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Zacks Small-Cap Research

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# First Choice Healthcare Solutions (FCHS-OTCQB)

## FCHS: Dr. Kenneth Sands joins First Choice Medical Group.

**As discussed during the 1Q16 conference call the first of two doctors expected to join FCMG is now on board.**

## OUTLOOK

First Choice Healthcare Solutions Inc. is a rapidly growing provider of patient-centric care offered through "Medical Centers of Excellence" which are not owned by physicians. Currently concentrating on Orthopaedic and related care the company is expanding in what is, for it, an almost unlimited market. As the company grows we expect higher pretax margins as corporate overhead remains relatively constant. Our recommendation is a buy with a target price of $2.00 a share.

| | |
|---|---|
| Current Price (06/02/16) | $0.95 |
| **Valuation** | **$2.00** |

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$1.50** |
| **52-Week Low** | **$0.73** |
| **One-Year Return (%)** | **N/A** |
| **Beta** | **1.79** |
| **Average Daily Volume (sh)** | **23,439** |
| **Shares Outstanding (mil)** | **23.91** |
| **Market Capitalization ($mil)** | **$23.4** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **1** |
| **Insider Ownership (%)** | **33** |
| **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/M** |
| **P/E using 2016 Estimate** | **8.4** |
| **P/E using 2017 Estimate** | **2.9** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **N/A,** |
| **Type of Stock** | **N/A** |
| **Industry** | **Medical Service** |
| **Zacks Rank in Industry** | **N/A** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| **2014** | **$2.2 A** | **$2.1 A** | **$1.9 A** | **$1.9 A** | **$8.1 A** |
| **2015** | **$2.2 A** | **$3.8 A** | **$5.8 A** | **$6.0 A** | **$17.8 A** |
| **2016** | **$6.6 A** | **$7.0 E** | **$8.0 E** | **$9.0 E** | **$30.6 E** |
| **2017** | **$10.0 E** | **$11.5 E** | **$14.0 E** | **$16.0 E** | **$51.5 E** |

**EPS***

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| **2014** | **$0.00A** | **-$0.03A** | **-$0.02A** | **-$0.09A** | **-$0.14A** |
| **2015** | **$0.00A** | **-$0.03A** | **$0.03A** | **-$0.08A** | **-$0.07A** |
| **2016** | **$0.02 A** | **$0.02 E** | **$0.04 E** | **$0.05 E** | **$0.12 E** |
| **2017** | **$0.03 E** | **$0.06 E** | **$0.09 E** | **$0.12 E** | **$0.30 E** |

Zacks Projected EPS Growth Rate - Next 5 Years % **30**

* **Excludes extra items**

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## RECENT NEWS

First Choice has announced that Dr. Kenneth C. Sands has joined FCMG. Dr. Sands is a Board Certified Orthopaedic Surgeon with many years of experience in total joint replacement and restoration.

Dr. Sands joined Health First Medical Group in 2011 and practiced at Viera Hospital, Viera FL. Viera is about 16 miles north of Melbourne Fl where FCMG is located giving him easy access to the Marina Towers facility as well as his patient base.

We had included two surgeons added to FCHS this quarter and would expect them to be fully productive in 4Q16.

On May 16, 2016 First Choice Healthcare Solutions announced its first quarter results followed by a conference call on 17 May, 2016.

On the call it was stated that two orthopaedic surgeons should be signed up and operating at FCMG by the end of the second quarter and possibly two more by the end of the year. Another two doctors could be hired at TBC before year end as well. It takes several months before a doctor is fully credentialed so we would expect no significant revenue from these doctors in 2Q16 but gains in 3Q16 and again in 4Q16. First Choice also has to increase its ability to service the third party payer claims these doctors generate.

The near term goal is for the company to do, on average, 4,000 surgeries a year with each surgery generating about $12,500 in billable revenue.

The company is working to expand its access to cash in order to finance possible acquisitions. Access could be through lines of credit that do not have to be drawn down until the cash is needed. After the end of the 1Q16 First Choice has paid down significant amounts of its current liabilities using cash from the sale of assets.

The 1Q16 results were very good and exceeded our forecasts. The company reported a profit before the gain from the sale of property whereas we had expected break even to a small loss. Operating income before rental income was break even and after adjusting for rental revenue the operating profit was $0.6 million, as compared to our estimate of a small loss of $0.1 million.

As a percentage of patient service revenue salaries were lower than a year ago. Gross margins improved to 58.0%, much better than we had expected. Last year the gross margins were 57.9% and in 4Q15 it was 32.3% As the company grows and revenue expands we would expect more consistent ratios and better predictability of earnings. Furthermore, the bad debt expense

in 1Q16 was $0.263 million, up from $.045 a year ago. As the company gains experience on actual bad debts incurred this number should be less of a burden to earnings.

In 2015 there were significant variations in gross margins and in the cost ratios as a percentage of patient revenue.

Overall revenue for the full year 2015, $19.5 million, was better than the company's projections of $19.4 million and, excluding litigation costs, all operating groups were profitable for the full year. Several non-cash and one-time costs impacted net income and GAAP results were a loss of $0.17 a share. However, non GAAP EBITDA was $3.1 million, up 50% from $2.1 million the prior year. Cash increased to $2 million at year end 2015.

A major impact on operating income was accounting for the reserves for bad debt of the two new entities, The B.A.C.K Center and Crane Creek Surgery Center which FCHS bought on in 2015. In accordance with GAAP accounting rules, a healthcare service company is required to allocate 30% of its accounts receivables to reserves. This reduces revenue without a compensating reduction in expenses so operation margins declined in the fourth quarter. Since the reduction in revenue is proportional to the amount of accounts receivable The B.A.C.K. Center was impacted the most. The reserve will fluctuate as the level of accounts receivable change on a quarterly basis.

First Choice settled its litigation with MedTRX, resulting in a total settlement and legal fees of approximately $2 million in cash and stock, which was charged to earnings in the fourth quarter of 2015. If First Choice had continued using MedTRX for billing and collection services management estimates that it would have cost $3.5 million in this year alone so the settlement is beneficial to both parties.

The company continues to work on expanding its relationships with third party payers, particularly relating to surgical procedures conducted at Crane Creek. Going forward progress here will also have a positive impact on overall results if/when more contracts with third party payers are negotiated.

On the conference call CEO Chris Romandetti stated that the company is in active discussion with several Orthopaedic surgeons, for both First Choice Medical Group (FCMG) and the B.A.C.K. Center (TBC). TBC is focused on spinal injuries and these are high cost operations. At FCMG the additional surgeons could be on board by the third quarter 2016. For TBC the company expects additional surgeons to be on-board by the fourth quarter or 2016.

Overall, we were satisfied with 2016 revenue generation and we think the company will meet or beat its 2016 revenue projections of $30 million.

On April 1, 2016 the company announced that on March 31, 2016 it completed the sale and leaseback agreement with Global Medical REIT Inc. for its real estate holding, Marina Towers..

This houses its corporate headquarters and its Medical Center of Excellence, FCMG . The selling price is $15.45 million and will net First Choice about $8 million.

This will allow First Choice to pay down existing debt and finance future expansion. Under the current Master Lease agreement covering the full 78,000 square foot facility, First Choice will pay monthly rent of $92,000 plus CAM charges. Of the 78,000 square feet, First Choice's corporate headquarters currently utilizes 2,521 SF and First Choice Medical Group, including its MRI center and Physical Therapy center, occupies approximately 27,000 square feet. The majority of the balance of available space is leased to other tenants.

The Master Lease is for 10 years plus two renewable five-year periods during which the rent will be adjusted to prevailing fair market rent. The sale of the building will generate a capital gain. The total PP&E on the balance sheet is $8.6 million, with the building representing approximately $5.8 million.. After payment of the mortgage, there will be a significant increase in cash reflected on the balance sheet in the upcoming 10-Q for the three months ended March 31, 2016. We will treat the gain as an extraordinary event and it will not be included in the earnings from operations.

**KEY POINTS**

## Allowing Doctors to be Doctors.

Based in Melbourne, Florida, First Choice Healthcare Solutions is focused on building localized integrated care platforms comprised of non-physician owned medical centers of excellence in specific regions of the Southeast United States. Future growth is not limited by geography. Current specialties are Neurology, Orthopaedics, Spine Surgery, Interventional Pain Medicine and related ancillary and diagnostic services. The company's flagship platform serves Florida's Space Coast region managing over 100,000 patient visits a year.

