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Zacks Small-Cap Research

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ShiftPixy, Inc. (PIXY-NASDAQ)

PIXY: Raising FY 2019 Estimates; Market Overreacts to One-Time Charges

We believe the stock could be worth $7.37 per share based on an industry average of 1.1 EV to gross sales for calendar year 2018 if sales targets are met and using fully diluted shares.

Current Price (12/03/18)	$2.62
Valuation	**7.37**

OUTLOOK

ShiftPixy is a start-up providing staffing services for the gig economy. Focusing first on the restaurant and hospitality vertical, the company serves as the employer of a customer's staff thereby alleviating the business of almost all human resource management related tasks. It is has introduced a novel, easy to use app, which allows establishments to keep track of workers' hours and scheduling as well as giving employers and employees a Match.com-like platform to fill shift openings. **It is at a $294 million annual gross billing run rate** and continues to roll out services in a number of large dense cities in the US.

SUMMARY DATA

52-Week High	**$4.62**
52-Week Low	**$2.00**
One-Year Return (%)	**5.7**
Beta	**1.2**
Average Daily Volume (sh)	**183,214**
Shares Outstanding (mil)	**29.4**
Market Capitalization ($mil)	**$81.4**
Short Interest Ratio (days)	**9.7**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**45**
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 2018 Estimate	**N/M**
P/E using 2019 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Internet-Software**

ZACKS ESTIMATES

Gross Billings
(in millions of $)

	Q1 (Nov)	Q2 (Feb)	Q3 (May)	Q4 (Aug)	Year (Aug)
2017	$35.0 A	$30.8 A	$27.5 A	$33.1 A	$126 A
2018	$40.2 A	$48.6 A	$60.2 A	$73.4 A	$222 A
2019	$82.0 E	$105 E	$150 E	$163 E	$500 E
2020					$800 E

EPS (GAAP)

	Q1 (Nov)	Q2 (Feb)	Q3 (May)	Q4 (Aug)	Year (Aug)
2017	$0.01 A	-$0.04 A	-$0.11 A	-$0.13 A	-$0.28 A
2018	-$0.12 A	-$0.09 A	-$0.06 A	-$0.30 A	-$0.58 A
2019	-$0.18 E	-$0.15 E	-$0.06 E	-$0.05 E	-$0.24 E
2020					$0.04 E

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

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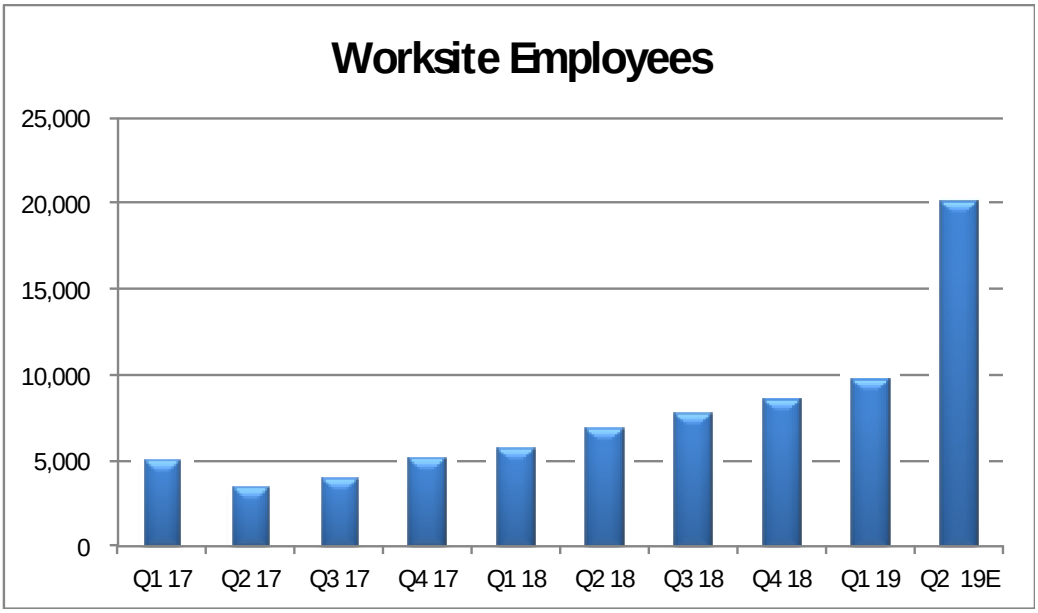
WHAT'S NEW

FY 2018 Earnings Report

ShiftPixy reported earnings for FY 2018 ending August 31, 2018 with an upside surprise on revenues and a disappointing and unexpected penalty expense of $3.5 million from its recent convertible offering. Financials were once again restated as Marcum reaudited 2017 while auditing 2018 and the balance sheet now looks significantly different from last quarter. The balance sheet reporting is now aligned with competitors such as Insperity (NSP.) The extended audit time caused the company to miss its filing date as well as the date for getting approval from the SEC for its convertible offering, and as a result was forced to pay a penalty of $3.5 million to the convertible investors. With this penalty, another $1.4 million in product development expense, and $1.4 million in interest expense (of which $133,333 was cash), the GAAP loss per share was much higher than expected at $0.30 versus an estimated $0.06. On a non-GAAP basis, taking out the penalty, one-time debt issuance costs, and stock-based compensation, the loss was halved to $0.15 per share for Q4 2018.

