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Zacks Small-Cap Research

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Document Security Systems (DSS-NYSE-Amer)

DSS: Company Raises $5 Million War Chest to Fulfill Orders and Pursue Growth

Based on blended multiples from its peers of 2.1 times enterprise value to sales, we believe DSS stock is worth $1.66 per share.

Current Price (06/12/19)	$0.44
Valuation	**$1.66**

OUTLOOK

Document Security Systems is a small company with extensive patented expertise in authentication, anti-counterfeiting, and document and packaging printing. It also has an IP technology enforcement and licensing business. It has recently introduced a novel authentication system that allows customers to track and authenticate products using inked or etched marks that can be read by a generic smartphone. The company has signed and is implementing this system with two Fortune 100 customers and expects to announce other customers in the next few months, which should lead to accelerating revenue growth and profits.

SUMMARY DATA

52-Week High	**$1.70**
52-Week Low	**$0.44**
One-Year Return (%)	**-68.7**
Beta	**2.7**
Average Daily Volume (sh)	**297,641**
Shares Outstanding (mil)	**29.2**
Market Capitalization ($mil)	**$13.7**
Short Interest Ratio (days)	**1.6**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**4.7**
P/E using 2019 Estimate	**N/M**
P/E using 2020 Estimate	**N/M**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**Business Services**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	4.8 A	3.9 A	4.2 A	5.8 A	18.7 A
2018	4.4 A	4.1 A	4.1 A	6.0 A	18.5 A
2019	4.8 A	4.8 E	5.0 E	7.0 E	21.6 E
2020					24.8 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.01 A	-$0.02 A	-$0.02 A	$0.01 A	-$0.04 A
2018	-$0.01 A	$0.16 A	-$0.02 A	-$0.02 A	$0.09 A
2019	-$0.02 A	-$0.00 E	-$0.02 E	$0.02 E	-$0.00 E
2020					-$0.02 E

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

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WHAT'S NEW

DSS has long been afflicted with not having enough resources to pursue growth and this past quarter the company took actions to address longer term needs and raised enough cash to last for the next few years, rather than just funding the short term. With new management at the helm, DSS raised a net $5 million in June to fund both increased capacity and fulfill its current orders at two Fortune 100 companies that are in the process of rolling out AuthentiGuard worldwide. For years DSS has been trying to stay profitable while raising small amounts to satisfy cash flow needs, but in one fell swoop, this capital raise should have it set for years, unless of course signing additional large customers again puts a strain on capital.

This new cash is being used by both the printing business, which is increasing capacity by 20% by adding a new folder/gluer, as well as the AuthentiGuard business, which is in the process of installing printers and training personnel at its current customers locations worldwide. The increased capacity in the printing business is expected to add an incremental $2.5 million to revenues in 2019. AuthentiGuard gets paid per label printed, so its revenues will ramp as its customers print and ship product.

DSS Grows Revenues 10% in Q1 2019

DSS reported total Q1 2019 revenues of $4.8 million versus $4.4 million a year ago, up 9.9%. Printed product sales grew 11.3% to $4.4 million as business at the new drug stores increased and new products were offered to customers. Technology sales, services, and licensing declined 2.5% to $443,000, however the AuthentiGuard part of the business grew 30%. The company is transitioning away from lower margin IT services, especially sales of hardware as a reseller and replacing those sales with its SaaS business.

Gross margins declined to 34.3% from 41.0% and gross margin dollars were down 8.2%.

Operating expenses were virtually flat with last year and the operating loss was $450,000 compared to a loss of $332,000 last year. The company took "significant" actions in Q2 to reduce operating costs and "fine tune" product offerings. The company is managing the business to stay cash flow neutral and we expect savings in SG&A may be plowed back into marketing.

Interest expense was $28,000 versus $46,000 last year, bringing the net loss to $451,000 versus a loss of $391,000. The GAAP loss per share this year was $0.02 versus a loss of $0.02 a year ago. Non-GAAP it was a loss of $0.02 versus a loss of $0.01. The shares outstanding increased 5.4% to 17.5 million versus 16.6 million in Q1 2018.

