Zacks Small-Cap Research

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Net Element Inc. (NETE-NASDAQ)

NETE: Q3 Results - Hidden Amidst One-Time Expenses Was An EBIDTA Positive Quarter

Using an industry average of EV to GM of 7.5X we believe the stock could be worth $4.18 per share by next year if NETE could reach profitability.

Current Price (11/14/16)	$0.94
Valuation	**$4.18**

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 its Aptito front-end solution and a mobile payment processor in operating primarily in Russia. It has shown extraordinary growth in the US, but needs to reach cash flow break even to stop equity dilution. It just reported its second EBITDA positive quarter.

SUMMARY DATA

52-Week High	**$4.29**
52-Week Low	**$0.62**
One-Year Return (%)	**14.4**
Beta	**1.0**
Average Daily Volume (sh)	**235,354**
Shares Outstanding (mil)	**15.3**
Market Capitalization ($mil)	**$14.4**
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 (%)	**165**
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-Value**
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	14.0 A	15.8 E	54.8 E
2017					62.4 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 A	-$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

Buried in GAAP losses caused by the resolution of payments due for PayOnline, Net Element showed non-GAAP improvement all around. Revenues grew 10.5%, gross margin profit grew 17%, and adjusted EBITDA was positive for the second quarter in a row. On the negative side, GAAP EPS was a loss of $0.25, and total revenue growth decelerated significantly.

Revenues this quarter came in at **$14 million versus $12.7 million** last year and showed only 10.5% growth. Versus last quarter when growth was 98%, investors must perceive this as quite a drop off in growth rate particularly when looking at 179% revenue growth as recently as Q4 2015. Non-GAAP earnings however were not affected.

The largest component of the company's revenues, US card processing services, grew a healthy 42.9% from $7.8 million to $11.2 million-- all internally. The entire revenue decline was overseas business. Mobile payments fell 56% and PayOnline 22% revenue wise. However while total revenues only grew 10.5%, gross margin dollars were up 17.5%. While there was no clear explanation for the revenue shortfall in mobile payments, the drop off in PayOnline was due to discontinuing payment processing services for foreign currency dealers. Without these two purchased businesses, Net Element would be a US payment processor growing over 50% year over year organically and profitable.

Non-GAAP results showed continued improvement. While the adjusted non-GAAP operating loss was again $1.2 million, flat with Q2 2016 and Q1 2016. On a per share basis, the loss declined due to more shares outstanding. This year there are 14 million shares outstanding while last year there were only 6.9 million. Investors should focus on the company's ability to reduce its operating loss and reach cash breakeven for signs of progress.

EBITDA was $196,000 up sequentially from $83,000 in Q2 2016.

Total operating expenses were $4.1 million compared with $3.9 million in 2015, an increase of 4.8%. The loss from operations declined 8.2% to $1.8 million. The company's fixed operating cost structure should allow it to increase margins with increased volume.

Operating losses were $1.8 million versus $1.9 million.

Interest expense was reduced significantly from 2015. The company paid $0.6 million in interest in Q3 2016 compared with $1.6 million in 2015 as the company paid off preferred stock. Of this $0.6 million, **only $79,000 was paid in cash**.

In other income, there was another "loss from stock value guarantee" due the acquisition of PayOnline. We consider this $1.6 million expense one-time and removed from adjusted non-GAAP results.

Removing this expense from losses, gives an **adjusted non-GAAP EPS loss of $0.08 versus loss of $0.43 in 2015**, and a sequential improvement from the loss of $0.10 in Q2 2016. Unfortunately, the weighted average primary share count increased 74% (handily outpacing sales and margin growth) from Q3 2015 to Q3 2016 and helped reduce the loss per share.

We are tweaking our model and reducing revenues for the full year to $54.8 million from $56.1. Our forecast for 2017 remains the same, however given the rapid organic growth the North American operations is showing, our forecast maybe too conservative. We have modeled only 13% growth in that business in 2017 and **this could turn out to be way too low.**

Events Since Q3 Ended

PayOnline Signed ExLine

On October 10, Net Element announced that PayOnline signed an agreement with ExLine to enable online payment acceptance. ExLine is the market leader for courier services in Kazakhstan with more than 50,000 customers. PayOnline offered ExLine a custom payment solution and accepts payments Tenge, Russian rubles, U.S. dollars, and euros.