On the plus size, gross Q4 gross billings came in at $73.4 million versus $33.2 million a year ago (up 121%) and $60.2 million in Q3 2018. Revenues again beat our estimate at $11.2 million versus $4.7 million last year, up 138%. Billings and revenues both accelerated from Q3 2018 growth. Revenue was 15.2% of gross billings slightly down from Q3's 15.6%, but up from last year's 14.2%.

The company reported that it had added 13 new clients since the end of August. With these new clients it now services roughly an additional 1,230 new worksite employees (up 8,540 from at August quarter end,), which puts the current number at 9,770. The company said these incremental worksite employees should generate approximately $28 million in additional gross billings per year. We know that in general, the greatest addition of worksite employees comes right after December 31, as many customers want to end the calendar year before changing systems because of both the tax year, and because many have workers' compensation insurance policies that also run out at year-end. In an October interview available on YouTube with *Stock Talk Today*, the company's CEO stated that we "are at about 10,000 [shifters], that number would probably double come January 1, because we have a lot of new clients getting ready to board for January 1." If this is the case, there should much higher revenues in 2019. Using the last example of 1,230 employees adding a $28 million in gross billing run rate, could 10,000 add $228 million? This would equate to incremental revenues of $38 million at a 16.5% of gross billings. If we say the company will do $265 million in calendar year 2018, this $228 million gets it to $493 million.



Gross margin as a percent of revenues came in at 16.3%, much higher than last year when incorrect accruals during the year caused the margin to be 3.9%.

Operating expenses were $9.0 million versus 4.0 million in last year's quarter. Included in this number is the one-time $3.5 million penalty. Taking this out, total expense was $6.5 million, up only 39%.

The operating loss, without the penalty was $3.7 million versus $3.8 million a year ago.

Interest expense was $1.5 million of which $133,333 was paid in cash, $765,000 was the cost for issuing the convertible stock, and the rest was amortization of debt discount and penalty expense. With no taxes paid, this loss resulted in an EPS loss of $0.30. This compares with a restated loss of $0.13 a year ago. On a non-GAAP basis the loss per share was $0.15.

FY 2018 Results

Gross billings (which included payroll for worksite employees) increased to $222.4 million in FY 2018 from $126.4 million in FY2017 (up 76%) and worksite employees increased from to 8,540. Revenues increased 72.7% to $35.0 million from $20.2 million all due to internal growth.

Cost of revenue increased 78% to $29.5 million due to more worksite employees, incremental workers' compensation from engaging with two clients in the janitorial space, an increase in the state unemployment tax rate from prior year, and an increase in accrued workers' compensation costs based on estimated projected losses.

Operating expenses increased 83.9% to $20.6 million primarily attributable to an increase in corporate payroll related cost, paid commissions, professional fees, and other general and administrative expenses resulting from the growth and the costs from being a public company. A significant part of the increase in operating expense relates to the accrual of penalties and liquidated damages associated with technical defaults under the registration rights agreements relating to the 8% senior secured convertible notes. Without this penalty operating expenses were $17.1 million, up only $5.6 million or 53%, less than the growth in revenues showing operating leverage.

Interest expense increased to $1.5 million resulting from the interest paid on the convertible notes, the amortization of the corresponding debt discount, and debt issuance costs related to the recent financing and the accrual of a guaranteed twelve-month of interest clause related to the terms of the convertible notes following an event of default. $765,000 of this $1.5 million was from one-time debt issuance costs.

Net loss increased to $16.6 million or $0.58 per diluted share in FY 2018, from $7.5 million or $0.28 per share in FY 2017. The non-GAAP net loss was approximately $12 million or $0.42 per share.

Business Update

ShiftPixy continues to make progress with its app's capabilities and expects to beta test scheduling functionality, as well as let onboarded employees look at shift opportunities, in the first quarter of next year. This progress was expected earlier and the schedule slipped because the company didn't have cash to fund development for a few months.

The company as plans to launch a new, metered driver insurance product that allows restaurant employees to make deliveries economically. Many restaurants, which have outsourced delivery, have reported examples of brand destruction, as these third parties do not provide the level of customer care restaurants desire. The ShiftPixy solution allows these establishments to send their own employees economically as they only pay for insurance while the employee is out on a delivery. It hopes to launch this feature by December 31, 2018. A March 2018 TrendSource survey showed US diners had more interest in using a restaurant's own app for both delivery and pickup vs. a third-party app.

In addition to restaurants, the company is penetrating what it calls the last mile transportation business with its signing of Zion Delivery Service. It is now pursuing this as a new vertical. Another vertical in its sights is the staffing industry itself. ShiftPixy offers an attractive platform with a mobile app for staffing companies to use with their large gig workforce for onboarding, payroll, and the rest of the HR functions.

The company is now onboarding larger client operators that are interested in its self-delivery option and its technology platform to access a live on demand pool of employees. Its average employee per client was approximately 50-60 and now this average is trending upwards to about 500 employees for new customers.

