" should generate customer loyalty and "stickiness" that perhaps its much larger competition is not quite capable of doing.

## Marketing and Distribution

There are obviously retail channels including department stores, specialty retailers, online shopping, furniture stores, and various other smaller niche based distribution channels. It seems that for a smaller retailer, with the internet or perhaps larger customers for specialty products (hospitals, nursing homes, diabetic centers, etc.) it very well could be possible to promote and sell medical oriented pads and mattresses. For specialty niche product players, particularly those that are involved in the medical or long term care field which brings about reimbursement, it seems the most important thing would be to have the product become “medically necessary” and thus reimbursable.

Epic will have to have a product that carries the quality, reliability, and price point to supersede those that are competing with them. The best bet here, particularly with the end consumer of medical pads and overlay covers, is to send a message that 1) this will get reimbursed, 2) it is medically effective, and 3) it is appreciated by the consumer. The way to go is for Epic to look into hospitals, nursing homes, and diabetic/cardiovascular centers where there are many incidences of pressure ulcers, diabetic ulcers, and/or circulatory issues. Once the company has this information, I would imagine the most important thing to address is price. This can be done by large volume contacts, establishing a longer term, premium value proposition, squeezing suppliers or all of the above.



## Market Potential

According to a new iData Research Report published in February 2012, the total support surface market “has been valued at nearly \$2 billion in 2011. This figure includes specialty bed systems, therapeutic mattresses, mattress overlays, and bariatric beds. It went on further to state, “Sales of this durable capital equipment suffered as a result of the economic recession of 2008 to 2009, but has since recovered. Changes in Medicare reimbursement, as well as the growing awareness of pressure ulcer prevention and education on the benefits of TSS products, will help drive unit sales, rentals and the average selling price.” For our purposes here, we are considering only the mattress overlay market although we concede that the company may be further expanding into other areas, most notably chair cushions, car seat cushions, etc. Although it is very difficult to assess the overall size of this market as it is still developing and quite fragmented, it is pretty easy to feel this market is several hundred million dollars. As the market becomes more educated into the benefits of the fabric, the pads, and its various uses for different medical maladies, this growth rate could likely accelerate and new markets could likely emerge. We would estimate from the various segments of the market that are serviced by various competitors that a developed market for these medical solutions is well over a billion dollars all by itself and possibly would grow rather robustly as baby boomers move to a more sedentary lifestyle, obesity continues to be a growing problem, and circulatory issues (diabetes, obesity, chronic illness, etc.) start to become more prevalent. Our view is that with even modest market penetration Epic could have very robust sales growth and although the “slice of the pie” is important, we think the size of this “pie” is as of yet unknown and probably will continue to grow for the next decade.

Given the substantial healthcare changes which have occurred and will occur, simplicity should prevail in the healthcare system. Also, there is a very real prophylactic trend happening where prevention will always save more dollars than chronic therapy. Diabetes is currently the number one cause for lower-limb amputations and the belief is that this will continue to be the largest cause.



**Products**

**AcuFAB™ and AcuPAD™**

AcuFAB™ is a knitted fabric and product and the single fabric used in the company's other products. It has a fixed material cost and is produced by a major textile mill with virtually an unlimited production capability. The company has fixed costs associated with a contract sewer for using AcuFAB™ to create The AcuPADs. The company believes that this is scalable, and has no fixed overhead and no freight-in costs. As the AcuFAB™ is the largest single inventory item, the company can carry lower inventory levels. Predominantly, the largest capital outlay for the company will be distribution and marketing. The company is applying for trademark and tradename protection for both AcuFAB™ and AcuPAD™, the spacer fabric, and other products which may be created from it. The unique design and architecture of the AcuFAB™ is quite proprietary and there is intellectual property around the manufacturing of AcuFAB™. AcuFAB™ with its concave and convex channels running parallel to the acupressure meridians make it an alternative medical device. None of the company's competitors can claim this. AcuFAB™ has natural air circulation and ventilation that provides for a more uniform body temperature without the use of an air pump or compressor. The AcuFAB™'s convex channels provide limited pressure points against the body while distributing the weight over a larger area. AcuFAB™ can be used in a broad range of medical, healthcare and consumer products other than mattresses and mattress toppers. AcuFAB™ can be sold as a product to OEM's of medical, healthcare and consumer products.



