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2012 Stock Picks And Market Outlook:

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Expect Micro Caps To Grow 13% In 2012 Backed By Solid Corporate Profits And A Healthy M&A Market, Led By Healthcare, In Our View

- ❑ **Corporate profits are at an all time high and we expect this momentum to continue through 2012, albeit slower.** Over 95% of S&P 500 companies have reported 3Q:11 earnings, which are up nearly 16% year over year, versus 30% in 2010. We expect profits to hover at 10% growth year over year for 2012, hindered by shrinking margins due to a strengthening dollar. In an environment where consumers are driven by costs, companies will not be able to pass increased costs on to the consumer, thus limiting the bottom line. However, revenue will continue to drive profits as the US economy continues to grow through 2012.
- ❑ **The US economy will continue to grow through 2012, as international markets stabilize.** Real GDP growth will come in slightly less than 3% for 2011 and we expect almost 4% growth for 2012, mostly in 1H:12. As the US economy continues to grow, we expect to see an uptick in the job market. Consumer spending will aid in economic growth, with retail sales currently up nearly 5% from the pre-recession peak. As for the Euro zone crisis, we would expect those nations with battered economies to pullout of the euro. Countries with more robust economies, would remain intact, leaving a smaller Euro zone. Global companies have taken measures against currency fluctuation, however some consumer and durable manufacturers that recognize substantial revenue from the European market would experience significant top-line declines as demand declines. Thus, in Europe we expect to see little if any, economic growth, however we model 6.5% and 3.5% in Asia and Latin America, respectively. We expect Japan's rebuilding to help support the global economy and we expect US monetary policy to remain lax through 2012, keeping interest rates low. We contend that banks are backed with plenty of loanable funds and think that the credit market will ease at an increasing rate through 2012.
- ❑ **We contend that stocks will remain relatively undervalued through 2H:12.** The S&P has an average historical P/E ratio of 15x. Currently, the index is trading at less than 12x 2012 earnings, which signals value. We also see similar ratios in the Russell 2000. The P/E ratio of the Russell 2000 index is slightly above 38x for the trailing 12 months ending on 12/23/11 versus 78x, a year prior. In summary, low market multiples will give way to a market where we see multiples increase. Stocks, such as discount retailers able to leverage the strengthening dollar through imports, will outperform in 2012 along with stocks that have been historically consistent in dividend payouts and buybacks.

- **We expect high M&A activity in the micro and small cap sector in 2012.** Many stocks are trading at attractive valuations and companies have accumulated undeployed cash positions over the last couple years. We think managements will look to the M&A market to enhance business growth in 2012. Since we expect small caps to continue to remain undervalued through 2012, management teams will seek acquisitions to offset slower organic growth. Until now, managements have been reluctant to proceed with deals due to macroeconomic uncertainty, as well as stock market volatility experienced in 2011. As clarity increases with regards to the ongoing Euro zone crisis and greater visibility on the macroeconomic front, we contend that levels of M&A activity to be that of those in 2004.

On The Radar For 2012

AMI has chosen five of our favorite stock names in the micro cap sector, which offer the most promise for growth in 2012, in our opinion. We have factored a host of analysis for our 2012 stock picks, including financial strength, growth catalysts, valuation and management style. Many of our choices are undervalued relative to their peers comparing a variety of metrics such as p/e, p/s, ev/ebitda, etc. Some stock picks have returned to our list from last year as we continue to expect strong stock appreciation.