Raising capital

During the year ended August 31, 2018, ShiftPixy used approximately $9.5 million of cash in operations, of which $6.6 million was attributed to the mobile development costs and $1.4 million was attributed to an initial deposit for workers' compensation insurance. Taking out these two items, the company burned $400,000 per quarter. However there will be ongoing product development costs. The company reported it had cash and restricted cash of $2 million on the August 31, 2018 balance sheet. It has a working capital deficit of $13.2 million, debt from its convertible of $7.1 million, and is cash flow negative.

The company has had a two-part capital raising strategy. The convertibles were issued to solve short-term cash flow issues and to pay for software development for the three key client features: onboarding, scheduling and intermediation. The company is currently in the process of raising additional financing, possibly closing by the end of calendar year 2018. This financing is expected to fund the company until cash flow breakeven, which could occur by Q4 of FY 2019.

The biggest problem forecasting and calculating a valuation is investors have no idea how much money is expected to be spent on software development this year. If we say it is the same as last year plus a burn of $400,000 per quarter, at current prices that is 3.1 million shares. It could be less and it could be much more considering the company skipped a quarter of development this past year.

The company may also be able to raise considerable cash from warrants it has outstanding, particularly those that are due to expire March 1, 2019 according to the table below. These three sets of expiring **warrants could add $7 million** if they are all exercised or $3.8 million if only the $2 and $3 warrants are exercised.

Exercise price	Warrants Outstanding	Weighted average life of outstanding warrants in years
$ 2.00	918,800	0.5
$ 2.49	1,220,883	5.3
$ 3.00	1,003,800	0.5
$ 4.00	535,313	0.5
$ 6.90	100,000	3.8
	3,778,796	2.4

Since the quarter ended, ShiftPixy issued 267,500 shares of common stock following the exercise of warrants with an exercise price of $2.00 and $3.00 and received gross proceeds of $660,000. That means there are now 777,800 warrants with an exercise price of $2 left, and 887,800 warrants with an exercise price of $3 left.

In addition, 225,724 shares of common stock were converted from the senior secured convertible notes at $2.49 per share. This reduced the convertible debt by $562,000.

INVESTMENT THESIS

- ShiftPixy is taking a unique approach to solving the human resource management problems of the gig economy. Its solution is to have its customers move their workers over to be employed by ShiftPixy, which then acts as a staffing agency for the customer. By pooling the employees of many smaller companies, ShiftPixy can administrate the human resource management function with economies of scale. In return for providing insurance, payroll processing, benefits, and compliance services these enterprises pay ShiftPixy a fee based on their payroll, that is much less than the cost of doing these functions in-house.

- ShiftPixy is first targeting the underserved restaurant and hospitality industry vertical, particularly small, and medium businesses (SMBs) with 100-500 employees. These companies are the main victims of increasing regulation. ShiftPixy currently serves about 100 clients who utilize over 3,000 workers in California. We believe there are three million restaurant and hospitality entities with under 500 employees in the US and we estimate this vertical market size is $3 billion in service fee revenue, or $30 billion in gross billings including wages.

- By pooling customers' work forces together ShiftPixy not only affords its clients with lower overall prices due larger buying power (as with worker's comp and health insurance), it also alleviates the need for clients to understand and correctly comply with increasingly complex state and federal employment regulations which are particularly onerous for employers with many part time workers.

- Another differentiator for ShiftPixy is its mobile app that has been launched and is rolling out capabilities. It is being used now to onboard new employees. By the first quarter, the company expects it will be able to facilitates scheduling between restaurants and shift workers by matching qualified workers to shifts, while giving workers access to their schedules and earnings in real-time. Later it will also create a social job-seeking network for matching job openings with workers. Like a match.com it will let employers find shift workers to fill available hours and workers to find jobs. This can be used not only to fill temp or shift work but as a resource for permanent hires. Since all the workers in the network are already employees of ShiftPixy, a restaurant can get a fill in or even hire someone without any additional paperwork or onboarding. In the future this app will allow non-ShiftPixy employees to search for job opportunities.

- ShiftPixy is working to further develop its custom mobile and cloud platforms and continue its geographic roll out from Southern California, New York, Austin, Orlando, and Chicago. It plans to open offices in San Francisco and Miami. It is also eyeing Dallas, Atlanta, Philadelphia, and Las Vegas. These locations contain more than 53% of all enterprises with 50 or more employees in its targeted sectors.

- Management has significant experience in managing a number of staffing and insurance companies targeted at small business and created ShiftPixy to address the unique needs of the emerging gig economy.

- Based on its rapid ramp and a comparable multiple of 1.1 times enterprise value to calendar gross billings we believe the company could be worth $300 million or $7.37 per share using the fully diluted share count of 40 million.

