

Net Element Inc.

(NETE-NASDAQ)

NETE: Despite Setbacks, Net Element Continues Progress Toward Profitability

OUTLOOK

Using an industry average of EV/trailing GM of 7.0X the stock could be worth \$24.00 per share by next year if NETE could reach profitability.

Net Element is a software and services company for global online and mobile payments. It operates a merchant processor in the US with an attractive merchant offering with its Aptito front-end solution, and a mobile payment processor, PayOnline, operating primarily in Russia but expanding worldwide. NETE has shown extraordinary growth in the US and continues progress toward profitability, but needs to reach cash flow break even to stop equity dilution.

Current Price (11/16/17) **\$4.03**
Valuation **\$24.00**

SUMMARY DATA

52-Week High **\$10.00**
52-Week Low **\$2.73**
One-Year Return (%) **-55.6**
Beta **1.1**
Average Daily Volume (sh) **111,281**

Shares Outstanding (mil) **2.5**
Market Capitalization (\$mil) **\$9.9**
Short Interest Ratio (days) **1**
Institutional Ownership (%) **19**
Insider Ownership (%) **28**

Annual Cash Dividend **\$0.00**
Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates
Sales (%) **117**
Earnings Per Share (%) **N/M**
Dividend (%) **0**

P/E using TTM EPS **N/M**
P/E using 2017 Estimate **N/M**
P/E using 2018 Estimate **N/M**

Risk Level **High**
Type of Stock **Small-Growth**
Industry **Internet Commerce**

ZACKS ESTIMATES

Revenue

(in millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|--------|--------|--------|--------|--------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2015 | 5.5 A | 6.9 A | 12.7 A | 15.1 A | 40.2 A |
| 2016 | 11.3 A | 13.7 A | 14.0 A | 15.3 A | 54.3 A |
| 2017 | 13.6 A | 16.1 A | 14.9 A | 17.5 E | 62.1 E |
| 2018 | | | | | 73.6 E |

Earnings per Share

(Non-GAAP EPS before non-recurring items)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|-----------|-----------|-----------|-----------|-----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2015 | -\$3.58 A | -\$6.43 A | -\$42.4 A | -\$2.19 A | -\$15.3 A |
| 2016 | -\$1.32 A | -\$1.00 A | -\$1.15 A | -\$1.63 A | -\$6.05 A |
| 2017 | -\$1.15 A | -\$0.85 A | -\$0.84 A | -\$0.26 E | -\$2.87 E |
| 2018 | | | | | -\$1.16 E |

Zacks Projected EPS Growth Rate - Next 5 Years **N/A**

WHAT'S NEW

Q4 Results Should Rebound as Restructuring and Hurricanes Hurt Q3 Results

Results for Q3 2017 were negatively affected by both the restructuring of Net Element's Russian operations and the recent hurricanes. In Q4 however, operations, growth, and margins should be back to normal. The hurricanes affected customers in Texas and South Florida as many were closed for a number of days and payment processing revenues were reduced in those locations. In Russia, the company's revamp of operations and no sales at all in the mobile business caused a hit on revenues and margins. In Q2 the company began to take steps to reduce expenses in Russia by consolidating the two separate offices for Mobile and PayOnline into one, and eliminating redundant and excess staff. The company also cancelled its lease on a Russian apartment. These actions happened late in Q2 and throughout Q3. While there were some one-time expenses during Q3 for these actions, the company did not break them out. Also the full impact of these cost reductions has not yet been seen. In Q4 gross margins for PayOnline should go back up to more normal levels, and operating margins should also improve. The Russian operations were already cash flow positive and this reduction in expense can only help overall margins going forward.

Results By Segment

While total revenues for Q3 rose 6.4% year over year to \$14.9 million from \$14.0 million a year ago, they were down sequentially from \$16.1 million in Q2 for the reasons stated above. North America grew 17.3%, even with the impact of hurricanes, Mobile Payment reported no revenues at all as Net Element rethinks how to profitably sell to that market, and PayOnline grew 11.3% year over year and was impacted by currency translation. Total gross margin declined to 14.4% as the Russian disruption knocked margins at PayOnline down to 16.9% versus 33.4% a year ago and 33.2% in Q2. The company expects margins there to move back up to historical levels as cost savings kick in. North American margin should also improve as volumes return to normal particularly as we go into the Christmas season.

