Zacks Small-Cap Research

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Net Element Inc. (NETE-NASDAQ)

NETE: Complicated Financing and Pending Acquisition Clouds Company's Valuation

Current Recommendation	**BUY**
Prior Recommendation	N/A
Date of Last Change	10/15/14
Current Price (06/26/15)	$0.43
Target Price	**$1.43**

OUTLOOK

Net Element is a software and services company, in global online payments. It operates a small merchant processor in the US and a mobile payment processor in Russia. It is expected to close on the acquisition of PayOnline, a market leader in the Russian Federation in online payments, that will more than double its current staff and adds significantly to revenues, this quarter. In 2015 we expect the company to focus on growth by expanding product offerings and geographic reach often through partnerships.

SUMMARY DATA

52-Week High	**$5.70**
52-Week Low	**$0.43**
One-Year Return (%)	**-76.32**
Beta	**0.13**
Average Daily Volume (sh)	**909,041**
Shares Outstanding (mil)	**56**
Market Capitalization ($mil)	**$24**
Short Interest Ratio (days)	**2.05**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**26**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**324.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**0**
P/E using TTM EPS	**N/M**
P/E using 2015 Estimate	**N/M**
P/E using 2016 Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Internet Commerce**
Zacks Rank in Industry	**17 of 29**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.9 A	5.6 A	6.5 A	5.8 A	18.7 A
2014	4.8 A	4.9 A	6.0 A	5.4 A	21.2 A
2015	5.5 A	5.8 E	7.5 E	8.3 E	26.5 E
2016					33.0 E

Earnings per Share
(Non-GAAP EPS before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.10 A	-$0.11 A	-$0.11 A	-$0.12 A	-$0.44 A
2014	-$0.11 A	-$0.07 A	-$0.05 A	-$0.00 A	-$0.19 A
2015	-$0.04 A	-$0.03 E	-$0.03 E	-$0.01 E	-$0.10 E
2016					-$0.10 E

Zacks Projected EPS Growth Rate - Next 5 Years **25%**

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WHAT'S NEW

Post Q1 Financing to Acquire PayOnline Clouds Company Valuation

While investors are cautiously optimistic about Net Element's pending acquisition of PayOnline, the dearth of financial information on the target and the complicated financing to fund it are off-putting.

On April 30, 2015, NETE sold $5.5 million of 5,500 shares of newly-issued Series A convertible preferred stock with a 9% dividend (and a default rate of 18%) with accelerated principal and dividend payments payable monthly in cash and/or shares of common stock through October, 2015. It matures April 20, 2017. It is convertible into common at $1.74 per share adding 3.16 million shares to the fully diluted number. On May 13, 2015, certain holders of this preferred stock converted 92 preferred shares into 139,713 shares of common stock. The dividend it expects to be paid in common stock not cash and self liquidating preferred plus interest payable will add between 7.5 and 9 million shares per quarter to the outstanding depending on the stock price.

On April 30, 2015, NETE also sold $5 million of 7% senior convertible notes convertible into common and warrants and mature on April 30, 2018. The notes are convertible at $1.624 per share. The warrants have a term of three years and an exercise price of $1.74 per share.

Given that shares outstanding each quarter will vary greatly depending on share price, we can only look to the end point shares outstanding some time in March 2015. With what we know, we expect the fully diluted shares outstanding to be **approximately 80 million shares** at that time. At $0.43 a share this is a **market capitalization of $34 million**. So if we take the original $27 million in revenues expected next year for the base business, and add another $5 million for PayOnline revenues in 2015, we get $32 million in revenues or **1.1 times market cap to sales-- an inexpensive valuation based on comparables trading at 4.6 times.**

Once we have some data on PayOnline, and a look at the balance sheet we can refine this. Given what we believe to be in the ballpark numbers, we believe Net Element could be considerably undervalued. We will not be adding numbers from PayOnline to our model until the deal actually closes and then we will rework the model. **If the company could reach the average valuation of its peer, its common stock could be worth $1.43 per share twelve months from now based on an industry average valuation of approximately 4.6xs enterprise value to sales, up 232%.**

Q1 Earnings Exceed Expectations

On March 31, Net Element reported earnings for the quarter ending March 31, 2015. Revenues were $5.5 million versus $4.8 million, up 14% year over year. Non-GAAP EPS, which excludes stock based compensation was a loss of $0.04 versus a loss of $0.11 last year. This quarter the company had no extraordinary write-offs or gains.