Gift Card Application Launched in the US

On November 8, 2016, at the Money 2020 event, Net Element announced its Unified Payments proprietary gift card application for smart payment terminals is available nationwide. First launching on Poynt's the omni-channel gift and loyalty platform lets small-to-medium size businesses (SMBs) issue new cards, add value, transfer value between cards, accept payment utilizing physical or virtual cards, void payment, check the card balance, and replace the card if needed. Merchants can access transactions via Poynt's smart payment terminal as well as online on Net Element's SalesCentral reporting system.



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 $55 million in revenues in 2016 through a combination of internal growth, acquisitions and change in revenue recognition.

- 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 $4.18 per share by next year based on an industry average valuation of approximately 7.5xs 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.

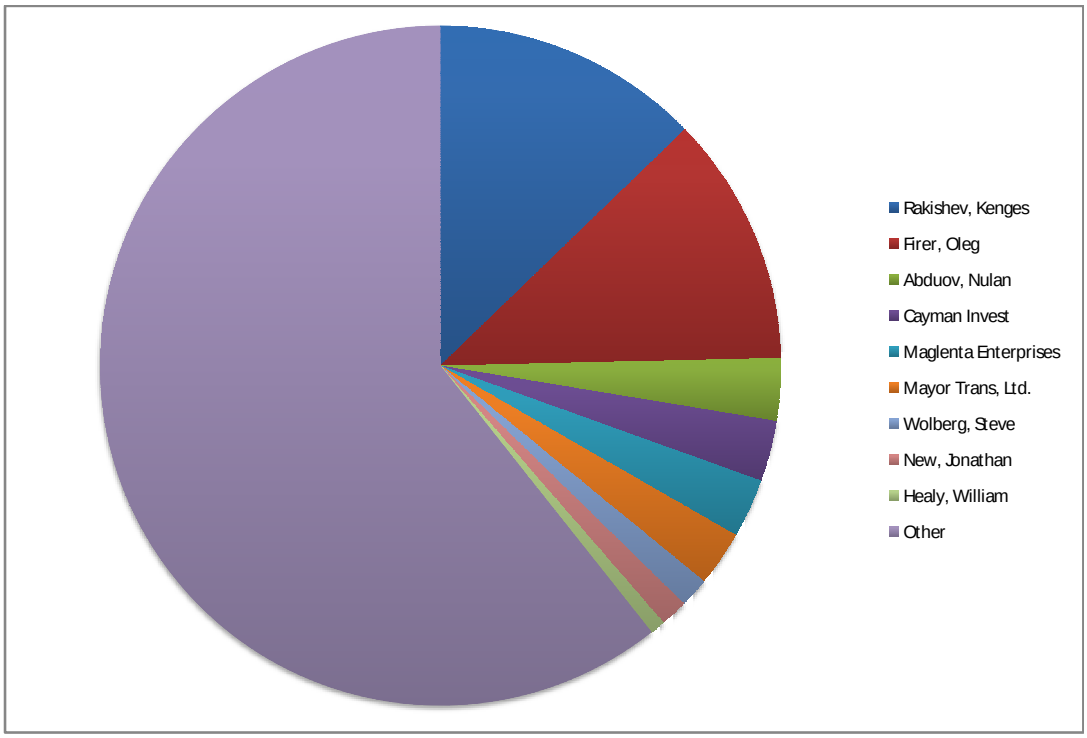
VALUATION

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 7.5 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 $4.18 if it were profitable. Using our forecasts, that price could rise to $7.30 next year using 2016 estimated gross margin of $10.6 million and a share count of 17 million shares.

Merchant Acquring/Processing

Company	Ticker	Gross Margin	%	Revenue 2016E	EV/GM	Included in Average?	Enterprise Value
Cielo	CIOXY	1,470	39%	NA	15.4	n	22,680
EVERTEC	EVTC	206	54%	385	8.5	y	1,750
First Data	FDC	2,390	30%	7,170	13.2	y	31,640
Global Payments	GPN	1,750	57%	3,270	8.0	y	14,070
JetPay	JTPY	17	37%	56	3.5	y	60
PayPal	PYPL	9,250	89%	10,710	4.4	y	40,710
Qiwi	QIWI	81	50%	163	2.6	y	211
Total System Services	TSS	924	25%	4,170	13.0	y	11,981
Vantiv	VNTV	1,680	48%	1,850	6.8	y	11,480
Average			49%		7.5		13,988
Net Element	NETE	8.32	15%	$55			