The EPIC support surface's uniqueness is its design and architecture. The design provides relief from lower back pain and provides a more comfortable night's sleep as a sleep pad; and will aid in the prevention and treatment of pressure sores as a mattress overlay support surface. The common design factor for all regular mattresses, mattress overlays, and those used to treat pressure sores have one basic principle. Those products distribute the body weight over a larger surface and their materials, from which they are constructed, adjust to the body's form thus reducing the pressure on a pressure spot. The EPIC support surface uses the same principle, but with a significant difference. It spreads the body weight over a larger surface but limits the number of body pressure points resting upon alternating convex channels. The convex channels alternate with concave channels that have no pressure on the body or skin, allowing for greater blood circulation; thus allowing the tiny vessels to deliver more oxygen and other nutrients to the tissues underlying the skin. The uniqueness of the EPIC support surface's architecture is its breathable and washable knitted 100% polyester spacer fabric, with all the qualities of yarn made from polyester fibers, which includes a very low absorption rate of moisture. As a breathable fabric with its convex and concave channels, the EPIC support surface allows for natural ventilation which provides a more constant and temperate body temperature and in conjunction with a low absorption rate of 5% or less limits the amount of moisture contacting the skin. [\(Company provided information-EPIC's advantages/Uniqueness\)](#)

## Company Financial Situation

### Balance Sheet

	12/31/2010	12/31/2011
<b>Current Assets</b>		
Cash	\$ 14,780	\$ 17,041
Inventory	\$ 11,039	\$ 5,148
Prepaid Expense	\$ -	\$ 104,100
<b>Total Current Assets</b>	\$ 25,819	\$ 126,289
<b>Other Assets</b>		
Investments	\$ 800,465	\$ 1,025,465
Deferred Tax	\$ 1,040,100	\$ 1,040,100
License	\$ 130,000	\$ 230,000
Equipment	\$ -	\$ 16,312
Organizational Costs-Net	\$ 7,500	\$ -
Convertible Note Receivable	\$ 125,000	\$ 175,000
<b>Total Other Assets</b>	\$ 2,103,065	\$ 2,486,877
<b>Total Assets</b>	\$ 2,128,884	\$ 2,613,166
<b>Current Liabilities</b>		
Accounts payable	\$ 1,814	\$ 97
Accrued interest	\$ 100,000	\$ 132,305
Loans payable	\$ 151,717	\$ 322,202
<b>Total Current Liabilities</b>	\$ 253,531	\$ 454,604
<b>Long Term Liabilities</b>		
Loans payable-Convertible Notes	\$ 600,000	\$ 785,000
<b>Total Liabilities</b>	\$ 853,531	\$ 1,239,604
<b>Shareholders Equity</b>		
Preferred Stock	\$ -	\$ -
Common Stock	\$ 102,974	\$ 127,974
Additional Paid In Capital	\$ 7,248,397	\$ 7,473,397
Accumulated Deficit	\$ (5,906,163)	\$ (6,177,165)
Net Income (loss)	\$ (169,854)	\$ (50,643)
<b>Total Shareholders Equity</b>	\$ 1,275,354	\$ 1,373,563
<b>Total Liabilities and Stockholders Equity</b>	\$ 2,128,885	\$ 2,613,167

<b>Income Statement</b>		
	12/31/2010	12/31/2011
<b>Revenues</b>		
Consulting Income	\$ -	\$ -
Royalty Income	\$ -	\$ 1,713
<b>Total Revenues</b>	\$ -	\$ 1,713
<b>Expenses</b>		
Advertising	\$ -	\$ 2,208
Consulting Services	\$ 50,000	\$ 21,500
Dues & Subscriptions	\$ 1,065	\$ -
Insurance	\$ 199	\$ 502
Miscellaneous	\$ 2,841	\$ 2,255
Organization	\$ 2,500	\$ -
Outside Services	\$ 7,376	\$ 3,957
Travel and entertainment	\$ 3,153	\$ 2,086
Utilities	\$ 2,721	\$ 368
<b>Total Expenses</b>	\$ 69,855	\$ 32,876
<b>Total Operating Profit (Loss)</b>	\$ (69,855)	\$ (31,163)
<b>Other Income/Expenses</b>		
Interest Expense	\$ 100,000	\$ 19,480
Research and Development	\$ -	\$ -
Gain on equity sale	0	0
<b>Total Other income/expenses</b>	\$ (100,000)	\$ (19,480)
<b>Net profit/loss</b>	\$ (169,855)	\$ (50,643)

Epic has plenty of balance sheet to get them to where they need to go assuming they can capture a solid chunk of niche customers and drive operations in the short term. We would expect partnerships with either distributors, sales organizations, or end customers that will embolden these financials and allow for the company to expand on its existing capital structure. We assume that the company will continue on its current operational trajectory, this company could operate comfortably at least through the end of 2013 all else remaining equal.