Revenue grew sequentially despite seasonal softness as credit card processing volume increased. Because of product mix toward the card processing business and a decline in mobile payments, gross margin was very low at 17% versus 27% last year. The credit card business increased 27% while mobile was down 52% as Q1 2014 was before the mobile business was restructured in Q2 2014.

Gross margin dollars were $0.9 million versus $1.3 million in 2014, but lower expenses lessened the operating loss. G&A was $2.6 million versus $3.1 million, a decline of $500,000. Depreciation and amortization also declined slightly as some expense from old credit card portfolios ran off.

The operating loss declined to $2.2 million versus $2.5 million in 2014.

Most significantly, interest expense declined a million dollars due to the financial restructuring. On a non-GAAP basis taking out one-time expenses and gains and stock-based compensation, the company results were much improved. We expect the company to continue to reduce its operating loss sequentially each quarter as the year progresses. However, the acquisition of PayOnline will cause a huge change in the model and we expect it to be accretive and reduce losses and enable the company to reach profitability more quickly. While we still have no clarity on the size and the profitability of PayOnline, NETE management believes they are getting a good deal on the price, that the company is profitable. We expect it to close soon, at which time we will revisit our model and valuation.

A Recap on PayOnline—A Major Mobile Payment Company in Russia

On March 17, 2015, the company announced it entered into a binding offer letter to purchase PayOnline based in Moscow from SD Ventures, for $3.6 million in cash, $3.6 million in restricted stock, plus the possibility of another $1.28 million in stock based on earn-out hurdles. The deal is expected to close once all assets have been transferred to Net Element, but financials are expected to be consolidated as of the May 20, 2015 date. The earn-out is based on PayOnline reaching a certain EBITDA for certain post-closing periods, multiplied by 1.35, and will be paid in March 2016 based on 2015 results. The company is currently profitable. We believe the company is at more than a $3 million run rate. The cash will be funded by the sale of stock from Net Elements' current shelf registration backed up with $7 million of its $10 million line of credit. There are a number of synergies between the two companies and each hopes to expand geographically into each other's current business territories. Almost immediately, Net Element will help PayOnline expand in Kazakhstan.

PayOnline is a processor of online payments and works with four or five major banks in Commonwealth of Independent States, Europe and Asia. It has 10 million active customers and more than 3,000 merchants. It has a high level of fraud protection, works with MasterCard and Visa and is integrated into travel platforms such as SABER, Galileo and GDS. In addition to online web-based payments the company also has a mobile app that provides a wallet that can be used for person-to-person payments.

Net Element says that PayOnline is profitable and the acquisition should be accretive. Due to the purchase price we expect that the company could be over a $3 million run rate at minimum and will add significantly to Net Element. Over 100 employees may be added to Net Element with almost all based in Russia.

Other Events in Q1 2015

Unified Payments Adds Sales Tools for Selling Partners

On March 23, 2105, the company announced the release of its "Sales Central" portal to aid its sales partners and merchants in selling and managing customers using Net Element processing services. It allows Independent Sales Groups to onboard and monitor merchant customers on multiple processing platforms through a single interface. Merchants on the other hand, get an integrated reporting, accounting and analytics back office. It provides a variety of reporting tools along with easy to understand charts to analyze sales and improve performance. This new offering combined with the Aptito front-end platform provides a unique offering for Net Element customers and even more reason to sign up and stay with the company.

UAE-based Group to Provide Payment Solution in the ME and India

In a geographic expansion, the company created a join venture with a group based in the United Arab Emirates to provide Net Element's payment solutions to merchants in the Middle East (Gulf Cooperation Council) and India. This venture will be entirely funded by the outside partners who will own 80% of the

venture, with Net Element owning the remaining 20%.

Strategic Partnership With TAS Group

On April 2nd, Net Element announced an effort to develop and promote Europay, MasterCard, and Visa ("EMV") chip-enabled solutions, card management systems, and mobile payment technologies in the US, Latin America, Russia, CIS, Middle East, India and Africa in conjunction with Rome-based TAS Group (Italian Stock Exchange: TAS). TAS Group will license its technology to Net Element and will also sell Net Element's mobile and payment services to its customers and resellers. TAS Group recently opened an NYC office to pursue opportunities in EMV migration in the USA, using its expertise as a leader in Europe.

