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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Updating For Vicis Redemption, Accounting Change

OUTLOOK

The expectation is that sales should significantly ramp with growth in revenue from voucher printing - which should pick as SampleMD's distribution is further expanded. The additional functionality and integration into new solutions should also increase awareness, increase value to the end user, increase the physician base and utilization, help to increase the number of drugs promoted, and expand opportunities for further growth. New EHR consulting business is off to strong start and could contribute in the near term. OPRX's business model is super scalable. OPRX was cash flow positive in Q4, full-year 2012 and 9mths 2013. Revenue up 146% in 2013. Distribution growth numbers are very encouraging. Further revenue growth could mean earnings/EPS/cash flow really accelerate.
We are maintaining our Outperform rating.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (03/18/14)	$1.78
Target Price	**$3.50**

SUMMARY DATA

52-Week High	**$2.12**
52-Week Low	**$0.86**
One-Year Return (%)	**5.07**
Beta	**2.06**
Average Daily Volume (sh)	**67,149**
Shares Outstanding (mil)	**15**
Market Capitalization ($mil)	**$27**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**346.6**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2014 Estimate	**29.7**
P/E using 2015 Estimate	**10.5**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Comp-Software**

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	329 A	515 A	453 A	751 A	2,049 A
2013	669 A	1104 A	1373 A	1884 E	5,030 E
2014					9,259 E
2015					17,918 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.03 A
2013	-$0.01 A	$0.01 A	$0.00 A	$0.01 E	$0.02 E
2014					$0.09 E
2015					$0.17 E

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

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WHAT'S NEW....

Vicis Redemption

This morning (3/14/2014) OPRX announced completion of a $10M common stock sale (8.33M shares @ $1.20) which will be used to redeem all OPRX securities held by Vicis Capital. In January Vicis agreed to reduce the price of the redemption option from $9M to $6M.

The buyout takes out 35 preferred “A” shares (convertible into 3.5M common shares), 30M preferred “B” shares (convertible into 3M common shares), and common shares and warrants held by Vicis. The net effect will be a reduction of just over 7M dilutive shares outstanding. OPRX will also be relieved of $650k in annual preferred dividends, which had been paid with common stock. Net of ~$970k in placement fees, OPRX will also add about $3M in cash to their balance sheet from this capital raise.

We have updated our model for this equity sale and securities redemption. Our model also reflects the recent change in accounting treatment of revenue share expense (we have not restated prior periods nor included a potential non-cash charge in the current periods, however).

OPRX had previously been using cash accounting methods to recognize revenue share payments. In February the company announced that they will now be recording this expense as it occurs (accrual accounting). While this has no effect on prior or our forecasted revenue, it does increase our forecasted operating expenses and explains why revenue share expense had been consistently lower than the ~40% estimate that the company pays to their distribution partners.

The net effect to our model of the Vicis redemption (lower share count) and the accounting change (higher revenue share expense) is close to a wash. While our 2014 EPS estimate falls from $0.11 to $0.09, 2015 falls by only $0.01 (to $0.17) and 2016 stays flat at $0.21. We are maintaining our $3.50/share price target and Outperform rating.

We will publish another update following the impending full-year earnings report.

FINANCIAL MODEL

OptimizeRx Corporation

	2012 A	Q1A	Q2A	Q3A	Q4E	2013 E	2014 E	2015 E	2016 E
Revenue	$2,048.7	$669.3	$1,104.1	$1,373.0	$1,884.0	$5,030.4	$9,258.5	$17,918.0	$26,515.0
YOY Growth	*84.3%*	*103.2%*	*114.2%*	*203.0%*	*151.0%*	*145.5%*	*84.1%*	*93.5%*	*48.0%*
SG&A	$2,413.0	$774.2	$750.0	$1,362.3	$1,468.1	$4,354.6	$6,728.4	$10,592.2	$14,681.0
%SG&A	*117.8%*	*115.7%*	*67.9%*	*99.2%*	*77.9%*	*60.6%*	*72.7%*	*59.1%*	*55.4%*
Operating Income	($364.3)	($104.9)	$354.1	$10.7	$415.9	$675.8	$2,530.1	$7,325.8	$11,834.0
Operating Margin	*-17.8%*	*-15.7%*	*32.1%*	*0.8%*	*22.1%*	*13.4%*	*27.3%*	*40.9%*	*44.6%*
Other income	$0.0	$0.1	$1.0	$0.1	$1.0	$2.1	$75.0	$100.0	$135.0
Pre-Tax Income	($364.3)	($104.8)	$355.1	$10.8	$416.9	$678.0	$2,605.1	$7,425.8	$11,969.0
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,422.0	$3,471.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*19.1%*	*29.0%*
Net Income	($364.3)	($104.8)	$355.1	$10.8	$416.9	$678.0	$2,605.1	$6,003.8	$8,498.0
Net Margin	*-17.8%*	*-15.7%*	*32.2%*	*0.8%*	*22.1%*	*13.5%*	*28.1%*	*33.5%*	*32.0%*
EPS	($0.03)	($0.01)	$0.01	$0.00	$0.01	$0.02	$0.09	$0.17	$0.21
YOY Growth	*-*					*-191.1%*	*273.1%*	*92.1%*	*27.4%*
Diluted Shares O/S	14,264	14,232	33,608	34,086	34,600	29,132	30,000	36,000	40,000