## **Competition**

Some of the larger competitors in the overlay and “positioner” market are Joerns Healthcare and Covidien who both play in this space. Competitors in the “therapeutic support surfaces” market are Hill-Rom Holdings, Kinetic Concepts, Inc, Invacare Corporation, Direct Supply, Inc. and Medline Industries. [\(SPAN, 10-K 2011\)](#)

In a general sense, competition is quite fierce however, competition is quite fragmented as there are few larger players that provide bedding overlay and pads alone. Most of the competitors, particularly those that are larger, multiproduct and multinational companies are involved in many other areas of non-acute care, hospital supply, and “bed surface” management. It is this very fragmentation that allows for opportunity for smaller, nimble players who have shown their products are effective at handling the chronic sedentary patient who would be more prone to tissue problems.

Most smaller companies, Epic included, hope to edge them out with customer service, niche targeted audiences, cutting edge product placement, and Taylor made customer solutions. As we are still at a place where there is uncertainty as to the long term efficacy of such solutions or more specifically, which overlay or managed pressure surface truly is the best, there is opportunity. As it is likely that performance will be similar, the advantages of price, durability, delivery, versatility, etc., will really kick in and be more important than normal.

As most of these competitors have many different product lines and many of those product lines are much higher margin than the overlay pad business, it is likely that they will pay attention less to this product line than their other premium lines. This is ripe to be taken advantage of for the company as they can make moves into these areas when seemingly their competitors are concentrating elsewhere. As long term back pain, orthopedic issues, ulcers (pressure, diabetic, etc.), and various other medical problems that kick in will bring about a need to address them, seeking out smaller more focused clinics, hospitals, and medical facilities which are not adequately supplied, should be the name of the game. The uniqueness of the AcuPAD™ compared to other such solutions should pave the way for the company's existing and future products and allow for adequate penetration for the company to grow at a reasonable rate.

## Public Comps And Various Historical Valuation Parameters

(Kinetics Acquired By Multiple Acquirers 11/07/2011)

### Span-America Medical Systems

Span-America Medical Systems, Inc. manufactures and distributes a variety of polyurethane foam products for the medical, consumer and industrial markets. The Company's products include replacement mattresses, mattress overlays, patient positioners, seating cushions and skin care products for the medical market, and pillows, mattress pads and various foam products.

