Zacks Small-Cap Research

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Net Element Inc. (NETE-NASDAQ)

NETE: US Business Up 40% in Q1 While Overseas Drags Down Growth

Using an industry average of EV to GM of 6.7X we believe the stock could be worth $3.12 per share if NETE could reach profitability.

Current Price (05/15/17)	$0.81
Valuation	**$3.12**

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 but expanding worldwide. It has shown extraordinary growth in the US, but needs to reach cash flow break even to stop equity dilution.

SUMMARY DATA

52-Week High	**$3.10**
52-Week Low	**$0.75**
One-Year Return (%)	**-72.5**
Beta	**0.9**
Average Daily Volume (sh)	**64,068**
Shares Outstanding (mil)	**17.7**
Market Capitalization ($mil)	**$14**
Short Interest Ratio (days)	**3.1**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**30**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**138**
Earnings Per Share (%)	**N/M**
Dividend (%)	**0**
P/E using TTM EPS	**N/M**
P/E using 2017 Estimate	**N/M**
P/E using 2018 Estimate	**N/M**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	15.3 A	54.3 A
2017	13.6 A	15.1 E	16.3 E	18.0 E	63.0 E
2018					74.6 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.36 A	-$0.64 A	-$0.42 A	-$0.22 A	-$1.54 A
2016	-$0.13 A	-$0.10 A	-$0.11 A	-$0.16 A	-$0.64 A
2017	-$0.11 A	-$0.08 E	-$0.04 E	-$0.03 E	-$0.27 E
2018					-$0.16 E

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

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WHAT'S NEW

Unified Payments is Still the Star of the Show With Growth of 40%

Net Element revenue growth reaccelerated to 20.4% in Q1 2017. It reported revenues of $13.6 million in 2017 versus $11.3 million in 2016. All of that growth came again from the North American Unified Payments division, which grew 40% and added $3.1 million to revenues. PayOnline grew 23%, adding $300,000 to revenues although all of this growth was due to currency exchange as the Ruble strengthened from 75 Rubles per dollar in 2016 to 59 Rubles per dollar in 2017. The Mobile payments business dragged down the average once again declining 57% to just $857,000 and contributing just $40,000 to gross margin. The decline was worse in constant currency. We believe these two businesses will again benefit from currency effects in Q2 2017.

Unified Payments continued its strong growth due to aggressive marketing efforts in the quarter as the company added a record 1,500 merchants to the customer base. Rapid customer acquisition also continues into Q2 according to the company.

In the March quarter Unified Payments launched multi currency processing to allow online merchants to price their goods and services in over 90 local currencies, announced a comprehensive Point-of-Sale program at the Northeast Acquirers Association (NEAA) conference, and signed ReservHotel, a leading provider of travel distribution and booking solutions for hotels worldwide as a customer. The company is still planning to launch its Aptito front-end system in Russia to be sold by PayOnline and is working on gaining compliance with regulations. It could take another three months before the product is launched there. The company believes Aptito will be very completive in the restaurant market versus alternatives there now.

PayOnline is in the process of being certified in the US, which is expected in the next 30-45 days. Most importantly, Unified Payments will be immediately able to use PayOnline rather than a third party reducing some of its costs and increasing margins. The company believes as much as 15% of Unified's transactions would benefit. Both online transactions and those that are API-based (such as those coming from Poynt's terminals via the internet, rather than telephone-based transactions) would be able to use PayOnline. In the March quarter PayOnline launched support for Apple Pay in Russia, a microcredit solution called "Instant Credit" for online customers, and it signed up Sutochno.ru, the leading C2C short-term accommodation booking service in Russia as a customer.

Chart 1. Two Year USD to Ruble Exchange Rate



In Q1, Mobile payments (aka Digital Provider) expanded to Poland and Turkey and is now integrated with all major the operators in the region. The company expects this business to pick up in Q3 as results from current marketing efforts are realized.

Expenses in the quarter were impacted greatly by currency translation that added at least 20% to the Russian operations when converted to dollars. Gross margins declined percentage-wise, but were $227,000 higher. Total expenses however increased to $4.4 million from $3.6 million due to currency, bonuses and some increased payroll costs. The operating loss increased to $2.3 million from $1.7 million.

