Zacks Small-Cap Research

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Inuvo Inc. (INUV-AMEX)

INUV: Putting 2016 Behind It, Inuvo Should Return to Growth with the Addition of *NetSeer*

The stock is still priced well below the industry average of 0.9 times enterprise value to sales. **2017 est. revenue of $94 million yields a $2.68 stock price.** Success with *SearchLinks* could double that valuation.

Current Price (02/13/16)	$1.66
Valuation	**$2.68**

OUTLOOK

Inuvo, a digital publishing and advertising technology company, purchased NetSeer on Feb 8th, adding an expected $15m to 2017 revenues. Management's goal is to reach a revenue run rate of $100 million by the end of 2017 and with this acquisition is likely to help achieve that. Having just reported a flat year and a down Q4, this should allow the company to return to revenue growth this year and profitability next. Coming off a flat year, this result should improve the company valuation.

SUMMARY DATA

52-Week High	**$2.20**
52-Week Low	**$1.02**
One-Year Return (%)	**-23.5**
Beta	**0.10**
Average Daily Volume (sh)	**55,162**
Shares Outstanding (mil)	**25**
Market Capitalization ($mil)	**$41**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**26**
Insider Ownership (%)	**18**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**14.2**
Earnings Per Share (%)	**8.5**
Dividend (%)	**N/A**
P/E using TTM EPS	**NM**
P/E using 2017 Estimate	**NM**
P/E using 2018 Estimate	**33.2**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Blend**
Industry	**Internet-Services**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	13.4 A	16.7 A	19.3 A	21.0 A	70.4 A
2016	18.7 A	15.6 A	17.5 A	19.7 A	71.5 A
2017	18.7 E	23.0 E	24.0 E	28.3 E	94.0 E
2018					106.4 E

Earnings per Share
(Non-GAAP EPS from continuing operations)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	$0.03 A	$0.03 A	$0.03 A	$0.04 A	$0.13 A
2016	$0.03 A	-$0.01 A	-$0.00 A	-$0.00 A	$0.01 A
2017	-$0.05 E	-$0.03 E	-$0.02 E	$0.01 E	-$0.10 E
2018					$0.05 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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WHAT'S NEW

Company Purchases NetSeer to Add New Customers and Technology

On February 7th the company announced the purchase of most of the assets of NetSeer, for 3.529 million shares of stock (or $5.8 million) and assumed $4.2 million in liabilities related to the business, comprised of debt to a bank, debt to a lender, trade payables, and severance. This totals $10 million. The acquisition is expected to add $15 million in revenue to Inuvo in 2017 plus 20 employees. The shares will be subject to a 180-day lockup. NetSeer, a provider of visual monetization solutions for advertisers and publishers, is based in Sunnyvale, CA and was founded in 2006. It had $14.4 million in venture funding.

This purchase adds new customers and partners as well as valuable data on consumer interest. NetSeer provides a visual monetization platform with in-Image ad technology, which will be incorporated into SearchLinks. It allows appropriate ads to be placed based on the photos and videos on a page, a technology Inuvo did not yet have despite increasing use of photos and videos on its owned sites. NetSeer's "ConceptGraph" targets ads based on the reader's intent, thus providing a more precise and predictive targeting solution for advertisers. Although the acquisition will be dilutive in 2017, the company expects it to be accretive to AEBITDA within 12 months. Inuvo is optimistic it will be able to cross sell and upsell product between the two companies' customer bases.

Earnings Results

Yesterday the company reported 2016 results. 2016 turned out to be a disappointing year as algorithmic missteps and Yahoo drama kept annual growth flat. Revenues totaled $71.5 million versus $70.4 million a mere 2% growth. However the company did fair better than many in the industry where revenue was seen to decline. Once its Q2 revenue issued were resolved, Inuvo was back on track sequentially.

Q4 revenues came in at $19.7 million versus $21.0 million last year, down 7% year over year, but up 12% sequentially. Ad-tech (the renamed partner network) grew 58% to $9.8 million while Digital Publishing (the renamed owned & operated) fell 34% to $9.8 million. While the company appreciates the publishing profits, this business is lower margin than ad-tech and is primarily considered an alpha test site for the ad-tech business. We do not expect the company to spend to grow this business and it appears that through the course of the year, spending on revenues have had diminishing rates of return. We are forecasting this business to remain flat going forward and for the company's growth to come from the higher margin ad-tech business. Mobile is now 60% of revenues and the company does not expect mobile to grow much as a percent as desktop is not going to go away.

