Zacks Small-Cap Research

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Net Element Inc. (NETE-NASDAQ)

NETE: Revenue Growth Moves the Company Closer to Profitability

Using an industry average of EV to GM of 6.9X we believe the stock could be worth $4.00 per share by next year if NETE could reach profitability.

Current Price (08/16/16)	$1.93
Valuation	**$4.00**

OUTLOOK

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 from Aptito and a mobile payment processor in primarily in Russia. It announced an LOI to create a joint venture with two companies to provide low cost money transfer services via mobile phone, and SaaS-based payroll, remittance and merchant management platform primarily targeted to customers in Middle East. The deal should close before year-end.

SUMMARY DATA

52-Week High	**$4.29**
52-Week Low	**$0.62**
One-Year Return (%)	**9.4**
Beta	**0.67**
Average Daily Volume (sh)	**295,369**
Shares Outstanding (mil)	**14.0**
Market Capitalization ($mil)	**$27.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**28**
Insider Ownership (%)	**30**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**179**
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**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	4.8 A	4.9 A	6.0 A	5.4 A	21.2 A
2015	5.5 A	6.9 A	12.7 A	15.1 A	40.2 A
2016	11.3 A	13.7 A	14.6 E	16.6 E	56.1 E
2017					62.0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	-$0.78 A	-$0.25 A	-$0.48 A	$0.01 A	-$1.86 A
2015	-$0.36 A	-$0.64 A	-$0.43 A	-$0.22 A	-$1.54 A
2016	-$0.11 A	-$0.10 A	-$0.08 E	-$0.06 E	-$0.34 E
2017					-$0.08 E

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

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WHAT'S NEW

Net Element beat our expectations for revenues and non-GAAP losses in Q2 2016. Revenues were $13.7 million versus $6.9 million in Q2 2015, growth of 98%. North America credit card processing grew 66% to $10.4 million. Mobile payment revenues were $1.8 million versus $0.4 million, as the company now reports gross rather than net revenues. PayOnline, which was acquired last May, contributed $1.5 versus a partial quarter of $0.3 million in 2015.

Gross margins in NA credit card processing were 13.8% improved from the 13.1% in 2015 but down from Q1 2016 margin of 15.3%. Mobile payments went from 95% gross margin to 12% as the company now reports gross rather than net revenues. PayOnline gross margin was 37.0%, improved from Q1 2016' 35.1%. Over all gross margin for the company was 16.1% versus 20.8% in Q2 2015 mostly due to the revenue reporting change.

With the larger stock-based compensation in Q2 2016, total operating expenses were $5.0 million compared with $3.3 million in 2015. Next quarter we look for stock-based compensation levels to return to normal and look for total expenses to be closer to $3.6 million, much like Q1 2016. The company's fixed operating cost structure should allow it to increase margins with increased volume.

Operating losses were $2.8 million versus $2.5 million, but if stock-based compensation were taken out the loss would be $761,000 versus a loss of $1.9 million a year ago.

Interest expense was reduced significantly from 2015. The company paid $0.4 million in interest in Q2 2016 compared with $1.3 million in 2015 as the preferred has been paid off.

Also in other income, the second to last potential payment for PayOnline was made. It was reported as "loss from stock value guarantee." This $2.2 million expense was considered one-time and removed from adjusted non-GAAP results.

The progress in reducing non-GAAP losses was however masked by the two expenses removed from non-GAAP numbers. One was the true up of $2.2 million for the acquisition of PayOnline and the other larger than usual stock-based compensation of $2.0 million rather than the typical $0.4-$0.5 million per quarter. The stock-based compensation was comprised primarily of $1.4 to $1.5 million to the CEO for salary in lieu of cash. Removing these expenses from losses, gives a non-GAAP EPS loss of $0.10 versus loss of $0.64 in 2016. The weighted average primary share count increased 131% (outpacing sales growth) from Q2 2015 to Q2 2016 and also helped reduce the loss per share.