Total operating expenses decreased to \$3.4 million from \$4.1 million again primarily due to a reduction in stock-based compensation which declined \$621,000. The operating loss declined \$500,000 from last year and was flat with Q2 2017. Russia should contribute to a reduction in G&A going forward.

Interest expense decreased to \$302,000 from \$609,000 in Q2 2016 due to more favorable lending terms

This quarter there were 1.89 million average primary shares outstanding after the 10 for 1 reverse split, while last year there were only 1.4 million, or 35% more than last year.

The adjusted non-GAAP operating loss was \$1.6 million flat with last year. On a per share basis however, the **adjusted non-GAAP loss per share declined slightly to \$0.84 per share versus a loss of \$1.15 per share** in 2016 due the increased number of shares rather than a reduction in losses. The company reported it had 2.5 million primary shares outstanding on August 11, 2017.

The Cash Burn Continues as Net Element Invests In Growth

The company is burning about \$350,000 a month, reduced from a previous \$400,000-500,000 a month. In September and October actual cash usage was negligible due to some annual payments being received. In Q3, \$415,000 was invested in client acquisition. After October, the company was done paying for PayOnline, which now costs \$200,000 per month as change that will be seen only on the balance sheet. The company has yet to launch its Aptito front-end system in Russia to be sold by PayOnline and is waiting on the Russian government to finalize new regulations. The company believes Aptito will be very competitive in the restaurant market versus the alternatives now available in Russia.

INVESTMENT THESIS

- Net Element is growth company in the payments industry that should benefit from the adoption of mobile and online payments in the US, Russia, and the Middle East and ultimately globally.
- Its award-winning Aptito product line provides differentiation and value-added services to its generic card processing business. This business should increase margins as well as aid sales efforts by improving price/performance and customer stickiness, as well as by bringing the PayOnline payment gateway in-house to the US.
- The company has an increasingly robust platform for its global payment system and should be able to successfully expand geographically.
- The company believes its intrinsic value is its payment processing portfolio and its objective is to grow that portfolio internally and through acquisition.
- We believe the company could grow revenues 14% to \$62 million in revenues in 2017 through internal growth. It is trading at a market value of \$9.9 million, and an enterprise value of \$16.8 million or 0.3Xs enterprise value to forecasted 2017 sales.
- If NETE achieves our forecasts without further common stock dilution than that already predicted and no incremental debt, we believe its common stock could be worth \$24.00 per share by next year based on an industry average valuation of approximately 7.0xs enterprise value to gross margin if the company achieves breakeven EBITDA results.

RISKS

- The company continues to dilute common shareholders to fund growth by selling equity. It is uncertain if the company will be able to make accretive investments with these funds and shareholders may continue suffer further dilution.
- The company is losing money and may not be able to reach profitability or positive cash flow.
- The company is involved in a number of lawsuits.
- The mobile and online payment market is still in its infancy and there is no assurance countries will adopt this method to pay for goods and services.
- The company is somewhat dependent on Russia and due to oil prices, political turmoil, and sanctions, and this could affect payment volumes and the ability to do business there.
- Future acquisitions may not be successfully integrated operationally or technologically. Purchased portfolios may not yield expected profits.
- The merchant acquirer market in the US is competitive and larger companies have an advantage due to economies of scale and access to capital.

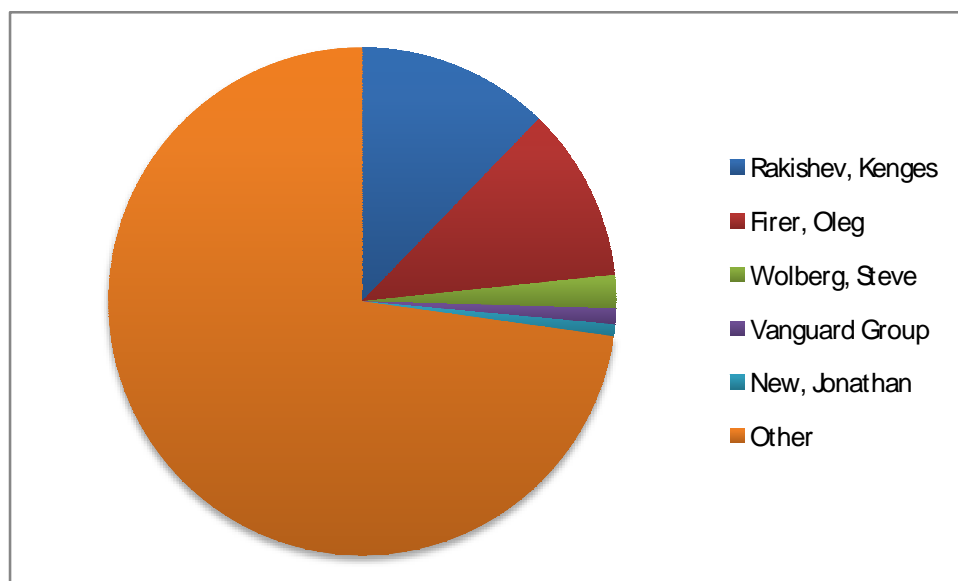
- Operations in Russia and the United Federation and the Middle East face considerable political risk and the company may be prohibited from certain financial transactions by government regulation and restrictions.
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