	CQ4 2009	CQ1 2010	CQ2 2010	CQ3 2010	CQ4 2010	CQ1 2011	CQ2 2011	CQ3 2011	CQ4 2011	CQ1 2012	5 Qtr	8 Qtr	11 Qtr	16 Qtr	Average
	Restated	Restated	Restated	Restated	Original	Original	Original	Original	Preliminary	Preliminary	Avg	Avg	Avg	Avg	
PE High	10.23	10.45	10.98	10.48	9.74	11.31	11.31	11.21	11.54	11.80	11.02	10.88	10.29	9.33	10.38
PE Low	7.71	8.95	8.74	7.65	8.67	9.70	10.31	9.28	9.62	9.77	9.52	9.12	8.44	7.45	8.63
PE	9.48	10.22	10.05	8.99	10.27	11.31	10.71	10.52	9.93	9.77	10.55	10.25	9.65	8.57	9.75
Price/Book High	2.26	2.33	2.45	2.46	2.00	2.02	1.89	1.86	1.73	1.86	1.90	2.09	2.05	2.09	2.03
Price/Book Low	1.71	1.99	1.93	1.77	1.78	1.76	1.72	1.54	1.51	1.54	1.66	1.75	1.68	1.65	1.69
Price Book	2.11	2.26	2.35	1.84	1.87	1.89	1.78	1.58	1.57	1.70	1.74	1.89	1.86	1.82	1.83
Price/Sales High	0.84	0.93	1.00	0.93	0.81	0.85	0.82	0.83	0.79	0.77	0.82	0.87	0.82	0.75	0.81
Price/Sales Low	0.63	0.78	0.80	0.68	0.72	0.74	0.75	0.68	0.63	0.64	0.70	0.72	0.67	0.59	0.67
Price/Sales	0.83	0.93	0.89	0.75	0.78	0.82	0.79	0.72	0.65	0.68	0.75	0.79	0.76	0.68	0.75
Price/Cash Flow High	6.88	7.29	9.02	10.57	11.28	17.20	10.76	10.31	13.89	20.32	12.69	11.29	9.98	8.87	10.71
Price/Cash Flow Low	5.19	5.95	6.24	6.58	10.04	10.45	9.73	8.54	7.38	7.49	9.23	8.11	7.24	6.43	7.75
Price/Cash Flow	6.30	7.29	8.65	10.41	15.93	10.76	9.86	12.67	7.62	20.31	11.37	10.40	9.07	7.93	9.69
Price/EBITDA High	6.08	6.23	6.57	6.29	5.62	6.42	6.41	6.38	6.63	6.83	6.29	6.32	5.98	5.40	6.00
Price/EBITDA Low	4.58	5.34	5.23	4.59	5.00	5.54	5.85	5.28	5.57	5.66	5.45	5.30	4.91	4.31	4.99
Price/EBITDA	5.65	6.12	6.02	5.18	5.36	6.42	6.10	5.56	5.75	5.71	5.84	5.82	5.52	4.90	5.52

### Invacare Corp

Invacare Corporation manufactures and distributes health care products to the non-acute care market on a worldwide basis. The Company distributes its products to home care, mass retail, and institutional customers. Invacare provides items such as respiratory products, home care beds, diabetic supplies, nursing home furniture, and manual and powered wheelchairs.

	CQ4 2009	CQ1 2010	CQ2 2010	CQ3 2010	CQ4 2010	CQ1 2011	CQ2 2011	CQ3 2011	CQ4 2011	CQ1 2012	5 Qtr	8 Qtr	11 Qtr	16 Qtr	Average
	Restated	Restated	Restated	Restated	Original	Original	Original	Original	Preliminary	Preliminary	Avg	Avg	Avg	Avg	
PE High	19.04	19.06	16.75	16.17	19.49	19.87	19.01	16.84	12.26	11.96	17.49	17.43	17.38	20.56	18.22
PE Low	15.18	15.16	12.48	11.80	14.84	17.26	16.08	10.96	6.99	9.51	13.22	13.20	13.22	15.07	13.68
PE	15.69	15.99	12.49	14.98	19.21	17.48	16.19	11.08	9.50	11.05	14.69	14.61	14.75	16.57	15.16
Price/Book High	1.29	1.48	1.38	1.48	1.62	1.66	1.59	1.57	1.17	1.07	1.52	1.49	1.42	1.40	1.46
Price/Book Low	1.03	1.17	1.03	1.08	1.34	1.45	1.45	1.02	0.67	0.85	1.19	1.15	1.09	1.05	1.12
Price Book	1.21	1.32	1.14	1.35	1.60	1.47	1.51	1.06	0.85	0.88	1.30	1.29	1.23	1.20	1.25
Price/Sales High	0.50	0.57	0.53	0.50	0.58	0.59	0.63	0.62	0.45	0.34	0.57	0.56	0.52	0.50	0.54
Price/Sales Low	0.40	0.46	0.39	0.37	0.49	0.52	0.57	0.41	0.26	0.27	0.45	0.43	0.40	0.38	0.42
Price/Sales	0.47	0.50	0.39	0.50	0.57	0.58	0.60	0.41	0.27	0.29	0.48	0.48	0.46	0.43	0.46
Price/Cash Flow High	5.72	6.23	5.29	5.98	8.11	8.35	10.24	10.60	7.17	6.20	8.89	7.75	7.30	8.31	8.06
Price/Cash Flow Low	4.56	4.96	3.90	3.69	5.87	7.27	8.27	6.46	4.09	4.93	6.39	5.56	5.30	5.80	5.76
Price/Cash Flow	5.13	5.04	3.91	5.93	8.00	8.34	10.19	6.48	4.92	5.92	7.58	6.60	6.14	6.80	6.78
Price/EBITDA High	6.33	7.23	6.60	6.34	7.35	7.49	8.06	8.18	6.18	4.60	7.45	7.18	6.72	6.33	6.92
Price/EBITDA Low	5.05	5.75	4.90	4.63	6.16	6.58	7.35	5.32	3.52	3.66	5.79	5.53	5.17	4.73	5.30
Price/EBITDA	5.95	6.30	4.90	6.22	7.24	7.41	7.87	5.58	3.66	4.10	6.35	6.15	5.89	5.42	5.95