BIOTECHNOLOGY PLAY

NeoGenomics Inc (NGNM)

Market Cap (Mil)	\$61.4
Current Stock Price	\$1.42
52 Week Range	\$0.96-1.84
Avg. Daily Trading Volume	22.7K
Float Shares	22M
Insider Holding	49%
Lt Debt-to-Total Capital	Nil
Cash Per Share	\$0.06
Book Value	\$0.13
Price/Sales	1.56

NeoGenomics Inc. is a network of three clinical laboratories formed in 2001 and headquartered in Fort Meyers, FL. NGNM concentrates on cancer diagnostics and prognosis by providing complex testing services to oncologists and pathologists. NGNM's testing services are performed using bone marrow, urine and solid tumor samples. NGNM primarily employs four different genetic test methods; Cytogenetics testing, Flow Cytometry testing, Fluorescence In Situ Hybridization (FISH) testing,

and Molecular testing. Pathologists have the option of receiving a comprehensive report, which includes an in-house pathologist's interpretation of the test results or a technical report without the interpretation. The tech-only option allows community pathologists to retain the professional interpretation portion of the revenue stream and compete with large lab competitors, as results are turned around very quickly. This strategy gives NGNM an advantage, as many of its competitors only offer the comprehensive reporting model.

Growth Catalysts

In 3Q:11, NGNM posted the largest year over year and sequential increases in quarterly revenue in its history. Management expressed particular satisfaction with the \$850,000 or 8% sequential growth in revenue in 3Q:11 versus 2Q:11 noting that normal seasonal reductions were offset by strong organic growth.

NGNM has continued increases in new client growth with additional work coming from existing clients. It attributed this to customer service, launch of new products and services and extensive training and development programs that have enhanced the effectiveness of its sales and marketing teams.

NGNM will open a small lab facility in Tampa, FL to attract additional lab technologists to keep up with growth and to reduce tests that it needs to send out.

New test development continues to be a major goal with the launch of 12 new molecular genetic tests by 4Q:11. The company is investing in new digital pathology capabilities and image analysis.

In early December 2011, NeoGenomics announced that it was revising upward its previously issued revenue guidance for Quarter 4, 2011. The company now expects revenue of approximately \$12.0 - \$12.5 million in the fourth quarter, an increase from the original guidance of \$11.4 - \$12.0 million released on October 19, 2011. The company also re-iterated that it expects to be profitable in 4Q:11 with net income of \$0.00 to \$0.01 per share.

Competition

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

Competitive Advantages

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

TECHNOLOGY PLAY

Net Medical Express (NMXC)

Market Cap (Mil)	\$3.5
Current Stock Price	\$0.05-0.02
52 Week Range	.05-.20
Avg. Daily Trading Volume	61.9K
Float Shares	109.56M
Insider Holding	25%
Lt Debt-to-Total Capital	5.2%
Cash per Share	\$0.13
Book Value	\$0.03
Price/Sales	1.07

New Mexico Software (NMXC) dba Net Medical Xpress Solutions is focused on the high profile and rapidly growing Telemedicine segment of the healthcare industry. The company provides HIPAA compliant and FDA cleared software products that allow doctors, radiologists and other medical personnel to remotely view and evaluate patients and medical images for faster communication within the preventative, comprehensive and critical healthcare

segments.

Growth Catalysts

NMXC is preparing to provide its cardio Picture Archiving and Communication Service (PACS) to several heart hospitals. The solution is a unique development for PACS in cardio including vascular and system wide integration with a hospital's existing cardio equipment.

The Specialist program is being piloted at a hospital in New Mexico and is expected to roll out to a number of hospitals currently readying for deployment during the first quarter of 2012. The program has been in development since 2010 and initially will provide care in New Mexico and Arizona before being introduced in additional states in 2012.

Competition

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

Competitive Advantages

The company's XR-Express system allows doctors to examine medical images (X-Rays, CT Scans, Ultrasounds, EKGs, Echocardiograms, Barium studies, etc) over the Internet. Image quality is vital since the images are used by doctors to diagnose patients. XR-Express captures medical images as high resolution medical Dicom files, "tags" them with patient information, distributes the files to the credentialed, licensed medical doctors, returns the exam's report to the medical facility requesting the report and stores them online for seven years.

XR-Express enables medical professionals to diagnose cases from their computers or hand held devices such as iPads, significantly cutting the time it takes to receive results so that primary physicians can provide medical treatment for patients as soon as possible. Previous cases for a particular patient may be accessed at any time from the database, eliminating the cost and hassle of storing old X-Ray film and cases.

