



## **Initiating Coverage on Viral Genetics (VRAL)**

*SOURCE: Viral Genetics, Inc.*

### ***Initiating Coverage on Viral Genetics (VRAL)***

Zacks Equity Research, On Monday January 31, 2011, 6:10 am EST Grant Zeng, CFA

Viral Genetics: unique two platform technologies with early stage pipeline—-initiation with a Neutral rating

We are initiating coverage of Viral Genetics (Other OTC: VRAL.PK – News) with a Neutral rating. Our six to twelve month price target is \$0.15 per share.

Viral Genetics is an early development stage biotech company focused on discovery and development of novel anti-infectious, cancer and autoimmune drugs. Viral Genetics holds two unique drug discovery platform technologies: targeted peptides therapies (TPT) and metabolic disruption technology (MDT). Both platforms have great potential to target a broad range of diseases, including infectious disease, autoimmune disease and cancers.

TPT is custom-designed protein fragment that work to modify certain immune system reactions that cause or worsen some diseases. The TPT compounds represent in some sense the second generation of the Company's earlier thymus nuclear protein (TNP) therapy. MDT encompasses a way to change how some types of cells use fat and sugar/carbohydrates for energy. By manipulating metabolic processes, some harmful cells including drug-resistant cancer cells can die. The same MDT approach has also recently been discovered to have potential in encouraging the production of oils from algae and other plants (biofuels). As a result of this, the Company established a majority owned subsidiary called VG Energy to develop these applications.

The Company has established a pipeline based on its TPT and MDT technologies. On the TPT side, the Company is developing VGV-X for HIV/AIDS, VGV-L for Lyme disease, VGV-S for Staphylococcus, Streptococcus and Sepsis. Another candidate is developed for multiple sclerosis.

On the MDT side, the Company is developing candidates for cancer indications, especially drug resistant cancers, but candidates are still in early discovery stage. Viral is collaborating with Scott & White Healthcare to conduct investigator-initiated clinical trials, using the Company's MDT agents in combination with the FDA approved therapies, to treat end stage patients of melanoma, ovarian and breast cancer. Viral is also developing a drug compound based on MDT for victims of glioblastoma, the most common and aggressive primary brain tumor. The Company's MDT technology may provide novel therapy aimed at dealing with drug resistance. Viral Genetics has created a wholly owned subsidiary called MetaCytolytics, Inc., dedicated to advancing new treatments based on MDT. The following table summarizes the status of the Company's pipeline.

Although Viral Genetics' pipeline has potential to target a wide range of diseases, all its drug candidates are at their early stage of development (preclinical). Preclinical studies of its drug candidates have demonstrated some promises, but the Company needs to show investors more data especially clinical data to confirm the results of lab and animal studies. In this regard, we are pleased to learn that the Company plans to move at least one and possibly three candidates into clinic this year.

At the same time, Viral Genetics has a weak balance sheet. As of September 30, 2010, the Company only held

about \$20,000 in cash while long term liability stood at \$1.3 million among which \$1.05 million is owed to a company controlled by Viral's CEO, Haig Keledjian. This eases the immediate going concern risks. It's our belief that Viral Genetics needs to tap the capital market very soon and will continue to do so on a regular basis before the Company achieves revenue from product sales or establish major partnerships with major pharma or biotech companies. Equity financing will dilute existing shareholder base.

Viral Genetics' shares currently are trading on the pink sheets OTC market. Trading in stock quoted on the pink sheets over-the-counter market is often thin and characterized by wide fluctuations in trading prices. Therefore, the trading of Viral Genetics' shares may be volatile and sporadic and is highly speculative. Liquidity may be an issue for institutional investors.

Upcoming catalysts include the initiation of investigator-initiated clinical trials for Viral's MDT agents, the meeting with the FDA for pre-IND filings for VGV-X and other two candidates. Recent settlement of a major lawsuit with its former development/distribution partner, which hindered Viral's business development in the past few years, is also positive for the Company.

We see a balanced risk/reward profile for Viral Genetics at this point. Our valuation is based on the Company's fundamentals and values for comparable peers.

We should point out that our valuation also excludes the value of VG Energy at this point since VG Energy is also at the early stage of development. However, VG Energy has potential to accelerate revenue sooner than Viral's drug development programs given lower regulatory hurdle and government support for alternative energy programs. We think any material development at VG Energy will have big impact on the valuation of Viral Genetics and its share prices. We will keep a close eye on this subsidiary and update investors whenever and whatever information is available.

For a free copy of the full research report, please email [scr@zacks.com](mailto:scr@zacks.com) with VRAL as the subject.

VIRAL GENETICS INC DEL (VRAL): Read the Full Research Report.

**Contact:**

Viral Genetics, Inc.

Haig Keledjian, 626-334-5310