### Kinetic Concepts Inc.

Kinetic Concepts Inc. designs, manufactures, markets, and services products related to wounds and wound healing, and for the prevention of complications associated with patient immobility. The Company's products include therapeutic hospital beds, wound care, and tissue regeneration technology for the treatment of traumatic wounds, pressure ulcers, chronic wounds, and diabetic ulcers.

	CQ4 2009	CQ1 2010	CQ2 2010	CQ3 2010	CQ4 2010	CQ1 2011	CQ2 2011	CQ3 2011	CQ4 2011	CQ1 2012	5 Qtr	8 Qtr	11 Qtr	16 Qtr	Average
	Restated	Restated	Restated	Restated	Original	Original	Original	Original	Preliminary	Preliminary	Avg	Avg	Avg	Avg	
PE High	10.61	13.91	13.44	10.27	11.49	14.67	15.23	16.54	15.86	#N/A N/A	14.76	13.93	12.84	12.58	13.53
PE Low	8.87	9.89	9.92	8.65	9.29	11.31	13.63	13.87	14.88	#N/A N/A	12.59	11.43	10.31	9.67	11.00
PE	9.88	12.78	9.92	9.86	11.35	13.88	13.85	15.25	15.85	#N/A N/A	14.04	12.84	11.84	10.95	12.42
Price/Book High	2.55	3.21	2.89	2.07	2.17	2.63	2.73	2.96	2.81	#N/A N/A	2.66	2.68	2.62	3.02	2.75
Price/Book Low	2.13	2.28	2.00	1.75	1.77	2.03	2.45	2.48	2.63	#N/A N/A	2.27	2.17	2.07	2.25	2.19
Price Book	2.28	2.75	2.00	1.88	2.03	2.49	2.48	2.70	2.80	#N/A N/A	2.50	2.39	2.34	2.47	2.42
Price/Sales High	1.41	1.87	1.76	1.32	1.49	1.90	2.09	2.39	2.36	#N/A N/A	2.05	1.90	1.73	1.73	1.85
Price/Sales Low	1.18	1.33	1.28	1.11	1.21	1.47	1.87	2.00	2.22	#N/A N/A	1.75	1.56	1.39	1.33	1.51
Price/Sales	1.32	1.67	1.28	1.28	1.47	1.90	2.00	2.27	2.36	#N/A N/A	2.00	1.78	1.63	1.51	1.73
Price/Cash Flow High	6.95	9.60	8.43	7.51	8.57	10.88	9.84	10.88	9.06	#N/A N/A	9.85	9.35	8.44	8.30	8.98
Price/Cash Flow Low	5.39	6.82	6.26	6.14	6.99	8.39	8.81	8.72	8.50	#N/A N/A	8.28	7.58	6.67	6.25	7.20
Price/Cash Flow	6.82	8.02	7.05	7.42	8.42	8.97	9.11	8.72	9.06	#N/A N/A	8.86	8.34	7.62	7.06	7.97
Price/EBITDA High	4.79	6.10	5.68	4.35	4.91	6.27	6.84	7.64	7.42	#N/A N/A	6.62	6.15	5.71	5.90	6.10
Price/EBITDA Low	4.00	4.34	4.20	3.67	3.94	4.83	6.12	6.40	6.96	#N/A N/A	5.65	5.06	4.59	4.50	4.95
Price/EBITDA	4.33	5.40	4.20	4.18	4.85	6.24	6.40	7.14	7.42	#N/A N/A	6.41	5.73	5.28	5.10	5.63