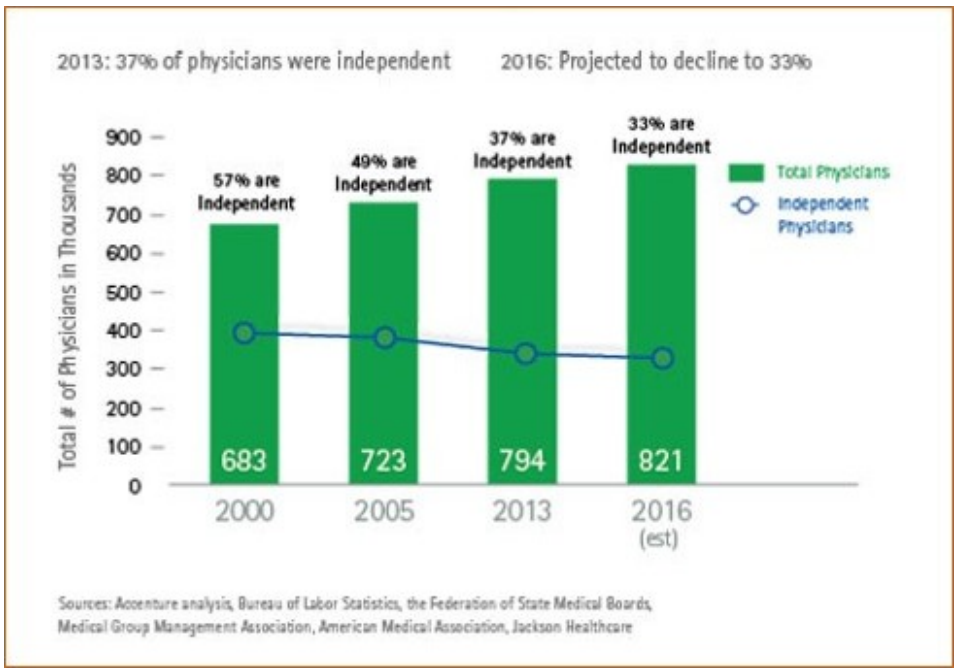
The company's strategy is to establish a significant presence in Melbourne, Florida achieving a base to generate approximately $50 million annual revenue while replicating its Melbourne model in other localized geographic markets with similar demographics throughout the country.

- **First Choice Healthcare Solutions aims to establish a national network of integrated Medical Centers of Excellence serving specific geographic markets.** These Centers focus on Orthopaedic care and treatment and cost between $6.5 million to $10 million each to assemble. Based on First Choice's business model and various factors associated with a specific geographic market, each system would consist of 8 to 10 doctors of various disciplines, but mainly Orthopaedic surgeons, and be capable of generating between $25-$50 million a year in revenue when fully built out with the addition of ancillary and diagnostic services. Effective May 1, 2015, First Choice signed an Operating and Control Agreement with The B.A.C.K. Center, which generated total revenue of $9.8 million for the 8 months, which compared to generating $13 million in both 2013 and 2014 for the full years. Effective October 1, 2015, the Company, through

its recently formed wholly owned subsidiary, CCSC Holdings, Inc., acquired a 40% interest in Crane Creek Surgery Center and is entitled to 51% voting rights. The Company paid $560 thousand for the 40% interest. For the three months ended December 31, 2016, Crane Creek generated revenue of $1.12 million and operating profit of approximately $350 thousand in its first full quarter of ownership (Q415).

- **Attractive career alternative for doctors.** Working for First Choice, physicians are freed from the day to day administrative burdens of managing their own practice and have greater annual income potential. Moreover, they enjoy an enhanced quality of life and are able to deliver better patient care through the use of First Choice's state-of-the-art equipment and through collaborative care coordination with other First Choice providers and specialists on its team.

- **There is no shortage of doctors that wish to eliminate the complex regulatory and administrative burdens that exist within a private practice.** Many U.S. physicians are choosing alternatives to owning independent medical practices due to complex regulatory compliance, high overhead costs and daily administrative burdens that prevent them from providing the best patient experience and are limiting their earnings potential. A study published by Accenture in mid-2015 [https://www.accenture.com/us-en/insight-clinical-care-independent-doctor-will-not-see-you-now] suggests that the number of US physicians in independent practice will decline to just 33% by the end of 2016, down from 57% in 2000.




The "2014 Survey of America's Physicians: Practice Patterns and Perspectives" commissioned by The Physicians Foundation found that 81% of physicians felt they were over-extended or at full capacity. Many, 44%, physicians intended to reduce their

workload, work part-time, retire or seek non-clinical jobs. Others will join with other practitioners or align with large health systems. For example, in San Diego County CA, over the last two years nearly all doctors are now aligned with only four groups; Kaiser, Sharp, UCSD and Scripps. In this study 89% of physicians believe the traditional model of independent healthcare is extinct.

- **Several groups have approached First Choice Healthcare Solutions to explore setting up a system in their geographic region.**

- **First Choice has reached critical mass and should be consistently profitable with increasing margins.** The addition and integration of profitable ancillary and diagnostic services will have a positive impact on gross margins.

- **First Choice Healthcare Solutions provides real patient-centric care.** Every patient is assigned an advocate who is responsible for making sure the patient's questions and concerns about scheduling, their care plans, insurance issues and any other problems are effectively addressed. Team based care allied to pain management has been proven to improve patient outcomes, and achieve a better Quality of Life for all patients. A relative "one-stop-shop, First Choice's system of care strives to ensure that all the patients needs are available in close proximity. Added profit comes from X-Ray, MRI, Cat scans and Physical Therapy provided in First Choice's physical therapy centers. Of the over 100,000 patient visits only about a third will actually need some form of surgery. Rather, every effort is made to effectively treat patients through pain management, physical therapy or other non-surgical solution. About one third of the patients are covered by Medicare and TRICARE ( the military equivalent of health insurance for military personnel and their families).

- **Profitable entry into major markets.** The company's business model enables it to recruit physicians with existing, established patient bases, then negotiate to purchase the physician's former practices' furniture, fixtures, accounts receivable, et al, as desired. First Choice then assumes all financial, administrative and daily management control and adds ancillary and diagnostic services to the service mix. Through athenahealth's cloud-based services [athenahealth.com], First Choice controls billing and many other back-office functions in a timely and low cost system used by all of its Centers of Excellence. First Choice maintains the right to refuse high risk high cost patients and can choose what insurance, HMO or PPO plans they will accept. Consequently, acquisition and integration expenses can be quickly absorbed with a positive impact on profitability.

- **Significant savings for patients and third party payers without compromising profitability.** Hospitals are expensive to run and have to treat all patients whether they can pay or not. They need to be staffed 24/7/365 even if there are not enough patients to cover expenses. First Choice Centers of Excellence can give patients close to the same comprehensive high quality level of care and still achieve stronger, more profitable financial performance. performance -- all while focusing on Orthopaedic and related care.

- **High profit potential.** When rates for Medicare are based, in part, on the costs of hospital care, a well run medical center can make money.

- **Dedicated facilities provide optimum patient experience**. First Choice provides all of its services in close geographic proximity so that patients are afforded the greatest possible convenience and care experience.

- **The aging population is a built in growth factor.** Osteoarthritis is a common problem as people age and it is a major cause of knee problems. About 20% of knee replacements will need to be replaced for those that have the first operation between the ages of 45 and 65. Often replacing one knee, and the resumption of a more active lifestyle, will impact the other knee and increase the probability of that knee causing problems.

- **With an overall market in excess of $150 billion for treatment outside of the hospital we think that the opportunity for FCHS to be unlimited.**

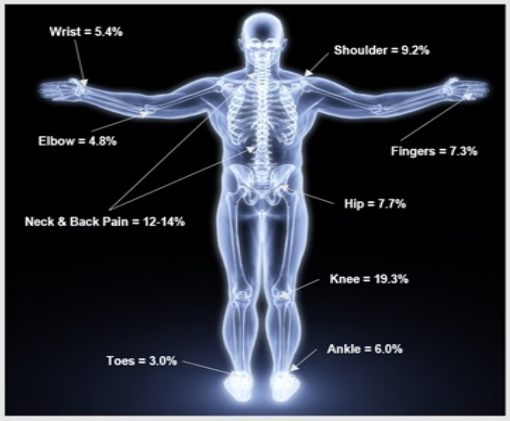
  [The Burden of Musculoskeletal Diseases in the United States. www.boneandjointburdon.org The dollar amount is derived from adding up the costs of all the hip, knee and shoulder procedures performed in the USA in 2011.]

## OVERVIEW

FCHS operates in the areas of Orthopaedic, Spine surgery, Interventional Pain Management and Neurology.

On a worldwide basis, 632 million people suffer from back pain, 332 million from neck pain, there are 251 million people with osteoarthritis and 561 million with other musculoskeletal problems (Lancet, 15 December 2012).

**Proportion of US Population[1], Age 18 and Older, Reporting Joint Pain, 2013**




[1] Age-adjusted to July 1, 2013 U.S. Census population estimates (approximately 243 million, age 18 or older)

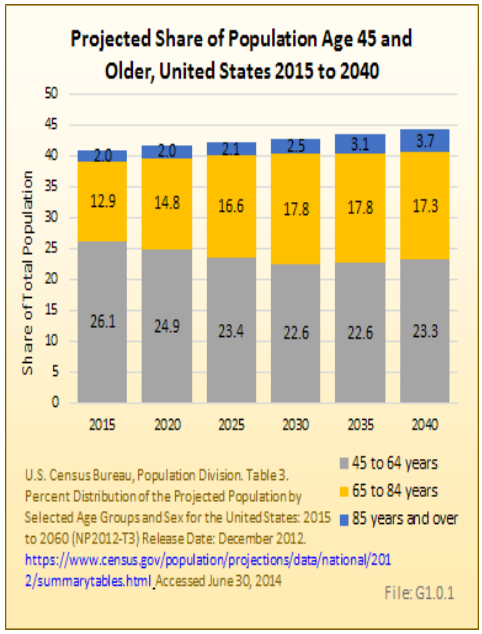
**Sources:**

National Center for Health Statistics, National Health Interview Survey, Report Builder | 2013

Bone and Joint Burden.org | The Burden of Musculoskeletal Diseases in the United States | www.boneandjointburden.org/2014-report/ii/spine-low-back-and-neck-pain