VALUATION

Due the variation in reporting of revenues of the various competitors of Net Element, we have chosen to use gross margin contribution as a more accurate way to value the companies. Using Net Element's peer group we find an average valuation of 7.0 times the enterprise value to trailing twelve-month gross margin. If we use that multiple and apply it Net Element's trailing 12-month gross margin of \$9.25 million, we see that the company could be worth \$65 million enterprise value or \$58 million market value if it were profitable. We are forecasting company reaches \$12.7 million in gross margin next year up from its trailing \$9.3 million now, and will require another \$4 million in cash burn, adding 1 million shares outstanding if this cash is raised by equity. Based on EV/GM average of 7.0 times next year the company's valuation could be as much as \$83 million or \$24.00. However management must have the discipline to work to positive EBITDA to achieve that.

| <u>Company</u> | <u>Ticker</u> | <u>Gross</u> <u>EBITDA</u> | <u>Margin</u> | <u>%</u> | <u>Revenue</u> <u>LTM</u> | <u>EV/GM</u> | <u>EV/EBITDA</u> | <u>Included</u> <u>in Average?</u> | <u>Enterprise</u> <u>Value</u> |
|-----------------------|---------------|-------------------------------|---------------|----------|------------------------------|--------------|------------------|---------------------------------------|-----------------------------------|
| Cielo | CIOXY | 1,670 | 1,940 | 51% | 3,780 | 10.7 | 12.4 | n | 20,720 |
| Earthport | EPO.L | 4 | 27 | 68% | 40 | 4.4 | 31.1 | y | 119 |
| EVERTEC | EVTC | 158 | 214 | 53% | 401 | 7.1 | 9.6 | y | 1,510 |
| First Data | FDC | 2,790 | 4,650 | 59% | 7,910 | 7.2 | 11.9 | y | 33,260 |
| Global Payments | GPN | 1,150 | 1,750 | 42% | 4,190 | 10.8 | 16.5 | y | 18,960 |
| JetPay | JTPY | 4 | 19 | 27% | 70 | 2.2 | 10.0 | y | 42 |
| PayPal | PYPL | 2,260 | 10,840 | 92% | 11,760 | 7.8 | 37.3 | y | 84,260 |
| Planet Payment | PLPM | 12 | 31 | 59% | 53 | 6.8 | 17.6 | y | 214 |
| Qivi | QIWI | 169 | 151 | 25% | 603 | 3.1 | 2.8 | y | 471 |
| Total System Services | TSS | 942 | 1,180 | 25% | 4,690 | 13.3 | 16.7 | y | 15,700 |
| Vantiv | VNTV | 880 | 1,900 | 50% | 3,800 | 7.7 | 16.6 | y | 14,580 |
| Average | | | | 50% | | 7.0 | 14.9 | | 16,911 |