EBITDA however managed to turn positive to $83,000, less than interest payments, but a significant improvement over the loss of $1.3 million in last year's quarter. The company is now at **a cash burn of $350,000 per month** or $1.05 million per quarter. If the company continues to use stock to fund losses, that would equate to an increase in the share count per quarter of at least 544,000 shares per quarter. Add to that stock based compensation, and at least an additional 800,000 shares per quarter need to added to the share count to fund the business.

We are adjusting our model and raising revenues for the full year to $56.1 million from $49.8. Non-GAAP loss per share has been adjusted to $0.34 from a loss of $0.49. However these estimates do not include the acquisitions the company plans. These acquisitions are expected to cost $3.4 million for 51% of the company. This would equate to another 1.76 million shares at a $1.93 stock price. More stock will need to be issued if acquisition transaction costs are included, and if the company subsequently decides to buy the remaining 49% of these businesses.

RECAP of Paystar and Nexcharge Acquisition

On July 21, Net Element announced a binding letter of intent to create a joint venture with Paystar and Nexcharge to provide mobile money transfer and a comprehensive remittance and an e-wallet platform for emerging markets as well as a proprietary payment processing, fraud management and merchant management platform. Paystar was founded in 2004, is headquartered in Nevada, and has 30 employees with most in Qatar. This joint venture will provide Net Element with 51% ownership, which means it will consolidate 100% of revenues with its own, and needs to subtract off 49% of the profits as minority interest. The joint venture requires the company to contribute **$3.4 million in cash or equivalents** to acquire the 51% ownership. Net Element will also have an exclusive option to buy the other 49% within 12 months. The money will not be paid out all at once, but will be contributed, as the operation requires based on business developments. There are also a series of earn out payments available to current management of these businesses should they achieve undisclosed EBITDA hurdle rates.

The main product provided by this joint venture is a service to allow the unbanked to send money to other countries with only a mobile phone, an email address, and a government ID for competitively low prices. This is targeted primarily at migrant workers seeking to send money home. Paystar's technology allows users to transfer from their payroll cards or eWallets to a global network of beneficiary banks, via SMS or the Paystar Mobile App. Paystar's pricing can be as low as $8.17 per transaction. According to its web site, Paystar serves Egypt, Ethiopia, Sudan, Kenya, India, Pakistan, Indonesia, Philippines, Vietnam, UAE, Jordan, Lebanon, Syria, and Yemen. Paystar aims to expand its mobile payroll and remittance services throughout the Middle East, starting with Qatar, United Arab Emirates ("UAE"), Oman, and Saudi Arabia. Net Element believes there is great opportunity in the Middle East. Banking operations for consumers is still in its infancy and there are major technology improvements it can provide there. Also the relationships it has acquired with banks in the area will be a huge competitive advantage.

The Nexcharge acquisition brings technology that can be used throughout Net Element's worldwide card processing operations. Using Nexcharge's platform, Net Element can now bypass intermediaries like First Data and present transactions directly to Master Card and VISA and thus eliminate costs. This is ability is however not unique to Net Element. Processors like Heartland can also transact directly, but it gives Net Element the chance to reap higher margins than they currently can.

The company is still working through due diligence and we estimate the deal could close by the fourth quarter. Once the deal closed we will revise forecasts to account for this new joint venture. We believe the company may be able to achieve operating synergy by eliminating redundant overhead and streamlining software development.

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 Aptito product line provides differentiation and value-added services to its generic card processing business. It recently rolled out new product for retail establishments after being heavily focused on restaurants. This business should increase margins as well as aid sales efforts by improving price/performance and customer stickiness.
- 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 $56 million in revenues in 2016 through a combination of internal growth, acquisitions and change in revenue recognition. Its future addition of a Paystar and Nexcharge joint venture could add to that revenue forecast

- 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 $4.00 per share by next year based on an industry average valuation of approximately 6.9xs enterprise value to gross margin

RISKS

- The company has new financial arrangements that are dilutive to common shareholders. It is uncertain if the company will be able to make accretive investments with these funds and shareholders may 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 with former management and business partners.

- 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 and political turmoil, and this could affect payment volumes.

- 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 and the Middle East face considerable political risk and the company may be prohibited from certain financial transactions by government regulation and restrictions.