Interest expense increased to $270,000 from $150,000 in 2015. Of that $166,000 was cash interest.

This quarter there were 16.5 million average shares outstanding while last year there were only 11.3 million or 46% more than last year. The adjusted non-GAAP operating loss was again $1.9 million versus $1.4 million a year ago. On a per share basis however, the **adjusted non-GAAP loss per share declined slightly to $0.11 per share versus a loss of $0.13 per share** in 2015 due the increased number of shares rather than a reduction in losses. The company reported it had 17.6 million shares outstanding on May 15, 2017.

The company is still burning about $380,000 a month or $1.1 million a quarter and has been using primarily equity to finance the losses. We do not see that changing and equity dilution should continue. If the company were to decrease losses by increasing operating leverage faster than the share price dilution, or in other words, if investment was accretive, the price per share could improve.

The company continues to focus on growing revenues and is willing to sacrifice short-term profits to generate revenues with a long tail, future profitability and higher margins. As long as public markets are willing to fund the company through equity, this strategy may play out in future years

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.
- This business should increase margins as well as aid sales efforts by improving price/performance and customer stickiness as well as bring the PayOnline payment gateway in-house to the US.
- 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 $63 million in revenues in 2017 through internal growth, although there could possibly be acquisitions.
- 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 $3.12 per share by next year based on an industry average valuation of approximately 6.7xs enterprise value to gross margin.

RISKS

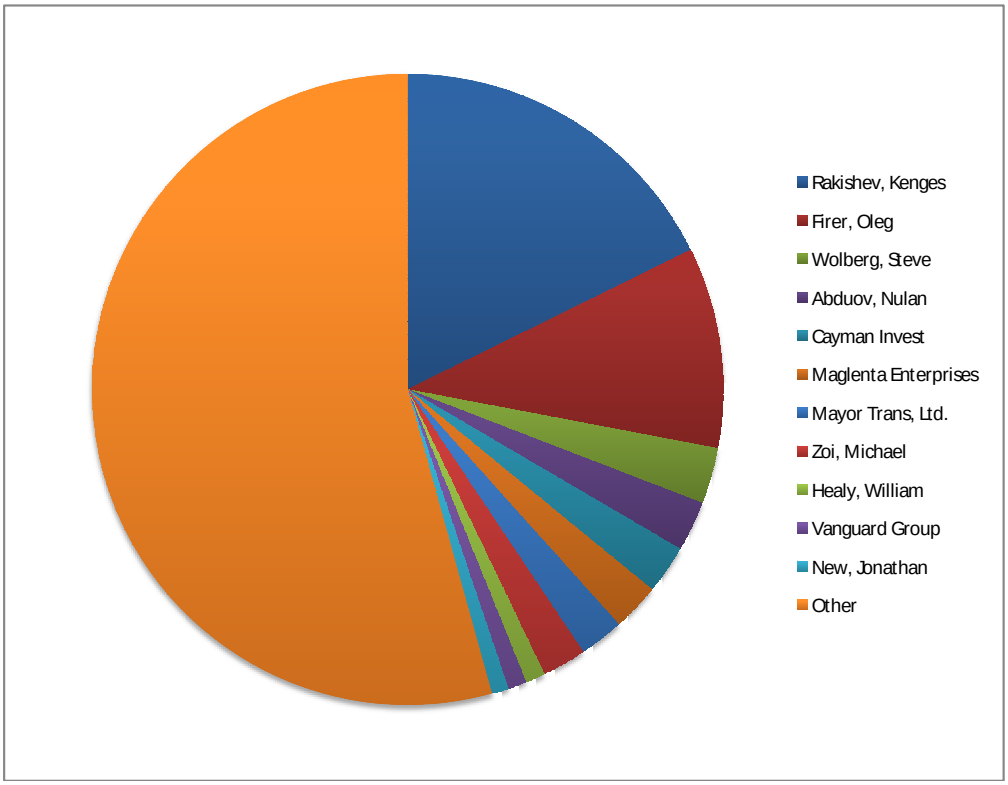
- The company has new financial arrangements that are dilutive to common shareholders. It is uncertain if the company will be able to make accretive investments with these funds and shareholders may suffer further dilution.
- The company is losing money and may not be able to reach profitability or positive cash flow.
- The company is involved in a number of lawsuits.
- 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, political turmoil, and sanctions, and this could affect payment volumes and the ability to do business there.
- 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 and access to capital.
- Operations in Russia and the United Federation and the Middle East face considerable political risk and the company may be prohibited from certain financial transactions by government regulation and restrictions.
- Currency, particularly the ruble, has fluctuated dramatically and could affect reported earnings and operations.