## Comp Historical Margins and Operating Metrics

<b>Ticker</b>	<b>span</b>
<b>Name</b>	SPAN-AMERICA MEDICAL SYS INC
<b>Last Stock Price</b>	17.41
<b>Market Capitalization</b>	50,824
<b>Enterprise Value</b>	52,976

Last Quarter		Averages			
		4 Qtr	8 Qtr	12 Qtr	15 Qtr
% of Sales					
Gross Profit	<b>33.41%</b>	31.80%	33.54%	34.94%	35.00%
Research And Development	<b>1.52%</b>	1.17%	1.31%	1.50%	1.45%
SG&A Net R&D	<b>19.00%</b>	20.16%	21.42%	21.67%	21.80%
Operating Income	<b>12.88%</b>	10.47%	10.81%	11.76%	11.75%
EBITDA	<b>14.55%</b>	11.91%	12.30%	13.27%	13.25%
Pretax Income	<b>12.83%</b>	10.46%	10.84%	11.81%	11.79%
Net Income	<b>8.72%</b>	7.08%	7.25%	7.96%	7.91%
Operating Expenses	<b>20.53%</b>	21.33%	22.72%	23.18%	23.25%

<b>Ticker</b>	<b>ivc</b>
<b>Name</b>	INVACARE CORP
<b>Last Stock Price</b>	14.44
<b>Market Capitalization</b>	459,480
<b>Enterprise Value</b>	694,459

Last Quarter		Averages			
		4 Qtr	8 Qtr	12 Qtr	15 Qtr
% of Sales					
Gross Profit	<b>27.58%</b>	28.50%	28.97%	29.18%	28.92%
Research And Development	<b>0.00%</b>	NA	NA	NA	NA
SG&A Net R&D	<b>24.92%</b>	NA	NA	NA	NA
Operating Income	<b>2.66%</b>	4.90%	5.28%	5.37%	5.37%
EBITDA	<b>4.88%</b>	7.10%	7.43%	7.59%	7.62%
Pretax Income	<b>2.39%</b>	0.32%	1.38%	1.85%	2.07%
Net Income	<b>1.90%</b>	-0.20%	0.75%	1.30%	1.49%
Operating Expenses	<b>24.92%</b>	23.60%	23.69%	23.80%	23.54%

## Reimbursement

Medicare covers “durable medical equipment” and both hospital beds and air fluidized beds both fall under this definition. “Generally, you pay 20% of the Medicare-approved amount after you pay your Medicare Part B deductible for the year (\$135 in 2009). Medicare pays the other 80%. The Medicare-approved amount is the lower of the actual charge for the item or the fee Medicare sets for the item. However, the amount you pay may vary because Medicare pays for different kinds of durable medical equipment in different ways. (Centers For Medicare and Medicaid Services, Revised Dec 2008) . There was also a revision in late 2010 which applied particularly to three groups as categorized. It stated, “Coverage for all three groups continues until the patient’s pressure ulcer is healed.”

“**Group 1** – A group one support surface is covered if the patient is completely immobile. Otherwise, he or she must be partially immobile or have any stage pressure ulcer and demonstrate one of the following conditions: impaired nutritional status, incontinence, altered sensory perception or compromised circulatory status. A physician order must be obtained prior to delivery of the equipment and should be kept on file by the supplier.” ([www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf](http://www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf).)

“**Group 2** – A group two support surface is covered if the patient has a stage II pressure sore located on the trunk or pelvis, has been on a comprehensive pressure sore treatment program (which has included the use of an appropriate group one support surface for at least one month) and has sores which have worsened or remained the same over the past month. A group two support surface is also covered if the patient has large or multiple stage III or IV pressure sores on the trunk or pelvis or if he or she has had a recent mycutaneous flap or skin graft for a pressure sore on the trunk or pelvis and has been on a group two or three support surface.” ([www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf](http://www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf).)

“**Group 3** – A group three support surface is covered if the patient has a stage III or stage IV pressure ulcer is bedridden or chair-bound would be institutionalized without the use of the group three support surface, the patient is under the close supervision of the patient’s treating physician, at least one month of conservative treatment has been administered (including the use of a group two support surface), a caregiver is available and willing to assist with patient care and all other alternative equipment has been considered and ruled out.” ([www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf](http://www.oig.hhs.gov/oei/reports/oei-02-07-00420.pdf).)