Gross margin decline to 59% of sales as Digital Publishing declined to half of total revenues. The company books revenues from that business gross at 100% before marketing expense. Overall margins for the company should decline as the ad-tech business grows.

Digital Publishing margins after marketing costs declined again to 11% down year over year and sequentially. Spending on marketing returned less and less in profit as the year progressed. No wonder the company chooses to spend its efforts on ad-tech.

Compensation and SG&A added to $11.9 versus $15.6 last year. The company had 72 employees before the acquisition of NetSeer and will be adding 21 more from California. We estimate this could increase Compensation expense by $800,000 per quarter. While all of the employees are expected to stay in Sunnyvale, Inuvo is already looking for a lower cost office rental in California for when the lease runs out in July.

Operating income was a loss $200,000 versus a profit of $729,000 in 2015.

The company had $28,000 in interest expense for the quarter and this expense will go up as Inuvo took on the debts of NetSeer, which were at high interest rates, and paid them off with their bank line of credit which charges only prime plus ½%. That should result in interest expense going forward at $75,000 per quarter.

Loss for the quarter was $292,000 versus a profit of $621,000. More importantly the company reported a positive adjusted EBITDA of $612,000 versus $1.5 million last year. The company remains within its strategy of investing to grow revenues without burning cash. We expect the company to continue to remain cash flow positive. In Q1 2017 the company will have one time costs from the purchase that will use cash but will be adjusted out in the calculation.

2017 Estimates

For 2017 we are raising our estimate to $94 million based primarily on the acquisition of NetSeer. We do not expect the company to be profitable for the year, but expect it to remain adjusted EBITDA positive. Our non-GAAP EPS estimate is now a loss of $0.10 per share versus a positive $0.01 this year. Once the company reaches over $100 million in sales, we expect it will be an attractive acquisition to a larger company and the management would be willing to entertain discussions.

Other News

On December 14, 2016, Inuvo hired David Schwartz as Vice President, Sales to head the Inuvo sales force and expand SearchLinks. Prior to joining Inuvo, Schwartz held positions with similar responsibilities at Arkadium, OpenX, and PulsePoint managing a sales team selling and negotiating contracts with large national digital publishers. He efforts will now be augmented with new salesman from NetSeer.

KEY POINTS

- Inuvo is an emerging player in the digital advertising space a market that is growing over 16% per year and should benefit from this market growth. But according to IHS, native advertising, INUV's newer market, will grow much faster than that. For example it predicts mobile native advertising will increase an average of 70.7% per year to reach $8.9 billion in 2020.

- The company has stated its goal is to reach a $100 million in revenue run rate by the end of 2017 and it is on track to do so particularly with the acquisition of NetSeer, which should be adding $15 million in revenues by itself.

- Charles D. Morgan, Director and former founder and Chairman of Acxiom, has a 16% stake in the company (this includes Tocqueville Asset Management which he owns.) We believe that this stake will help keep the company's objectives in line with that of shareholders. We believe that ultimately the company will be sold when it proves it has traction and reaches a size of interest to larger corporations.

- We believe the company is valued way below its peers. If we use enterprise value to sales (since many competitors operate at a loss), the stock is still priced well below its peers who trade at an average of 0.9 times enterprise value to sales. **At a multiple of 0.9xs estimated $94 million in 2016 revenue, the stock should be worth $2.68.** However, if *SearchLinks* gains meaningful traction, investors should look to others in the native advertising space that are currently valued at closer to 3x revenues which would reflect a valuation double that.

VALUATION

Inuvo is hybrid adtech company and digital publisher. For Q4 2016 quarter the revenue split exactly 50/50, we are using a combination of these types of pubic companies to create a blended valuation. Should *SearchLinks*, a native ad tech product, combined with new NetSeer capabilities be successful, we would look to higher revenue multiples as that business is much more attractive.