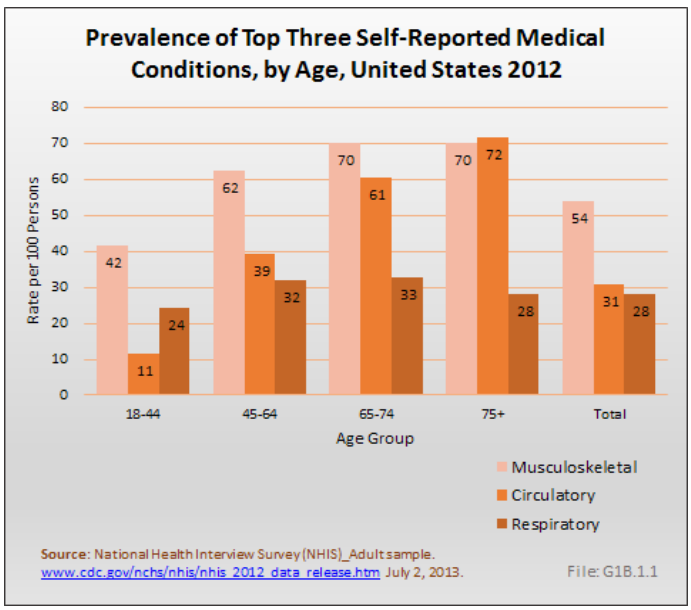
On the Top 10 list of diseases in America, "back pain" stands at number eight, which according to Forbes.com costs over $40 billion annually for treatment costs alone. Other estimates that include disability, work loss and total indirect costs range between $100 and $200 billion per year. Back pain sent over 3 million people to emergency rooms in 2008 at a cost of $9.5 billion, making it the ninth most expensive condition treated in U.S. hospitals.

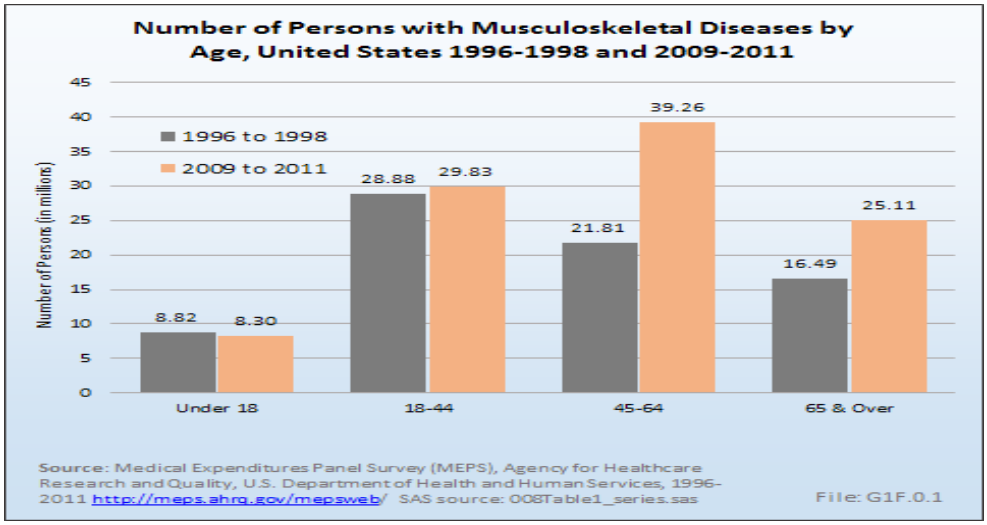
The incidence of joint pain for knees, hips and shoulders for those over the age of 18 accounted for over 30% of those reporting in 2012. Pain management (algiatry) is one of the services offered by FCHS.




Older people tend to have osteoarthritis leading to knee, hip and shoulder problems. 67 out of 100 persons 45 and older have Musculoskeletal problems. This adds up to over 64 million potential patients which spent $135 billion on osteoarthritis related problems in 2011, which may be diagnosed in care facilities and account for 29% of all diagnoses in hospitals.

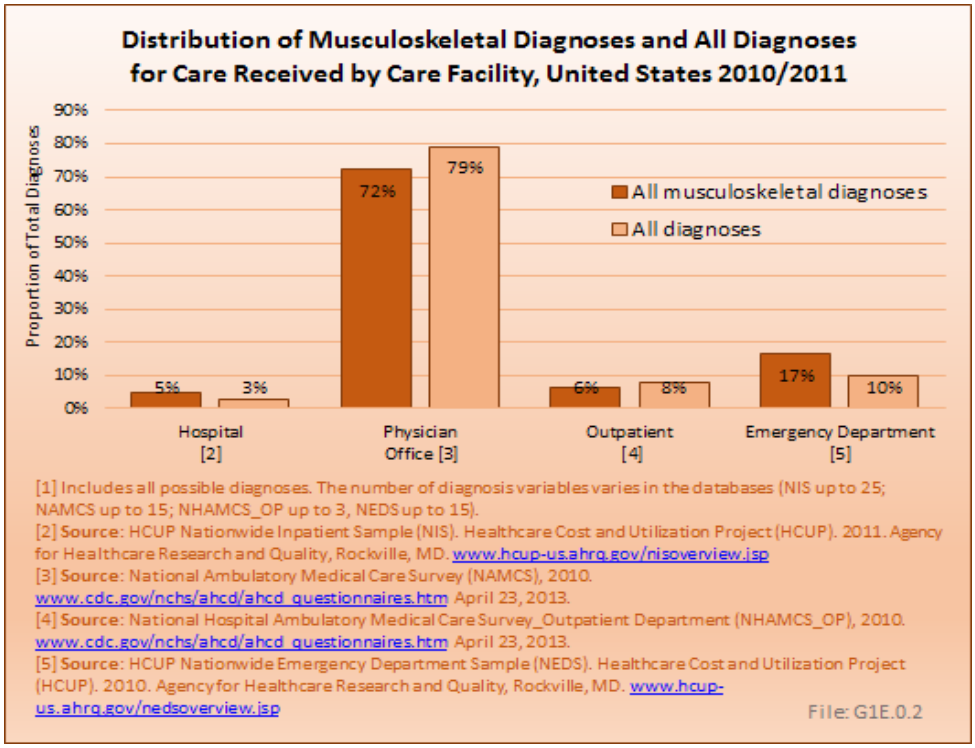
As patients age they become more susceptible to such problems as osteoarthritis and osteoporosis, peaking within the ages of 65 and older and from age 18 and on the incidence of musculoskeletal disease becomes significant. It is estimated that in 2011 there were over 94 million people with problems. Other sources (American Academy of Orthopaedic Surgeons) estimate that 50 percent of Americans are affected by arthritis of the knee.

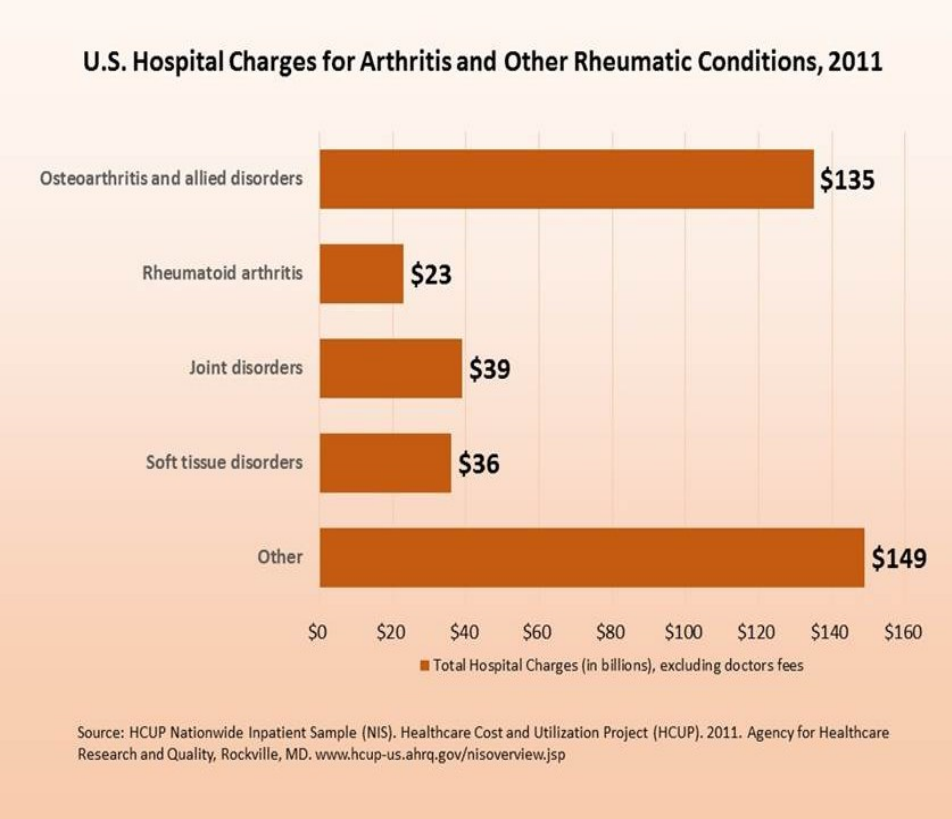





Over 72% of musculoskeletal diagnoses based on where care was received occurred in physician offices. This is a major competitive factor for companies such as First Choice Healthcare Solutions.

Osteoarthritis and joint pain are significant sectors of treatment in hospitals and charges accounted for nearly $175 billion in 2011 out of the $1.3 trillion spent for all arthritis and rheumatic conditions. This does not include treatment outside of hospitals. Within this amount the growth potential of First Choice Healthcare Solutions is unlimited. Musculoskeletal diseases cost close to $800 billion in 2011, and this total is growing.