Comprehensive logistic coverage. The company has doctors licensed to provide services in 48 states. The teams of radiologists, cardiologists, and neurologists are highly experienced in specialized

types of studies. The operations team assists the company's doctors by routing, coordinating doctor-to-doctor conferences and managing the workload.

Fast turnaround time. NMXC's recent turn around times for STAT cases is 12 minutes, 18 minutes for routine exams and 20 minute averages for most exams. Efficiency is created by the 15,600 plus facilities in the US, along with 40 radiologists and 15 cardiologists providing around the clock service.

In October 2011, NMXC ranked number 301 on Deloitte's Technology Fast 500™ ranking of the 500 fastest growing technology, media telecommunications, life sciences and clean technology companies in North America. Rankings are based on the percentage of fiscal year revenue growth during the period 2006–2010. New Mexico Software grew 282% during this period.

In September 2011 New Mexico Software was named for the first time to “The 2011 Software 500” List in Software Magazine's prestigious 29th annual ranking of the world's largest software and service providers and was selected for the “2011 Best of Albuquerque Award” in the Computer Software category by the U.S. Commerce Association.

HEALTHCARE PLAY

Exactech Inc. (EXAC)

Market Cap (Mil)	\$221
Current Stock Price	\$16.80
52 Week Range	\$12.90-19.24
Avg. Daily Trading Volume	22.4K
Float Shares	12M
Insider Holding	36%
Lt Debt-to-Total Capital	23.6%
Cash per Share	\$0.30
Book Value	11.78
ROE	6.6%

Exactech is a pure play orthopedic competitor that is gaining market share in the rapidly expanding global biomedical device industry. The company's products are used in the restoration of bones and joints that have deteriorated as a result of injury or disease such as arthritis.

Exactech develops, manufactures, markets, distributes and sells its orthopedic implant devices, including knee, shoulder, and hip implant systems, related surgical instrumentation, spine products and biologic services to hospitals and physicians in the United States and internationally in over 30 countries.

Founded and led by an orthopedic surgeon, the company has built its success on its customer-centric culture. Feedback from its surgeon customers has helped Exactech develop a pipeline of innovative products that improve patient outcomes.

Growth Catalysts

Strengthening its international markets. Exactech has been eliminating distributors and moving to the direct distribution model in seven countries outside the US, including Europe and Japan. For the short-term, this has hurt bottom line, but has strategically put EXAC on becoming a global force, positioning itself for margin growth and international expansion. Top line results have been strong, and the company's growth continues.

Exactech Continues to Expand Spine Portfolio with Comprehensive Solution to Posterior Cervical Fusion with its full market launch of its Gibralt® spinal system at the Cervical Spine Research Society Annual Meeting this week. The Gibralt Spinal System is a comprehensive solution for posterior stabilization and an adjunct to fusion of the cervical and upper thoracic spine. Offering versatility and ease-of-use, Gibralt features top loading polyaxial screws, hooks, offset connectors, and rod-to-rod connectors which can be constructed into a multitude of configurations based individual patient anatomy. The low-profile pedicle screw with 80 degrees of motion is designed to reduce the risk of tissue impingement in the thoracic spine, and the EZ Set tulip head allows the tulip head to be easily positioned and set for rod insertion. The unique Tightlok™ thread technology of the thread provides high biomechanical strength, resisting screw pullout. With an option of transitional rods and a variety of connectors, Gibralt may be connected to lumbar pedicle screw systems, including Proliant® and Hydralok®.

The continued release of new and enhanced products across all of EXAC's business lines remains a key catalyst for 2012. Management has been proactive in their release of products on a timely basis. For 2012 a significant number of new products and product enhancements in the knee, hip, spine and upper extremity business lines will help EXAC gain market share.

Demographics will continue to drive the top line. The aging baby boomer population is a significant demographic, with increasing demand for Exactech's orthopedic implant products driving sales. Generally,

the products that EXAC makes and markets are targeted for an aging population.

