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DOBI Medical International

OTC-BB: DBMI - \$0.46

www.dobimedical.com

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Recent Results/EPS Forecast

Continued Progress towards Commercialization in 2006

Current Data		EPS		P/E
Fiscal Year End	Dec	2003	\$ (0.26)	n/a
Current Price	\$ 0.46	2004	\$ (0.21)	n/a
52-Week Range	2.75-0.41	2005e	\$ (0.17)	n/a
Shares Out (Mill)	65.3	Valuation		LTM
Ave Volume (3 mos)	92,758	P/E (FY04)	n/a	n/a
Market Cap. (Mill)	\$ 65.72	P/B (LTM)	6.86	
LTD/Total Capital	n/a	Price/Sales (LTM)	n/a	n/a
Institutional Hldngs	0.0%	Operating Data		LTM
Insider Holdings	37.9%	Sales Growth	n/a	n/a
Book Value	\$ 0.07	Operating Margin	n/a	n/a
10Yr Bond	4.06%	Net Inc. Growth	n/a	n/a



Chart courtesy of Bigcharts.com

Key Investment Points

- DBMI's breast cancer diagnostic system has innovative technological advantages vs. competitors.
- In final phase of FDA submission process, Company could start marketing ComfortScan in the US sometime in late 2006.
- Continued investment in FDA testing, R&D, and marketing resulted in a net loss of \$7.01 million in FY04 vs. an operating loss of \$5.15 million in FY03.
- March 2005 private placement raised \$10.5 million (gross).
- Strong Balance Sheet: No debt and cash of \$10.25 million at March 2005.
- Management team is deep and experienced.
- Initial EPS forecast for 2006 is a net loss per share of \$0.17.

Company Description

DOBI Medical is a development stage medical imaging company working to create a new means for the improved diagnosis of cancer through the visualization of abnormal vascularization ("angiogenesis") associated with tumors by using dynamic optical breast imaging ("DOBI"). DOBI Medical International's first application of the technology is the ComfortScan system, a gentle, non-invasive, and non-ionizing, optical imaging system designed to assist physicians in the diagnosis and management of breast cancer. The ComfortScan system is intended to achieve this by providing new, physiology-based imagery of abnormal vascularization in the breast which are not readily available today. The ComfortScan system is an investigational device and is not commercially available in the United States.

Note: Please read the important disclosures at the end of this report.

The Bottom Line

DOBI Medical International, Inc. ("DBMI") developed an innovative way to help the physician diagnose breast cancer and is in the final stages of FDA submission and approval to market the technology in the US. If the FDA accepts DBMI's results, the ComfortScan™ system could be sold as an adjunct to mammography in the US in late 2006.

DBMI's ComfortScan system has three main competitive advantages:

- It provides more information for potentially more effective diagnosis of cancer and would be used in conjunction with mammograms for more accurate cancer diagnosis.
- Can be used on younger women because dense breast tissue does not impede scans.
- The exams are quick, non-invasive, radiation-free and gentler than mammograms.

This is, however, a development stage company, with the inherent risk/reward profile. Investors are urged to read the Company's SEC filings (at www.sec.gov or www.dobimedical.com) in order to understand these risks

1Q05 Results

DBMI reported a net loss applicable to shareholders of \$0.05 for 1Q05 versus a net loss of \$0.03 for 1Q04. While the Company posted sales of \$62,414 (versus \$0 in 1Q04), operating expenses increased to almost \$1.9 million compared to \$1.3 million in 1Q04. The 2005 burn rate appears to be on track with the Company's guidance of spending \$10.2 million in 2005 to finance product development, FDA testing, and the growth of its sales channels (see discussion of FY04, below). Table 1 summarizes 1Q05 results.

Table 1

Quarter Comparison (\$000, except per share)	3/04	3/05	Change
Revenues	-	62.4	
Cost of Goods Sold	-	245.5	
Gross Profit	-	(183.1)	
SG&A	1,315.1	1,889.0	44%
Operating Income	(1,315.1)	(2,072.1)	-58%
Interest Expense/ (Inc.)	(1.8)	(2.1)	-15%
PreTax Income	(1,313.3)	(2,070.0)	-58%
Income Taxes (benefit)	-	-	
Net Income	(1,313.3)	(2,070.0)	-58%
Deemed pref dividend	0	-36.9	
Prf Stock Div	0	-93.2	na
Net Inc./ (Loss) available to Common Stock	(1,313.3)	(2,200.1)	-68%
EPS-Diluted	\$ (0.03)	\$ (0.05)	101.5%
Weighted Ave. Diluted Shares (000)	37,539	44,308	

2004 Results

During 2004, DBMI made continued progress toward commercializing its technology. Some of the milestones achieved during the year were:

- Renewed CE mark.
- Established production-level manufacturing facility.
- Received FDA Export certificate.
- Finalized several international distribution agreements.
- Sold and shipped 12 revenue-producing ComfortScan™ investigational units to international markets for clinical regulatory and marketing studies.
- Commenced data collection for PMA clinical trial.

The Company recorded its first revenues but operating losses increased as DBMI geared up for its next growth phase. As shown in Table 2, Revenues were \$321,000 while the net loss increased to \$7,010 from a net loss of \$5,151 in 2003. Operating expenses increased as follows:

- Research & Development Expenses increased 70% as the result of continued testing and development of the ComfortScan system.
- Clinical Program Expenses increased \$628,000 (209%) as more employees were hired to manage the PMA clinical trials.
- Sales & Marketing Expenses increased almost \$1.5 million (356%) as DBMI added sales staff, developed a corporate awareness plan, and marketing tools.
- Interest expense declined relative to 2003 as the Series 1 and Series 2 Convertible Promissory Notes were converted into common stock.

