Zacks Small-Cap Research

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Virtual Piggy (VPIG-OTCQB)

VPIG: *Several New Initiatives Designed to Drive Awareness and Usage of Oink*

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	12/15/2014
Current Price (08/21/15)	$0.11
Six- Month Target Price	**$0.30**

OUTLOOK

Virtual Piggy's affiliation with music industry executive Rodney Jerkins has led to several new opportunities, including a partnership with new R&B group *History In The Making* and with singer / songwriter SAARA. Virtual Piggy has also launched programs with the organizations *100 Black Men* and *Talent Card LLC.* We believe these initiatives are aimed at boosting awareness of *Oink* in order to drive customer registration and usage. It is too early to gauge their success at this stage, in our opinion.

SUMMARY DATA

52-Week High	**$1.20**
52-Week Low	**$0.10**
One-Year Return (%)	**-89.1**
Beta	**0.50**
Average Daily Volume (sh)	**24,944**
Shares Outstanding (mil)	**119**
Market Capitalization ($mil)	**$13**
Short Interest Ratio (days)	**0.8**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**16.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2013	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2014	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2015	0.0 A	0.0 A	0.0 E	0.0 E	0.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.06 A	-$0.02 A	-$0.01 A	-$0.11 A
2013	-$0.03 A	-$0.03 A	-$0.05 A	-$0.04 A	-$0.15 A
2014	-$0.07 A	-$0.05 A	-$0.03 A	$0.00 A	-$0.14 A
2015	-$0.03 A	-$0.02 A	-$0.02 E	-$0.02 E	-$0.09 E

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

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KEY POINTS

- Virtual Piggy's affiliation with music industry executive Rodney Jerkins has led to several new opportunities, including a partnership with new R&B group *History In The Making* and with singer/songwriter SAARA.
- Virtual Piggy has also launched programs with *100 Black Men*, an organization that aims improve the quality of life for African American youth, and *Talent Card LLC.*
- We believe these initiatives are aimed at boosting awareness of *Oink* in order to drive customer registration and usage. It is too early to gauge their success at this stage, in our opinion.
- In April, the company retained an advisor, Viant Capital, to help with strategic alternatives. The subsequent appointment of two new board members with extensive financial experience and of its original CFO might imply, we believe, that it is no longer considering strategic alternatives at this point.

MUSIC WORLD: A GROWING ELEMENT OF MARKETING STRATEGY

In December 2014, music executive Rodney Jerkins joined Virtual Piggy's (VPIG-OTCQB) advisory board to help the company develop the music and digital goods market, including a rewards program providing access to music and events through collaborations with emerging artists. The company expects its initiatives with Rodney Jerkins to help raise awareness of *Oink* in order to drive customer registration and usage. As the chairman of Evolve Music Group, he is well-connected within the music industry and is a Grammy award winning record producer.

We believe that this relationship has led to several new opportunities for the company. In April, Virtual Piggy introduced a partnership with new R&B group *History In The Making* to give *Oink* users first access to *History In The Making* content.

The company's second collaboration with Rodney Jerkins was a partnership with Finnish born emerging singer/songwriter SAARA. In June, *Oink* partnered with SAARA. In tandem with the release of her album entitled *Ur Cool,* which Rodney Jerkins produced, Virtual Piggy designed an exclusive *Ur Cool Oink* card that provides discounts on SAARA merchandise. SAARA's YouTube channel has registered more than 34.7 million views, according to Virtual Piggy.

In addition, earlier this year Virtual Piggy launched programs with *100 Black Men,* an organization that was founded in New York City in 1963 to improve the quality of life for African American youth, and *Talent Card LLC.* The initial program with *100 Black Men* debuted in the greater San Francisco market, with a national roll-out planned. *100 Black Men* has 118 chapters in the U.S., the U.K. and the Caribbean. The *Oink* program focuses on creating a financial literacy platform for young students. The program with *Talent Card LLC* is designed to deliver *Oink* technology to the American Evangelical Community and provide a secure COPPA compliant financial product for faith-based ministries, charities, churches and other organizations.

MANAGEMENT AND BOARD CHANGES

The company has made several recent changes to its management team and board of directors. In June, Virtual Piggy appointed two banking industry veterans to its board. Philip Manning has held senior positions as in the Global Cards Business Development unit at Citigroup and as Director of Business Development for MBMA Europe, according to management. Dale Jensen co-founded Information Technology, Inc., which was acquired in 1995 by Fiserv (FISV-not rated), a NASDAQ listed computer software and solutions provider for banks and savings institutions. Prior to that, he was a vice president at the National Bank of Commerce. Two other board members, George O. McDaniel III and William Tobia, resigned from the company's board in June. Last month, the company's original CFO, Scott McPherson, returned to become its CFO again. He has 20 years of CFO experience with private and public companies and, according to management.

APP ENHANCEMENT

On June 2, 2015, *Oink* released an upgraded app, which includes P2P functionality that allows teens to receive deposits to their accounts from family and friends. Users can also reload their accounts and receive funds from others using their mobile devices and mobile *Oink* account, enhancing flexibility.