Net Element, who as we said has 18% of its customers in education, plans to help sell TAS Group's **TAS Campus**. This is an EMV-ready prepaid system for use by students and faculty for multiple applications. Aptito's customers will also be able to issue prepaid and gift cards using EMV technology.

The two companies plan to create a product- the "Unified Duex" card that allows two cards to be linked to one account. It can work as either a prepaid card, or one-time use card, and it can be linked to a checking account. It is a branded Mastercard/Visa card it has universal acceptance. The company believes the biggest **opportunity for this card is for people that want to send money to their family members living outside the USA**, in which case it would be a competitor to Western Union, Xoom, Moneygram and other high priced services.

Since Q1 Was Reported:

Net Element launched Aptito version 2.9, a proprietary cloud-based, hospitality focused Point-of-Sale (POS) system, providing universal payment acceptance and numerous restaurant productivity upgrades. This version integrates EMV chip technology and Apple Pay and provides a new flexible pricing structure. Also its direct Aptito integration with payments processor, Total System Services (TSYS) allows merchants to bypass third-party gateway fees. Specific new features include: WiFi enabled interactive kitchen display, multiple happy hour pricing management, Bluetooth printer integration and improved employee management including automated time card and shift reports.

The company launched its online payments processing business in Kazakhstan by securing a contract with Kassir.com, the country's largest online events ticketing website and 2nd largest online merchant serving the Kazakhstan market.

PayOnline released a new mobile software developer kit (SDK) for iOS that enables integration of PayOnline transaction processing into iPad and iPhone apps.

A new contract with the majority owner of the dating networks, Social Discovery Ventures ("SDV") was signed. It provides minimum net revenues to PayOnline in the amount of $1.2 million over 3 years and a minimum transaction processing commitment of $300 million. We believe this is the renewal of a current contract.

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 and Russia and ultimately globally.
- The new CEO took his former company, Unified Payments, from 0 to $67 million in revenues in two years. We believe he has the experience and drive to replicate this success with Net Element.

- Management has been restructuring operations and finances and with a lower cost structure and far less debt, the company should now be positioned to accelerate sales in 2015 and beyond.
- The company has an increasingly robust platform to create a global payment system complete with merchant from end and should be able to expand geographically.
- We believe the company could grow to $27 million in revenues in 2015 through a combination of internal growth as well as acquisitions and partnerships and reach cash flow breakeven for 2016. Revenues should be higher than that once PayOnline is added in.
- If NETE achieves our forecasts, we believe its common stock could be worth $1.43 per share twelve months from now based on an industry average valuation of approximately 4.6xs enterprise value to sales, up 232%.

VALUATION

There are a number of public companies in the merchant acquiring/processing business. The largest is Cielo with a $23 B enterprise value located in Brazil. The smallest is we are using is Qiwi, who runs payment systems in the Russian Federation and is based in Moscow and has a $1 billion enterprise value. The rest are located in the US. All are profitable and we expect that NETE will have to meet that hurdle in order to be awarded a comparable value. If we take the average enterprise value to sales of this group of companies of 4.6 times sales and apply it to the revenues we expect Net Element to generate next year, and its fully diluted share count next year, and turn that back to price per share we get a conservative share value of $1.43. With greater clarity on PayOnline's contribution, estimates will be adjusted accordingly.

Merchant Acquring/Processing

	Ticker	Revenue		EBIDTA	Enterprise Value / Sales		Included
Company		2015E	LTM	Margin	2015E	LTM	in Average?
Cielo	CIOXY	NA	$2,420	50%	NA	9.5x	n
Vantiv	VNTV	$1,630	$2,750	24%	5.4x	3.2x	y
Total System Services	TSS	$2,660	$2,520	29%	3.4x	3.6x	y
Global Payments	GPN	$2,843	$2,740	21%	3.0x	3.1x	y
EVERTEC	EVTC	$373	$365	45%	6.6x	6.7x	y
Heartland Payment Systen	HPY	$796	$2,390	13%	3.2x	1.1x	y
Qiwi	QIWI	$183	$169	32%	6.4x	6.9x	y
Average				**27%**	**4.6x**	**4.1x**	