EBITDA for the quarter was a loss Of $97,000 compared with a positive $15,000 last year. Printed products contributed $395,000 in Q1, while Technology used $324,000.

Balance Sheet

As of March 31, 2019 the company had $1.3 million in unrestricted cash, working capital of $279,000 and debt of $2.4 million. Since then it raised a net $5 million and issued 11.2 million shares of common stock. Part of that $5 million was used to pay back a short-term loan of $650,000 leaving $4.3 million.

Events During Q1 2019

On January 18, 2019, DSS entered into confidential settlement agreement with Everlight regarding its lawsuit filed United States District Court for the Central District of California on June 8, 2017. Moneys received from this settlement reduced other current and long-term liabilities on the March balance sheet.

On Jan. 23, 2019, DSS announced the opening of a technology development, customer support and product sales office in Guangzhou, China. DSS Asia Ltd. has acquired all the outstanding shares of Guangzhou HotApp Technology Ltd., a software development company based there for a $100,000, 2-year unsecured promissory note. The acquisition provides DSS Asia with the valuable licenses that are required and critical to operating within the Chinese marketplace. The Chinese market represents a $30 trillion opportunity for imported products over the next 15 years.

In February DSS released a new mobile application in Android and iOS as part of the DSS AuthentiGuard™ solution. The app can be used by anyone and is capable of quickly and easily authenticating product in the field and can provide data such as: product origin, movement, destination, and other supply chain related inquiries. It can track and trace functions in conjunction with serialization; and can consolidate the product information within an encrypted, secure database.

On February 18, 2019, DSS sold a $500,000 convertible promissory note to LiquidValue Development Pte Ltd at a conversion price of $1.12 per share. The note carries a fixed interest rate of 8% per annum and has a term of 12-months. The proceeds of the note were used **to purchase a license** to distribute anti-keylogging spyware product in Asia from Advanced Cyber Security Corp. and to fund the costs of the initial set-up of the company's marketing and distribution infrastructure for the product line.

SUBSEQUENT EVENTS

In April, DSS signed an agreement with Market Defense, an online brand protection specialist that fully-manages a brand's Amazon marketplace, including the identification and elimination of product diversion, counterfeit products, and unauthorized distributors. Market Defense protects, defends, and expands a brand's business on the Amazon platform by more efficiently managing their Amazon listings and facilitating the takedown of infringing or fraudulent product. It has focused on prestige beauty products.

On May 7, 2019, Frank D. Heuszel, who has been serving as interim CEO of Document Security Systems since April 11, 2019, was appointed the permanent CEO. As previously reported, Mr. Heuszel also serves as the interim CFO.

As of May 9, 2019, John Thatch became a member of the board of directors as a non-executive, independent member of the board to fill a vacancy. He will serve as a member of the audit committee and the nominating and corporate governance committee. Currently, he is the CEO and a director of Sharing Services Global Corporation, a publicly listed, diversified holding company specializing in the direct selling and marketing industry. He is also a principal owner of Superior Wine & Spirits that wholesales and distributes wine and liquor.

On May 20, 2019, Jeffrey Ronaldi notified the company of his resignation from the Board of Directors, effective immediately.

On May 30,2019 DSS created four new, wholly-owned subsidiaries all of which currently have no employees and are in the exploratory stage and looking for opportunities:

- **DSS Blockchain Security, Inc**., that will specialize in the development of blockchain security technologies for tracking and tracing solutions for supply chain logistics and cyber securities across global markets.

- **Decentralize Sharing Systems, Inc**., to provide services to assist companies utilizing blockchain technologies for sharing system solutions in the new economics of the peer-to-peer decentralized sharing marketplaces.

- **DSS Securities, Inc**., to establish or acquire two parallel streams of digital asset exchanges in multiple jurisdictions: (i) securitized token exchanges, focusing on digitized assets from different

vertical industries and (ii) utilities token exchanges, focusing on "blue-chip" utility tokens from solid businesses.