In the fourth quarter of 2014, the company launched an *Oink* prepaid card with Discover Financial Services (DFS-not rated). The *Oink*-branded Discover card is linked to the online account and allows *Oink* users to shop in the more than 25 million locations worldwide that accept the Discover Card. Discover Financial Services has indicated that the Discover brand has the highest acceptance among the top 100 U.S. retailers and adds 5,000+ additional merchants daily. *Oink* users will be able to use the card at bricks-and-mortar stores under the same parental controls that parents have established for their online accounts. Parents will be able to control payments through the *Oink* dashboard, add funds, monitor spending, authorize and prohibit categories, just as they control online spending. The company believes the card will drive both user registration and merchant signings. Users can reload the *Oink* card from their mobile device using the *Oink* app.

FINANCIAL UPDATE

1H15 Results

The company reported 2Q15 results on August 10, recognizing revenue of $5,277 compared to $1,253 generated in 2Q14. The volume of transactions has climbed. For example, in 1Q15 transaction volume increased 5-fold compared to 1Q14. Nevertheless, transaction volumes and revenue remain below the level necessary to support the company's operations, as management has noted. The company expects that as it adds merchants, particularly online gaming companies, transaction volume will grow. Management is also optimistic about the potential impact of the *Oink* branded Discover Card program that it launched in 4Q14. The company charges card users an annual $10 fee and usage fees and also receives fees from Discover for each transaction made via the *Oink* card.

The company has implemented certain cost reduction measures. As a result, operating expense of $2,076,168 were 49% lower compared to $4,061,300 recognized in 2Q14. The company reported a net loss of ($2,133,739) for 2Q15 versus ($1,873,143) for 2Q14. 2Q14 net results were positively impacted by a non-cash benefit of $2,184,750 related to the derivative liability.

The company recognized revenues of $9,386 for 1H15 compared to $1,678 for 1H14. This represents a greater than 5-fold increase but is still not sufficient, as management has noted, to support the company's ongoing operations. On the higher revenue and lower cost structure, Virtual Piggy recognized a net loss to shareholders of ($5,845,075) versus ($13,494,018) for 1H14. We have revised our 2015 projections to reflect 1H15 results. We are also lowering our six month price target to $0.30.

Balance Sheet

The company ended 2Q15 with cash of $409,712 and notes payable to stockholders of $2.9 million. The notes mature in March of 2016 and are convertible into series B preferred shares, at the noteholders option. Subsequent to the quarter on August 12, 2015, the company issued a $100,100 10% note to an accredited investor who also received a two-year warrant to purchase 20,000 VPIG shares at $0.90 per share. Virtual Piggy has indicated that it likely will continue to require additional financing.

RECENT NEWS

On April 7, 2015, Virtual Piggy announced a partnership with *History In The Making.*

On April 9, 2015, Virtual Piggy launched a program with *100 Black Men*.

On April 10, 2015, Virtual Piggy retained Viant Capital to help with strategic alternatives.

On April 23, 2015, Virtual Piggy announced an agreement with *Talent Card LLC* to deliver the *Oink* technology to the American Evangelical Community.

The company upgraded the *Oink* app to enable mobile P2P payments on June 2, 2015.

On June 11, 2015, *Oink* partnered with SAARA to launch a branded card in tandem with the release of her *Ur Cool* album.

On June 16, 2015, the company announced the appointment of two banking industry veterans to its board of directors.

Virtual Piggy's original CFO returned to the company on July 21.

The company reported 2Q15 results on August 10, 2015.

On August 12, 2015, Virtual Piggy issued a $100,100 promissory note.

RISKS

We believe risks include the following, among others:

- The company has not generated meaningful revenue, which could continue longer than management anticipates.
- A better capitalized competitor could develop a COPPA compliant solution.
- The company has indicated that it likely will pursue additional financings, which could be dilutive to current shareholders.
- Adoption of *Oink* could be slower than anticipated or never materialize at all in a meaningful way if the company's target market continues using their current payment methods.
- Increased spending on marketing and technology could drive operating losses higher and also delay Virtual Piggy's reaching break-even.
- The company may encounter headwinds in signing new merchants and technology companies.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Virtual Piggy, Inc. Income Statement and Projections ($)