OWNERSHIP



CASH FLOW

| | Mar. 31, 2016 | June 30, 2016 | Sept 30, 2016 | Dec. 31, 2016 | Mar. 31, 2017 | June 30, 2017 | Sept 30, 2017 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Cash flows from operating activities | | | | | | | |
| Net loss | \$ (1,847,719) | \$ (5,346,448) | \$ (3,469,541) | \$ (2,823,829) | \$ (2,487,498) | \$ (1,640,339) | \$ (1,702,536) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | | | | | |
| Non controlling interest | \$ (37,876) | \$ (38,792) | \$ (33,682) | \$ (18,189) | \$ (50,701) | \$ (75,081) | \$ 32,607 |
| Share based compensation | \$ 360,984 | \$ 2,014,589 | \$ 732,701 | \$ 355,161 | \$ 596,404 | \$ 128,537 | \$ 111,277 |
| Deferred revenues | \$ (171,908) | \$ (245,979) | \$ 552,890 | \$ (135,003) | \$ (445,953) | \$ (470,945) | \$ 757,670 |
| Depreciation and amortization | \$ 888,118 | \$ 844,534 | \$ 764,886 | \$ 968,972 | \$ 657,363 | \$ 573,018 | \$ 630,020 |
| Non cash interest | \$ 0 | \$ 297,434 | \$ 444,423 | \$ 110,551 | \$ 46,135 | \$ 48,113 | \$ 4,526 |
| Amortization of deferred revenue | \$ 0 | \$ 0 | \$ 0 | \$ (1,221,177) | \$ 0 | \$ 0 | \$ 0 |
| (Recovery of) provision for loan losses | \$ 0 | \$ 0 | \$ 0 | \$ 500,000 | \$ 0 | \$ 192,895 | \$ (192,895) |
| Amorization of prepaid costs | \$ 0 | \$ 0 | \$ 0 | \$ 967,313 | \$ 0 | \$ 0 | \$ 0 |
| Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates | | | | | | | |
| Account receivable | \$ 436,453 | \$ (768,019) | \$ (278,818) | \$ (2,140,760) | \$ 510,498 | \$ 1,402,637 | \$ 1,508,130 |
| Deferred revenue | \$ 0 | \$ 0 | \$ 0 | \$ 1,833,239 | \$ 0 | \$ 0 | \$ 0 |
| Prepaid expenses and other assets | \$ 334,291 | \$ (63,359) | \$ (602,430) | \$ (239,084) | \$ (231,755) | \$ 516,416 | \$ (637,212) |
| Accounts payable and accrued expenses | \$ (909,344) | \$ 2,786,305 | \$ (1,876,961) | \$ (368,025) | \$ 449,284 | \$ (2,422,982) | \$ (545,334) |
| Net cash (used in) provided by operating | \$ (947,001) | \$ (817,169) | \$ (4,210,955) | \$ (2,210,831) | \$ (956,223) | \$ 129,230 | \$ (33,747) |
| Cash flows from investing activities | | | | | | | |
| Purchase of portfolio and client acquisition | \$ 0 | \$ 0 | \$ 0 | \$ (1,319,820) | \$ (403,585) | \$ (562,562) | \$ (414,514) |
| Purchase of fixed and other assets | \$ (396,819) | \$ (558,741) | \$ (391,158) | \$ 1,159,629 | \$ 355 | \$ 180,068 | \$ (102,993) |
| Net cash used in investing activities | \$ (396,819) | \$ (558,741) | \$ (391,158) | \$ (160,191) | \$ (403,230) | \$ (382,494) | \$ (517,507) |
| Cash flows from financing activities | | | | | | | |
| Proceeds from indebtedness | \$ 75,000 | \$ 1,140,000 | \$ 1,453,500 | \$ 502,040 | \$ 92,000 | \$ 3,206,792 | \$ (59,759) |
| Repayment of indebtedness | \$ 0 | \$ 0 | \$ (110,434) | \$ 38,734 | \$ (92,680) | \$ (532,238) | \$ 351,558 |
| Cash received from issuance of shares and | \$ 0 | \$ 0 | \$ 0 | \$ 300,000 | \$ 1,437,132 | \$ 0 | \$ (287,034) |
| Related party advances (payments) | \$ 910,045 | \$ 0 | \$ (792,266) | \$ 910,095 | \$ 57,159 | \$ (57,159) | \$ 77,587 |
| Net cash provided by (used in) financing | \$ 985,045 | \$ 1,140,000 | \$ 661,234 | \$ 1,750,869 | \$ 1,493,611 | \$ 2,617,395 | \$ 82,352 |
| Effect of exchange rate changes on cash | \$ 57,537 | \$ (741,514) | \$ 192,807 | \$ (143,498) | \$ 57,288 | \$ (25,972) | \$ (11,812) |
| Net increase in cash | \$ (301,238) | \$ (90,918) | \$ (3,748,072) | \$ (763,651) | \$ 191,446 | \$ 2,338,159 | \$ (480,714) |
| Cash at beginning of period | \$ 1,025,747 | \$ 724,509 | \$ 633,591 | \$ 1,385,286 | \$ 621,635 | \$ 813,081 | \$ 1,274,279 |
| Cash at end of period | \$ 724,509 | \$ 633,591 | \$ 1,385,286 | \$ 621,635 | \$ 813,081 | \$ 3,151,240 | \$ 793,565 |
| Cash paid during the period for: | | | | | | | |
| Interest | \$ 150,438 | \$ 150,438 | \$ (127,741) | \$ 149,952 | \$ 166,394 | \$ 150,438 | \$ 398,231 |
| Taxes | \$ 86,770 | \$ 86,770 | \$ 0 | \$ 0 | \$ 64,314 | \$ 86,770 | \$ 22,628 |