- **DSS BioHealth Security, Inc.,** to invest in companies which hold bio-medical intellectual property and/or which have, or are securing, strategic alliances, partnerships and distributing rights for bio-medical and security products, technologies or enterprises. This new division will focus on open-air defense initiatives, which curb transmission of air-borne infectious diseases such as tuberculosis, influenza, among others, in open areas.

On May 31, 2019, DSS sold a $650,000 unsecured promissory note to LiquidValue Development Pte Ltd (owned by Fai H. Chan.) The note has a term of 60 days and does not bear interest and is payable in a single lump sum of $650,000, on July 31, 2019. We expect this loan to be paid back at that date with the proceeds from the June stock offering.

On June 10, 2019, DSS sold 11.2 million shares of stock at $0.50 per share for net proceeds of $5 million to fund its strategic objectives. The company has also granted the underwriters a 45-day option to purchase up to 1,680,000 additional shares of common stock to cover over-allotments, if any, at the public offering price, less the underwriting discounts and commissions. The company now has approximately 29.2 million shares outstanding.

KEY POINTS

- Document Security Systems is a decades old company with expertise in security printing, but with revenues that have been flat for the past few years. Sales are primarily from printing and packaging, but the majority of future growth is expected come from its anti-counterfeiting and authentication expertise, which has resulted in a new SaaS product that is just beginning to make inroads with customers.

- DSS has introduced a unique and patented authentication solution that enables corporate customers, as well as end user consumers, to track and authenticate products throughout the supply chain. Its novel approach, which uses double blind labeling, competes with taggants and RFID tracking but is far cheaper and can be used without specialized equipment. The system **allows anyone with a smartphone to scan a product to determine if it is genuine**.

- The company has its first two Fortune 100 customers for this product, called “AuthentiGuard,” and expects other customers to sign on in the next few months as they see the unique value in its solution. We believe an increase in marketing effort, combined with a high-visibility reference customer, could be the catalysts to rapid growth for DSS.

- DSS has a uniquely structured IP enforcement business that has five different actions in process in areas of LED and Bluetooth technology that could be monetized in the next few years. Its biggest potential win is a suit against Apple for Bluetooth technology, which is used in virtually all its products. It has recently been assigned a trial date of February 24, 2020. In 2018, the company restructured its IP enforcement efforts to avoid costs while allowing it to participate in the upside of successful monetization events.

- The company trades at an enterprise value of $9.5 million, which is only 0.5 times EV to its trailing 12-month sales, and we believe the stock has considerable upside as the company shows signs of growth. Based on metrics of its peer group, **we believe it is worth $1.66 per share** using a blended average EV/sales of 2.1 times and an estimate of $21.5 million in sales in 2019. Any upside from the successful resolution of its IP enforcement efforts has not been factored into this valuation and adds considerable

incremental potential for shareholders. Near term we believe announcements of new customer wins could also drive the stock.

RISKS

- In 2018 two customers, Walgreens and Shutterfly were responsible for 44% of revenues. Loss of either customer would affect results significantly. During the three months ended March 31, 2019, these two accounted for approximately 45% of revenues versus 39% in last year's quarter.
- DSS is small and not profitable and potential customers may be hesitant to do business with it particularly when implementing long term solutions due to its financial situation and limited resources.
- The company bases a lot of its potential on the success of its new AuthentiGuard product. While being competitively superior in price and capability compared with alternative solutions, it has not yet gotten traction with customers. Future growth will depend of the success of marketing to convince manufacturers to take a chance an implement its new technology.
- The stock trades based on the company's progress in its lawsuits against various companies in it IP enforcement efforts. It lawsuits, and primarily the one against Apple, will drive events that is expected to affect the stock price.
- Recently the CEO and the CFO left the company. The new CEO is now also the interim CFO.