We applied average multiples to Inuvo's historical and projected revenues based on the comparable companies in the table below. Using this multiple and applying it to 2017 estimated revenues of $94 million and the post-deal share count, the stock should be worth $2.84. However, the IPOs of Outbrain, Taboola, or Revcontent, all of whom are much more highly valued, could increase average comparable multiples.

		Ticker	Revenue		TTM	Enterprise Value / Sales		EV/	Included	Enterprise
Company			2017E	LTM	EBITDA	2017E	LTM	EBITDA	Average?	Value
Autobytel	6%	ABTL	$162	$153	$14	0.8x	0.9x	9.3x	y	135
Blucora	27%	BCOR	$472	$372	$68	2.1x	2.7x	14.6x	y	988
Criteo	37%	CRTO	$912	$665	$66	2.6x	3.6x	36.0x	n	2,380
Leaf Group	7%	LFGR	$123	$114	-$21	0.8x	0.9x	-4.8x	y	99
Rocket Fuel	-28%	FUEL	$227	$316	-$9	0.5x	0.4x	-12.7x	y	115
Marchex	-18%	MCHX	$111	$136	-$11	0.0x	0.0x	-0.2x	y	2
The Rubicon Project	-16%	RUBI	$252	$300	$47	0.8x	0.7x	4.3x	y	202
MaxPoint Interactive	-30%	MXPT	$100	$142	-$19	0.3x	0.2x	-1.6x	y	32
SITO Mobile	-4%	SITO	$42	$44	$4	1.0x	1.0x	9.6x	y	42
Travelzoo	-3%	TZOO	$128	$131	$12	0.7x	0.7x	7.6x	y	94
IAC	2%	IAC	$3,200	$3,140	$390	1.9x	1.9x	15.7x	y	6,110
Average					**47.6**	**0.9x**	**0.9x**	**4.2x**		**$782**

	Revenue		TTM	Enterprise Value / Sales		Valuation Range	
	2017E	LTM	EBITDA	2017E	LTM	Low	High
Inuvo	**$94**	**$72**	**2.6**	**0.9x**	**0.9x**	**$67**	**$85**

Conclusion of Enterprise Value	**$75,703,076**
Market Value	**$79,323,452**
Shares Outstanding	27,900,000
Price per Share	**$2.84**

Private Company Valuations

Inuvo major competitors for *SearchLinks* are private companies and we need to take into account their valuation. If the product is successful, it is possible that the company could achieve a valuation closer to its private competitors—however keep in mind there is often a disconnect between venture and public company valuations.

Recently Inuvo's ad tech competitor Media.net was purchased for $900 million in cash by a Chinese consortium. The company claims to have generated $232 million in revenue in 2015 giving the transaction a valuation of 3.9 times 2015 revenues.

Outbrain, based in Netanya, Israel has a product much like SearchLinks. It was founded in 2006 and has $194 million in funding. It did a $45 million funding round in May 2016. Outbrain has approximately 600 employees of which about 180 are in New York City, 160 in Israel and 50 in the UK. In 2014, Outbrain did $260 million in revenues in 2014, and has an 80% CAGR. It has silently filed for an IPO. If Outbrain grew 50% in 2014 to $195, that would be a trailing valuation of 3.8 times.

Taboola founded in 2007, has raised $160 million in venture funding, and is currently profitable. It expects to reach $200 million in revenues in 2016. We believe it has over 400 employees 140 of which are in its NYC headquarters and 140 are in the Israel where its R&D is based. In February management said the company was at a $250 run rate and the last round was estimated to be $700 million by the Wall Street Journal. That would probably be three times the revenue run rate. According to Tech Crunch the

company is now at a near $1 billion valuation. In July 2016 it bought Israeli ConvertMedia, a recommendation engine designed specifically to find and recommend online videos for near $100 million. It was reported to have a $50 million revenue run rate.