OVERVIEW

ShiftPixy, Inc. was founded in 2015 as a temporary staffing company. It contracts with clients who employ numerous part-time shift workers and alleviates their burdens by moving their employees over to ShiftPixy. Its customers are primarily restaurants and hospitality enterprises in California, but it is now signing customers in

the transportation last mile and the staffing services businesses as well as other US locations. The company has been expanding its services and is develop its own platform to handle not only HR management, insurance, payroll and compliance, but provide an easy to use, fully integrated mobile system to hire, onboard, schedule and share part time employees among all its customers. With this approach, the customer offloads the entire employee related administrative burden to ShiftPixy and the part-time employees have the ability to manage schedules and increase wages by working at multiple locations owned by different entities because they all are now employees of ShiftPixy. The company has found great success in California as it pays lower worker's comp insurance rates as a large company with many employees, than its smaller customers can. It also has better buying power for health insurance and other benefits. Customers also rely on it to navigate through the complex state and federal employment regulations. In particular ACA reporting compliance is a nightmare for companies with many part time and shift workers and requires much more administrative time than in white-collar industries with salaried employees typically served by PEOs. Add this to the extremely high turnover found in this vertical requiring more hiring and onboarding, it is no wonder these companies are embracing the ShiftPixy solution.

FINANCIALS

There has been some confusion as what the company defines as gross billings, net revenues, and cost of goods. The following explanation is taken from the company's filings and can be used to compare and contrast it with other staffing companies and PEOs. There are extreme inconsistencies as to how companies in these businesses report revenues, but there are new requirements being implemented to make companies report in the manner ShiftPixy currently does. While other companies report a variety of net and gross numbers on the revenue line, the gross margins being reported by all should be similar.

Revenue Recognition

The company's revenues are primarily attributable to fees for providing staffing solutions and PEO services. The company recognizes revenue when all of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the product has been shipped or the services have been rendered to the customer; (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured.

Gross billings are primarily based on:

- the payroll cost of worksite employees;
- the employer portion of payroll-related taxes;
- employee benefit programs;
- workers' compensation insurance coverage and
- admin fees and delivery fees, which are the fees charged to clients for providing payroll processing and temporary staffing services.

Net revenues **exclude the payroll cost of website employees** component of gross billings. With respect to employer payroll taxes, employee benefit programs, workers' compensation insurance, ShiftPixy believes it is the primary obligor, has latitude in establishing price, selecting suppliers, and determining the service specifications and, as such, the gross billings for those components are included as net revenues. Net revenues are recognized ratably over the payroll period as worksite employees perform their service at the client worksite.

Consistent with revenue recognition policy, direct costs do not include the payroll cost of our worksite employees. Cost of revenue is primarily comprised of all other costs related to our worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and workers' compensation insurance costs.

VALUATION

As a start-up we believe that ShiftPixy should be valued first on gross billings to enterprise value focusing on later years. While it reports revenue on a gross basis like a staffing company, we believe its value proposition is much higher and it should be able to command higher fees for its services as it fulfills a customer's needs more like a technology company and a PEO. Given this, we believe given the company's growth prospects, its unique product offering, and it long term potential for higher margins it should initially trade at the high end of valuation for staffing companies. Its staffing company competitors are much larger companies and are trading in a range of 0.2-1.6 enterprise value to sales with an average of 0.7 times estimated 2018 calendar year sales. However it is evolving into a SaaS/PEO type company, which has the potential for higher EBITDA margins and thus valuations. These companies trade at an average valuation of 6.8 times EV/EBITDA.

Using a calendar year estimate for gross billings in 2018 of $274 million and 1.1 times enterprise value to sales, ShiftPixy could be worth $300 million or $7.37 per share using a fully diluted share count of 40 million shares. In calendar year 2019, gross billings could be $600 million, which would be double the $7.37 stock price.

Additionally as ShiftPixy adds features and capabilities equal to or surpassing competitors like TriNet, its margins could expand which could warrant even higher valuation multiples.

Company	Ticker	Revenue 2018E	LTM	EBIDTA Margin	Enterprise Value / Sales 2018E	LTM	Included in Average?	Enterprise Value
AMN Healthcare Services, Inc.	AMN	2,150	2,120	12%	1.6	1.6	y	3,340
Cross Country Healthcare, Inc.	CCRN	816	835	4%	0.5	0.4	y	370
GEE Group, Inc.	JOB	164	172	6%	0.7	0.7	y	120
Insperity, Inc.	NSP	3,820	3,690	5%	1.0	1.0	y	3,790
Kelly Services, Inc. Class A	KELYA	5,530	5,520	2%	0.2	0.2	y	850
Kforce Inc.	KFRC	1,410	1,400	6%	0.6	0.6	y	844
ManpowerGroup Inc.	MAN	22,100	22,240	4%	0.2	0.2	y	5,440
ASGN Inc.	ASGN	3,380	3,150	11%	1.4	1.5	y	4,670
Randstad Holding NV	RANJY	NA	27,600	5%	NA	0.4	n	10,600
Robert Half International Inc.	RHI	5,780	5,660	11%	1.2	1.2	y	6,700
Staffing 360 Solutions, Inc.	STAF	271	246	2%	0.3	0.3	y	74
TrueBlue, Inc.	TBI	2,500	2,520	5%	0.4	0.4	y	1,040
Average				6.3%	0.7	0.7		2,476