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 2016 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	$11.2	$12.5	$19.3	$27.4	$41.9	$47.3
Yr-over-yr Growth	26.4%	37.1%	41.4%	58.3%	51.7%	65.9%	42.9%	54.1%	30.6%	41.7%	53.1%	12.8%
Credit card cost of service	4.6	5.5	6.5	7.0	6.7	9.0	9.6	10.7	15.9	23.5	35.9	40.3
Gross margin	0.6	0.8	1.3	1.2	1.2	1.4	1.6	1.9	3.4	3.9	6.1	7.0
Gross margin %	11.1%	13.1%	17.1%	14.3%	15.3%	13.8%	14.3%	14.8%	17.6%	14.2%	14.5%	14.8%
Mobile payments	0.4	0.3	2.8	5.6	2.0	1.8	1.2	1.3	1.9	9.0	6.3	7.6
Yr-over-yr Growth		-2.2%	470.2%	NM	448.9%	437.6%	-56.1%	-76.6%	-52.8%	385.5%	-30.4%	20.0%
Cost of Service	0.0	0.0	2.8	5.3	1.8	1.6	1.0	1.1	0.0	8.1	5.5	6.7
Gross Margin	0.349	0.3	0.0	0.216	0.178	0.2	0.2	0.2	1.9	0.9	0.8	0.9
Gross margin %	96.2%	95.5%	1.3%	3.9%	8.9%	12.0%	14.7%	15.0%	100%	10.2%	12.2%	11.9%
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	-22.2%	38.3%	NA	NA	71.5%	15.0%
Online Solutions Cost of Service	-	0.0	1.5	0.9	0.9	1.0	1.1	1.3	0.0	2.4	4.2	4.8
Gross Margin	-	0.3	0.6	0.5	0.5	0.6	0.5	0.7	0.0	1.4	2.3	2.7
Gross margin %		100.0%	29.0%	37.9%	35.1%	37.0%	33.4%	35.0%	NA	38.1%	35%	36.0%
Total revenues	5.5	6.9	12.7	15.1	11.3	13.7	14.0	15.8	**21.2**	**40.2**	**54.8**	**62.4**
Yr-to-yr Growth	14.4%	40.6%	110.3%	179.3%	103.2%	98.2%	10.5%	4.5%	13.0%	89.8%	36.1%	13.9%
Costs and expenses:												
Cost of revenues	4.6	5.5	10.7	13.2	9.4	11.5	11.7	13.1	15.9	34.0	45.6	51.8
Gross Margin	0.9	1.4	2.0	1.9	1.9	2.2	2.3	2.7	5.3	6.3	9.1	10.6
% of Sales	16.7%	20.8%	15.5%	12.7%	16.7%	16.1%	16.5%	17.4%	25.1%	15.6%	16.7%	17.0%
G&A	2.0	2.6	2.2	0.0	2.1	2.0	2.3	2.3	7.1	9.3	4.8	5.3
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.7	0.7	4.3	4.3	3.8	3.8
Provision for loan losses	0.0	0.1	0.3	0.2	0.3	0.1	0.3	0.2	(1.2)	0.6	0.9	1.0
Depreciation and amortization	0.4	0.6	0.9	0.6	0.9	0.8	0.8	0.7	2.4	2.5	3.2	3.2
Total operating expenses	3.1	3.9	3.9	3.4	3.6	5.0	4.1	3.9	8.3	16.8	12.7	13.3
Loss from operations	(2.2)	(2.5)	(1.9)	(1.4)	(1.7)	(2.8)	(1.8)	(1.1)	(3.0)	(10.5)	(3.6)	(2.7)
Interest expense, net	(0.1)	(1.3)	(1.6)	(0.6)	(0.2)	(0.4)	(0.6)	(0.7)	(3.7)	(3.6)	(1.9)	(2.4)
Other expense	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.4	0.0	(0.2)	(0.1)	0.4	0.4
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)	(1.6)	0.0	0.0	0.0	(3.7)	0.0
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)	(0.2)	(0.7)	(2.9)	(2.8)	(1.5)	(2.0)
Pretax operating income (loss)	(2.2)	(1.8)	(4.5)	(2.3)	(1.9)	(5.4)	(3.5)	(1.8)	(5.9)	(13.3)	(5.5)	(5.1)
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)	(3.5)	(1.8)	(6.0)	(13.3)	(5.5)	(5.1)
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
Net loss	(2.2)	(1.8)	(4.5)	(2.4)	(1.8)	(5.3)	(3.5)	(1.8)	(10.2)	(13.4)	(5.5)	(5.1)
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)	(3.5)	(1.8)	(10.2)	(15.0)	(5.5)	(5.1)
Foreign currency translation gain (loss)	(0.1)	(0.1)	(0.2)	0.1	(0.0)	(0.5)	0.1	0.0	(1.1)	(0.3)	(0.4)	0.0
Comprehensive loss	(2.3)	(1.9)	(5.3)	(2.5)	(1.9)	(5.8)	(3.6)	(1.8)	(11.3)	(15.3)	(5.9)	(5.1)
Earnings ex-one time charge	(2.3)	(3.8)	(3.5)	(2.9)	(1.6)	(3.2)	(1.9)	(1.6)	(11.2)	(12.6)	(8.3)	(5.1)
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.7	0.7	4.3	4.3	3.8	3.8
Adjusted Non-GAAP Earnings	(1.6)	(3.2)	(2.9)	(2.1)	(1.2)	(1.2)	(1.2)	(0.9)	(6.9)	(9.8)	(4.5)	(1.3)
Yr-to-yr Growth	-54%	174%	32%	-6056%	-25.0%	-63.4%	-59.8%	-55.7%	-64%	42%	-54%	-71%
GAAP EPS	**($0.51)**	**($0.38)**	**($0.78)**	**($0.26)**	**($0.17)**	**($0.50)**	**($0.25)**	**($0.12)**	**($2.74)**	**($2.10)**	**($0.42)**	**($0.30)**
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)	($0.25)	($0.12)	($2.74)	($2.10)	($0.42)	($0.30)
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)	($0.12)	($0.10)	($2.42)	($1.45)	($0.57)	($0.28)
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%	-80%	-72%	173%	-17%	-78%	-78%
Share outstanding	4.6	5.0	6.9	9.5	11.3	11.6	14.0	15.3	3.7	6.4	13.1	16.9
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	16.9	4.6	8.7	14.6	18.5
Yr-to-yr Growth	0%	12%	48%	111%	110%	101%	62%	21%	24%	87%	63%	14%
Adjusted EBITDA	(1.090)	(1.284)	(0.475)	(0.895)	(0.197)	0.083	0.196	0.478	2.492	(3.052)	0.560	0.757