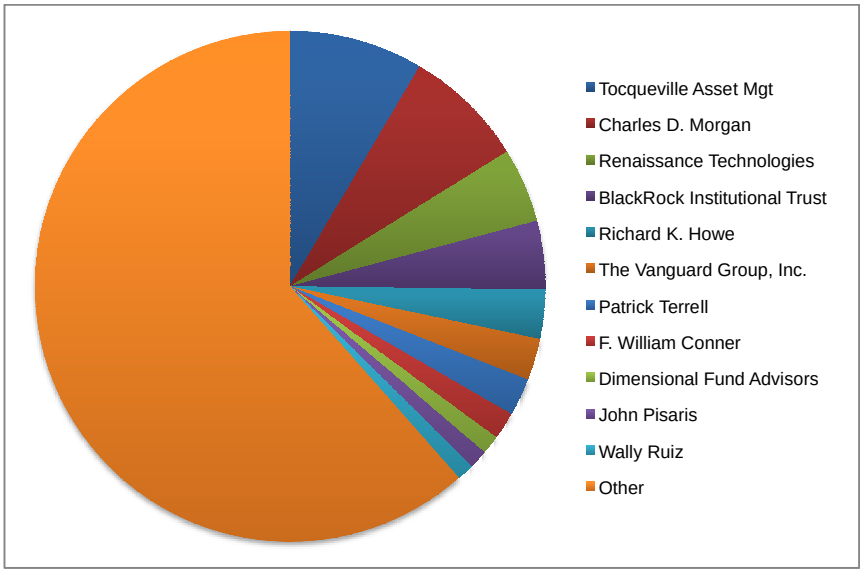
Revcontent, the Sarasota, Fla.-based company was founded in 2013 and employs approximately 100 people. It does 200 billion content recommendations per month and is believed to be the fastest growing native advertising network. It expects reach 2016 revenues of $280 million. It says it grew 600% in 2015. It has never raised outside money, and it funded the ContentClick acquisition with cash.

RISKS

- There are few barriers to entry in the advertising network business and it typically operates with slim margins with competition mainly on price.
- The company is heavily dependent upon Yahoo (now Verizon) and Google for revenues.
- Some of the company's growth is dependent on the success of a new product that is virtually untested in the market and may not be adopted by new customers.
- The digital ad business is very competitive and there is far more inventory of ad space than is needed. There could be continued price pressure that would lower click rates going forward. Much of the ad inventory in the US goes unsold; more inventory could exacerbate this supply-demand imbalance. Thus, Inuvo may have to increase volume of ads sold just to maintain revenues.
- Inuvo has limited resources with which to compete against much larger companies and this could hinder its growth.
- The company may have difficulty integrating the NetSeer products and team into its operations and the revenue expected from that business may not materialize.

CURRENT OWNERSHIP

Charles D. Morgan owns Tocqueville Asset Management.