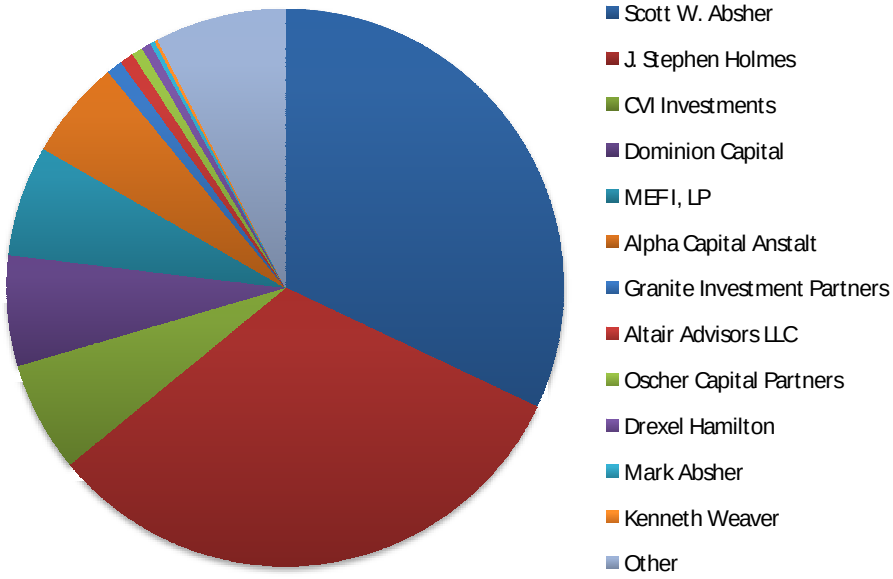
Company	Ticker	Revenue 2018E	LTM	EBIDTA Margin	Enterprise Value / Sales 2018E	LTM	Included in Average?	Enterprise Value
Match Group	MTCH	1,720	1,650	34%	7.0	7.3	y	11,990
Paychex	PAYX	3,610	3,450	41%	6.7	7.0	y	24,260
TriNet	TNET	881	872	40%	3.6	3.7	y	3,200
Workday	WDAY	2,770	2,430	-7%	9.9	11.2	y	27,320
Average				27.3%	6.8	7.3		16,693

RISKS

- The company is an early stage company and has just reported an annual gross billing run-rate of $294 million. It is very difficult to project revenue and net income with such a short operating history and such rapid growth.
- The company is entering a mature industry and it may be difficult to dislodge entrenched competitors. Some of these competitors are multi-billion companies with much greater resources and proven track record for customers.
- Part of the company's selling point is to enable customers to lessen the burden of the Affordable Care Act, which has a reasonable possibility of being repealed and/or replaced. In the tax bill about to be passed the individual mandate has been eliminated. In addition, possible changes laws regulating documenting workers as citizens such as eVerify could also impact business.
- The restaurant industry is notorious for rapid turnover and using undocumented workers for staff particularly in California. New government regulations could put further burdens in management of this workforce. Also being a largely cash business, clients may subject ShiftPixy to risk in tax reporting issues.
- As ShiftPixy expands geographically to other states, its offering may not be as compelling in those states compared with California as the economic savings may not be the same due to different pricing for salaries and insurance and different regulatory burdens.
- ShiftPixy must be careful in managing its risk from its customer base. Restaurants operate on very thin margins and have the highest risk for failure of any industry.
- The company is not yet profitable nor cash flow breakeven. It may need to raise more capital to sustain it to profitability.