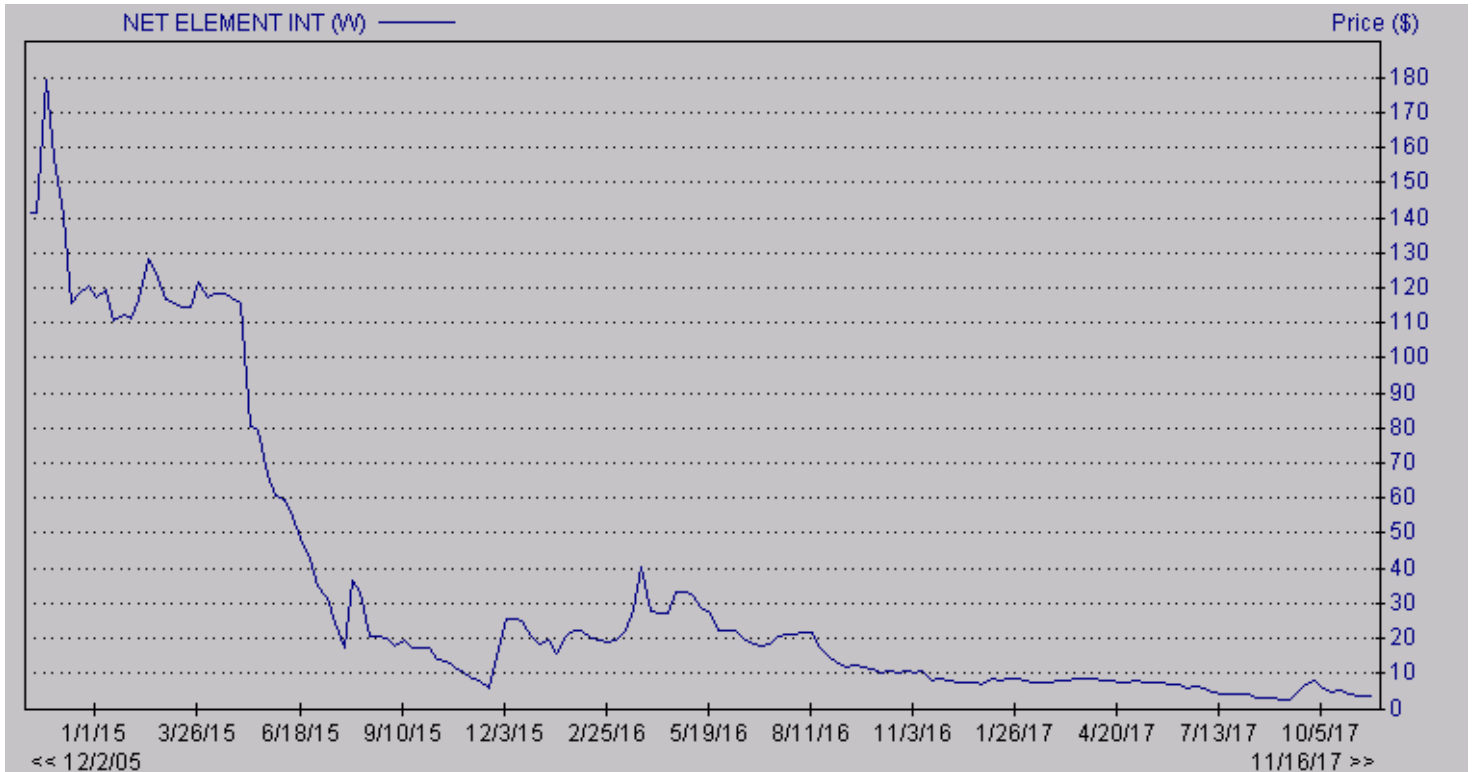
INCOME STATEMENT

| | 2016 | | | | 2017 | | | | 2015 | 2016 | 2017E | 2018E |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|------------------|-----------------|-----------------|-----------------|-------|
| | Q2 2016 30-Jun | Q3 2016 30-Sep | Q4 2016 31-Dec | Q1 2017 31-Mar | Q2 2017 30-Jun | Q3 2017 30-Sep | Q4 2017E 31-Dec | | | | | |
| North America Transaction | \$10.4 | \$11.2 | \$12.7 | \$11.0 | \$13.6 | \$13.1 | \$15.5 | \$27.4 | \$42.1 | \$53.2 | \$63.8 | |
| Yr-over-yr Growth | 65.9% | 42.9% | 56.4% | 39.6% | 30.8% | 17.3% | 22.2% | 41.7% | 53.8% | 26.3% | 20.0% | |
| Credit card cost of service | 9.0 | 9.6 | 11.1 | 9.5 | 11.5 | 11.3 | 13.1 | 23.5 | 36.3 | 45.3 | 54.3 | |
| Gross margin | 1.4 | 1.6 | 1.6 | 1.5 | 2.1 | 1.8 | 2.4 | 3.9 | 5.8 | 7.9 | 9.6 | |
| Gross margin % | 13.8% | 14.3% | 12.2% | 13.7% | 15.7% | 14.1% | 15.7% | 14.2% | 13.7% | 14.9% | 15.0% | |
| Mobile payments | 1.8 | 1.2 | 0.9 | 0.9 | 0.5 | 0.0 | 0.0 | 9.0 | 5.9 | 1.4 | 1.5 | |
| Yr-over-yr Growth | 437.6% | -56.1% | -83.2% | -57.0% | -70.9% | -100.0% | -100.0% | 385.5% | -34.4% | -76.8% | 10.0% | |
| Cost of Service | 1.6 | 1.0 | 0.9 | 0.8 | 0.5 | 0.0 | 0.0 | 8.1 | 5.3 | 1.3 | 1.3 | |
| Gross Margin | 0.2 | 0.2 | 0.1 | 0.040 | 0.0 | 0.0 | 0.0 | 0.9 | 0.6 | 0.1 | 0.2 | |
| Gross margin % | 12.0% | 14.7% | 7.9% | 4.7% | 3.0% | 0.0% | 0.0% | 10.2% | 10.9% | 4.0% | 11.9% | |
| PayOnline | 1.5 | 1.6 | 1.7 | 1.7 | 2.0 | 1.8 | 2.0 | 3.8 | 6.2 | 7.5 | 8.3 | |
| Yr-over-yr Growth | NM | -22.2% | 17.6% | 23.0% | 33.2% | 11.3% | 17.5% | NA | 63.6% | 21.0% | 10.0% | |
| Online Solutions Cost of Service | 1.0 | 1.1 | 1.1 | 1.2 | 1.3 | 1.5 | 1.3 | 2.4 | 4.1 | 5.3 | 5.3 | |
| Gross Margin | 0.6 | 0.5 | 0.6 | 0.558 | 0.7 | 0.3 | 0.7 | 1.4 | 2.1 | 2.2 | 3.0 | |
| Gross margin % | 37.0% | 33.4% | 35.0% | 32.1% | 33.2% | 16.9% | 33.5% | 38.1% | 34.5% | 29.2% | 36.0% | |
| Total revenues | 13.7 | 14.0 | 15.3 | 13.6 | 16.1 | 14.9 | 17.5 | 40.2 | 54.3 | 62.1 | 73.6 | |
| Yr-to-yr Growth | 98.2% | 10.5% | 1.4% | 20.4% | 17.9% | 6.4% | 14.2% | 89.8% | 34.9% | 14.4% | 18.6% | |