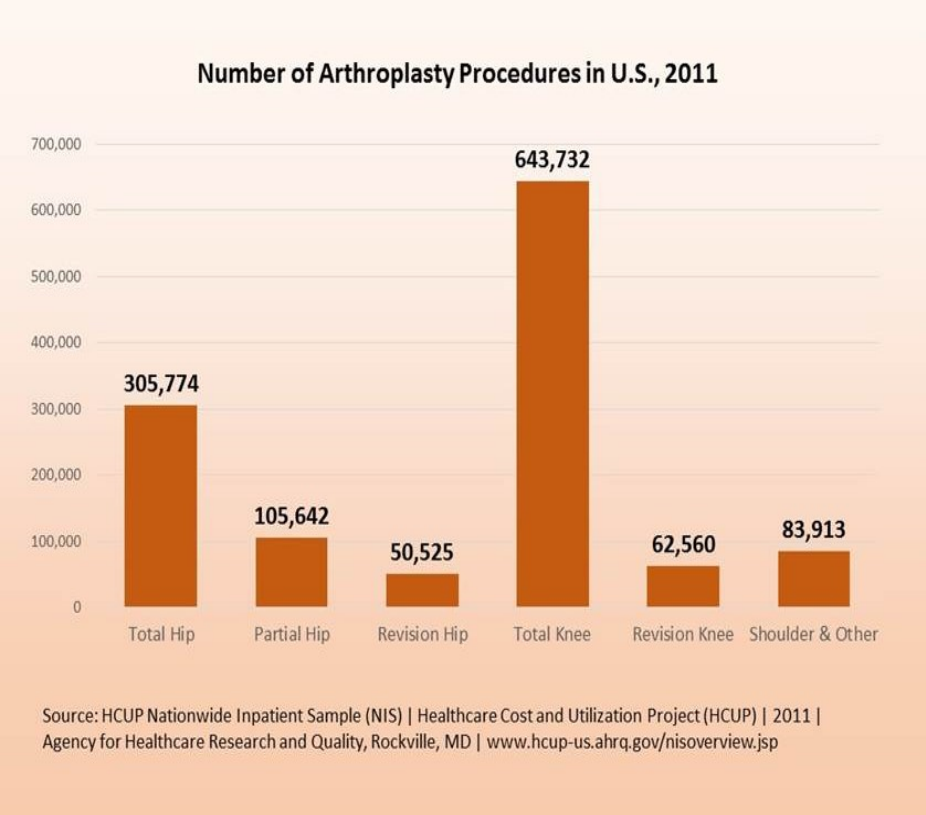


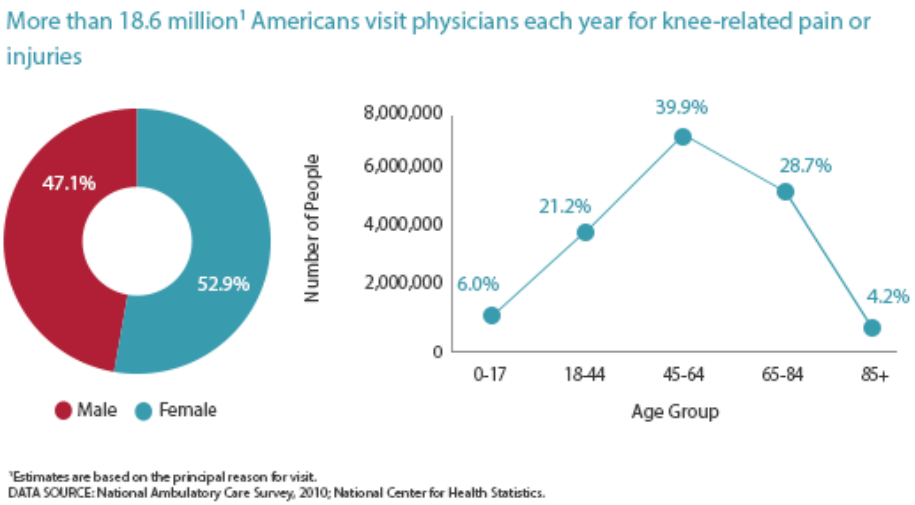



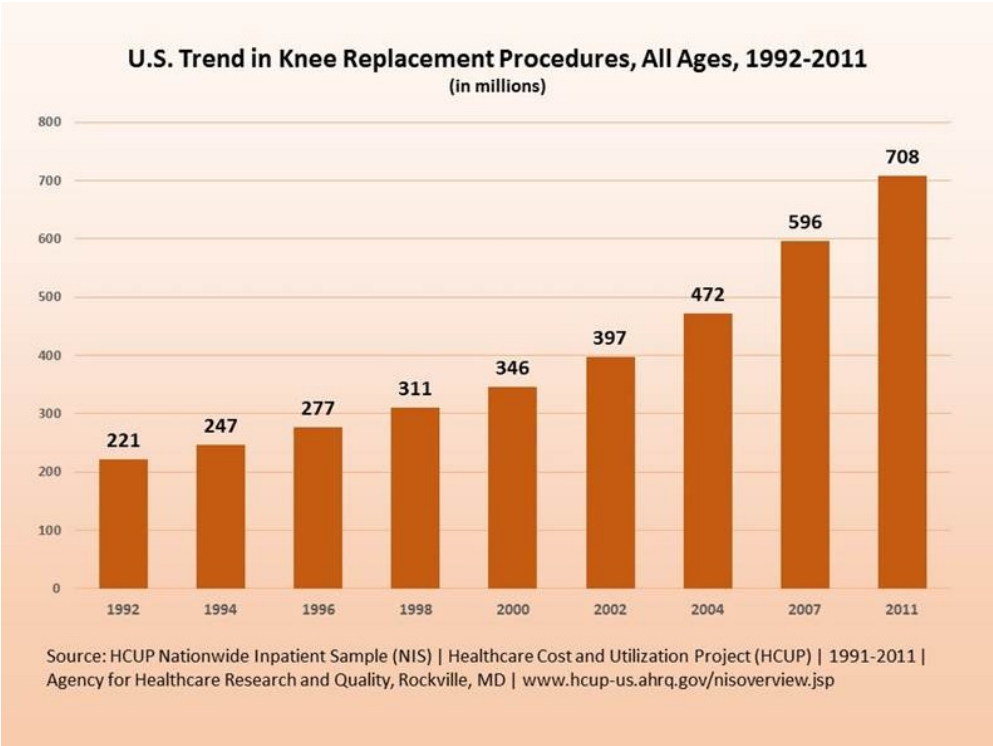

The three major operations for joint replacement are knees, hips and shoulders. Recent data for rotator cuff repair is not available. However, there were 151,866 rotator cuff repair procedures from 2004 through 2009, which represented an incidence of 13.6 for every 1,000 patients

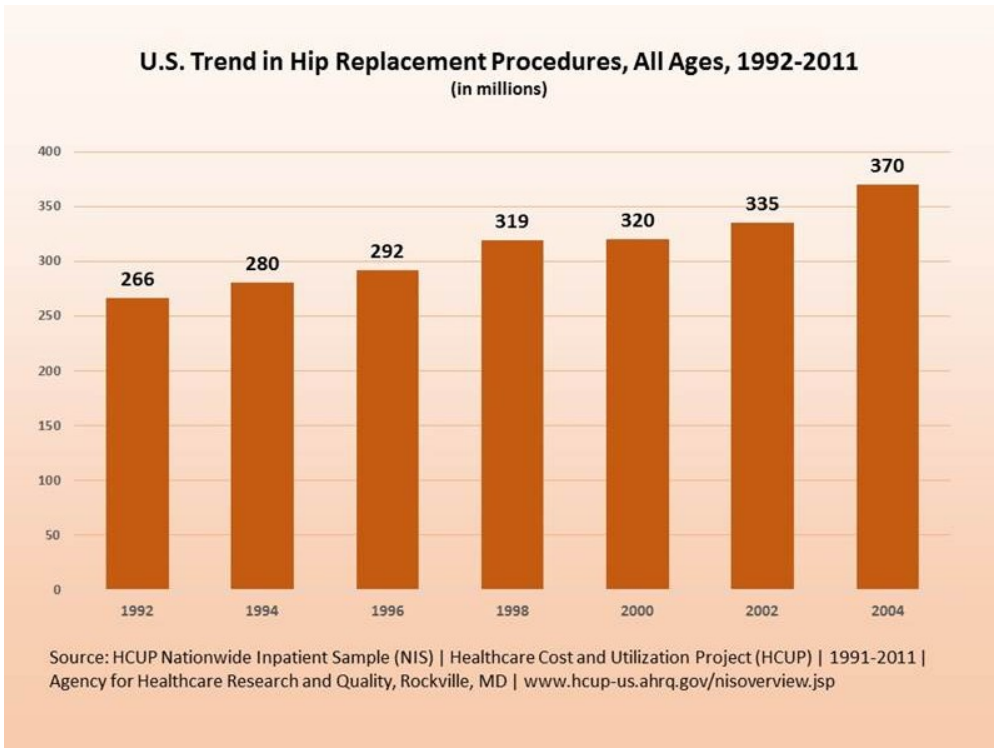
assigned an orthopaedic International Classification of Diseases, Ninth Revision (ICD-9) or Current Procedural Terminology (CPT) code.