Competition

The worldwide orthopedic market is valued at \$39 billion. EXAC is a relatively small player with a market share of about 1% of the market in an industry that has experienced considerable consolidation and is now dominated by five very large orthopedic companies. EXAC has achieved a consistent long term growth rate twice as fast as the overall market, allowing it to be a strong competitor and continue to capture market share from the major players.

Competitive Advantages

EXAC has successfully penetrated the shoulder market. This market is a solid niche for EXAC, and the growth of the company's shoulder implant has outperformed expectations of the analyst community. Exactech has continued to launch additions to the product line and the shoulder product line is now the second largest revenue segment for the company. The relatively small market opportunity (under \$1 B) appears too small for the larger competitors to tackle.

INDUSTRIAL PLAY

Argan Inc. (AGX)

Market Cap (Mil)	\$215.7
Current Stock Price	\$15.82
52 Week Range	\$8.20-17.55
Avg. Daily Trading Volume	32.2K
Float Shares	7.4M
Insider Holding	50%
Lt Debt-to-Total Capital	nil
Cash per Share	\$10.12
Book Value	2009
ROE	6%

Argan is a leading provider of development, consulting, engineering, procurement, construction, commissioning, operations and maintenance services to the power generation and renewable energy markets.

AGX has a broad customer scope. Customers include public utilities, independent power project owners, municipalities, public institutions and private industry. Through a second subsidiary (around 4% revenue) AGX provides telecommunications infrastructure services including project management, construction and maintenance to the federal government, telecommunications and broadband service providers as well as electric utilities, services and telecommunications infrastructure services, respectively.

AGX has great financials, in our opinion. As of October 31, 2011, Cash and cash equivalents were \$138.0 million at October 31, 2011, which translates to slightly over \$10 per share in cash. Free cash flow is \$3.84 per share. The company has no long term debt.

Growth Catalysts

AGX has a solid project backlog of \$431 million consisting of various projects. Nearly 40% of the backlog is for the engineering and construction of a 49.9 megawatt biomass-fired power plant in East Texas, which management expects to initiate in spring 2012. AGX has begun the critical planning and early engineering activities on this project. Completion of is expected in December 2014. The current backlog includes two other projects; the design and construction of a wind energy farm in Illinois and a gas-fired electricity peaking facility in Southern California.

The negative environmental impact of burning coal, political focus on energy independence and renewed concerns about the safety of nuclear power plants eventually will spur the development of renewable and cleaner gas-fired power generation facilities, which should result in future new power facility construction opportunities.

The demand for electrical power in the US is expected to recover and grow steadily over the long term. This demand, and the expected retirement of old coal, nuclear and oil powered energy plants, should result in gas-fired and renewable energy plants, like wind and biomass, representing the substantial majority of new power generation additions in the future and an increased share of the power.

The increase of alternate energy sources will ultimately drive the market to be less dependent on oil and increase power capacity throughout the US. This positive trend has poised AGX for future growth, in our view. Wind farm projects are cropping up in the south and midwest and serve as an impetus to grow this potential power source. Some studies are being funded by the government as well as through grants.

Independent power plants such as Medupi in South Africa are perfect examples of the needs not only nationally but globally in providing power to underserved areas and also providing power sources beyond the typical power companies (PSE&G, Con Ed, Mass Electric).

AGX intends to leverage its relationships. Management intends to increase strategic alliances, make additional acquisitions that compliment market position, partner with well capitalized entities to create larger opportunities.

Competition

Current weak economic conditions in the US contributed significantly to a reduction in construction spending. This has resulted in a lower demand for electricity and less urgency to build new electricity-generating power plants.

Competitive Advantages

AGX operates in the middle of its competitive landscape. The company has the ability to take on projects in the space that its larger competitors operate. These larger projects generally are those that are traditional fuels versus alternative fuels. Because of AGX's smaller size and larger project portfolio of alternative fuel projects, it also has the ability to compete with smaller companies that build with alternative fuel projects.