	Projected Revenue		EBITDA	Enterprise Value / Sales		Valuation Range	
	2015E	LTM	Margin	2015E	LTM	Low	High
Net Element	**$32**	**$21**	**NM**	**4.6x**	**4.1x**	**$86**	**$149**
YoY growth							

Conclusion of Enterprise Value	**$117,478,012**
Market Value	**$114,666,355**
Shares Outstanding	80,000,000
Price per Share	**$1.43**

RISKS

- The company is losing money and may not be able to reach profitability or maintain positive cash flow.
- The company is involved in a number of lawsuits with former management.
- The Russian mobile and online payment market is still in its infancy and there is no assurance the country will adopt this method to pay for goods and services.
- 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.
- Operations in Russia and the United Federation face considerable political risk and may be prohibited from certain transactions by governments.
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

INCOME STATEMENT (Without PayOnline)

	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	31-Mar-15	30-Jun-15 (est.)	30-Sep-15 (est.)	31-Dec-15 (est.)	2014	2015E	2016E
Credit card processing	$4.1	$4.6	$5.6	$5.2	$5.2	$5.4	$5.8	7.1	$19.4	$23.50	$27.03
Yr-over-yr Growth	NM	-0.6%	1.0%	10.9%	26.5%	18.1%	4.2%	38.0%	31.0%	21.2%	15.0%
Credit card cost of service	NA	NA	4.8	4.4	4.6	4.6	5.0	6.1	15.9	20.2	23.2
Gross margin	NA	NA	0.8	0.7	0.6	0.8	0.8	1.0	3.5	3.3	3.8
Gross margin %			14.4%	14.0%	11.2%	14.0%	14.0%	14.0%	18%	14.0%	14.0%
Mobile payments	0.8	0.3	0.5	0.250	0.363	0.5	0.6	0.8	1.8	2.3	5.5
Yr-over-yr Growth	-13.6%	-66.3%	-54.4%	-75.2%	-51.6%	47.8%	34.4%	226.4%	-54.4%	27.8%	139.1%
Mobil Payments Cost of Service	NA	NA	(0.0)	0.0	0.0	0.0	0.0	0.0	(0.0)	0.1	0.3
Gross Margin	NA	NA	0.5	0.2	0.3	0.5	0.6	0.8	1.8	2.2	5.2
Gross margin %	NA	NA	110.0%	95.0%	95.0%	95.0%	95.0%	95.0%	102%	95.0%	95%
Total revenues	4.8	**4.9**	**6.0**	**5.4**	5.5	5.9	6.4	7.9	**21.2**	**25.8**	**32.5**
Yr-to-yr Growth	457.9%	-12.4%	-7.6%	-5.9%	14.4%	20.1%	6.5%	46.7%	13.0%	21.7%	26.1%
Costs and expenses:											
Cost of revenues	3.5	3.3	4.7	4.3	4.6	4.7	5.0	6.2	15.9	20.3	23.5
Gross Margin	1.315	1.6	1.3	1.1	0.926	1.2	1.4	1.8	5.3	5.5	9.0
% of Sales	27.1%	31.9%	21.7%	20.7%	16.7%	20.9%	21.8%	22.3%	25.1%	21.2%	28.0%
G&A	3.1	2.5	2.4	3.2	2.6	2.7	2.8	2.9	11.4	11.0	11.6
Provision for loan losses	0.1	(1.5)	0.1	0.1	0.0	0.0	0.0	0.0	(1.2)	0.0	0.0
Depreciation and amortization	0.6	0.6	0.7	0.5	0.4	0.4	0.4	0.4	2.4	1.8	2.6
One-time charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total operating expenses	3.8	1.6	3.3	3.8	3.1	3.1	3.3	3.3	12.6	12.8	14.2