VALUATION

Due the variation in reporting of revenues of the various competitors of Net Element, we have chosen to use gross margin contribution as a more accurate way to value the companies. Using Net Element's peer group we find an average valuation of 6.7 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 of $8.8 million, we see that the company could be worth $59 million enterprise value or $55 million market value if it were profitable. This equates to a stock price of $3.12 using 17.6 million shares outstanding.

Company	Ticker	EBITDA	Gross Margin	%	Revenue LTM	EV/GM	EV/EBITDA	Included in Average?	Enterprise Value
Cielo	CIOXY	1680	1,940	52%	3,800	10.0	11.5	n	19,340
Earthport	EPO.L	-7.39	15,000	57%	26,500	0.8	-1567.0	n	11,580
EVERTEC	EVTC	155.5	214	54%	395	8.5	11.6	y	1,810
First Data	FDC	2750	4,650	59%	7,850	7.1	12.0	y	33,040
Global Payments	GPN	1100	1,750	43%	4,070	9.6	15.3	y	16,800
JetPay	JTPY	2.63	21	33%	64	2.0	16.4	y	43
PayPal	PYPL	2170	10,840	96%	11,270	4.6	23.2	y	50,380
Qiwi	QIWI	179.8	151	26%	576	3.7	3.1	y	558
Total System Services	TSS	906.6	1,180	26%	4,620	11.4	14.8	y	13,430
Vantiv	VNTV	860.8	1,905	52%	3,690	6.9	15.2	y	13,080
Average				49%		6.7	13.7		16,143