In 2011 the number of knee operations (706,292), hips (461,761) and shoulders (66,895) totaled 1.235 million procedures. The estimated hospital charges alone exceeded $50 billion

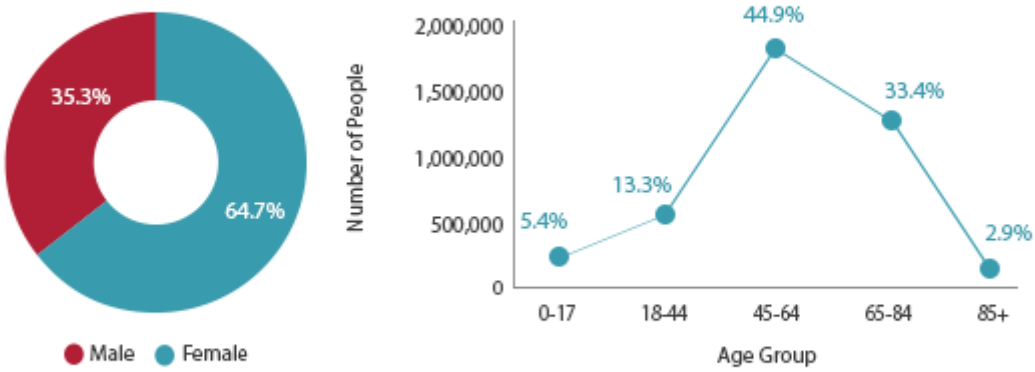



U.S. Trend in Knee Replacement Procedures, All Ages, 1992-2011
(in millions)
800
700
600
500
400
300
200
100
0
221
247
277
311
346
397
472
596
708
1992
1994
1996
1998
2000
2002
2004
2007
2011
Source: HCUP Nationwide Inpatient Sample (NIS) | Healthcare Cost and Utilization Project (HCUP) | 1991-2011 | Agency for Healthcare Research and Quality, Rockville, MD | www.hcup-us.ahrq.gov/nisoverview.jsp


U.S. Trend in Hip Replacement Procedures, All Ages, 1992-2011
(in millions)
400
350
300
250
200
150
100
50
0
266
280
292
319
320
335
370
1992
1994
1996
1998
2000
2002
2004
Source: HCUP Nationwide Inpatient Sample (NIS) | Healthcare Cost and Utilization Project (HCUP) | 1991-2011 | Agency for Healthcare Research and Quality, Rockville, MD | www.hcup-us.ahrq.gov/nisoverview.jsp

## More than 4 million[1] Americans visit physicians each year for lower hip-related pain or injuries




[1]Estimates are based on the principal reason for visit.
DATA SOURCE: National Ambulatory Care Survey, 2010; National Center for Health Statistics.

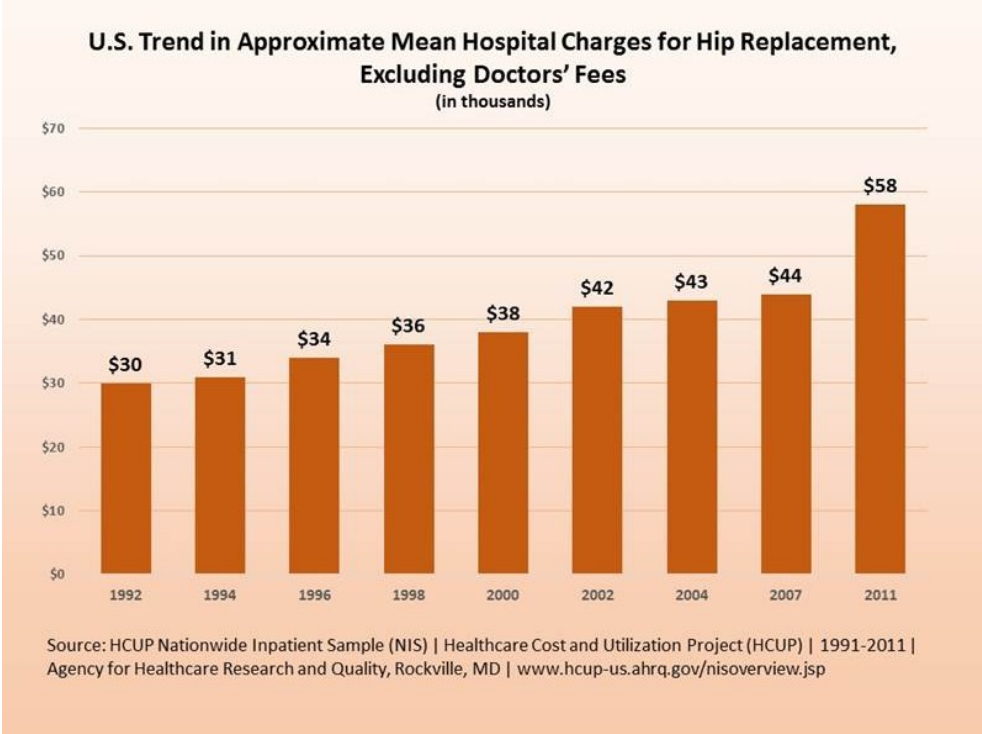
## U.S. Trends in Total Hospital Charges[1] for Hip Replacement Procedures, in 2011 U.S. Dollars[2], 1998-2011

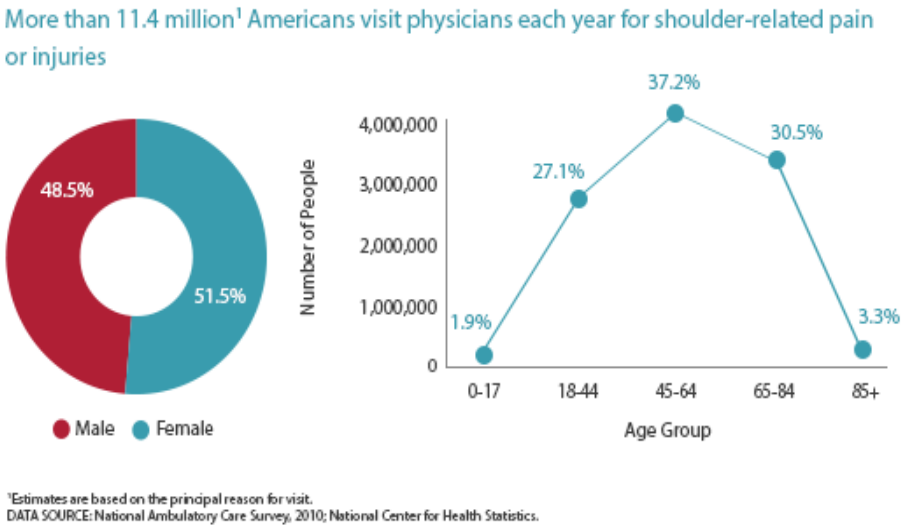



[2]Average charges are based on individual record discharges. The fees included may vary from patient to patient, but generally include hospital room, supplies, medications, laboratory fees and care staff, such as nurses. They generally do not include professional fees (doctors) and non-covered charges. In a small proportion of the discharge cases, professional fees (doctors) are not removed from total charges because the data source cannot provide the information. Emergency charges incurred prior to admission to the hospital may be included in total charges.

[2] Source: CPI Inflation Calculator | Bureau of Labor Statistics, United States Department of Labor | www.bls.gov/data/inflation_calculator.htm | October 29, 2013

Data Source: HCUP Nationwide Inpatient Sample (NIS) | Healthcare Cost and Utilization Project (HCUP), 2011 ] Agency for Healthcare Research and Quality, Rockville, MD | www.hcup-us.ahrq.gov/nisoverview.jsp




Charges and payment by third party payers for the same operation varies across the country. The charges paid vary by the plan covering the patient. The charge per code number (each part of a procedure is coded and these codes are used to determine the payment) is determined by what is paid under that code by Medicare. As described below the range of payment for a procedure varies.

Blue Cross/Blue Shield published a study in January 2016 [bcbs.com/blog/knee-hip-cost-variations.html] that shows that there are significant variations in hip and knee replacement costs across the country and even in the same state.

| | Average | High | Low |
|---|---|---|---|
| Knee replacement | $31,124 | $69,654 | $11,317 |
| High was in New York City, low was in Montgomery, Alabama | | | |
| Hip replacement | $30,124 | $73,897 | $11,327 |
| High was Boston, low was Birmingham, Alabama | | | |

The cost varies even in the same city and between various plans. In Dallas TX the cost varies from $16,772 to $61,585 depending on which hospital was used.

***Health-care prices are all over the map, even within your plan's network***

***(Consumer Reports magazine: July 2012)***

Traditionally, insurers have based prices on what providers charge. Some rely on proprietary internal numbers, and some use national data collected and analyzed by Fair Health, a nonprofit organization based in New York City. [http://www.fairhealth.org/About-FH]

But that's changing as more insurers have begun setting their price as a percentage of what Medicare pays for the service. A March 2012 investigation by the New York State Department of Financial Services found that most plans that use this method pay between 110 percent and 150 percent of what Medicare pays. "It sounds like a lot but it's extraordinarily low," says Robin Gelburd, (Fair Health's president at that time). The range of prices actually paid at that time are outlined below. https://healthcarebluebook.com

| | |
|---|---|
| Hip replacement | $19,500 to $43,875 |
| Total Knee replacement | $17,800 to $42,750 |
| Laminectomy (spine surgery) | $17,800 to $25,760 |

The Healthcare Blue book provides a so called fair price, which is usually close to the lowest price paid and below what is usually paid for that service by Medicare. Sample "Fair" prices as of the date of this report were:

| Current "Fair Prices" | Los Angeles CA | Walt Disney World FL |
|---|---|---|
| Shoulder rotator cuff | $7,194 | $6,368 |
| Total Knee replacement | $26,385 | $21,378 |
| Total Hip replacement | $26,465 | $21,455 |

Amongst the most expensive operations are back surgery. With Surgical costs, medications, magnetic resonance imaging (MRI), rehabilitation and disability, the average spine surgery case approaches $100,000 or more. The direct costs are astronomical and may reach as high as $169,000 for a lumbar fusion and $112,000 for a cervical fusion.