PROJECTED INCOME STATEMENT

Inuvo	Q4 2015 31-Dec	Q1 2016 31-Mar	Q2 2016 30-Jun	Q3 2016 30-Sep	Q4 2016 31-Dec	Q1 2017E 31-Mar	Q2 2017E 30-Jun	Q3 2017E 30-Sep	Q4 2017E 31-Dec	2015	2016	2017E	2018E
Ad-Tech	$6.2	5.3	$4.7	$6.2	$9.8	10.0	$14.0	$15.0	$17.3	30.3	26.0	$56.3	68.7
Yr-to-yr Growth	-18%	-30%	-49%	-14%	58%	89%	195%	143%	76%	18%	-14%	116%	22%
Ad-Tech gross margin	1.5	1.0	0.8	1.1	1.9	1.7	2.4	2.6	3.3	6.6	4.7	$10.0	13.1
% GM Ad-Tech	21%	19%	17%	17%	19%	17%	17%	18%	19%	22%	19%	18%	19%
Digital Publishing	14.8	13.4	$10.9	$11.3	$9.8	8.7	$9.0	$9.0	$11.0	40.0	45.5	37.7	37.7
Yr-to-yr Growth	93%	129%	49%	-5%	-34%	-35%	-17%	-20%	12%	83%	14%	-17%	0%
Digital Publishing gross margin	14.8	13.4	10.9	11.3	9.8	8.7	9.0	9.0	11.0	40.1	45.4	37.7	37.7
% GM Digital Publishing	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%	100%	100%	100%
Total revenue	**21.0**	**18.7**	**15.6**	**17.5**	**19.7**	**18.7**	**23.0**	**24.0**	**28.3**	**70.4**	**71.5**	**94.0**	**106.4**
Yr-to-yr Growth	36%	40%	-6%	-9%	-7%	0%	47%	37%	44%	42%	2%	31%	13%
		-11%											
Total Cost of services	4.7	4.3	4.0	5.1	8.0	8.3	11.6	12.4	14.0	25.0	21.4	46.3	21.4
Gross profit	16.4	14.4	11.7	12.3	11.7	10.4	11.4	11.6	14.3	46.7	50.2	47.7	50.7
Gross Margin %	78%	77%	75%	71%	59%	56%	49%	48%	50%	66%	70%	51%	48%
Operating expenses:													
Marketing	12.7	11.1	9.4	9.9	8.8	7.6	7.9	7.9	9.7	34.3	39.2	33.1	33.1
Profit after marketing of Digital Publishing	2.2	2.3	1.5	1.4	1.0	1.0	1.1	1.1	1.3	5.7	6.2	4.5	4.5
Margin %	14%	21%	16%	14%	11%	12%	12%	12%	12%	14%	14%	12%	12%
Compensation	1.5	1.7	1.6	1.7	1.9	2.2	2.6	2.6	2.6	5.6	6.8	9.9	10.0
SG&A	1.4	1.3	1.3	1.2	1.2	2.4	2.0	1.9	1.8	4.6	5.0	8.1	7.2
Total operating expenses	15.6	14.0	12.3	12.8	11.9	12.2	12.5	12.4	14.1	44.6	51.0	51.2	50.3
Operating income:	0.7	0.4	(0.6)	(0.5)	(0.2)	(1.8)	(1.1)	(0.8)	0.2	2.1	(0.9)	(3.5)	0.4
Operating margin	3.5%	2.2%	-3.9%	-2.6%	-1.0%	-9.8%	-4.7%	-3.3%	0.7%	3.0%	-1.2%	-3.7%	0.3%
Other income:													
Interest expense, net	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.2)
Total other income	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.1)	(0.3)	(0.2)
Income before income taxes	0.7	0.4	(0.6)	(0.5)	(0.2)	(1.9)	(1.1)	(0.9)	0.1	1.9	(1.0)	(3.8)	0.2
Pretax Margin	3.3%	2.0%	-4.0%	-2.7%	-1.2%	-10.3%	-5.0%	-3.6%	0.4%	2.7%	-1.3%	-4.1%	0.2%
Income tax benefit	0.1	0.0	(0.1)	(0.0)	0.1	-	-	-	-	(0.4)	(0.0)	-	-
Tax rate	11%	2%	9%	9%	-27%	0%	0%	0%	9%	-18.7%	3.1%	0.0%	5.8%
Net income from continuing operations	0.6	0.4	(0.6)	(0.4)	(0.3)	(1.9)	(1.1)	(0.9)	0.1	2.2	(0.9)	(3.8)	0.2
Net income from discontinued operations	-	0.0	(0.0)	0.2	(0.0)	-	-	-	-	0.0	0.2	-	-
Net income	0.6	0.4	(0.6)	(0.3)	(0.3)	(1.9)	(1.1)	(0.9)	0.1	2.3	(0.8)	(3.8)	0.2
Stk based compensation	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.8	1.3	1.0	1.1
One-time expenses	-	(0.0)	-	-	-	0.4	-	-	-	-	(0.0)	0.8	-
Non-GAAP Income from continuing	0.942	0.7	(0.2)	(0.1)	(0.0)	(1.3)	(0.9)	(0.6)	0.4	3.0	0.3	(2.8)	1.3
Yr-over-Yr										-6.5%	-88.9%	-923.2%	-147.6%
Net income per share:													
Basic from continuing	0.03	0.02	(0.02)	(0.02)	(0.01)	(0.07)	(0.04)	(0.03)	0.00	0.09	(0.04)	(0.14)	0.01
Diluted from continuing	0.02	0.02	(0.02)	(0.02)	(0.01)	(0.07)	(0.04)	(0.03)	0.00	0.09	(0.04)	(0.14)	0.01
Non-GAAP Diluted from continuing	**0.04**	**0.03**	**(0.01)**	**(0.00)**	**(0.00)**	**(0.05)**	**(0.03)**	**(0.02)**	**0.01**	**0.11**	**0.01**	**(0.10)**	**0.05**
	-5.3%	182.1%	-137.2%	-113.9%	-103.2%	-265.7%	215.2%	336.1%	-1190.5%	-16%	-88%	-833%	-145%
Shares													
Basic	24.4	24.4	24.6	24.7	24.9	26.1	27.9	28.0	28.1	24.2	24.6	27.5	28.8
Diluted	24.9	24.6	24.6	24.7	24.9	26.3	28.1	28.2	28.3	24.5	24.7	27.7	29.1
	1.7%	1.3%	-0.5%	-0.4%	0.2%	7.2%	14.4%	14.2%	13.5%	1.6%	0.6%	12.4%	5.0%
Adjusted EBITDA	1.55	1.30	0.29	0.42	0.61	(0.59)	(0.25)	0.05	1.05	4.66	2.62	(0.1)	3.38
	-13%	93%	-74%	-69%	-61%	-146%	-187%	-89%	71%	-15%	-44%	-104%	-3753%