Loss from operations	(2.5)	(0.1)	(1.9)	(2.7)	(2.2)	(1.9)	(1.9)	(1.6)	(7.2)	(7.3)	(5.1)
Loss from operations ex-one time	(2.5)	(1.3)	(1.9)	(2.7)	(2.2)	(1.9)	(1.9)	(1.6)	(8.4)	(7.3)	(5.1)
Interest expense, net	(1.1)	(1.8)	(0.8)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(3.7)	(0.5)	(0.5)
Other expense	(0.0)	(0.0)	(0.1)	(0.1)	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0
One-time charges	0.0	3.2	(2.1)	(0.1)	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Total non-operating expenses	(1.1)	1.4	(3.0)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(2.9)	(0.5)	(0.5)
Loss from continuing operations before tax	(3.6)	1.3	(4.9)	(3.0)	(2.2)	(2.0)	(2.0)	(1.7)	(10.1)	(7.8)	(5.6)
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
Loss from continuing operations	(3.6)	1.3	(4.9)	(3.0)	(2.248)	(2.0)	(2.0)	(1.7)	(10.2)	(7.8)	(5.6)
Minority interest	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net loss	(3.6)	1.3	(4.9)	(3.0)	(2.2)	(2.0)	(2.0)	(1.7)	(10.2)	(7.8)	(5.6)
Foreign currency translation gain (loss)	1.3	(0.1)	(0.3)	(2.0)	(0.1)	0.0	0.0	0.0	(1.1)	0.0	0.0
Comprehensive loss	(2.3)	1.2	(4.6)	(4.9)	(2.3)	(2.0)	(2.0)	(1.7)	(11.3)	(7.8)	(5.6)
Earnings ex-one time charge	(2.2)	(1.9)	(2.7)	(3.0)	(2.3)	(2.0)	(2.0)	(1.7)	(11.2)	(7.8)	(5.6)
Stock-based compensation	0.1	0.7	0.5	3.0	0.6	0.5	0.5	0.5	4.3	2.1	2.0
Non-GAAP Earnings	(3.6)	(1.2)	(2.2)	0.0	(1.7)	(1.5)	(1.5)	(1.2)	(6.9)	(5.7)	(3.6)
Yr-to-yr Growth	25%	-62%	-34%	-101%	-51%	25%	-34%	-3522%	-64%	-18%	
GAAP EPS	**($0.09)**	**$0.04**	**($0.12)**	**($0.11)**	**($0.05)**	**($0.04)**	**($0.04)**	**($0.03)**	**($0.27)**	**($0.16)**	**($0.12)**
Loss per share - discontinued operations	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total loss per share	($0.11)	$0.04	($0.12)	($0.11)	($0.05)	($0.04)	($0.04)	($0.03)	($0.27)	($0.16)	($0.12)
Loss per share ex-one time	($0.07)	($0.06)	($0.12)	($0.11)	($0.05)	($0.04)	($0.04)	($0.03)	($0.27)	($0.16)	($0.12)
Fully dil. Loss per share ex-one time	($0.05)	($0.05)	($0.10)	($0.09)	($0.04)	($0.03)	($0.03)	($0.02)	($0.24)	($0.12)	($0.07)
Non-GAAP EPS	**($0.11)**	**($0.04)**	**($0.06)**	**$0.00**	**($0.04)**	**($0.03)**	**($0.03)**	**($0.02)**	**($0.19)**	**($0.12)**	**($0.07)**
Yr-to-yr Growth									-73%	-37%	-36%
Share outstanding	32.4	32.4	39.3	44.8	46.1	47.6	49.1	50.6	37.3	48.4	48.4
Yr-to-yr Growth	15%	15%	40%	53%	42%	47%	25%	13%	31%	30%	0%
Fully diluted shares	41.3	41.3	48.3	53.7	55.1	58.7	61.4	79.0	46.3	63.6	80.0
Yr-to-yr Growth	11%	11%	30%	40%	33%	42%	27%	47%	24%	37%	26%