CONSUMER GOODS PLAY

China Kangtai Cactus Biotech Inc (CKGT)

Market Cap (Mil)	\$6.4
Current Stock Price	\$0.29
52 Week Range	\$1.06-0.21
Avg. Daily Trading Vol.	24.8K
Float Shares	12.5M
Insider Holding	52%
Lt Debt-to-Total Capital	nil
Cash per Share	\$0.23
Book Value	\$2.49
ROE	25.7%

CKGT is China's leading cactus grower and producer of cactus related products including nutraceuticals, health drinks, beer, wine, liquor, extracts and powders, nutritional food, livestock feed, fish feed and cigarettes. The company has 31 product lines.

Hundreds of millions of Chinese depend primarily on herbal-based medicine and dietary supplements. Western style medicine is only gradually gaining acceptance, but mainly in major urban areas. This is the impetus for cactus products' popularity in China and other parts of Asia. Cacti contains over 18 amino acids, as well as carbohydrates, proteins, chief meal fibrin, carotene, vitamins C, E, vitamin K1, vitamins B1, B2, B6, and B12, nicotinic acid, folacin, calcium, phosphorus, iron, potassium, sodium, cobalt, molybdenum, magnesium, manganese, copper, zinc, nickel, iodine, and selenium.

China Kangtai Cactus capitalizes on 18 patents and is currently seeking another 12. The company controls over 387 acres of cactus farms and maintains an active Research and Development (R&D) effort. Kangtai's highly regarded products are sold throughout China through a growing distribution network in supermarkets, nutrition stores, department stores, hotels, restaurants and social clubs, as well as through direct corporate orders, seminars and conference orders.

Growth Catalysts

Solid R&D platform. CKGT's research and development facility, the Heilongjiang Sino-Mexico Cactus Development and Utilization Institute, is certified by the prestigious Heilongjiang Science & Technology Committee. The institute has independently developed many patented cactus-based nutraceuticals, nutritional food and drink product formulas and production processes.

CKGT has a strong new product pipeline that includes personal hygiene and cosmetic products, baby foods, hydration and energy drinks, animal nutrition and feed products. Cactus cattle feed and cactus fish feed have been generating rapidly growing revenues since July 2008. The company began marketing cactus hog feed and low nicotine and zero nicotine cigarettes in Q4' 2009.

Continued strategic alliances with cooperative manufacturers in 2011 will aid in building CKGT's working capital. This strategy enables the company to fill orders quickly with short production runs and to reduce requirements for fixed asset investment.

Growing market share. CKGT will Enter German Tobacco Market in 2012. Management has completed market surveys in Frankfurt and received positive

consumer feedback. The company signed the agreements with two duty-free companies in August 2011 and expects new revenue from the German market will be approximately 2.7 million EUR annually (Approximately \$3.7 million USD). Kangtai has initiated discussions with these two companies about possible sales of cactus powder and nutraceuticals.

CKGT's new cigarette product implements a new technology. The joint tobacco product with Shandong Yishui Ruibosi Tobacco Ltd. will be manufactured using a new paper process technology, which will enhance the taste.

Competition

The cactus product industry in China is not highly competitive. CKGT competes with Anhui Haozhou Xingbang Cactus Co., Hunan Yongzhou Sino-Mexico Cactus Development Co., Ltd., Henan Luxin Cactus Co., Ltd., Zhengzhou Milpa-Alta Cactus Co., Ltd., and Ningxia Milpa-Alta Edible Cactus Development Co., Ltd.

Competitive Advantage

Low cost regional distribution. Eighty eight percent of CKGT's sales are generated by 14 regional distributors that encompass over 200 distribution agents covering 12 of China's 23 provinces and two of China's four municipalities. The efficient use of distributors through annual contracts has enabled the company to rapidly scale up sales into new markets at minimal cost. In addition, the company receives regular repeat orders from group consumers such as schools, factories, community organizations and government offices.

A major competitive asset for CKGT is that it offers quality assurance of its products from the raw material stage all the way to the final product.

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