BALANCE SHEET

	Dec 31, 2016	Sept 30, 2016	Qtr-Qtr % Change	Dec. 31, 2015	Yr-Yr % Change
Current assets					
Cash	$3,946,804	$3,638,111	8%	$4,257,204	-7%
Accounts receivable, net	7,586,129	6,315,256	20%	7,001,337	8%
Unbilled revenue	8,644	10,999	-21%	16,154	-46%
Prepaid expenses and other current assets	284,469	383,752	-26%	345,752	-18%
Total current assets	11,826,046	10,348,118	14%	11,620,447	2%
Property and equipment, net	1,615,223	1,751,924	-8%	1,805,561	-11%
Other assets					
Goodwill	5,760,808	5,760,808	0%	5,760,808	0%
Intangible assets, net of accumulated amortization	8,343,876	8,574,936	-3%	9,320,951	-10%
Other assets	15,186	29,229	-48%	224,759	-93%
Total other assets	14,119,870	14,364,973	-2%	15,306,518	-8%
Total assets	27,561,139	26,465,015	4%	28,732,526	-4%
Current liabilities					
Accounts payable	9,280,779	7,873,231	18%	10,080,315	-8%
Accrued expenses and other current liabilities	2,689,640	2,804,056	-4%	3,169,445	-15%
Total current liabilities	11,970,419	10,677,287	12%	13,249,760	-10%
Long-term liabilities					
Deferred tax liability	3,738,500	3,799,600	-2%	3,799,600	-2%
Other long-term liabilities	326,428	330,008	-1%	722,722	-55%
Total long-term liabilities	4,064,928	4,129,608	-2%	4,522,322	-10%
Total Liabilities	16,035,347	14,806,895	8%	17,772,082	-10%
Stockholder's equity					
Total stockholders' equity	11,525,792	11,658,120	-1%	10,960,444	5%
Total liabilities and stockholders' equity	$27,561,139	$26,465,015	4%	$28,732,526	-4%
Quick Ratio	1.0	1.0	2%	0.9	13%
Working Capital	(144,373)	(329,169)	-56%	(1,629,313)	-91%
Cash as % of assets	14%	14%	4%	15%	-3%
Cash per share	$0.15	$0.15	2%	$0.17	-12%
Debt % of assets	1%	1%	-5%	3%	-53%