## INDUSTRY OUTLOOK

Health care is a growing business. Those areas that are tied to a older population are growing even faster since getting older is inevitable. Arthritis in its various forms is growing within the older part of the population. The US population is sport conscious and older people are injured more often and require more treatment than do younger people.

## INDUSTRY POSITION

First Choice Healthcare Solutions is a significant provider of orthopaedic services in Melbourne Florida.

## VALUATION

| COMPARISON TABLE | Ticker | Price | Mkt | ROE | P/E | P/E | P/B | P/S | EV/Revenue | EV/EBITDA | PEG | Inst. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 6/3/16 | Cap | (%) | L4Q | NFY | LQ | L4Q | L4Q | N4Q* | | Ownership % |
| | | | (in million) | | | | | | | | | |
| **First Choice Healthcare Solutions, Inc.** | **FCHS** | **$0.95** | **$23** | **68.53** | **NM** | **6.8** | **4.64** | **1.03** | **1.03** | **4.94** | **0.2** | **NA** |
| | | | | | | | | | | | | |
| Community Health Systems | CYH | $13.76 | $1,550 | 4.70 | 17.32 | 5.18 | 0.39 | 0.08 | 0.94 | 8.01 | 1.09 | 94.9 |
| Envision Health Holdings | EVHC | $24.92 | $4,660 | 7.62 | 34.14 | 14.53 | 2.33 | 0.80 | 1.28 | 11.82 | 1.13 | 100+ |
| HealthSouth Inc | HLS | $40.66 | $3,660 | 31.20 | 19.65 | 15.08 | 5.66 | 1.12 | 2.03 | 8.96 | 1.53 | 91.6 |
| HCA Holdings | HCA | $78.36 | $30,640 | 14.45 | 14.77 | 11.12 | N/A | 0.76 | 1.50 | 7.61 | 1.09 | 77.3 |
| Kindred Healthcare Inc | KND | $12.32 | $1,050 | 6.47 | 16.19 | 12.58 | 0.69 | 0.14 | 0.58 | 7.30 | 3.23 | 97.8 |
| Lifepoint Health Inc. | LPNT | $67.13 | $2,910 | 7.39 | 18.62 | 15.42 | 1.28 | 0.53 | 0.98 | 8.58 | 2.43 | 94.9 |
| PRGX Global | PRGX | $4.96 | $109 | 6.59 | N/A | 19.84 | 2.18 | 0.79 | 0.68 | 7.85 | 4.79 | 77.6 |
| Select Medical Holdings | SEM | $12.88 | $1,690 | 15.64 | 11.29 | 12.34 | 1.84 | 0.43 | 1.10 | 10.63 | 1.14 | 83.6 |
| Surgery Partners Inc. | SGRY | $14.20 | $689 | 20.93 | N/A | 15.43 | N/A | 0.72 | 1.93 | 8.70 | N/A | N/A |
| Universal Health Services Inc. | UHS | $136.17 | $13,210 | 17.48 | 19.57 | 16.59 | 3.08 | 1.42 | 1.76 | 9.64 | 2.09 | 95.6 |
| US Physical Therapy Inc. | USPH | $58.31 | $729 | 16.59 | 31.37 | 26.63 | 4.36 | 2.17 | 2.28 | 13.25 | 2.13 | 94.2 |
| * Assumes zero net debt based on the sale of Marina Towers. | | | | | | | | | | | | |
| (Source: Yahoo Finance & Zacks estimates) | | | | | | | | | | | | |
| **Mean** | | | | 18.13 | 20.32 | 14.29 | 2.65 | 0.83 | 1.34 | 8.94 | 1.90 | |
| **Median** | | | | 15.05 | 18.62 | 14.81 | 2.26 | 0.78 | 1.19 | 8.64 | 1.53 | |

The stock price median values for the valuations shown above was $1.8 The measure with the lowest spread was EV/EBITDA. Based on the N4Q estimate of EBITDA plus bad debt estimate of $4.6 million the valuation was $1.92 a share. We add back the bad debt expense to EBITDA since, at the moment, it is determined by accounting regulations and not by actual experience.

The price to book valuation is high since FCHS is a young company and book value is low due to the negative retained earnings. This is offset by the PEG ratio and the very high growth rate in earnings since the company is growing so fast and has such a low PEG ratio.

We have decided to use $2.00 as our target price. The theoretical CAPM discount rate is 16.3%.

## RISKS

- First Choice Healthcare Solutions, Inc. is a new company with a limited history. It needs to add additional physicians to meet its goals as well as hire corporate staff with sufficient experience to promote and manage the expected growth.

- Increasing the number of FCHS Medical Centers of Excellence will require funds that may not be covered by internally generated cash flow. This may include equity capital that would dilute the existing stockholders. Without sufficient funds the company would not be able to achieve its growth objectives.

- Additional Centers of Excellence would require the hiring of successful physicians to be successful. Integrating new physicians and new Centers of Excellence into the existing network may not result in anticipated cost savings and generate positive cash flow.

- As the number of centers and the number of physicians increase, managements attentions may be diverted away from operating the business unless management can hire appropriate people to manage groups of centers.

- If the company experiences operating problems, it may have a negative effect on hiring new personnel and attracting patients.

- It is essential that the company can attract new patients that require operations that will be profitable.

- The laws that impact the medical industry are constantly changing, and the company will have to anticipate those changes. Failure to do so may have an adverse impact on revenue and earnings.

- The medical profession is subject to significant legal challenges that would impact liability insurance rates and be costly to defend against in court. Substantial awards may occur that are not paid for by liability insurance.

- Reductions in reimbursement rates would have a significant negative impact on revenue and earnings.

- Failure to comply with local, state and federal regulations may result in investigations and fines or the closure of facilities.

- From time to time the company may become involved in legal proceedings that impact the company's ability to add Centers of Excellence

## INSIDER TRADING AND CAPITAL STRUCTURE

As of April, 2016 there were 23.65 million shares outstanding, of which 7.52 million were held by insiders. In addition there were outstanding warrants to purchase 4.32 million shares (2.32 million at $1.35 and 1.875 million at $3.60) and options to purchase 3 million shares at a strike price of $1.35.

Total fully diluted shares were 33.64 million.

Chris Romandetti, Chairman, President and CEO owns 6.71 million shares.

## INCOME STATEMENTS FOR OPERATING ENTITIES.

| First Choice Healthcare | 2014 | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 2015 | 1Q16 |
|---|---|---|---|---|---|---|---|
| Fiscal Year Dec.31 | | | | | | | |
| **FCMG Medical** | | | | | | | |
| Net patient revenue | $7.05 | $2.24 | $1.87 | $1.77 | $1.66 | $7.54 | $2.31 |
| Salaries & benefits | $3.73 | $0.84 | $0.78 | $1.10 | $0.70 | $3.42 | $0.83 |
| As % Revenue | 52.9% | 37.4% | 41.7% | 62.1% | 42.5% | 45.4% | 35.9% |
| Other Op. expenses | $1.90 | $0.46 | $0.57 | $0.67 | $0.17 | $1.86 | $0.53 |
| As % Revenue | 27.0% | 20.4% | 30.2% | 37.7% | 10.3% | 24.7% | 23.0% |
| G&A | $1.17 | $0.29 | $0.32 | $0.31 | $0.32 | $1.25 | $0.36 |
| As % Revenue | 16.6% | 13.0% | 17.0% | 17.6% | 19.6% | 16.5% | 15.7% |
| Depn. & Amort. | $0.26 | $0.07 | $0.07 | $0.07 | $0.07 | $0.27 | $0.07 |
| Op. inc. | ($0.01) | $0.59 | $0.14 | ($0.38) | $0.39 | $0.74 | $0.46 |
| As % Revenue | -0.09% | 26.21% | 7.53% | -21.24% | 23.63% | 9.82% | 20.05% |
| | | | | | | | |
| | | | | | | | |
| **Brevard Orthopaedics*** | | | | | | | |
| Net patient revenue | | | $1.93 | $4.01 | $3.17 | $9.11 | $3.04 |
| Salaries & benefits | | | $1.25 | $1.05 | $1.77 | $4.08 | $1.46 |
| As % Revenue | | | 64.8% | 26.3% | 55.9% | 44.8% | 48.0% |
| Other Op. expenses | | | $0.00 | $0.00 | $0.00 | $0.00 | $0.36 |
| As % Revenue | | | 0.0% | 0.0% | 0.0% | 0.0% | 11.8% |
| G&A | | | $0.92 | $1.34 | $1.48 | $3.74 | $1.58 |
| As % Revenue | | | 47.5% | 33.4% | 46.8% | 41.0% | 52.1% |
| Depn. & Amort. | | | $0.00 | $0.00 | $0.00 | $0.02 | $0.01 |
| Op. inc. | | | ($0.24) | $1.62 | ($0.08) | $1.27 | $0.40 |
| As % Revenue | | | | | | | |
| * excludes rental revenue | | | | | | | |
| | | | | | | | |
| **The Crane Center** | | | | | | | |
| Net patient revenue | | | | | $1.13 | $1.13 | $1.27 |
| Salaries & benefits | | | | | $0.31 | $0.31 | $0.29 |
| As % Revenue | | | | | 27.6% | 27.4% | 23.1% |
| Other Op. expenses | | | | | $0.29 | $0.29 | $0.71 |
| As % Revenue | | | | | 25.5% | 25.7% | 55.8% |
| G&A | | | | | $0.11 | $0.11 | $0.11 |
| As % Revenue | | | | | 9.9% | 9.7% | 8.6% |
| Depn. & Amort. | | | | | $0.06 | $0.06 | $0.07 |
| Op. inc. | | | | | $0.42 | $0.42 | $0.03 |
| As % Revenue | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Total patient revenue | $7.05 | $2.24 | $3.80 | $5.78 | $5.95 | $17.78 | $6.62 |
| Total patient op. inc. | -$0.01 | $0.59 | -$0.10 | $1.24 | $0.72 | $2.43 | $0.89 |
| | | | | | | | |
| Net other * | $0.04 | ($1.08) | $0.73 | ($0.61) | ($4.09) | ($5.63) | $8.68 |
| | | | | | | | |
| Pretax | $0.03 | ($0.50) | $0.63 | $0.63 | ($3.37) | ($3.20) | $9.57 |
| | | | | | | | |
| | | | | | | | |
| * Includes all rental income | | | | | | | |