OWNERSHIP

With convertible converted



INCOME STATEMENT

	Q1 Nov 30, 2017	Q2 Feb 28, 2018	Q3 May 31, 2018	Q4 Aug 31, 2018	Q1 Nov 30, 2018E	Q2 Feb 28, 2019E	Q3 May 31, 2019E	Q4 Aug 31, 2019E	FY 2016	FY 2017	FY 2018	FY 2019E	FY 2020E
Gross billings	**40.200**	**48.600**	**60.200**	**73.400**	**82.000**	**105.000**	**150.000**	**163.000**	**$50.672**	**$126.391**	**$222.400**	**$500.000**	**$800.00**
Yr-to-Yr Growth	15%	58%	119%	121%	104%	116%	149%	122%	NM	149.4%	76.0%	124.8%	259.7%
Adjustment to gross billings	33.600	40.800	50.825	62.215	69.618	89.145	127.350	138.387	42.211	106.147	187.441	424.500	672.000
Net Revenue	**$6.512**	**$7.886**	**$9.375**	**$11.185**	**$12.382**	**$15.855**	**$22.650**	**$24.613**	**$8.461**	**$20.244**	**$34.959**	**75.500**	**$128.000**
Yr-to-Yr Growth	15%	46%	103%	138%	90%	101%	142%	120%	47687%	139.3%	72.7%	116.0%	266.1%
Net Rev as % of Gross Billing	16.2%	16.2%	15.6%	15.2%	15.1%	15.1%	15.1%	15.1%	16.7%	16.0%	15.7%	15.1%	16.0%
Cost of goods	5.267	7.006	7.826	9.359	10.332	13.230	18.900	20.538	6.944	16.552	29.458	63.000	42.000
Gross margin	1.245	0.880	1.550	1.826	2.050	2.625	3.750	4.075	1.516	3.692	5.500	12.500	20.000
Percent of gross billings	3.1%	1.8%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	3.0%	2.9%	2.5%	2.5%	2.5%
Percent of revenues	19.1%	11.2%	16.5%	16.3%	16.6%	16.6%	16.6%	16.6%	17.9%	18.2%	15.7%	16.6%	15.6%
Salaries, wages & payroll taxes	1.21	1.35	1.31	1.520	1.600	1.600	1.600	1.600	NA	4.269	5.383	6.400	8.000
Stock-based compensation	0.070	0.027	0.072	0.031	0.035	0.035	0.035	0.035		0.043	0.200	0.140	0.150
Commissions	0.272	0.338	0.463	0.520	0.550	0.600	0.700	0.800	NA	0.846	1.594	2.650	5.760
Professional Fees	0.492	0.509	0.416	0.823	0.500	0.500	0.500	0.500	NA	1.369	2.241	2.000	2.000
Sales and Marketing	NA	NA	NA	NA	NA	NA	NA	NA	1.020	0.000	NA	NA	NA
Software development	1.900	0.486	0.000	1.441	3.000	3.000	2.000	1.000	0.317	2.683	3.828	9.000	2.000
Customer support	NA	NA	NA	NA	NA	NA	NA	NA	0.557	0.000	NA	NA	NA
Depreciation and amortization	NA	NA	NA	NA	0.000	0.000	0.000	0.000	NA	0.065	0.274	0.000	0.500
Registration rights penalties	0.000	0.000	0.000	3.500	0.000	0.000	0.000	0.000	NA	0.000	3.500	0.000	0.000
General and administrative	0.672	0.892	1.105	0.883	0.883	0.883	0.883	0.883	1.478	1.908	3.553	3.533	4.239
Total operating expenses	4.614	3.598	3.367	8.993	6.568	6.618	5.718	4.818	3.371	11.184	20.572	23.723	21.999
				39%							52.9%		
Operating income	(3.369)	(2.718)	(1.817)	(7.167)	(4.518)	(3.993)	(1.968)	(0.743)	(1.855)	(7.492)	(15.072)	(11.223)	(1.999)
Operating margin	-8.4%	-34.5%	-19.4%	-64.1%	-5.5%	-25.2%	-8.7%	-3.0%	-22%	-37%	-43%	-15%	-2%
Interest expense	0.000	0.000	0.000	(1.505)	0.886	0.886	0.886	0.886	0.000	0.000	(1.505)	3.544	3.544
Total other income	0.000	0.000	0.000	(1.505)	0.886	0.886	0.886	0.886	0.000	0.000	(1.505)	3.544	3.544
Net Income	(3.369)	(2.500)	(1.817)	(8.672)	(5.404)	(4.879)	(2.854)	(1.629)	(1.855)	(7.492)	(16.576)	(7.679)	1.545
Net loss per share	**$ (0.12)**	**$ (0.09)**	**$ (0.06)**	**$ (0.30)**	**$ (0.18)**	**$ (0.15)**	**$ (0.06)**	**$ (0.05)**	**$ (0.07)**	**$ (0.28)**	**$ (0.58)**	**$ (0.24)**	**$ 0.04**
Non-GAAP loss per share	$ (0.11)	$ (0.09)	$ (0.06)	$ (0.15)						$ (0.28)	$ (0.42)	$ (0.24)	$ 0.04
Shares outstanding	28.8	28.8	28.8	28.8	29.4	32.5	32.5	32.5	25.6	26.8	28.8	31.7	40.8
Yr-to-Yr Growth	10%	10%	8%	0%	2%	13%	13%	13%	NM	4%	8%	10%	42%
Fully diluted shares	31.3	32.2	32.7	38.0	38.0	41.1	41.1	41.1			38.0	40.8	40.8