CASH FLOWS

	3 Months Ended 3/31/15	3 Months Ended 6/30/15	3 Months Ended 9/30/15	3 Months Ended 12/31/15	Year 2015	3 Months Ended 3/31/16	3 Months Ended 6/31/16	3 Months Ended 9/30/16
Operating activities:								
Net income	626,310	445,008	651,394	617,062	2,339,774	374,274	(574,828)	(263,073)
Adjustments to reconcile net income to net cash provided by operating activities:								
Settlement of tax liability	(406,453)	-	-	-	(406,453)	-	-	-
Depreciation and amortization	370,883	472,202	463,644	500,621	1,807,350	540,562	561,494	556,296
Deferred income taxes	-	-	-	233,480	233,480	-	-	-
Amortization of financing fees	9,533	645	3,226	6,400	19,804	6,400	6,400	6,400
Adjustment of European liabilities related to discontinued operations	(20,461)	9,056	(45,206)	(3,140)	(59,751)	(5,144)	-	(171,844)
Provision of doubtful accounts	(80)	(12,956)	-	7,000	(6,036)	(464)	(293)	6,557
Stock based compensation	51,924	82,750	251,144	321,726	707,544	359,338	327,110	315,596
Other, net	(251,084)	-	251,084	-	0	-	-	-
Cash Flow	**380,572**	**996,705**	**1,575,286**	**1,683,149**	**4,635,712**	**1,274,966**	**319,883**	**449,932**
Free cash flow	**141,145**	**658,992**	**1,101,748**	**1,207,939**	**3,109,824**	**902,368**	**(3,003)**	**216,036**
Change in operating assets and liabilities:								
Accounts receivable and unbilled revenue	(2,287,739)	1,052,586	176,822	(943,282)	(2,001,613)	1,944,137	(250,317)	(1,008,384)
Prepaid expenses and other assets	57,613	(52,712)	(3,622)	(20,649)	(19,370)	64,747	50,986	22,597
Accounts payable	1,307,931	1,357,947	573,126	1,306,902	4,545,906	(2,411,075)	(247,496)	628,475
Accrued expenses and other liabilities	(837,934)	841,541	59,668	(1,117,638)	(1,054,363)	(299,033)	4,105	(54,941)
Other, net	11,801	-	(11,801)	-	-	-	-	-
Net cash provided by operating activities	(1,367,756)	4,435,350	2,130,196	908,482	6,106,272	573,742	(122,839)	37,679
Investing activities:								
Purchases of equipment and capitalized development costs	(239,427)	(337,713)	(473,538)	(475,210)	(1,525,888)	(372,598)	(322,886)	(233,896)
Grant funds received for equipment and office construction	-	-	-	-	-	-	-	-
Net cash used in investing activities	(239,427)	(337,713)	(473,538)	(475,210)	(1,525,888)	(372,598)	(322,886)	(233,896)
Financing activities:								
Deposit to collateralize letter of credit						-	-	-
Prepaid financing fees and other	-	-	-	25,600	25,600	-	-	-
Net taxes paid on RSU grants exercised	-	(251,083)	-	(109,525)	(360,608)	(11,952)	-	(128,790)
Proceeds from revolving line of credit	-	-	1,500,000	2,500,000	4,000,000	-	3,750,000	(3,750,000)
Payments on revolving line of credit	-	(1,793,275)	(1,500,000)	(2,500,000)	(5,793,275)	-	(3,750,000)	3,750,000
Proceeds from term note payable	-	(381,282)	381,282	-	-	-	-	-
Payments on term note payable and capital leases	(183,725)	-	(1,711,616)	(14,081)	(1,909,422)	(12,859)	(13,019)	(11,675)
Net cash used in financing activities	(183,725)	(2,241,915)	(1,514,059)	(98,006)	(4,037,705)	(24,811)	(13,019)	(140,465)
Effect of exchange rate changes	-	-	-	-	-	-	-	-
Net change - cash	(1,790,908)	1,855,722	142,599	335,266	542,679	176,333	(458,744)	(336,682)
Cash, beginning of quarter	3,714,525	1,923,617	3,779,339	3,921,938		4,257,204	4,433,537	3,974,793
Cash, end of period	1,923,617	3,779,339	3,921,938	4,257,204	4,257,204	4,433,537	3,974,793	3,638,111
Supplemental information:								
Interest paid	37,075	34,684	31,210	19,167	122,136	18,063	16,466	20,556
Income taxes paid	97,483	-	-	182,970	280,453	-	10,000	16,000
Cash received from construction allowance	-	-	-	200,000	200,000	-	-	-
Non-cash investing and financing activities:								
Purchase of property and equipment under capital lease	-	103,609	-	-	103,609	-	-	-
Purchase of intangible assets through a contingent liability	-	715,874	-	-	715,874	-	-	-
Stock issuance for partial settlement of cont. liability *						-	300,001	-
Write down of domain names due to partial settlement of cont. liability						-	46,367	-
Cash Flow	380,572	996,705	1,575,286	1,683,149	4,635,712	1,274,966	319,883	449,932
Free cash flow	141,145	658,992	1,101,748	1,207,939	3,109,824	902,368	(3,003)	216,036
EBITDA	1,075,264	1,044,345	1,355,412	1,695,316	5,170,337	1,302,907	287,590	419,691

STOCK PRICE CHART



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