# PROJECTED INCOME STATEMENT & BALANCE SHEET

| **First Choice Healthcare** | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Statements of Operations | | | | | | | | | | | | | | | | | | | |
| (Dollars in millions except per share data) | | | | | | | | | | | | | | | | | | | |
| Fiscal Year Dec.31 | **2012A** | **2013A** | **2014A** | **1Q15** | **2Q15** | **3Q15** | **4Q15** | **2015A** | **1Q16 Act.** | **2Q16 Est** | **3Q16** | **4Q16** | **2016 E** | **1Q17** | **2Q17** | **3Q17** | **4Q17** | **2017 E** | **2018 E** |
| Net patient service revenue | $2.65 | $5.46 | $7.97 | $2.29 | $3.81 | $5.78 | $5.90 | $17.77 | $6.62 | $7.30 | $8.40 | $9.45 | $31.77 | $10.50 | $12.00 | $14.70 | $16.80 | $54.00 | $86.00 |
| Provision for bad debts | | $0.37 | $0.91 | $0.05 | $0.01 | $0.00 | $0.60 | $0.66 | $0.26 | $0.37 | $0.42 | $0.47 | $1.52 | $0.53 | $0.60 | $0.74 | $0.84 | $2.70 | $4.30 |
| As % servive revenue | | 6.7% | 11.5% | 2.0% | 0.2% | 0.0% | 10.2% | 3.7% | 4.0% | 5.0% | 5.0% | 5.0% | 4.8% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Rental revenue | $1.16 | $1.05 | $1.05 | $0.27 | $0.52 | $0.52 | $0.45 | $1.75 | $0.63 | $0.60 | $0.60 | $0.60 | $2.47 | $0.60 | $0.60 | $0.60 | $0.60 | $2.40 | $1.20 |
| **All Revenue** | **$3.81** | **$6.87** | **$9.93** | **$2.60** | **$4.34** | **$6.29** | **$6.95** | **$20.17** | **$7.51** | **$8.27** | **$9.42** | **$10.52** | **$35.76** | **$11.63** | **$13.20** | **$16.04** | **$18.24** | **$59.10** | **$91.50** |
| **Net Patient revenue** | **$2.65** | **$5.09** | **$7.05** | **$2.24** | **$3.80** | **$5.78** | **$5.95** | **$17.77** | **$6.62** | **$7.00** | **$8.00** | **$9.00** | **$30.62** | **$10.00** | **$11.50** | **$14.00** | **$16.00** | **$51.30** | **$81.70** |
| % Change | | | | 13.53 | 105.84 | 254.95 | 270.75 | 151.95 | 195.31 | 84.02 | 38.53 | 51.21 | 72.28 | 51.17 | 64.29 | 75.00 | 77.78 | 67.56 | 59.26 |
| Salaries & benefits | 1.59 | 3.10 | 4.76 | 0.95 | 2.13 | 2.24 | 4.03 | 9.34 | 2.78 | 4.00 | 4.20 | 4.80 | 15.78 | 5.50 | 6.33 | 7.70 | 8.80 | 28.33 | 41.00 |
| G & A | 1.31 | 1.71 | 2.43 | 0.55 | 1.65 | 2.24 | 2.71 | 7.15 | 2.41 | 2.60 | 2.60 | 2.70 | 10.31 | 2.80 | 2.90 | 2.90 | 2.90 | 11.50 | 12.00 |
| R&D | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other operting expenses | 0.87 | 1.35 | 1.90 | 0.45 | 0.56 | 0.67 | 0.42 | 2.10 | 1.19 | 0.42 | 0.42 | 0.42 | 2.45 | 0.72 | 0.62 | 0.62 | 0.65 | 2.61 | 2.82 |
| Depr. & Amort. | 0.31 | 0.52 | 0.55 | 0.14 | 0.14 | 0.27 | 0.30 | 0.85 | 0.30 | 0.30 | 0.30 | 0.30 | 1.20 | 0.35 | 0.35 | 0.45 | 0.45 | 1.60 | 2.00 |
| Op Income GAAP | (1.44) | (1.58) | (2.59) | 0.15 | (0.68) | 0.36 | (1.49) | (1.67) | (0.06) | (0.32) | 0.48 | 0.78 | 0.88 | 0.63 | 1.31 | 2.33 | 3.20 | 7.47 | 24.18 |
| Interest Expenses | 0.56 | 3.70 | 0.87 | 0.36 | 0.36 | 0.20 | 0.30 | 1.22 | 0.18 | 0.00 | 0.00 | 0.00 | 0.18 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.75 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.60 |
| Non Op Income | (0.06) | (0.47) | (0.08) | (0.02) | 0.02 | (0.04) | (2.03) | (2.07) | 9.19 | 0.00 | 0.00 | 0.00 | 9.19 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 1.16 | 1.05 | 1.05 | 0.27 | 0.52 | 0.52 | 0.45 | 1.75 | 0.67 | 0.60 | 0.60 | 0.60 | 2.47 | 0.60 | 0.60 | 0.60 | 0.60 | 2.40 | 1.20 |
| Calc.Pretax | (0.90) | (4.70) | (2.49) | 0.03 | (0.50) | 0.63 | (3.37) | (3.20) | 9.62 | 0.53 | 1.33 | 1.63 | 13.11 | 1.23 | 1.91 | 2.93 | 3.80 | 9.87 | 26.98 |
| Taxes | (0.02) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 8.09 |
| Tax Rate | 2.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 30.00 |
| Other Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2.02 | 0.00 | (9.09) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pro-forma adj. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Income | (0.87) | 0.00 | (2.49) | 0.03 | (0.50) | 0.63 | (3.59) | (3.42) | 9.57 | 0.43 | 1.13 | 1.33 | 12.46 | 0.93 | 1.61 | 2.53 | 3.40 | 8.47 | 16.89 |
| Costs and expenses are on a pro-forma basis | | | | | | | | | | | | | | | | | | | |
| Net For Common | (0.87) | (4.70) | (2.49) | 0.03 | (0.50) | 0.63 | (1.57) | (1.41) | 0.48 | 0.43 | 1.13 | 1.33 | 3.37 | 0.93 | 1.61 | 2.53 | 3.40 | 8.47 | 16.89 |
| Shares Used, millions | 12.64 | 13.53 | 17.25 | 18.06 | 19.00 | 20.66 | 20.70 | 20.12 | 26.22 | 27.00 | 27.00 | 27.00 | 27.00 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 |
| Earnings Per Share | | | | | | | | | | | | | | | | | | | |
| **Adjusted EPS** | **($0.07)** | **($0.35)** | **($0.14)** | **$0.00** | **($0.03)** | **$0.03** | **($0.08)** | **($0.07)** | **$0.02** | **$0.02** | **$0.04** | **$0.05** | **$0.12** | **$0.03** | **$0.06** | **$0.09** | **$0.12** | **$0.30** | **$0.60** |
| **GAAP EPS** | **($0.07)** | **($0.35)** | **($0.14)** | **$0.00** | **($0.03)** | **$0.03** | **($0.17)** | **($0.17)** | **$0.36** | **$0.02** | **$0.04** | **$0.05** | **$0.12** | **$0.03** | **$0.06** | **$0.09** | **$0.12** | **$0.30** | **$0.60** |
| L4Q EBITDA plus bad debt expense. | N/M | N/M | N/M | N/M | N/M | ($1.08) | ($0.16) | ($0.16) | $0.01 | $0.95 | $1.46 | $3.60 | $3.60 | $4.60 | $5.31 | $8.83 | $11.77 | $11.77 | $30.48 |