STATUS OF LITIGATION

Company	Date and Location	Status	Patent numbers
Apple	Case originally filed in the United States District Court for the Eastern District of Texas on November 26, 2013. The case is currently pending in the United States District Court for the Northern District of California	Trial scheduled for February 24, 2020.	6,128,290
Seoul Semiconductor	United States District Court for the Central District of California, on June 7, 2017	IPR's pending with PTAB	6949771, 7256486, 7524087
Cree	United States District Court for the Central District of California on June 8, 2017	IPR's pending with PTAB	7256486, 7524087, 6949771
Lite-On	United States District Court for the Central District of California on August 15, 2017	Stayed pending IPR resolutions filed by others.	6949771, 7524087, 7256486
Nichia	United States District Court for the Central District of California on December 7, 2017	IPR's pending with PTAB	7919787, 7652297, 6949771, 7256486

FINANCIALS

Forecasts

2019 Year

The 2019-year should show meaningful revenue growth. The company has the opportunity to capture more business from Walgreens and Shutterfly and take on new customers due to increased capacity. It has a two-year plan to increase sales by 25% from these efforts. Also revenues should ramp with its two Fortune 100 customers as the system is implemented throughout their organizations. This coupled with sales wins expected from its fertile Authentiguard pipeline should propel the company to a conservative $21.5 million in revenues for 2019, up 16%. While new business should be profitable and at higher margins, we expect the company to continue to spend to grow while keeping EBITDA positive. We estimate a 2019 EPS loss of $0.01 or $275,000.

VALUATION

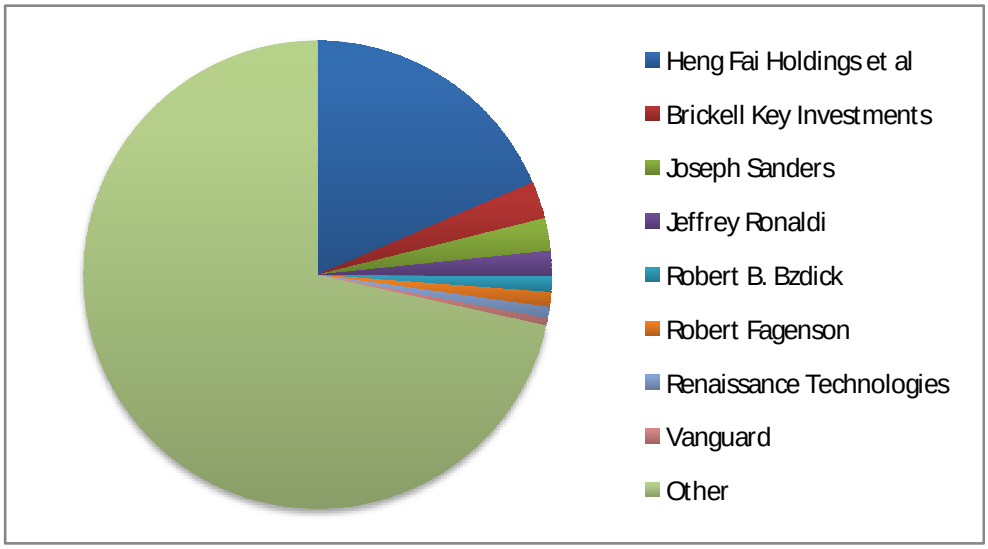
Document Security Systems is comprised of two main businesses with public comparables. Companies that are primarily providers of packaging and printing and those involved in higher margin anti-counterfeiting type solutions. Since in 2019 we expect revenues at DSS to be roughly 90% packaging and 10% anti-counterfeiting, we are using a blended multiple of enterprise value to sales to calculate valuation. As that percent shifts, we expect the multiple to increase proportionally.

Using Applied DNA, Digimarc, and Zebra as the anti-counterfeiting revenue comps and the rest for packaging, we get a blended multiple of 2.1 times EV to sales. Applying that to $21.5 million in revenues gets an enterprise value of $45.2 million and market value of $48.6 million (using post offering estimated cash and debt), and a price per share of $1.66 using 29.2 million shares outstanding.