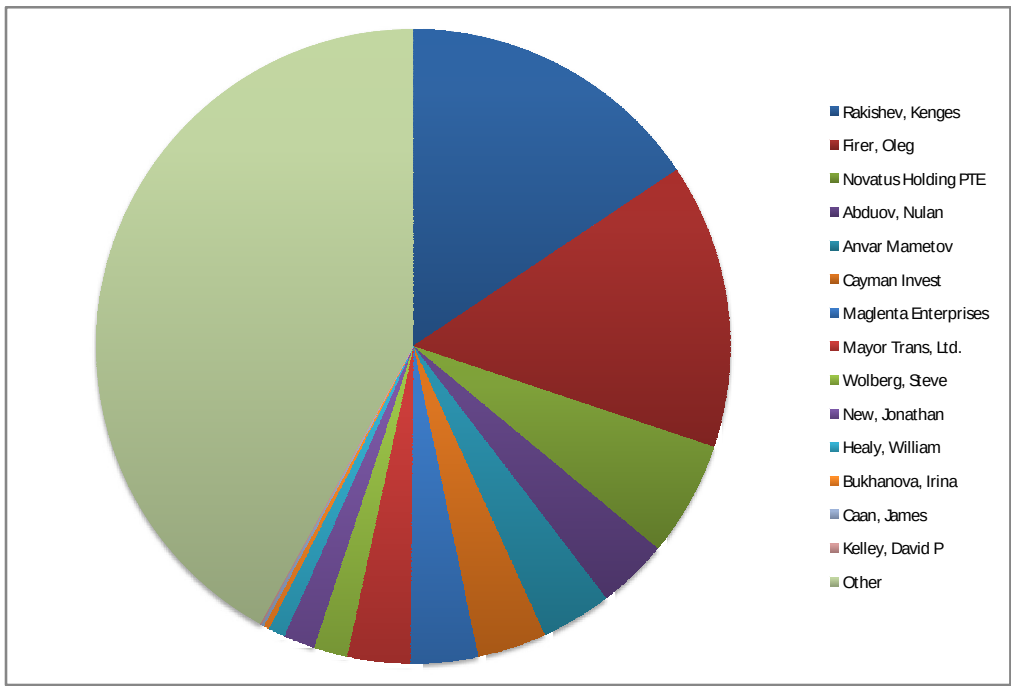
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

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 6.9 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, we see that the stock could be worth $3.86 if it were profitable. Using our forecasts, that price could rise to $4.00 next year using 2016 estimated gross margin of $8.9 million and a share count of 15 million shares.

Company	Ticker	Gross Margin	%	EV/GM	Included in Average?	Enterprise Value
Cielo	CIOXY	1,470	38%	19.0	n	27,880
EVERTEC	EVTC	206	54%	9.2	y	1,900
First Data	FDC	4,540	58%	6.8	y	30,950
Global Payments	GPN	1,750	61%	8.8	y	15,360
JetPay	JTPY	17	39%	2.7	y	46
PayPal	PYPL	9,250	96%	4.4	y	40,410
Qiwi	QIWI	79	53%	3.5	y	273
Total System Services	TSS	924	32%	12.9	y	11,940
Vantiv	VNTV	1,680	51%	6.7	y	11,200
Average			56%	6.9		14,010
Net Element	NETE	8.07	15%			
					Market Value	54.1
					EV	55.4
					Shares Out	14.0
					Share price	$3.86