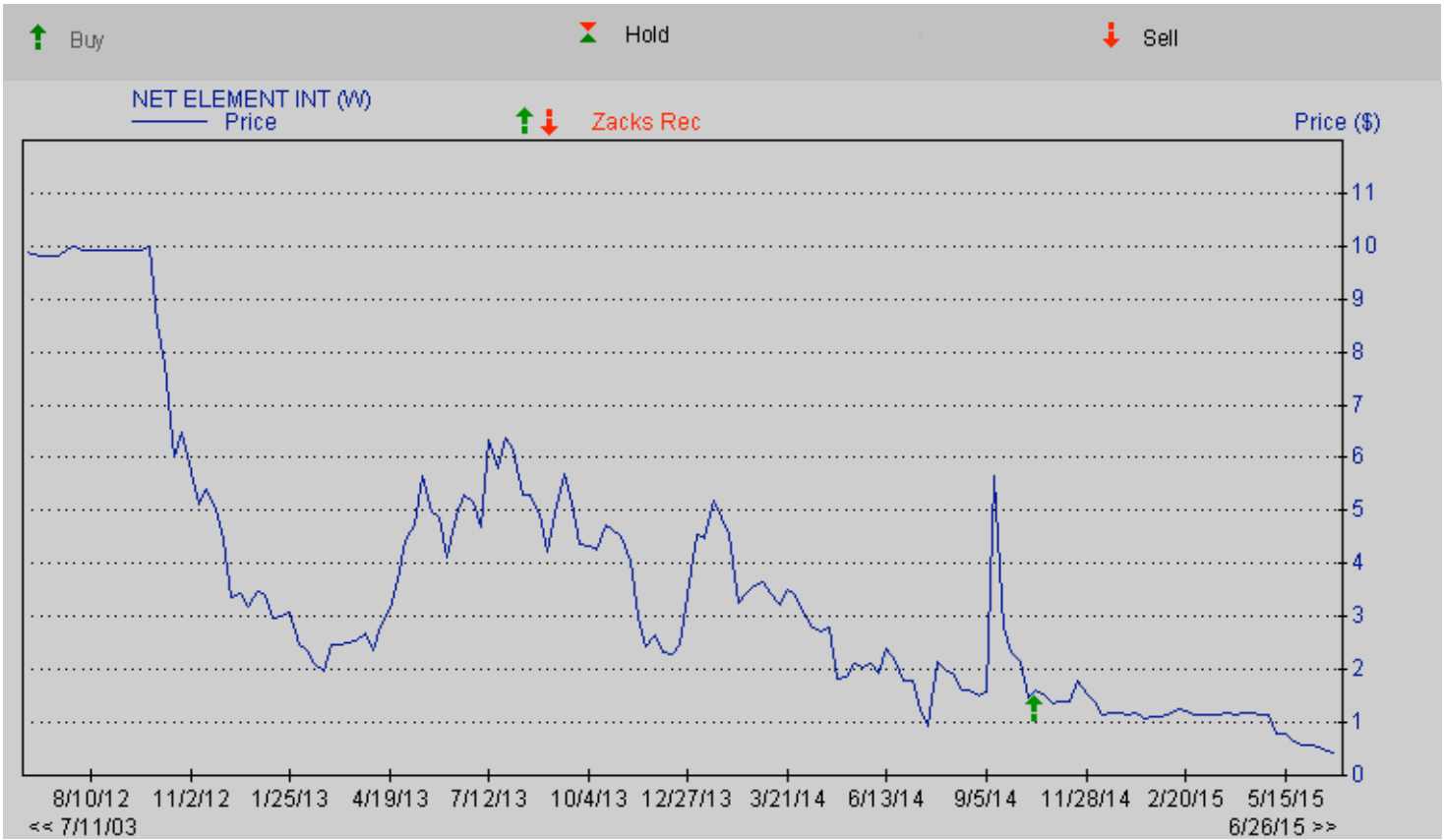
QUARTERLY CASH FLOW

CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $)	31-Mar-14	30-Jun-14	30-Sep-14	Dec. 31, 2014
Cash flows from operating activities:				
Net loss	($3,593,328)	$1,347,769	($9,058,834)	$1,118,877
Adjustments to reconcile net loss to net cash used in operating activities:				
Non controlling interest	($28,690)	($12,965)	$417,714	$18,227
Non-Cash Compensation	$52,050	$700,468	$4,621,436	($1,106,620)
Deferred revenue	$0	($81,386)	$107,696	$206,774
Depreciation and amortization	$591,699	$624,792	$684,504	$457,141
Amortization of debt discount	$0	$1,644,626	$0	$0
Loss attributable to inv in subsidiary		$46,113	$0	$0
(Recovery of) provision for loan losses	$0	($1,438,704)	($201,406)	($9,748)
Loss on disposal of fixed assets	$0	$28,320	($12,183)	$0
Gain on disposal of derivative	$0	($5,569,158)	$0	$0
Loss on debt extinguishment	$0	$3,962,406	$2,221,813	$0
Gain on MBF debt restructure	$0	($1,596,000)	$0	$0
Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates				
Account receivable	$4,487,829	$1,283,696	$2,503,158	($1,299,982)
Advances to aggregators	($5,580)	$2,680,808	($1,752,212)	$11,800
Prepaid expenses and other assets	$87,008	($392,382)	$34,732	($174,913)
Accounts payable	($252,415)	($299,957)	$241,407	($27,653)
Accrued expenses	-599629	($283,342)	($186,559)	$100,921
Adjustments for operating activities of continuing operations	$4,332,272	$1,297,335	$8,680,100	($1,824,053)
Net cash provided by (used in) operating activities	$738,944	$2,645,104	($378,734)	($705,176)
Cash flows from investing activities - net of acquisitions:				
Purchase of portfolio and client acquisition costs	$0	($1,260,339)	($78,757)	$299,344
Note receivable	$0	$0	$0	($2,650)
(Purchase) disposal of fixed and other assets	($51,004)	$50,063	($4,078)	($745,917)
Net cash (used in) provided by investing activities	($51,004)	($1,210,276)	($82,835)	($446,573)
Cash flows from financing activities - net of acquisitions:				
Proceeds from indebtedness	$1,932,266	$6,947,632	$0	$1,208,972
Repayment of indebtedness.	($1,085,027)	($6,670,990)	($3,810,785)	$1,133,435
Note Payable (non-current)		($3,030,666)	$3,030,666	$0
Related party advances (payments)	($754,240)	($1,039,183)	$1,793,423	$418,099