| Costs and expenses: | | | | | | | | | | | | |
| Cost of revenues | 11.5 | 11.7 | 13.1 | 11.5 | 13.3 | 12.8 | 14.4 | 34.0 | 45.7 | 51.9 | 60.9 | |
| Gross Margin | 2.2 | 2.3 | 2.2 | 2.1 | 2.8 | 2.1 | 3.1 | 6.3 | 8.6 | 10.2 | 12.7 | |
| % of Sales | 16.1% | 16.5% | 14.2% | 15.5% | 17.5% | 14.4% | 17.7% | 15.6% | 15.8% | 16.4% | 17.3% | |
| G&A | 2.0 | 2.3 | 2.4 | 2.8 | 2.6 | 2.4 | 2.5 | 9.3 | 8.8 | 10.3 | 11.3 | |
| Stock-based compensation | 2.0 | 0.7 | 0.4 | 0.6 | 0.1 | 0.1 | 0.2 | 4.3 | 3.5 | 1.0 | 1.0 | |
| Provision for loan losses | 0.1 | 0.3 | 1.0 | 0.3 | 0.9 | 0.3 | 0.3 | 0.6 | 1.7 | 1.8 | 1.9 | |
| Depreciation and amortization | 0.8 | 0.8 | 1.0 | 0.7 | 0.6 | 0.6 | 0.6 | 2.5 | 3.5 | 2.5 | 2.5 | |
| Total operating expenses | 5.0 | 4.1 | 4.8 | 4.4 | 4.2 | 3.4 | 3.6 | 16.8 | 17.4 | 15.6 | 16.8 | |
| Loss from operations | (2.8) | (1.8) | (2.6) | (2.3) | (1.3) | (1.3) | (0.5) | (10.5) | (8.8) | (5.4) | (4.0) | |
| Interest expense, net | (0.4) | (0.6) | (0.3) | (0.270) | (0.3) | (0.3) | (0.3) | (3.6) | (1.5) | (1.2) | (1.0) | |
| Other expense | (0.0) | 0.4 | (0.0) | (0.0) | (0.0) | (0.1) | 0.0 | (0.1) | 0.4 | (0.1) | (0.1) | |
| Gain on asset disposal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Gain on change in conversion derivative | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (26.9) | 0.0 | 0.0 | 0.0 | |
| Loss from stock value guarantee | (2.2) | (1.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (3.7) | 0.0 | 0.0 | |
| One-time charges | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 27.7 | 0.0 | 0.0 | 0.0 | |
| Total non-operating expenses | (2.6) | (0.2) | (0.3) | (0.3) | (0.4) | (0.4) | (0.3) | (2.8) | (4.8) | (1.3) | (1.2) | |
| Pretax operating income (loss) | (5.4) | (3.5) | (2.8) | (2.5) | (1.7) | (1.7) | (0.8) | (13.3) | (13.6) | (6.6) | (5.1) | |
| Income tax provision | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Tax rate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | |
| Operating Loss | (5.4) | (3.5) | (2.8) | (2.5) | (1.7) | (1.7) | (0.8) | (13.3) | (13.6) | (6.6) | (5.1) | |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | (0.0) | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | |
| Net loss | (5.3) | (3.5) | (2.8) | (2.5) | (1.6) | (1.7) | (0.8) | (13.3) | (13.5) | (6.6) | (5.1) | |
| Preferred dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (1.6) | 0.0 | 0.0 | 0.0 | |
| Net loss to common stock | (5.3) | (3.5) | (2.8) | (2.5) | (1.6) | (1.7) | (0.8) | (14.8) | (13.5) | (6.6) | (5.1) | |
| Foreign currency translation gain (loss) | (0.5) | (0.1) | (0.3) | 0.0 | (0.1) | (0.1) | 0.0 | (0.3) | (0.9) | (0.2) | 0.0 | |
| Comprehensive loss | (5.8) | (3.6) | (3.1) | (2.5) | (1.8) | (1.6) | (0.8) | (15.2) | (14.4) | (6.6) | (5.1) | |
| Earnings ex-one time charge | (3.2) | (2.3) | (2.8) | (2.5) | (1.6) | (1.7) | (0.8) | (15.7) | (11.4) | (6.6) | (5.1) | |
| Stock-based compensation | 2.0 | 0.7 | 0.4 | 0.6 | 0.1 | 0.1 | 0.2 | 4.3 | 3.5 | 1.0 | 1.0 | |
| Adjusted Non-GAAP Earnings | (1.2) | (1.6) | (2.5) | (1.9) | (1.5) | (1.6) | (0.6) | (9.8) | (7.9) | (5.6) | (4.1) | |
| Yr-to-yr Growth | -63.4% | -44.6% | 19.4% | 27.1% | 29.3% | -1.2% | -74.7% | 42% | -20% | -30% | -27% | |
| GAAP EPS | (\$4.59) | (\$2.47) | (\$1.86) | (\$1.50) | (\$1.01) | (\$0.90) | (\$0.34) | (\$23.22) | (\$10.33) | (\$3.40) | (\$2.31) | |
| Non-GAAP EPS | (\$1.00) | (\$1.15) | (\$1.63) | (\$1.15) | (\$0.85) | (\$0.84) | (\$0.26) | (\$15.39) | (\$6.05) | (\$2.87) | (\$1.84) | |
| Yr-to-yr Growth | -84% | -97% | -26% | -13% | -15% | -27% | -84% | 727% | -60.7% | 26.3% | -12.8% | |
| Share outstanding | 1.2 | 1.4 | 1.5 | 1.6 | 1.8 | 1.9 | 2.5 | 0.6 | 1.3 | 1.9 | 2.2 | |
| Yr-to-yr Growth | 134% | 1948% | 61% | 46% | 52% | 35% | 61% | 72% | 104.3% | 26.3% | -29.7% | |
| Fully diluted shares | 1.3 | 1.6 | 1.8 | 1.9 | 2.0 | 2.1 | 2.7 | 0.9 | 1.5 | 2.2 | 2.4 | |
| Yr-to-yr Growth | 95% | 74% | 38% | 48% | 52% | 36% | 52% | 87% | 62.8% | 26.3% | 11.9% | |
| Adjusted EBITDA | 0.088 | (1.846) | (1.258) | (1.009) | (0.642) | (0.533) | 0.304 | (3.751) | (3.509) | (1.881) | (0.521) | |