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| First Choice Healthcare | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Consolidated Balance Sheet (in $ millions) | | | | | | | | |
| Fiscal Year Dec.31 | | | | | | | | |
| | 4Q12 | 4Q13 | 4Q14 | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 1Q16 |
| ASSETS | | | | | | | | |
| Cash | 0.29 | 1.00 | 0.60 | 0.50 | 1.43 | 1.15 | 1.60 | 10.05 |
| A/R | 0.53 | 1.27 | 1.80 | 2.25 | 4.49 | 5.61 | 6.62 | 7.45 |
| Cap. Financing costs | 0.06 | 0.06 | 0.07 | 0.07 | 0.07 | 0.06 | 0.04 | 0.00 |
| Other | 0.07 | 0.14 | 0.16 | 0.13 | 0.81 | 1.04 | 1.35 | 1.14 |
| Total current assets | 0.94 | 2.47 | 2.62 | 2.95 | 6.79 | 7.86 | 9.61 | 18.64 |
| Gross Plant | 8.76 | 8.66 | 10.77 | 10.78 | 12.12 | 12.18 | 8.61 | 2.69 |
| Acc. Deprn | 0.00 | 0.00 | 2.47 | 2.60 | 4.02 | 4.15 | 0.00 | 0.00 |
| Cap. Financing costs | 0.15 | 0.13 | 0.04 | 0.02 | 0.00 | 0.00 | 3.01 | 2.93 |
| Patents | 0.00 | 0.29 | 0.27 | 0.26 | 0.26 | 0.25 | 0.25 | 0.24 |
| Patient list | 0.28 | 0.27 | 0.25 | 0.24 | 0.24 | 0.23 | 0.23 | 0.22 |
| All Assets | 10.13 | 11.81 | 11.47 | 11.64 | 18.59 | 19.62 | 22.62 | 25.85 |
| | | | | | | | | |
| LIABILITIES AND NET WORTH | | | | | | | | |
| Debt Due 1 Yr | 0.00 | 0.97 | 1.24 | 2.06 | 0.00 | 1.79 | 2.57 | 2.94 |
| Notes Payable | 1.04 | 0.74 | 2.88 | 2.19 | 4.95 | 7.85 | 8.08 | 0.94 |
| A/P | 0.58 | 0.46 | 1.46 | 1.36 | 2.50 | 2.48 | 4.19 | 4.33 |
| Taxes | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.04 | 0.08 | 0.80 | 0.57 | 0.32 | 0.00 | 2.00 | 2.21 |
| Total current liabilities | 1.65 | 2.24 | 6.38 | 6.19 | 7.78 | 12.12 | 16.84 | 10.42 |
| Conv. Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| L.T.Debt | 9.78 | 11.36 | 8.18 | 8.11 | 8.29 | 0.89 | 0.54 | 0.41 |
| Other LT | 0.00 | 0.00 | 0.00 | 0.00 | 1.49 | 1.49 | 2.14 | 2.20 |
| Def. Taxes & ITC | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.00 | 0.00 | 0.07 | 0.00 | 0.00 | 0.30 | 0.07 | 0.07 |
| All Liabilities | 11.43 | 13.60 | 14.63 | 14.29 | 17.56 | 14.80 | 19.59 | 13.10 |
| Pref.Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Common Stock | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 |
| Surplus | 7.25 | 11.56 | 12.67 | 13.15 | 17.47 | 20.70 | 21.20 | 21.29 |
| Retained Earnings | -8.66 | -13.36 | -15.85 | -15.82 | -16.32 | -15.69 | -19.28 | -9.71 |
| Other | 0.10 | 0.00 | 0.00 | 0.00 | -0.14 | -0.14 | 1.09 | 1.15 |
| Treasury Stock | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Worth | -1.30 | -1.79 | -3.16 | -2.65 | 1.03 | 4.89 | 3.04 | 12.75 |
| Total liabilities & stockholders' equity | 10.13 | 11.81 | 11.47 | 11.64 | 18.59 | 19.62 | 22.62 | 25.85 |

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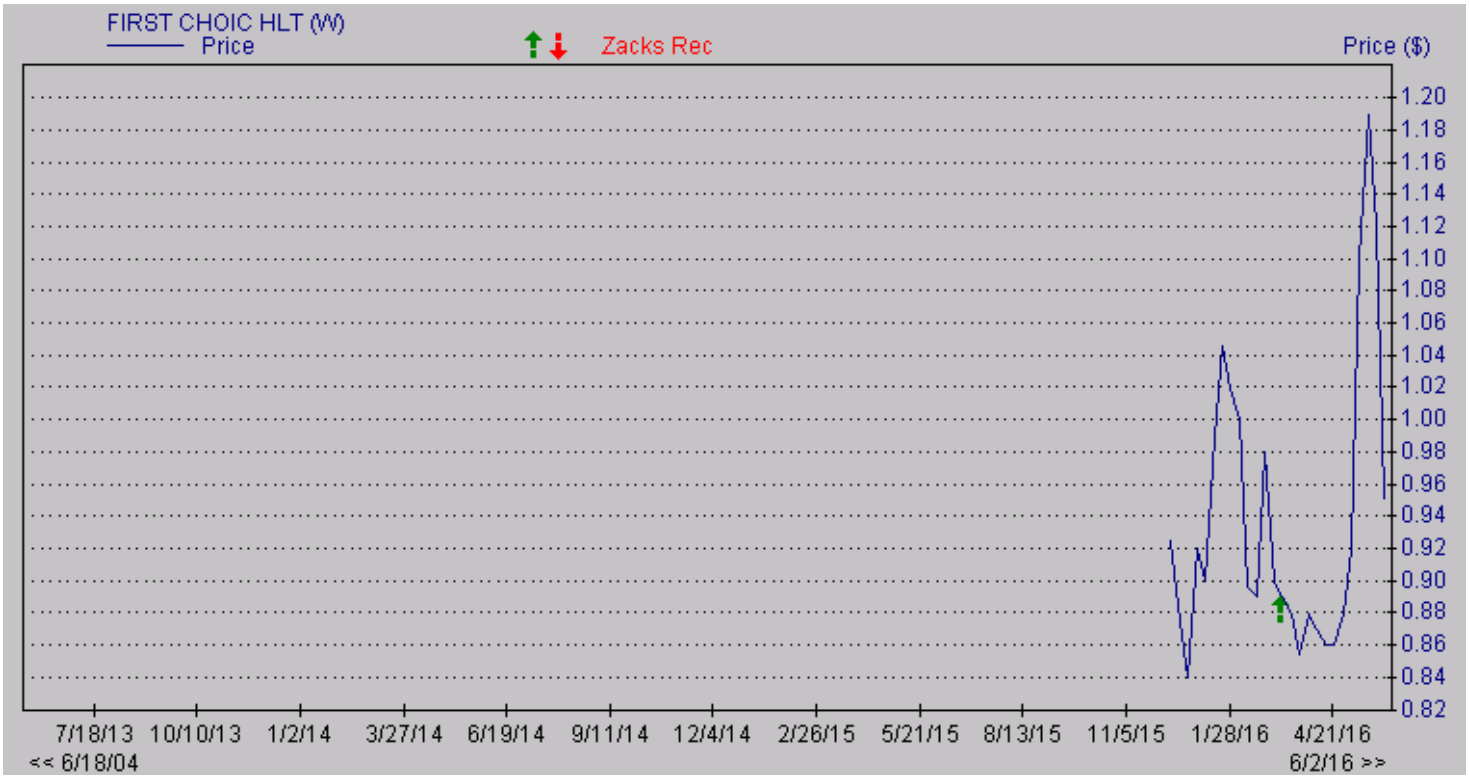
| First Choice Healthcare | | | | | |
|---|---|---|---|---|---|
| Condensed Consolidated Statements of Cash Flows | | | | | |
| Fiscal Year Dec.31 | | | | | |
| | **2012** | **2013** | **2014** | **2015** | **1Q16** |
| Cash flow from operations: | | | | | |
| Net (Loss) Income | (0.87) | (4.70) | (2.49) | (3.20) | 9.62 |
| Depreciation & amortization | | 0.52 | 0.55 | 0.85 | 0.30 |
| Amortization of goodwill & debt | | 0.06 | 0.08 | 0.08 | 0.02 |
| | | | | | |
| Stock issued for services | | | | | |
| Stock based compensation | | 0.55 | 1.00 | 2.35 | 0.08 |
| Impairment of PP&E | | | | | |
| | | | | | |
| Other | | 2.32 | 0.50 | 0.40 | (9.70) |
| **Net cash provided by (used in) operating activites** | **(0.87)** | **(1.26)** | **(0.36)** | **0.48** | **0.32** |
| | | | | | |
| Cash flow from investments: | | | | | |
| Purchase of PP&E | | (0.40) | (0.15) | (0.21) | (0.13) |
| Proceeds from disposal of PP&E | | | | 0.01 | 15.07 |
| Other | | 0.03 | | 0.11 | |
| **Net cash provided by (used in) investing activities** | **0.00** | **(0.37)** | **(0.15)** | **(0.09)** | **14.94** |
| | | | | | |
| Cash flow from financing activities: | | | | | |
| Proceeds from issuance of common stock | | | | 0.18 | |
| Proceeds (payment) on lines of credit, net | | 1.37 | 0.59 | (0.77) | 0.37 |
| Proceeds from debt - related parties | | | | 0.42 | |
| Proceeds fromo debt | | 2.13 | | 0.45 | |
| Payment on debt - related parties | | | | | |
| Payment on debt | | (1.33) | (0.76) | | (7.27) |
| Other | | 0.14 | 0.22 | 0.65 | 0.09 |
| **Net cash provided by (used in) financing activities** | **0.00** | **2.31** | **0.04** | **0.92** | **(6.80)** |
| | | | | | |
| Increase (decrease) in cash and equivalents | (0.87) | 0.67 | (0.46) | 1.31 | 8.45 |
| Cash & equivalents at beginning of period | | 0.07 | 0.74 | 0.28 | 1.59 |
| Cash & equivalents at end of period | 0.07 | 0.74 | 0.28 | 1.59 | 10.04 |

## HISTORICAL ZACKS RECOMMENDATIONS

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