Net cash provided by financing activities	$92,999	($3,793,207)	$1,013,304	$2,760,506
Effect of exchange rate changes on cash	($130,227)	$2,853,064	($371,967)	($2,508,135)
Net increase (decrease) in cash	$650,712	$494,685	$179,768	($899,378)
Cash at beginning of period	$126,319	$777,031	$1,271,716	$126,319
Cash at end of period	$777,031	$1,271,716	$126,319	$503,343
Supplemental disclosure of cash flow				
Cash paid during the period for Interest	$574,233	($249,517)	$1,013,686	($228,671)
Cash paid during the period for Taxes	$167,610	$62,581	$68,653	($259,851)
Issuance of stock upon conversion of indebtedness	$0	$10,637,092	$0	$14,596,381

BALANCE SHEET

	March 31, 2014	Dec. 31, 2014	% Change
Current assets:			
Cash	**$766,279**	**$503,343**	52%
Accounts receivable, net	3,275,720	3,417,173	-4%
Advances to aggregators, net	0	18,455	-100%
Prepaid expenses and other assets	755,674	944,243	-20%
Total current assets	4,797,673	4,883,214	-2%
Fixed assets, net	60,850	70,918	-14%
Intangible assets, net	2,273,695	2,492,050	-9%
Goodwill	6,671,750	6,671,750	0%
Other long term	225,189	204,737	10%
Total assets	14,029,157	14,322,669	-2%
Current liabilities:			
Accounts payable	$3,398,814	$2,698,257	26%
Deferred revenue	437,625	472,482	-7%
Accrued expenses	2,372,425	2,351,885	1%
Notes payable (current portion)	**318,405**	**98,493**	223%
Due to related parties	**125,000**	**0**	
Total current liabilities	6,652,269	5,621,117	18%
Notes payable (non-current portion)	3,646,595	3,216,507	13%
Total liabilities	10,298,864	8,837,624	17%
STOCKHOLDERS' DEFICIT			
Preferred stock	0	0	
Common stock	4,618	4,589	1%
Paid in capital	137,290,970	136,689,629	0%
Stock subscription	(1,111,130)	(1,111,130)	0%
Accumulated other comprehensive income (loss)	(1,359,628)	(1,251,461)	9%
Accumulated deficit	(131,355,552)	(129,116,344)	2%
Noncontrolling interest	261,015	269,762	-3%
Total stockholders' deficit	3,730,293	5,485,045	-32%
Total liabilities and stockholders' deficit	14,029,157	14,322,669	-2%
Net Cash	322,874	404,850	-20%
Current Ratio	0.7	0.9	-17%
Quick Ratio	0.7	0.9	-17%
Total Debt	4,090,000	3,315,000	23%
Debt/TA	29%	23%	26%

HISTORICAL ZACKS RECOMMENDATIONS



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