BALANCE SHEET

| | Sept 30, 2017 | June 30, 2017 | Qtr-Qtr % Change | Sept 30, 2016 | Yr- Yr % Change |
|---|---------------|---------------|---------------------|---------------|--------------------|
| Current assets: | | | | | |
| Cash | \$922,102 | \$1,274,279 | -28% | \$1,385,286 | -33% |
| Accounts receivable, net | 4,446,358 | 6,007,143 | -26% | 5,866,714 | -24% |
| Prepaid expenses and other assets | 1,658,200 | 1,219,524 | 36% | 1,425,685 | 16% |
| Total current assets | 7,026,660 | 8,500,946 | -17% | 8,677,685 | -19% |
| Fixed assets, net | 64,381 | 103,239 | -38% | 128,470 | -50% |
| Intangible assets, net | 3,242,889 | 3,308,229 | -2% | 4,153,065 | -22% |
| Goodwill | 9,643,752 | 9,643,752 | 0% | 9,643,752 | 0% |
| Other long term | 456,948 | 417,574 | 9% | 792,834 | -42% |
| Total assets | 20,434,630 | 21,973,740 | -7% | 23,395,806 | -13% |
| Current liabilities: | | | | | |
| Accounts payable | \$6,067,319 | \$7,516,761 | -19% | \$5,650,932 | 7% |
| Deferred revenue | 1,196,743 | 439,074 | 173% | 878,913 | 36% |
| Accrued expenses | 3,419,879 | 4,437,601 | -23% | 5,654,994 | -40% |
| Notes payable (current portion) | 503,041 | 984,720 | -49% | 147,577 | 241% |
| Due to related parties | 376,593 | 366,636 | 3% | 447,660 | -16% |
| Total current liabilities | 11,563,575 | 13,744,792 | -16% | 12,780,076 | -10% |
| Notes payable (non-current portion) | 6,887,382 | 6,253,513 | 10% | 4,047,140 | 70% |
| Total liabilities | 18,450,957 | 19,998,305 | -8% | 16,827,216 | 10% |
| STOCKHOLDERS' DEFICIT | | | | | |
| Common stock | 2,142 | 1,797 | 19% | 1,510 | 42% |
| Paid in capital | 167,805,711 | 166,220,080 | 1% | 163,285,658 | 3% |
| Accumulated other comp income (loss) | (2,528,424) | (2,620,615) | -4% | (2,188,390) | 16% |
| Accumulated deficit | (163,272,959) | (161,570,423) | 1% | (154,618,755) | 6% |
| Noncontrolling interest | (22,797) | (55,404) | -59% | 88,567 | -126% |
| Total stockholders' deficit | 1,983,673 | 1,975,435 | 0% | 6,568,590 | -70% |
| Total liabilities and stockholders' deficit | 20,434,630 | 21,973,740 | -7% | 23,395,806 | -13% |
| Net Cash | 42,468 | (77,077) | -155% | 790,049 | -95% |
| Current and Quick Ratio | 0.6 | 0.6 | -2% | 0.7 | -11% |
| Working Capital | (4,536,915) | (5,243,846) | -13% | (4,102,391) | 11% |
| Total Debt | 7,767,016 | 7,604,869 | 2% | 4,642,377 | 67% |
| Debt/TA | 38% | 35% | 10% | 20% | 92% |
| DSO | 27.2 | 34.0 | -20% | 38.2 | -29% |
| Enterprise value | 9,488,032 | 7,297,077 | 30% | 17,611,497 | -46% |

HISTORICAL STOCK PRICE



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