Anti-Counterfeit/Packaging

		Cal. Revenue				EBIDTA	Enterprise Value / Sales		EV/EBITDA	Included	
Company	Ticker	2019E	2018	LTM	EBITDA	Margin	2019E	LTM		in Average?	Ent. Value
Applied DNA	APDN	$6	$4	$4	-11.7	-302%	4.1x	5.9x	-2.0x	y	23
Brady Corp.	BRC	$1,177	$1,170	$1,160	185.7	16%	2.0x	2.0x	12.7x	y	2,360
De La Rue	DLAR.L	NA	NA	$565	77.2	14%	NA	0.8x	5.5x	n	426
Digimarc	DMRC	$24	$21	$21	-31.8	-150%	17.8x	20.1x	-13.4x	y	426
Graphic Packaging	GPK	$6,200	$6,020	$6,050	962.9	16%	1.3x	1.3x	8.4x	y	8,110
Huhtamaki	HUH1V.HE	$3,310	$3,100	$3,180	390.7	12%	1.4x	1.5x	12.1x	y	4,710
WestRock	WRK	$19,100	$16,720	$17,320	2940.0	17%	1.0x	1.2x	6.8x	y	20,040
Zebra	ZBRA	$4,510	$4,220	$4,310	835.0	19%	2.5x	2.6x	13.2x	y	11,060
Average						**-53%**	**4.3x**	**4.9x**			