OWNERSHIP



INCOME STATEMENT

	2015				2016				2017							
	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 2016 31-Dec	Q1 2017 31-Mar	Q2 2017E 30-Jun	Q3 2017E 30-Sep	Q4 2017E 31-Dec	2015	2016	2017E	2018E
North America Transaction	$5.2	$6.3	$7.8	$8.1	$7.9	$10.4	$11.2	$12.7	$11.0	$13.0	$14.0	$15.5	$27.4	$42.1	$53.5	$64.2
Yr-over-yr Growth	26.4%	37.1%	41.4%	58.3%	51.7%	65.9%	42.9%	56.4%	39.6%	25.0%	25.2%	22.2%	41.7%	53.8%	41.4%	20.0%
Credit card cost of service	4.6	5.5	6.5	7.0	6.7	9.0	9.6	11.1	9.5	11.3	11.9	13.2	23.5	36.3	45.9	54.7
Gross margin	0.6	0.8	1.3	1.2	1.2	1.4	1.6	1.6	1.5	1.7	2.1	2.3	3.9	5.8	7.6	9.5
Gross margin %	11.1%	13.1%	17.1%	14.3%	15.3%	13.8%	14.3%	12.2%	13.7%	13.0%	14.8%	15.0%	14.2%	13.7%	14.2%	14.8%
Mobile payments	0.4	0.3	2.8	5.6	2.0	1.8	1.2	0.9	0.9	0.5	0.6	0.6	9.0	5.9	2.6	2.8
Yr-over-yr Growth		-2.2%	470.2%	NM	448.9%	437.6%	-56.1%	-83.2%	-57.0%	-71.9%	-51.1%	-35.8%	385.5%	-34.4%	-37.3%	10.0%
Cost of Service	0.0	0.0	2.8	5.3	1.8	1.6	1.0	0.9	0.8	0.5	0.6	0.6	8.1	5.3	2.4	2.5
Gross Margin	0.349	0.3	0.0	0.216	0.178	0.2	0.2	0.1	0.040	0.0	0.0	0.0	0.9	0.6	0.2	0.3
Gross margin %	96.2%	95.5%	1.3%	3.9%	8.9%	12.0%	14.7%	7.9%	4.7%	8.0%	8.0%	8.0%	10.2%	10.9%	6.9%	11.9%
PayOnline	-	0.3	2.1	1.4	1.4	1.5	1.6	1.7	1.7	1.6	1.7	1.9	3.8	6.2	6.9	7.6
Yr-over-yr Growth	-	NA	NA	NA	NA	NM	-22.2%	17.6%	23.0%	6.0%	6.4%	11.7%	NA	63.6%	18.9%	10.0%
Online Solutions Cost of Service	-	0.0	1.5	0.9	0.9	1.0	1.1	1.1	1.2	1.1	1.1	1.2	2.4	4.1	4.6	4.9
Gross Margin	-	0.3	0.6	0.5	0.5	0.6	0.5	0.6	0.558	0.5	0.6	0.7	1.4	2.1	2.3	2.7
Gross margin %		100.0%	29.0%	37.9%	35.1%	37.0%	33.4%	35.0%	32.1%	32.1%	35.0%	35.0%	38.1%	34.5%	33.6%	36.0%
Total revenues	5.5	6.9	12.7	15.1	11.3	13.7	14.0	15.3	13.6	15.1	16.3	18.0	**40.2**	**54.3**	**63.0**	**74.6**
Yr-to-yr Growth	14.4%	40.6%	110.3%	179.3%	103.2%	98.2%	10.5%	1.4%	20.4%	10.3%	16.3%	17.5%	89.8%	34.9%	21.6%	18.5%
Costs and expenses:																
Cost of revenues	4.6	5.5	10.7	13.2	9.4	11.5	11.7	13.1	11.5	12.9	13.6	15.0	34.0	45.7	52.9	62.0
Gross Margin	0.9	1.4	2.0	1.9	1.875	2.2	2.3	2.2	2.1	2.2	2.7	3.0	6.3	8.6	10.1	12.6
% of Sales	16.7%	20.8%	15.5%	12.7%	16.7%	16.1%	16.5%	14.2%	15.5%	14.9%	16.7%	16.9%	15.6%	15.8%	16.0%	16.9%
G&A	2.0	2.6	2.2	2.6	2.1	2.0	2.3	2.4	2.8	2.6	2.4	2.6	9.3	8.8	10.4	11.5
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.7	0.4	0.6	0.7	1.0	1.3	4.3	3.5	3.6	3.6
Provision for loan losses	0.0	0.1	0.3	0.2	0.3	0.1	0.3	1.0	0.3	0.2	0.2	0.2	0.6	1.7	0.9	1.0
Depreciation and amortization	0.4	0.6	0.9	0.6	0.9	0.8	0.8	1.0	0.7	0.7	0.7	0.7	2.5	3.5	2.6	2.6
Total operating expenses	3.1	3.9	3.9	5.9	3.6	5.0	4.1	4.8	4.4	4.2	4.3	4.8	16.8	17.4	17.5	18.7
Loss from operations	(2.2)	(2.5)	(1.9)	(4.0)	(1.7)	(2.8)	(1.8)	(2.6)	(2.3)	(1.9)	(1.5)	(1.7)	(10.5)	(8.8)	(7.4)	(6.1)
Interest expense, net	(0.1)	(1.3)	(1.6)	(0.6)	(0.150)	(0.4)	(0.6)	(0.3)	(0.270)	(0.3)	(0.3)	(0.3)	(3.6)	(1.5)	(1.1)	(1.0)
Other expense	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.4	(0.0)	(0.0)	0.0	0.0	0.0	(0.1)	0.4	(0.0)	(0.0)