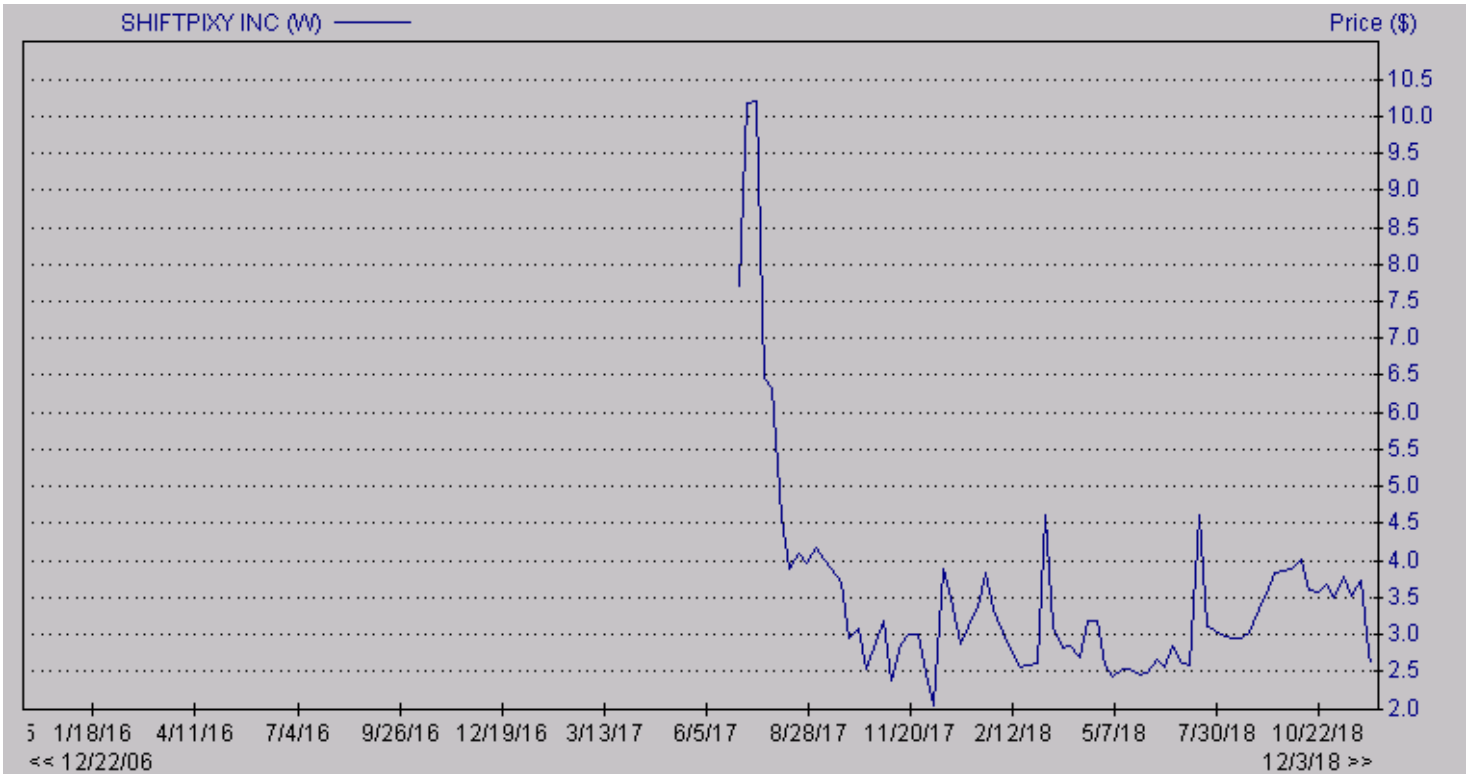
BALANCE SHEET

	Aug 31, 2018	May 31, 2018	Qtr-Qtr % Change	Aug 31, 2017	Yr-Yr % Change
Assets:					
Cash and cash equivalents	**$ 1,649,783**	**$ 1,187,386**	39%	**$ 5,896,705**	-72%
Restricted cash- workers' comp	**305,218**	**0**	NM	**0**	NM
Accounts receivable	110,931	307,847	-64%	428,790	-74%
Unbilled accounts receivable	6,192,631	0	NM	0	NM
Deposit workers' compensation	1,366,879	0	NM	2,335,000	NM
Prepaid expenses	563,002	2,205,741	-74%	352,188	60%
Other current assets	258,901	177,712	46%	15,916	1527%
Total current assets	10,447,345	3,878,686	169%	9,028,599	16%
Fixed assets	3,032,325	1,086,282	179%	288,065	953%
Deposits- workers' comp	2,201,556	0	NM	0	NM
Deposits and other	120,606	137,980	-13%	126,480	-5%
Total Assets	15,801,832	5,102,948	210%	9,443,144	67%
Current Liabilities:					
Accounts payable	1,246,461	850,225	47%	1,160,474	7%
Payroll related liabilities	9,476,641	5,374,954	76%	2,388,454	297%
Convertible note, net	**7,156,515**	0	NM	0	NM
Accrued workers' compensation cost	305,217	0	NM	0	NM
Other current liabiliities	5,455,921	795,192	586%	278,982	1856%
Total current liabilities	23,640,755	7,020,371	237%	3,827,910	518%
Accrued workers' compensation costs	900,978	0	NM	0	NM
Total Liabilities	24,541,733	7,020,371	250%	3,827,910	541%
Stockholders' Equity					
Common Stock	2,886	2,881	0%	2,877	0%
Additional paid in capital	17,233,919	15,357,342	12%	15,012,584	15%
Accumulated deficit	(25,976,706)	(17,277,646)	50%	(9,400,227)	176%
Total Stockholders' Equity	(8,739,901)	(1,917,423)	356%	5,615,234	-256%
Total Liabilities and Stockholders' Equity	15,801,832	5,102,948	210%	9,443,144	67%
Net cash	$1,649,783	$1,187,386	39%	$5,896,705	-72%
Current and quick ratios	0.4	0.6	-20%	2.4	-81%
Cash as % of assets	12%	23%	-47%	62%	-80%
Working Capital	(13,193,410)	(3,141,685)	320%	5,200,689	-354%
Debt	7,156,515	0	NM	0	NM
Debt/Total Assets	45%	0%	NM	0%	NM