Table 2

Annual Operating Results		
(000s)	2003	2004
Revenues	0.0	321.3
Cost of Goods Sold	0.0	383.8
Gross Profit	0.0	(62.6)
R&D	1,154.2	1,957.3
G&A	1,470.2	2,147.2
Clinical prog exp	300.5	928.5
Sales & Mrktg	420.6	1,918.8
Other Op. exp.	0.0	0.0
Operating Income	(3,345.6)	(7,014.4)
Int Expense-Net (Inc)	1,805.8	(3.9)
PreTax Income	(5,151.4)	(7,010.4)
Income Taxes	0.0	0.0
Net Income	(5,151.4)	(7,010.4)
Deemed preferred div*	0.0	(805.4)
Preferred Stock Div*	0.0	(206.5)
Net Income for common	(5,151.4)	(8,022.3)
*Dividends are paid in stock.		
EPS-Diluted	(\$0.26)	(\$0.21)
Dil Shares	19,982.0	37,924.0

Financial Condition

DBMI had cash on hand of \$2.4 million at FYE04 and no debt. In March 2005, the Company raised gross proceeds of \$10.5 million (\$9.665 million net of fees) via a private placement of 21 million shares and warrants to purchase 10.5 million common shares. It appears that these funds could be sufficient to fund operations through the current year, based upon the operating and PMA expenses noted in DBMI's 10-K (see Outlook, below, for more details).

Outlook

Our initial estimate of 2005 EPS is a net loss of \$0.17 per share (see Table 3) and is based upon the following assumptions:

- Successful PMA trial, but no commercial sales until 2006.
- Continued sales of low-margin demo units in 2006 as the Company builds its distribution network.
- Selling 20 systems (via international distribution).
- Operating expenses of \$7.2 million (guidance provided by the Company).
- PMA related expenses of \$3.0 million (guidance provided by the Company).
- Average outstanding shares of 58.4 million (no additional shares after March 2005 placement).

A major risk to our forecast is further dilution. A delay in receiving FDA approval for commercial sales, or higher than expected operating costs, could result in the need to sell additional shares, which would result in dilution to current shareholders.

Table 3

Earnings Forecast			
(\$000, except per share)	2003	2004	2005e
Revenues	0.0	321.3	400.0
Cost of Goods Sold	0.0	383.8	600.0
Gross Profit	0.0	-62.6	-200.0
R&D	1,154.2	1,957.3	2,000.0
G&A	1,470.2	2,147.2	2,400.0
Clinical prog exp	300.5	928.5	3,000.0
Sales & Mrktg	420.6	1,918.8	2,000.0
Other Op. exp.	0.0	0.0	0.0
Operating Income	-3,345.6	-7,014.4	-9,600.0
Int Expense-Net (Inc)	1,805.8	-3.9	0.0
PreTax Income	-5,151.4	-7,010.4	-9,600.0
Income Taxes	0.0	0.0	0.0
Net Income	-5,151.4	-7,010.4	-9,600.0
Deemed preferred div*	0.0	-805.4	0.0
Preferred Stock Div*	0.0	-206.5	-412.9
Net Income	-5,151.4	-8,022.3	-10,012.9
*Dividends are paid in stock.			
EPS-Diluted (as reported)	\$ (0.26)	\$ (0.21)	\$ (0.17)
Diluted Shares	19,982.0	37,924.0	58,424.5

Risk Considerations

The following is a brief list of some key investment risks. Investors are encouraged to read the full risk disclosures in the Company's SEC filings.

Business Risk

This is a development-stage company, with no material revenues as of the date of this report. The Company's auditors have placed a "going concern" qualification on the financial statements.

Dilution Risk

In order to finance operations, the Company may need to issue stock, which will dilute current shareholders. The Series A Preferred shares have an anti-dilution clause that will be triggered if the company offers stock at a price lower than \$1.31. The shares offered in the March 2005 Private Placement have an anti-dilution clause that will be triggered if the company offers stock below \$0.50. This clause expires in 2006.

Liquidity Risk

Because the shares are thinly traded, the price of the stock can fluctuate violently.

FDA Risk

Failure to successfully complete the final phase of FDA testing and obtain FDA approval will have a material adverse impact on our expectations and could raise concerns about the ability of the company to remain a going concern.

Reimbursement Rate Risk

In order to be widely used, DBMI's treatment must be reimbursable by Medicare, Medicaid, and private third-party insurers. This requires that the Company obtain a Current Procedural Terminology Code ("CPT Code") from insurance providers by proving the treatment's efficacy and cost effectiveness relative to other treatments. This process usually starts after receiving FDA approval. There is no guarantee that a CPT Code will be granted even if FDA approval is received.

Technology Risk

The company's technology may not be as effective as currently expected, or a competing technology proves to be more effective.

FULL DISCLOSURE (In plain English)

- We have been paid a \$5,000 cash-only fee by the subject company for the initial report and a \$2,000 cash-only fee for the preparation of this report. We do not accept any form of equity as payment nor a "performance bonus."
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(Legalese)

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