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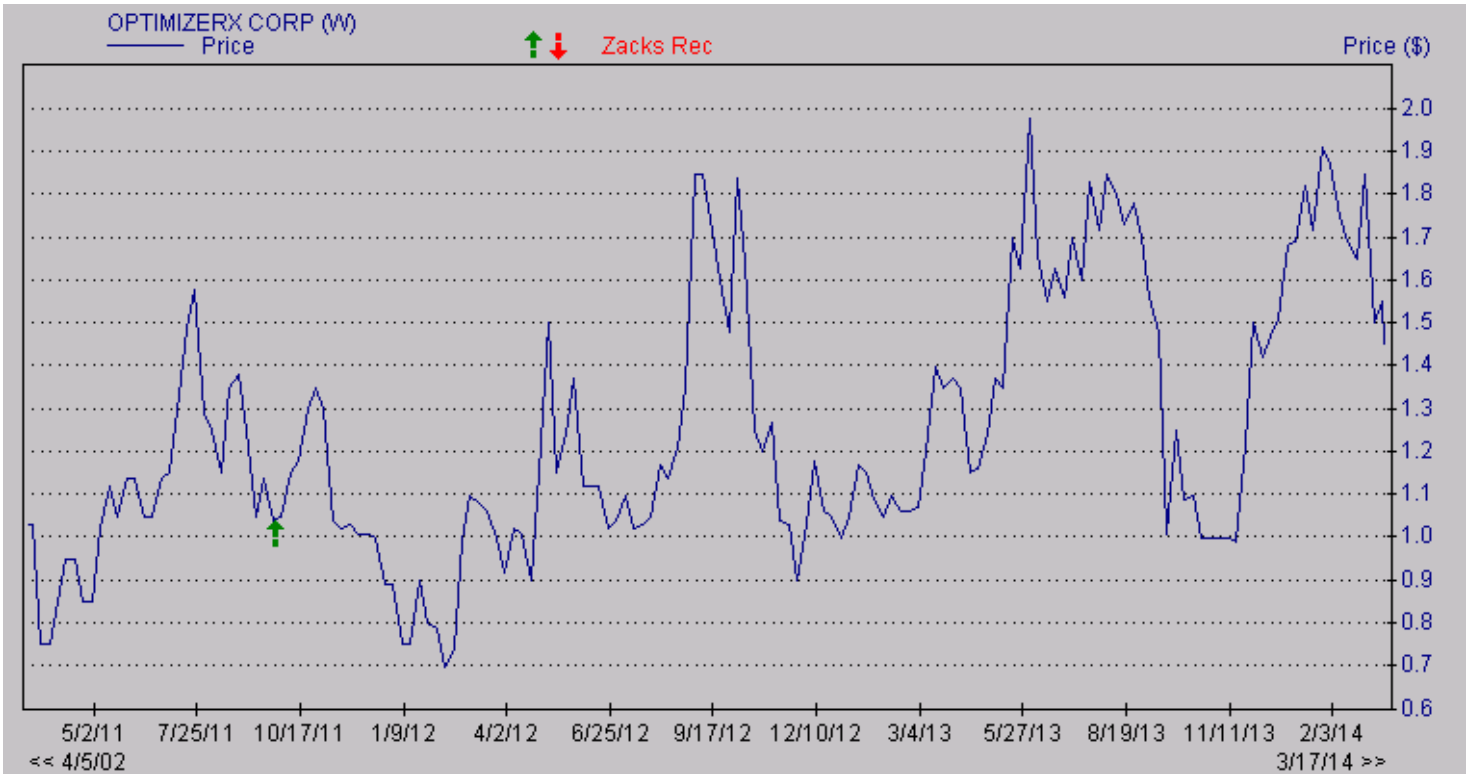

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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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