Gain on asset disposal	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on change in conversion derivative	0.0	2.0	(1.1)	(25.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(26.9)	0.0	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	0.0	0.0	0.0	(3.7)	0.0	0.0
One-time charges	0.0	0.0	0.1	25.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	0.0	0.0	0.0
Total non-operating expenses	(0.1)	0.7	(2.6)	(0.8)	(0.2)	(2.6)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(2.8)	(4.8)	(1.1)	(1.0)
Pretax operating income (loss)	(2.2)	(1.8)	(4.5)	(4.8)	(1.9)	(5.4)	(3.5)	(2.8)	(2.5)	(2.2)	(1.8)	(2.0)	(13.3)	(13.6)	(8.5)	(7.1)
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	0.0	0.0	0.0	0.0
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Operating Loss	(2.2)	(1.8)	(4.5)	(4.8)	(1.9)	(5.4)	(3.5)	(2.8)	(2.5)	(2.2)	(1.8)	(2.0)	(13.3)	(13.6)	(8.5)	(7.1)
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Net loss	(2.2)	(1.8)	(4.5)	(4.7)	(1.8)	(5.3)	(3.5)	(2.8)	(2.5)	(2.1)	(1.8)	(2.0)	(13.3)	(13.5)	(8.5)	(7.1)
Preferred dividend	0.0	(0.5)	(0.6)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.6)	0.0	0.0	0.0
Net loss to common stock	(2.2)	(2.3)	(5.1)	(5.2)	(1.8)	(5.3)	(3.5)	(2.8)	(2.5)	(2.1)	(1.8)	(2.0)	(14.8)	(13.5)	(8.5)	(7.1)
Foreign currency translation gain (loss)	(0.1)	(0.1)	(0.2)	0.1	(0.0)	(0.5)	(0.1)	(0.3)	0.0	0.0	0.0	0.0	(0.3)	(0.9)	0.0	0.0
Comprehensive loss	(2.3)	(1.9)	(5.3)	(4.8)	(1.9)	(5.8)	(3.6)	(3.1)	(2.5)	(2.1)	(1.8)	(2.0)	(15.2)	(14.4)	(8.5)	(7.1)
Earnings ex-one time charge	(2.2)	(4.3)	(4.1)	(5.0)	(1.8)	(3.2)	(2.3)	(2.8)	(2.5)	(2.1)	(1.8)	(2.0)	(15.7)	(11.4)	(8.5)	(7.1)
Stock-based compensation	0.6	0.6	0.6	2.5	0.4	2.0	0.7	0.4	0.6	0.7	1.0	1.3	4.3	3.5	3.6	3.6
Adjusted Non-GAAP Earnings	(1.6)	(3.2)	(2.9)	(2.1)	(1.5)	(1.2)	(1.6)	(2.5)	(1.9)	(1.4)	(0.8)	(0.7)	(9.8)	(7.9)	(4.9)	(3.5)
Yr-to-yr Growth	-54%	174%	31%	-6124%	-9.7%	-63.4%	-44.6%	19.4%	27.1%	23.6%	-51.7%	-72.3%	42%	-20%	-50%	-28%
GAAP EPS	($0.49)	($0.46)	($0.75)	($0.54)	($0.16)	($0.46)	($0.25)	($0.19)	($0.15)	($0.12)	($0.09)	($0.10)	($2.32)	($1.03)	($0.47)	($0.32)
Non-GAAP EPS	**($0.36)**	**($0.64)**	**($0.42)**	**($0.22)**	**($0.13)**	**($0.10)**	**($0.11)**	**($0.16)**	**($0.11)**	**($0.08)**	**($0.04)**	**($0.03)**	**($1.54)**	**($0.60)**	**($0.27)**	**($0.16)**
Yr-to-yr Growth					-63%	-84%	-73%	-26%	-13%	-18%	-64%	-79%	-17%	-60.7%	-55.4%	-59.0%
Share outstanding	4.6	5.0	6.9	9.5	11.3	11.6	14.0	15.3	16.5	17.6	18.9	20.0	6.4	13.1	18.2	22.0
Yr-to-yr Growth	0%	8%	49%	106%	145%	134%	105%	61%	46%	52%	34%	31%	72%	104.3%	39.7%	30.2%
Fully diluted shares	6.1	6.8	9.0	12.8	12.8	13.2	15.6	17.6	18.8	20.0	21.2	22.4	8.7	14.8	20.6	24.4
Yr-to-yr Growth	0%	12%	48%	111%	110%	95%	74%	38%	48%	51%	36%	27%	87%	62.8%	39.0%	18.2%
Adjusted EBITDA	(1.090)	(1.284)	(0.451)	(0.918)	(0.449)	0.088	(1.846)	(1.258)	(1.009)	(0.556)	0.115	0.238	(3.751)	(3.509)	(1.212)	0.136