CASH FLOW

	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept 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)	$ (3,469,541)
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)	$ (33,682)
Share based compensation	$ 601,371	$ 601,371	$ 601,371	$ 2,502,191	$ 360,984	$ 2,014,589	$ 732,701
Deferred revenues	$ (34,858)				$ (171,908)	$ (245,979)	$ 552,890
Gain on change in fair value and settlement of beneficial conversion derivative	$ 0	$ (2,022,036)	$ 1,083,028	$ 27,871,503	$ 0	$ 0	$ 0
Depreciation and amortization	$ 438,769	$ 626,498	$ 851,634	$ 596,261	$ 888,118	$ 844,534	$ 764,886
Non cash interest	$ 0	$ 349,146	$ (349,146)	$ 0	$ 0	$ 297,434	$ 444,423
Amortization of debt discount	$ 0	$ 983,715	$ 1,626,315	$ 417,324	$ 0	$ 0	$ 0
(Recovery of) provision for loan losses	$ 0	$ (94,770)	$ 94,770	$ 0	$ 0	$ 0	$ 0
(Gain) loss on disposal of fixed assets	$ 0	$ (23,854)	$ (44,932)	$ 68,786	$ 0	$ 0	$ 0
Loss on debt extinguishment	$ 0	$ 0	$ (79,325)	$ (27,664,655)	$ 0	$ 0	$ 0
Gain on MBF debt restructure	$ 0	$ 0	$ 0	$ (40,369)	$ 0	$ 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)	$ (278,818)
Advances to aggregators	$ 0	$ (92,017)	$ 59,127	$ 42,912	$ 0	$ 0	$ 0
Deferred revenue	$ 0	$ (310,241)	$ 273,477	$ 308,192	$ 0	$ 0	$ 0
Prepaid expenses and other assets	$ 278,319	$ (104,721)	$ (263,433)	$ 381,466	$ 334,291	$ (63,359)	$ (602,430)
Accounts payable and accrued expenses	$ 668,175	$ (621,264)	$ 1,727,439	$ 1,796,957	$ (909,344)	$ 2,786,305	$ (1,876,961)
Net cash (used in) provided by operating	$ (165,159)	$ (2,305,489)	$ (1,034,911)	$ 417,324	$ (947,001)	$ (817,169)	$ (4,210,955)
Cash flows from investing activities							
Purchase of portfolio and client acquisition	$ 0	$ (303,775)	$ (119,475)	$ (454,835)	$ 0	$ 0	$ 0
Sale of portfolio	$ 0	$ 0	$ 300,000	$ 0	$ 0	$ 0	$ 0
Acquisition of PayOnline assets, net of cash	$ 0	$ (3,195,452)	$ 0	$ 0	$ 0	$ 0	$ 0
Purchase of fixed and other assets	$ (6,849)	$ (58,202)	$ (419,086)	$ (95,072)	$ (396,819)	$ (558,741)	$ (391,158)
Net cash used in investing activities	$ (6,849)	$ (3,557,429)	$ (265,174)	$ (549,907)	$ (396,819)	$ (558,741)	$ (391,158)
Cash flows from financing activities							
Repayment to Financial Institutions	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Proceeds from preferred stock	$ 0	$ 5,500,000	$ 0	$ 0	$ 0	$ 0	$ 0
Proceeds from indebtedness	$ 650,000	$ 0	$ 0	$ 0	$ 75,000	$ 1,140,000	$ 1,453,500
Repayment of indebtedness	$ (8,710)	$ 8,710	$ 0	$ 0	$ 0	$ 0	$ (110,434)