OWNERSHIP



INCOME STATEMENT

	Q1 2015 31-Mar	Q2 2015 30-Jun	Q3 2015 30-Sep	Q4 2015 31-Dec	Q1 2016 31-Mar	Q2 2016 30-Jun	Q3 2016E 30-Sep	Q4 2016E 31-Dec	2014	2015	2016E	2017E
North America Transaction	$5.2	$6.3	$7.8	$8.1	$7.9	$10.4	$11.0	$12.5	$19.3	$27.4	$41.8	$45.1
Yr-over-yr Growth	26.4%	37.1%	41.4%	58.3%	51.7%	65.9%	40.5%	54.1%	30.6%	41.7%	52.5%	8.0%
Credit card cost of service	4.6	5.5	6.5	7.0	6.7	9.0	9.5	10.8	15.9	23.5	35.9	38.8
Gross margin	0.6	0.8	1.3	1.2	1.2	1.4	1.5	1.7	3.4	3.9	5.9	6.3
Gross margin %	11.1%	13.1%	17.1%	14.3%	15.3%	13.8%	13.8%	13.8%	17.6%	14.2%	14.1%	14.0%
Mobile payments	0.4	0.3	2.8	5.6	2.0	1.8	2.0	2.1	1.9	9.0	7.8	9.4
Yr-over-yr Growth		-2.2%	470.2%	NM	448.9%	437.6%	-30.2%	-62.2%	-52.8%	385.5%	-13.5%	20.0%
Cost of Service	0.0	0.0	2.8	5.3	1.8	1.6	1.8	1.9	0.0	8.1	7.1	8.6
Gross Margin	0.349	0.3	0.0	0.216	0.178	0.2	0.1	0.2	1.9	0.9	0.7	0.8
Gross margin %	96.2%	95.5%	1.3%	3.9%	8.9%	12.0%	7.5%	7.5%	100%	10.2%	8.9%	8.0%
PayOnline	-	0.3	2.1	1.4	1.4	1.5	1.6	2.0	0%	3.8	6.5	7.5
Yr-over-yr Growth	-	NA	NA	NA	NA	NM	-22.1%	38.3%	NA	NA	71.5%	15.0%
Online Solutions Cost of Service	-	0.0	1.5	0.9	0.9	1.0	1.0	1.3	0.0	2.4	4.2	4.8
Gross Margin	-	0.3	0.6	0.5	0.5	0.6	0.6	0.7	0.0	1.4	2.3	2.7
Gross margin %		100.0%	29.0%	37.9%	35.1%	37.0%	35.0%	35.0%	NA	38.1%	36%	36.0%
Total revenues	5.5	6.9	12.7	15.1	11.3	13.7	14.6	16.6	**21.2**	**40.2**	**56.1**	**62.0**
Yr-to-yr Growth	14.4%	40.6%	110.3%	179.3%	103.2%	98.2%	14.8%	9.8%	13.0%	89.8%	39.4%	10.5%
Costs and expenses:												
Cost of revenues	4.6	5.5	10.7	13.2	9.4	11.5	12.3	14.0	15.9	34.0	47.2	52.2
Gross Margin	0.9	1.4	2.0	1.9	1.9	2.2	2.2	2.6	5.3	6.3	8.9	9.8
% of Sales	16.7%	20.8%	15.5%	12.7%	16.7%	16.1%	15.3%	15.6%	25.1%	15.6%	15.8%	15.8%
% minus one-time		16%	1.6			14%	1.6					
G&A	2.0	2.6	2.2	0.0	2.1	2.0	2.1	2.2	7.1	9.3	5.0	5.5
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.5	0.5	4.3	4.3	3.4	3.4
Provision for loan losses	0.0	0.1	0.3	0.2	0.3	0.1	0.1	0.1	(1.2)	0.6	0.6	0.7
Depreciation and amortization	0.4	0.6	0.9	0.6	0.9	0.8	0.8	0.8	2.4	2.5	3.4	3.4
Total operating expenses	2.5	3.3	3.3	0.9	3.6	5.0	3.6	3.7	8.3	16.8	12.4	13.0
Loss from operations	(2.2)	(2.5)	(1.9)	(1.4)	(1.7)	(2.8)	(1.3)	(1.1)	(3.0)	(10.5)	(3.5)	(3.2)
Interest expense, net	(0.1)	(1.3)	(1.6)	(0.6)	(0.2)	(0.4)	(0.4)	(0.4)	(3.7)	(3.6)	(1.5)	(1.5)
Other expense	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	0.0	(0.2)	(0.1)	(0.0)	(0.0)
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	0.0
Gain on change in conversion derivative	0.0	2.0	(1.1)	(27.9)	0.0	0.0	0.0	0.0	0.0	(26.9)	0.0	0.0
Loss from stock value guarantee	0.0	0.0	0.0	0.0	0.0	(2.2)	0.0	0.0	0.0	0.0	(2.2)	(2.2)
One-time charges	0.0	0.0	0.1	27.7	0.0	0.0	0.0	0.0	1.0	27.7	0.0	0.0