CASH FLOW

	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept 30, 2016	Dec. 31, 2016	Mar. 31, 2017
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)	$ (2,823,829)	$ (2,487,498)
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)	$ (18,189)	$ (50,701)
Share based compensation	$ 601,371	$ 601,371	$ 601,371	$ 2,502,191	$ 360,984	$ 2,014,589	$ 732,701	$ 355,161	$ 596,404
Deferred revenues	$ (34,858)				$ (171,908)	$ (245,979)	$ 552,890	$ (135,003)	$ (445,953)
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	$ 0	$ 0
Depreciation and amortization	$ 438,769	$ 626,498	$ 851,634	$ 596,261	$ 888,118	$ 844,534	$ 764,886	$ 968,972	$ 657,363
Non cash interest	$ 0	$ 349,146	$ (349,146)	$ 0	$ 0	$ 297,434	$ 444,423	$ 110,551	$ 46,135
Amortization of deferred revenue	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (1,221,177)	$ 0
Amortization of debt discount	$ 0	$ 983,715	$ 1,626,315	$ 417,324	$ 0	$ 0	$ 0	$ 0	$ 0
(Recovery of) provision for loan losses	$ 0	$ (94,770)	$ 94,770	$ 0	$ 0	$ 0	$ 0	$ 500,000	$ 0
Amorization of prepaid costs	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 967,313	$ 0
(Gain) loss on disposal of fixed assets	$ 0	$ (23,854)	$ (44,932)	$ 68,786	$ 0	$ 0	$ 0	$ 0	$ 0
Loss on debt extinguishment	$ 0	$ 0	$ (79,325)	$ (27,664,655)	$ 0	$ 0	$ 0	$ 0	$ 0
Gain on MBF debt restructure	$ 0	$ 0	$ 0	$ (40,369)	$ 0	$ 0	$ 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)	$ (2,140,760)	$ 510,498
Advances to aggregators	$ 0	$ (92,017)	$ 59,127	$ 42,912	$ 0	$ 0	$ 0	$ 0	$ 0
Deferred revenue	$ 0	$ (310,241)	$ 273,477	$ 308,192	$ 0	$ 0	$ 0	$ 1,833,239	$ 0
Prepaid expenses and other assets	$ 278,319	$ (104,721)	$ (263,433)	$ 381,466	$ 334,291	$ (63,359)	$ (602,430)	$ (239,084)	$ (231,755)
Accounts payable and accrued expenses	$ 668,175	$ (621,264)	$ 1,727,439	$ 1,796,957	$ (909,344)	$ 2,786,305	$ (1,876,961)	$ (368,025)	$ 449,284
Net cash (used in) provided by operating	$ (165,159)	$ (2,305,489)	$ (1,034,911)	$ 417,324	$ (947,001)	$ (817,169)	$ (4,210,955)	$ (2,210,831)	$ (956,223)
Cash flows from investing activities									
Purchase of portfolio and client acquisition	$ 0	$ (303,775)	$ (119,475)	$ (454,835)	$ 0	$ 0	$ 0	$ (1,319,820)	$ (403,585)
Sale of portfolio	$ 0	$ 0	$ 300,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Acquisition of PayOnline assets, net of cash	$ 0	$ (3,195,452)	$ 0	$ 0	$ 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)	$ 1,159,629	$ 355
Net cash used in investing activities	$ (6,849)	$ (3,557,429)	$ (265,174)	$ (549,907)	$ (396,819)	$ (558,741)	$ (391,158)	$ (160,191)	$ (403,230)
Cash flows from financing activities									
Proceeds from preferred stock	$ 0	$ 5,500,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Proceeds from indebtedness	$ 650,000	$ 0	$ 0	$ 0	$ 75,000	$ 1,140,000	$ 1,453,500	$ 502,040	$ 92,000
Repayment of indebtedness	$ (8,710)	$ 8,710	$ 0	$ 0	$ 0	$ 0	$ (110,434)	$ 38,734	$ (92,680)
Cash received from issuance of shares and	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 300,000	$ 1,437,132
Related party advances (payments)	$ 125,000	$ (40,744)	$ 565,744	$ (318,727)	$ 910,045	$ 0	$ (792,266)	$ 910,095	$ 57,159
Net cash provided by (used in) financing	$ 766,290	$ 5,467,966	$ 565,744	$ (318,727)	$ 985,045	$ 1,140,000	$ 661,234	$ 1,750,869	$ 1,493,611
Effect of exchange rate changes on cash	$ (331,346)	$ 303,903	$ 375,021	$ (262,929)	$ 57,537	$ (741,514)	$ 192,807	$ (143,498)	$ 57,288
Net increase in cash	$ 91,048	$ (91,048)	$ (359,320)	$ (714,239)	$ (301,238)	$ (90,918)	$ (3,748,072)	$ (763,651)	$ 191,446
Cash at beginning of period	$ 675,231	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509	$ 633,591	$ 1,385,286	$ 621,635
Cash at end of period	$ 766,279	$ 675,231	$ 315,728	$ 1,025,747	$ 724,509	$ 633,591	$ 1,385,286	$ 621,635	$ 813,081
Cash paid during the period for:									
Interest	$ 118,910	$ 2,343	$ 275,933	$ 151,158	$ 150,438	$ 150,438	$ (127,741)	$ 149,952	$ 166,394
Taxes	$ 30,505	$ 59,706	$ (15,794)	$ 146	$ 86,770	$ 86,770	$ 0	$ 0	$ 64,314
Operating cash flow	$ (1,207,815)	$ (1,347,613)	$ (760,192)	$ (1,017,335)	$ (808,401)	$ (2,474,662)	$ (1,008,323)	$ (1,296,201)	$ (1,684,250)
Free cash flow	$ (1,214,664)	$ (4,905,042)	$ (1,025,366)	$ (1,567,242)	$ (1,205,220)	$ (3,033,403)	$ (1,399,481)	$ (1,456,392)	$ (2,087,480)