Note payable (non-current)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Related party advances (payments)	$ 125,000	$ (40,744)	$ 565,744	$ (318,727)	$ 910,045	$ 0	$ (792,266)
Net cash provided by (used in) financing	$ 766,290	$ 5,467,966	$ 565,744	$ (318,727)	$ 985,045	$ 1,140,000	$ 661,234
Effect of exchange rate changes on cash	$ (331,346)	$ 303,903	$ 375,021	$ (262,929)	$ 57,537	$ (741,514)	$ 192,807
Net increase in cash	$ 91,048	$ (91,048)	$ (359,320)	$ (714,239)	$ (301,238)	$ (90,918)	$ (3,748,072)
Cash at beginning of period	$ 675,231	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509	$ 633,591
Cash at end of period	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509	$ 633,591	$ 1,385,286
Cash paid during the period for:							
Interest	$ 118,910	$ 2,343	$ 275,933	$ 151,158	$ 150,438	$ 150,438	$ (127,741)
Taxes	$ 30,505	$ 59,706	$ (15,794)	$ 146	$ 86,770	$ 86,770	$ 0
Operating cash flow	$ (1,207,815)	$ (1,347,613)	$ (760,192)	$ (1,017,335)	$ (808,401)	$ (2,474,662)	$ (1,008,323)
Free cash flow	$ (1,214,664)	$ (4,905,042)	$ (1,025,366)	$ (1,567,242)	$ (1,205,220)	$ (3,033,403)	$ (1,399,481)

BALANCE SHEET

	Sept 30, 2016	June 30, 2016	% Change
Current assets:			
Cash	**$1,385,286**	**$633,591**	119%
Accounts receivable, net	5,866,714	5,827,586	1%
Prepaid expenses and other assets	1,425,685	806,202	77%
Total current assets	8,677,685	7,267,379	19%
Fixed assets, net	128,470	142,409	-10%
Intangible assets, net	4,153,065	4,513,823	-8%
Goodwill	9,643,752	9,643,752	0%
Other long term	792,834	553,302	43%
Total assets	23,395,806	22,120,665	6%
Current liabilities:			
Accounts payable	$5,650,932	$6,075,259	-7%
Deferred revenue	878,913	326,023	170%
Accrued expenses	5,654,994	4,205,599	34%
Notes payable (current portion)	**147,577**	**384,209**	-62%
Due to related parties	**447,660**	**329,921**	36%
Total current liabilities	12,780,076	11,321,011	13%
Notes payable (non-current portion)	4,047,140	3,823,921	6%
Total liabilities	16,827,216	15,144,932	11%
STOCKHOLDERS' DEFICIT			
Common stock	1,510	1,336	13%
Paid in capital	163,285,658	160,092,967	2%
Accumulated other comp income (loss)	(2,188,390)	(2,091,604)	5%
Accumulated deficit	(154,618,755)	(151,149,215)	2%
Noncontrolling interest	88,567	122,249	-28%
Total stockholders' deficit	6,568,590	6,975,733	-6%
Total liabilities and stockholders' deficit	23,395,806	22,120,665	6%
Net Cash	790,049	(80,539)	-1081%
Current and Quick Ratio	0.7	0.6	6%
Working Capital	(4,102,391)	(4,053,632)	1%
Total Debt	4,642,377	4,538,051	2%
Debt/TA	20%	21%	-3%
Enterprise value	14,840,925	25,672,279	-42%

HISTORICAL STOCK PRICE



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