	1Q14	2Q14A	3Q14A	4Q14A	2014A	1Q15	2Q15A	3Q15E	4Q15E	2015E
Revenue	425	1,253	736	3,294	5,708	4,109	5,277	6,860	9,261	25,507
Sales and marketing	1,197,412	1,490,016	1,195,440	1,213,166	5,096,034	889,237	509,039	503,949	498,909	2,401,134
Product development	885,974	818,598	871,093	681,614	3,257,279	590,870	505,924	500,865	495,856	2,093,515
Integration and customer suppo	187,039	188,102	281,409	158,533	815,083	61,838	58,872	58,283	57,700	236,694
General and administrative	1,217,303	1,284,536	1,555,652	1,321,153	5,378,644	1,492,252	798,833	790,845	782,936	3,864,866
Strategic consulting	-	280,048	251,533	7,627	539,208	135,000	203,500	201,465	199,450	739,415
Total operating expenses	3,487,728	4,061,300	4,155,127	3,382,093	15,086,248	3,169,197	2,076,168	2,055,406	2,034,852	9,335,624
Operating loss	(3,487,303)	(4,060,047)	(4,154,391)	(3,378,799)	(15,080,540)	(3,165,088)	(2,070,891)	(2,048,546)	(2,025,591)	(9,310,116)
Interest income	1,502	2,439	1,959	702	6,602	149	150	149	147	595
Interest expense	(94,280)	(285)		(1)	(94,566)	(14,247)	(62,998)	(62,368)	(61,744)	(201,357)
Chg fair value embedded deriva	(2,185,375)	2,184,750	1,194,600	4,319,691	5,513,666	-	-	-	-	-
Total other	(2,278,153)	2,186,904	1,196,559	4,320,392	5,425,702	(14,098)	(62,848)	(62,220)	(61,597)	(200,763)
Net (loss)/ income	(5,765,456)	(1,873,143)	(2,957,832)	941,593	(9,654,838)	(3,179,186)	(2,133,739)	(2,110,766)	(2,087,188)	(9,510,879)
Less: Deemed dividend distribu	(2,366,419)	(3,489,000)	(439,397)	63,556	(6,231,260)		-	-	-	-
Less: Accrued preferred dividends					(723,649)	(264,605)	(267,545)	(264,870)	(262,221)	(1,059,240)
Net to shareholders	(8,131,875)	(5,362,143)	(3,397,229)	281,500	(16,609,747)	(3,443,791)	(2,401,284)	(2,375,635)	(2,349,409)	(10,570,120)
LPS	($0.07)	($0.05)	($0.03)	$0.00	($0.14)	($0.03)	($0.02)	($0.02)	($0.02)	($0.09)
Avg. shares out.	114,818,293	117,041,436	117,117,626	117,784,293	116,690,412	119,117,626	119,167,626	119,169,626	119,171,626	119,156,626

Virtual Piggy, Inc. Balance Sheet ($)

	Dec-12	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Cash & equivalents	$7,371,036	$4,583,551	$1,752,461	$4,108,065	$5,914,803	$2,431,915	$1,652,392	$1,455,824	$409,712
Accounts Receivable	53	955	1,000	1,285	1,264	2,356	7,607	7,550	6,544
Insurance receivable	75,000	-	4,325	-	-				
Prepaid expenses	20,500	200,771	220,908	280,526	677,527	446,806	591,929	326,539	412,320
Total current assets	7,466,589	4,785,277	1,978,694	4,389,876	6,593,594	2,881,077	2,251,928	1,789,913	828,576
Computer equipment	70,149	99,156	89,021	93,654	103,868	106,250	109,978	112,958	115,522
Furniture and fixtures	46,130	53,714	57,238	83,981	99,710	99,710	79,634	79,634	79,634
Leasehold Improvements	-	-	-	8,350	54,700	75,135	81,659	81,659	81,659
Less: accumulated depreciation	(19,580)	(40,054)	(41,544)	(46,016)	(57,915)	(73,379)	(91,742)	(110,727)	(131,465)
Net property & equipment	96,699	112,816	104,715	139,969	200,363	207,716	179,529	163,524	145,350
Deposit	65,000	63,510	118,118	346,949	313,010	248,649	46,483	39,230	39,230
Patents and trademarks	362,496	604,572	739,657	784,152	705,717	769,212	636,230	655,791	645,997
Total assets	**$7,990,784**	**$5,566,175**	**$2,941,184**	**$5,660,946**	**$7,812,684**	**$4,106,654**	**$3,114,170**	**$2,648,458**	**$1,659,153**
Accounts payable & accrued exp	704,602	1,393,206	2,149,681	1,596,488	1,124,240	1,211,658	829,372	888,989	1,024,614
Deferred revenue							2,685	7,892	10,361
Litigation settlement	450,000	-	-	-	-				
Notes payable	-		913,913	-	-	439,397	-	2,000,000	2,940,000
Preferred stock dividend liability							723,649	988,254	1,255,799
Embedded derivative liability	-	-	-	3,834,200	5,138,450	3,943,850	-		
Total current liabilities	1,154,602	1,393,206	3,063,594	5,430,688	6,262,690	5,594,905	1,555,706	3,885,135	5,230,774
Stockholders' equity	**$6,836,182**	**$4,172,969**	**($122,410)**	**$230,258**	**$1,549,994**	**($1,488,251)**	**$1,558,464**	**($1,236,677)**	**($3,571,621)**
Liabilities & stockholders' equity	**$7,990,784**	**$5,566,175**	**$2,941,184**	**$5,660,946**	**$7,812,684**	**$4,106,654**	**$3,114,170**	**$2,648,458**	**$1,659,153**

Source: Company reports, Zacks Small Cap Research

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 26.2%, Hold/Neutral- 56.4%, Sell/Underperform – 14.4%. Data is as of midnight on the business day immediately prior to this publication.