Total non-operating expenses	(0.1)	0.7	(2.6)	(0.8)	(0.2)	(2.6)	(0.4)	(0.4)	(2.9)	(2.8)	(1.5)	(1.5)
Pretax operating income (loss)	(2.2)	(1.8)	(4.5)	(2.3)	(1.9)	(5.4)	(1.8)	(1.5)	(5.9)	(13.3)	(5.0)	(4.7)
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	0.0
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Operating Loss	(2.2)	(1.8)	(4.5)	(2.3)	(1.9)	(5.4)	(1.8)	(1.5)	(6.0)	(13.3)	(5.0)	(4.7)
Minority interest	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0
Discontinued operations:												
Loss from operations of discontinued	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loss on sale of assets of discontinued		0.0				0.0			0.0	0.0	0.0	0.0
Total discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net loss	(2.2)	(1.8)	(4.5)	(2.4)	(1.8)	(5.3)	(1.8)	(1.5)	(10.2)	(13.4)	(5.0)	(4.7)
Preferred dividend	0.0	(0.5)	(0.6)	(0.4)	0.0	0.0	0.0	0.0	0.0	(1.6)	0.0	0.0
Net loss to common stock	(2.2)	(2.3)	(5.1)	(2.8)	(1.8)	(5.3)	(1.8)	(1.5)	(10.2)	(15.0)	(5.0)	(4.7)
Foreign currency translation gain (loss)	(0.1)	(0.1)	(0.2)	0.1	(0.0)	(0.5)	0.0	0.0	(1.1)	(0.3)	(0.5)	0.0
Comprehensive loss	(2.3)	(1.9)	(5.3)	(2.5)	(1.9)	(5.8)	(1.8)	(1.5)	(11.3)	(15.3)	(5.5)	(4.7)
Earnings ex-one time charge	(2.3)	(3.8)	(3.5)	(2.9)	(1.6)	(3.2)	(1.6)	(1.4)	(11.2)	(12.6)	(7.8)	(4.7)
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.5	0.5	4.3	4.3	3.4	3.4
Adjusted Non-GAAP Earnings	(1.6)	(3.2)	(2.9)	(2.1)	(1.2)	(1.2)	(1.1)	(0.9)	(6.9)	(9.8)	(4.5)	(1.3)
Yr-to-yr Growth	-54%	174%	32%	-6056%	-25.0%	-63.4%	-60.8%	-56.2%	-64%	42%	-55%	-70%
GAAP EPS	**($0.51)**	**($0.38)**	**($0.78)**	**($0.26)**	**($0.17)**	**($0.50)**	**($0.13)**	**($0.10)**	**($2.74)**	**($2.10)**	**($0.39)**	**($0.29)**
Loss per share - discontinued	$0.00	$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	($0.51)	($0.38)	($0.78)	($0.26)	($0.17)	($0.50)	($0.13)	($0.10)	($2.74)	($2.10)	($0.39)	($0.29)
Non-GAAP EPS	($0.36)	($0.64)	($0.43)	($0.22)	($0.11)	($0.10)	($0.08)	($0.06)	($1.86)	($1.54)	($0.34)	($0.08)
Fully dil. Non-GAAP EPS	($0.39)	($0.56)	($0.39)	($0.23)	($0.13)	($0.24)	($0.11)	($0.09)	($2.42)	($1.45)	($0.54)	($0.26)
Non-GAAP EPS	**($0.36)**	**($0.64)**	**($0.43)**	**($0.22)**	**($0.11)**	**($0.10)**	**($0.08)**	**($0.06)**	**($1.86)**	**($1.54)**	**($0.34)**	**($0.08)**
Yr-to-yr Growth					-69%	-84%	-81%	-72%	173%	-17%	-78%	-77%
Share outstanding	4.6	5.0	6.9	9.5	11.3	11.6	14.0	14.8	3.7	6.4	12.9	16.4
Yr-to-yr Growth	0%	8%	49%	106%	145%	131%	74%	29%	31%	72%	83%	25%
Fully diluted shares	6.1	6.8	9.0	12.8	12.8	13.2	15.6	16.4	4.6	8.7	14.5	18.0
Yr-to-yr Growth	0%	12%	48%	111%	110%	101%	62%	21%	24%	87%	63%	14%
Adjusted EBITDA	(1.1)	(1.3)	(0.5)	(0.9)	(0.2)	0.1	0.1	0.4	2.5	(3.1)	0.4	0.6