CASH FLOW

	Year Ending Aug 31, 2018	3 Months Ending Aug 31, 2018	3 Months Ending May 31, 2018	3 Months Ending Feb 28, 2018	3 Months Ending Nov 30, 2017	Year Ending Aug 31, 2017	3 Months Ending Aug 31, 2017	3 Months Ending May 31, 2017	3 Months Ending Feb 29, 2017 (Restated)	3 Months Ending Nov 30, 2016 (Restated)
Net Income	$ (16,576,479)	$ (8,699,060)	(1,817,319)	$ (2,718,883)	$ (3,341,217)	$ (7,491,990)	$ (3,957,122)	$ (2,952,615)	$ (960,352)	$ 378,099
Adjustments to reconcile net loss to net cash used in operating activities:										
Depreciation and amortization	274,321	139,335	59,342	57,949	17,695	65,369	16,348	16,348	16,348	16,325
Amort. Debt discount, debt iss.	704,746	704,746	0	0	0	0	0	0	0	0
Stock issued for services	162,857	37,503	75,000	3,114	47,240	329,645	44,645	285,000	0	0
Stock-based compensation	200,332	30,925	72,311	26,800	70,296	43,415	0	43,415	0	0
Registration rights penalties	3,500,000	3,500,000	0	0	0	0	0	0	0	0
Changes in assets and liabilities:										
Restricted cash-worker's comp	(305,218)	(305,218)	0	0	0	0	0	0	0	0
Accounts recievable	317,859	196,916	(115,937)	279,279	(42,399)	(372,352)	(272,795)	(32,758)	214,554	(281,353)
Unbilled accounts receivable	(6,192,631)	(6,192,631)	0	0	0	0	0	0	0	0
Prepaid expenses	(210,814)	(692,261)	574,418	114,917	(207,888)	(2,344,192)	(2,282,368)	595,032	(359,679)	(297,177)
Other current assets	(242,985)	(81,189)	(144,433)	(16,916)	(447)	57,566	1,554	66,541	(5,806)	(4,723)
Deposits and other assets	5,874	17,374	20,435	(8,935)	(23,000)	(21,867)	(33,297)	39,357	(39,357)	11,430
Deposits- workers' comp	(1,233,435)	(1,233,435)	0	0	0	0	0	0	0	0
Accounts payable	85,987	396,236	(509,702)	(413,391)	612,844	334,027	582,369	140,300	287,473	(676,115)
Payroll related liabilities	7,088,187	4,101,687	2,045,691	1,034,001	(93,192)	1,665,739	540,160	690,328	220,154	215,097
Accrued workers' comp costs	1,206,195	1,206,195	0	0	0	0	0	0	0	0
Other current liabilities	1,676,939	1,160,729	106,881	546,236	(136,907)	157,713	(486,318)	197,765	458,526	(12,260)
Net Cash Used In Operating Activities	(9,538,265)	(5,712,148)	366,687	(1,095,829)	(3,096,975)	(7,576,927)	(5,846,824)	(911,287)	(168,139)	(650,677)
CASH FLOWS FROM INVESTING ACTIVITIES:										
Purchase of fixed assets	(3,018,580)	(2,085,378)	(83,722)	(822,075)	(27,405)	(4,661)	0	0	0	(4,661)
Net Cash Used In Investing Activities	(3,018,580)	(2,085,378)	(83,722)	(822,075)	(27,405)	(4,661)	0	0	0	(4,661)
CASH FLOWS FROM FINANCING ACTIVITIES:										
Proceeds from issuance of common stock	0	(50,000)	50,000	0	0	12,000,000	10,622,500	850,500	527,000	0
Issuance costs from common stock	0	0	0	0	0	(1,112,739)	(1,112,739)	0	0	0
Proceeds from issuance of common stock with warrants	0	0	0	0	0	1,577,500	1,577,500	0	0	0
Proceeds from exercise of warrants	75,000	75,000	(50,000)	0	50,000	145,000	145,000	0	0	0
Proceeds from issuance of convertible notes	9,000,000	9,000,000	0	0	0	0	0	0	0	0
Issuance costs from convertible notes	(765,077)	(765,077)	0	0	0	0	0	0	0	0
Net Cash Provided By Financing Activities	8,309,923	8,259,923	0	0	50,000	12,609,761	11,232,261	850,500	527,000	0
Net Increase in Cash	(4,246,922)	462,397	282,965	(1,917,904)	(3,074,380)	5,028,173	5,385,437	(60,787)	358,861	(655,338)
Cash - Beginning of Period	5,896,705	1,187,386	904,421	2,822,325	5,896,705	868,532	511,267	572,055	213,194	868,532
Cash - End of Period	1,649,783	1,649,783	1,187,386	904,421	2,822,325	5,896,705	5,896,704	511,268	572,055	213,194
Cash Paid During the Period for:										
Income taxes	0	0	0	0	0	0	0	0	0	0
Interest	133,333	133,333	0	0	0	0	0	0	0	0
Operating cash flow	(16,101,826)	(8,528,800)	(1,685,666)	(2,634,134)	(3,253,226)	(7,383,206)	(3,940,774)	(2,892,852)	(944,004)	394,424
Free cash flow	(19,120,406)	(10,614,178)	(1,769,388)	(3,456,209)	(3,280,631)	(7,387,867)	(3,940,774)	(2,892,852)	(944,004)	389,763

HISTORICAL STOCK PRICE



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