The above also carries some pretty demanding documentation which must be provided by the supplier and the physician with the patient’s medical background. The title of the above document was **“Medicare Policy Regarding Pressure Reducing Support Surfaces”**.

## **Discussion**

In these uncertain times, it is best to be looking for those situations which offer a very favorable risk/reward profile. The best place to be with respect to all these uncertain variables is with those technologies that offer a large patient population, a defined medical need, and a disposable solution which will continually carry demand.

The best places then for investment dollars are those places with large patient populations, large economic problems, and the chronic need for use which will drive unit volumes. Epic Corporation's fabric and pads capture all three of these important check points and should for quite some time. It is a perfect time to try and gather customers when large, financially adept companies with massive resources are off balance. This window of opportunity should be open for the next several quarters as we have an administration change, healthcare reform certainty, and continual problems both overseas and domestically. Although it is quite possible that acute care becomes a segment the company goes after, more than likely most of their solutions will be for those people who have been chronically ill and need a consistent solution to maintain proper blood flow.

No matter what way you look at it, the market is growing as the problem is growing. Generally once one of these pressure ulcers, diabetic foot ulcers, or other surface tissue issues has come about, it is many times too late as these patients are quite ill, have compromised immune systems, or perhaps are having clotting problems. As the company begins to gather both cash and credibility from selling its products in niche markets, they can expand the marketing effort into their other product lines and diversify their product offering. Epic could become a solid and dependable manufacturer and supplier of its AcuFAB™ and AcuPAD™ products.

## **Conclusion**

Epic Corporation has a proprietary and patent protected manufacturing process for a fabric solution which offers great advantages to the surface tissue in contact with it. In a world where we have major problems with sedentary lifestyles, poor eating habits, and healthcare issues, these solutions may be the answer for patients everywhere. What is most intriguing is that these products have some technological barriers to entry yet do not have to go through the rigorous FDA approval process. With some very reasonable hurdles, the company can get reimbursement for its products as the economic problem is very real and very large.

This company is a very good way to play a global trend when the sentiment around such opportunities is at its lowest. The most compelling thing about this opportunity is its very low valuation, limited operational burn rate and its proprietary processes. Further, the market overall is growing rapidly, and the overall demographic trend is fully intact.

Finally, this company is a very good place to be if in fact the trend of pressure alleviation catches on in a very real way and transcends the existing products the company is currently involved with. There may be a large segment for custom business in several areas which have up until now not been looked at. This is a call option for the company as there are many areas such as gloves, footwear, hospital gowns, etc., where these products may very well be applicable and this is where it really gets interesting.

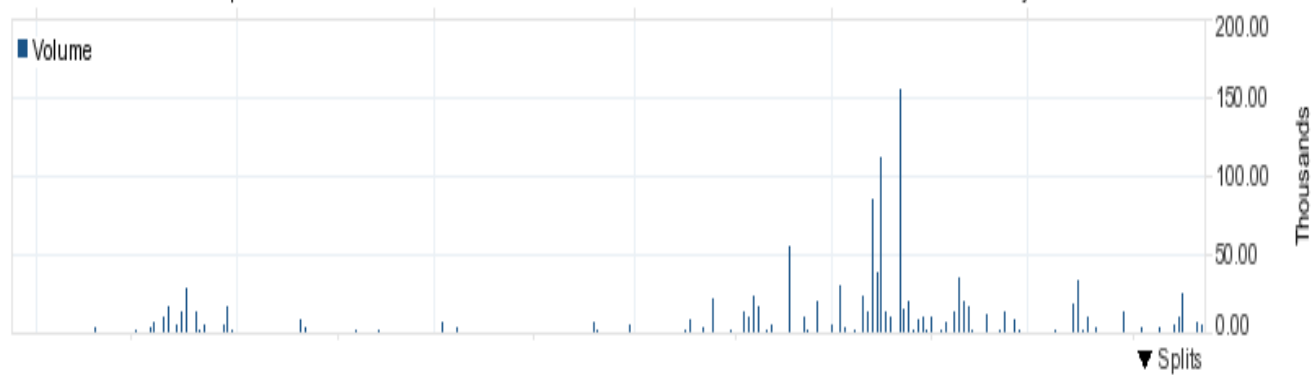


**EPIC Corp Stock Chart**

**EPIC CORP NEW**

■ EPOR

Jun 22, 2012



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