CASH FLOW

	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016
Cash flows from operating activities						
Net loss	$ (2,239,208)	$ (1,764,285)	$ (4,513,202)	$ (4,736,917)	$ (1,847,719)	$ (5,346,448)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Non controlling interest	$ (8,747)	$ (3,398)	$ (30,705)	$ (31,459)	$ (37,876)	$ (38,792)
Share based compensation	$ 601,371	$ 601,371	$ 601,371	$ 2,502,191	$ 360,984	$ 2,014,589
Deferred revenues	$ (34,858)				$ (171,908)	$ (245,979)
Gain on change in fair value and settlement of beneficial conversion derivative	$ 0	$ (2,022,036)	$ 1,083,028	$ 27,871,503	$ 0	$ 0
Depreciation and amortization	$ 438,769	$ 626,498	$ 851,634	$ 596,261	$ 888,118	$ 844,534
Non cash interest	$ 0	$ 349,146	$ (349,146)	$ 0	$ 0	$ 297,434
Amortization of debt discount	$ 0	$ 983,715	$ 1,626,315	$ 417,324	$ 0	$ 0
(Recovery of) provision for loan losses	$ 0	$ (94,770)	$ 94,770	$ 0	$ 0	$ 0
(Gain) loss on disposal of fixed assets	$ 0	$ (23,854)	$ (44,932)	$ 68,786	$ 0	$ 0
Loss on debt extinguishment	$ 0	$ 0	$ (79,325)	$ (27,664,655)	$ 0	$ 0
Gain on MBF debt restructure	$ 0	$ 0	$ 0	$ (40,369)	$ 0	$ 0
Changes in assets and liabilities, net of acquisitions and the effect of consolidation of equity affiliates						
Account receivable	$ 131,020	$ 135,509	$ (1,469,958)	$ (298,776)	$ 436,453	$ (768,019)
Advances to aggregators	$ 0	$ (92,017)	$ 59,127	$ 42,912	$ 0	$ 0
Deferred revenue	$ 0	$ (310,241)	$ 273,477	$ 308,192	$ 0	$ 0
Prepaid expenses and other assets	$ 278,319	$ (104,721)	$ (263,433)	$ 381,466	$ 334,291	$ (63,359)
Accounts payable	$ 667,819	$ (160,082)	$ 1,221,140	$ 1,431,700	$ (865,158)	$ 1,086,148
Accrued expenses	$ 356	$ (461,182)	$ 506,299	$ 365,257	$ (44,186)	$ 1,700,157
Net cash (used in) provided by operating	$ (165,159)	$ (2,305,489)	$ (1,034,911)	$ 417,324	$ (947,001)	$ (817,169)
Cash flows from investing activities						
Purchase of portfolio and client acquisition	$ 0	$ (303,775)	$ (119,475)	$ (454,835)	$ 0	$ (741,514)
Sale of portfolio	$ 0	$ 0	$ 300,000	$ 0	$ 0	$ 0
Acquisition of PayOnline assets, net of cash	$ 0	$ (3,195,452)	$ 0	$ 0	$ 0	$ 0
Purchase of fixed and other assets	$ (6,849)	$ (58,202)	$ (419,086)	$ (95,072)	$ (396,819)	$ 182,773
Net cash used in investing activities	$ (6,849)	$ (3,557,429)	$ (265,174)	$ (549,907)	$ (396,819)	$ 182,773
Cash flows from financing activities						
Repayment to Financial Institutions	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Proceeds from preferred stock	$ 0	$ 5,500,000	$ 0	$ 0	$ 0	$ 0
Proceeds from indebtedness	$ 650,000	$ 0	$ 0	$ 0	$ 75,000	$ 1,140,000
Repayment of indebtedness	$ (8,710)	$ 8,710	$ 0	$ 0	$ 0	$ 0
Note payable (non-current)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Related party advances (payments)	$ 125,000	$ (40,744)	$ 565,744	$ (318,727)	$ 910,045	$ 0
Net cash provided by (used in) financing	$ 766,290	$ 5,467,966	$ 565,744	$ (318,727)	$ 985,045	$ 1,140,000
Effect of exchange rate changes on cash	$ (331,346)	$ 303,903	$ 375,021	$ (262,929)	$ 57,537	$ (741,514)
Net increase in cash	$ 91,048	$ (91,048)	$ (359,320)	$ (714,239)	$ (301,238)	$ (90,918)
Cash at beginning of period	$ 675,231	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509
Cash at end of period	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509	$ 633,591
Cash paid during the period for:						
Interest	$ 118,910	$ 2,343	$ 275,933	$ 151,158	$ 150,438	$ 150,438
Taxes	$ 30,505	$ 59,706	$ (15,794)	$ 146	$ 86,770	$ 86,770
Operating cash flow	$ (1,207,815)	$ (1,347,613)	$ (760,192)	$ (1,017,335)	$ (808,401)	$ (2,474,662)
Free cash flow	$ (1,214,664)	$ (4,905,042)	$ (1,025,366)	$ (1,567,242)	$ (1,205,220)	$ (2,291,889)