BALANCE SHEET

	Mar. 31, 2017	Dec 31, 2016	Qtr-Qtr % Change	Mar. 31, 2016	Yr- Yr % Change
Current assets:					
Cash	**$813,081**	**$621,635**	31%	**$724,509**	12%
Accounts receivable, net	6,724,985	7,126,429	-6%	4,424,761	52%
Prepaid expenses and other assets	1,686,126	1,467,897	15%	1,311,979	29%
Total current assets	9,224,192	9,215,961	0%	6,461,249	43%
Fixed assets, net	113,908	117,295	-3%	151,212	-25%
Intangible assets, net	3,466,408	3,589,850	-3%	4,969,863	-30%
Goodwill	9,643,752	9,643,752	0%	9,643,752	0%
Other long term	536,512	742,810	-28%	389,680	38%
Total assets	22,984,772	23,309,668	-1%	21,615,756	6%
Current liabilities:					
Accounts payable	$8,337,673	$7,510,113	11%	$5,075,959	64%
Deferred revenue	910,019	1,355,972	-33%	572,002	59%
Accrued expenses	5,366,887	5,518,823	-3%	3,131,234	71%
Notes payable (current portion)	**719,564**	**808,976**	-11%	**570,017**	26%
Due to related parties	**356,200**	**299,004**	19%	**1,239,856**	-71%
Total current liabilities	15,690,343	15,492,888	1%	10,589,068	48%
Notes payable (non-current portion)	3,844,115	**3,755,383**	2%	3,469,983	11%
Total liabilities	19,534,458	19,248,271	1%	14,059,051	39%
STOCKHOLDERS' DEFICIT					
Common stock	1,753	1,535	14%	11,317	-85%
Paid in capital	165,833,480	163,918,685	1%	154,782,677	7%
Accumulated other comp income (loss)	(2,474,513)	(2,486,616)	0%	(1,595,563)	55%
Accumulated deficit	(159,930,083)	(157,442,585)	2%	(145,802,767)	10%
Noncontrolling interest	19,677	70,378	-72%	161,041	-88%
Total stockholders' deficit	3,450,314	4,061,397	-15%	7,556,705	-54%
Total liabilities and stockholders' deficit	22,984,772	23,309,668	-1%	21,615,756	6%
Net Cash	(262,683)	(486,345)	-46%	(1,085,364)	-76%
Current and Quick Ratio	0.6	0.6	-1%	0.6	-4%
Working Capital	(6,466,151)	(6,276,927)	3%	(4,127,819)	57%
Total Debt	4,919,879	4,863,363	1%	5,279,856	-7%
Debt/TA	21%	21%	3%	24%	-12%
DSO	45.3	42.5	6%	35.7	27%

HISTORICAL STOCK PRICE



Source: E*TRADE Securities

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