BALANCE SHEET

	June 30, 2016	Mar. 31, 2016	% Change	Dec. 31, 2015	% Change
Current assets:					
Cash	**$633,591**	**$724,509**	-13%	**$1,025,747**	-29%
Accounts receivable, net	5,827,586	4,424,761	32%	5,198,993	-15%
Prepaid expenses and other assets	806,202	1,311,979	-39%	1,106,016	19%
Total current assets	7,267,379	6,461,249	12%	7,330,756	-12%
Fixed assets, net	142,409	151,212	-6%	162,123	-7%
Intangible assets, net	4,513,823	4,969,863	-9%	5,423,880	-8%
Goodwill	9,643,752	9,643,752	0%	9,643,752	0%
Other long term	553,302	389,680	42%	353,050	10%
Total assets	22,120,665	21,615,756	2%	22,913,561	-6%
Current liabilities:					
Accounts payable	$6,075,259	$5,075,959	20%	$5,858,837	-13%
Deferred revenue	326,023	572,002	-43%	743,910	-23%
Accrued expenses	4,205,599	3,131,234	34%	2,975,066	5%
Notes payable (current portion)	**384,209**	**570,017**	-33%	**518,437**	10%
Due to related parties	**329,921**	**1,239,856**	-73%	**329,881**	276%
Total current liabilities	11,321,011	10,589,068	7%	10,426,131	2%
Notes payable (non-current portion)	3,823,921	3,469,983	10%	3,446,563	1%
Total liabilities	15,144,932	14,059,051	8%	13,872,694	1%
STOCKHOLDERS' DEFICIT					
Common stock	1,336	11,317	-88%	11,262	0%
Paid in capital	160,092,967	154,782,677	3%	154,351,558	0%
Accumulated other comp income (loss)	(2,091,604)	(1,595,563)	31%	(1,565,822)	2%
Accumulated deficit	(151,149,215)	(145,802,767)	4%	(143,955,048)	1%
Noncontrolling interest	122,249	161,041	-24%	198,917	-19%
Total stockholders' deficit	6,975,733	7,556,705	-8%	9,040,867	-16%
Total liabilities and stockholders' deficit	22,120,665	21,615,756	2%	22,913,561	-6%
Net Cash	(80,539)	(1,085,364)	-93%	177,429	-712%
Current and Quick Ratio	0.6	0.6	5%	0.7	-13%
Working Capital	(4,053,632)	(4,127,819)	-2%	(3,095,375)	33%
Total Debt	4,538,051	5,279,856	-14%	4,294,881	23%
Debt/TA	21%	24%	-16%	19%	30%
Enterprise value	28,803,360				

HISTORICAL STOCK PRICE



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