OWNERSHIP



PROJECTED INCOME STATEMENT

	Mar 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019E	Sep. 30, 2019E	Dec. 31, 2019E	2017	2018	2019E	2020E
Revenue:												
Packaging Printing and Fabrication	$ 2,610,000	$ 2,491,000	$ 2,482,000	$ 4,158,000	$ 2,961,000	$ 3,000,000	$ 3,200,000	$ 5,050,000	$ 11,450,000	$ 11,741,000	14,211,000	$ 15,916,320
Commercial and Security Printing	308,000	338,000	253,000	342,000	352,000	350,000	350,000	350,000	1,105,000	1,241,000	1,402,000	1,500,000
Technology Integrated Plastic Cards & Badges	252,000	253,000	409,000	440,000	503,000	510,000	450,000	450,000	1,902,000	1,354,000	1,913,000	1,800,000
Plastic Cards, Badges and Assessories	753,000	643,000	640,000	568,000	550,000	500,000	500,000	500,000	2,569,000	2,604,000	2,050,000	2,100,000
Printed products	3,923,279	3,724,980	3,783,779	5,508,224	4,366,054	4,360,000	4,500,000	6,350,000	17,026,247	16,940,262	19,576,054	21,316,320
Yr-Yr Growth	-10.9%	10.1%	0.4%	0.6%	11.3%	17.0%	18.9%	15.3%	-1.5%	-0.5%	15.6%	8.9%
Information Technology Sales and Services	130,000	78,000	61,000	76,000	74,000	70,000	50,000	50,000	458,000	345,000	244,000	200,000
Digital Authentication Products and Services	*178,000*	*174,000*	*143,000*	*277,000*	*230,000*	*270,000*	*300,000*	*520,000*	*512,000*	*772,000*	*1,320,000*	*3,000,000*
Royalities from Licensees	147,000	110,000	107,000	94,000	139,000	100,000	90,000	80,000	666,000	458,000	409,000	300,000
Technology sales, services and licensing	454,275	362,081	310,511	447,953	442,866	440,000	450,000	650,000	1,635,625	$ 1,574,820	$ 1,982,866	$ 3,500,000
Yr-Yr Growth	23.6%	-24.2%	-28.0%	24.7%	-2.5%	21.5%	44.9%	45.1%	-13.9%	-3.7%	25.9%	76.5%
Total revenue	**4,377,554**	**4,087,061**	**4,094,290**	**5,956,177**	**4,808,920**	**4,800,000**	**4,950,000**	**7,000,000**	**18,661,872**	**18,515,082**	**21,558,920**	**24,816,320**
Yr-Yr Growth	-8.2%	5.9%	-2.5%	2.1%	9.9%	17.4%	20.9%	17.5%	-2.7%	-0.8%	16.4%	15.1%
Costs and expenses:												
Cost of revenue	2,581,615	2,756,447	2,551,782	3,963,655	3,159,551	2,800,000	3,000,000	4,300,000	11,008,882	11,853,499	13,259,551	16,162,240
Gross Margin	1,795,939	1,330,614	1,542,508	1,992,522	1,649,369	2,000,000	1,950,000	2,700,000	7,652,990	6,661,583	8,299,369	8,654,080
Gross Margin %	41.0%	32.6%	37.7%	33.5%	34.3%	41.7%	39.4%	38.6%	41.0%	36.0%	38.5%	34.9%
Selling, general and administrative (including stock based compensation)	1,782,568	1,802,096	1,610,831	1,893,115	1,776,815	1,800,000	1,800,000	2,000,000	6,465,016	7,088,610	7,376,815	8,000,000
Depreciation and amortization	345,667	346,816	310,330	278,821	294,407	250,000	300,000	244,000	1,413,838	1,281,634	1,088,407	1,100,000
Total costs and expenses	2,128,235	2,148,912	1,921,161	2,171,936	2,071,222	2,050,000	2,100,000	2,244,000	7,878,854	8,370,244	8,465,222	9,100,000
Operating (loss) income	(332,296)	(818,298)	(378,653)	(179,414)	(421,853)	(50,000)	(150,000)	456,000	(225,864)	(1,708,661)	(165,853)	(445,920)
Operating Margin	-7.6%	-20.0%	-9.2%	-3.0%	-8.8%	-1.0%	-3.0%	6.5%	-1.2%	-9.2%	-0.8%	-1.8%
Other expense:												
Interest expense, net	(46,064)	(30,735)	(27,246)	(32,140)	(27,997)	(30,000)	0	10,000	(219,112)	(136,185)	(47,997)	0
Amortized debt discount	(27,731)	(6,168)	(6,168)	(6,184)	(600)	(600)	0	0	(154,142)	(46,251)	(1,200)	0
Impairment of investment	0	0	0	(160,000)	0	0	0	0	0	(160,000)	0	0
Gain on extinguishment of liabilities, net	0	3,532,659	0	0	0	0	0	0	0	3,532,659	0	0
Loss before income taxes	(406,091)	2,677,458	(412,067)	(377,738)	(450,450)	(80,600)	(150,000)	466,000	(599,118)	1,481,562	(215,050)	(445,920)
Income tax expense	0	0	0	16,593	0	0	0	0	(20,962)	16,593	0	0
Net loss	(406,091)	2,677,458	(412,067)	(394,331)	(450,450)	(80,600)	(150,000)	466,000	(578,156)	1,464,969	(215,050)	(445,920)
Other comprehensive loss:												
Foreign currency translation	0	0	(5,088)	5,088	0	0	0	0	0	0	0	0
Interest rate swap gain (loss)	14,889	6,963	(4,458)	(1,377)	(778)	0	0	0	22,274	16,017	(778)	0
Comprehensive loss:	$ (391,202)	$ 2,684,421	$ (421,613)	$ (395,708)	$ (451,228)	$ (80,600)	$ (150,000)	$ 466,000	**$ (555,882)**	**$ 1,480,986**	**$ (215,828)**	**$ (445,920)**
Non-GAAP earnings	(404,840)	(770,279)	(391,623)	(529,215)	(419,749)	(50,600)	(120,000)	496,000	(578,156)	(2,109,174)	(94,349)	(105,920)
Non-GAAP EPS	$ (0.02)	$ (0.05)	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.00)	$ (0.00)	$ 0.02	$ (0.04)	$ (0.13)	$ (0.00)	$ (0.00)
Basic and diluted loss per share	**$ (0.01)**	**$ 0.16**	**$ (0.02)**	**$ (0.02)**	**$ (0.02)**	**$ (0.00)**	**$ (0.02)**	**$ 0.02**	**$ (0.04)**	**$ 0.09**	**$ (0.01)**	**$ (0.02)**
Yr-Yr Growth	0.0%	-896.9%	0.0%	-297.9%	139.9%	-102.4%	0.0%	-170.6%	-44.9%	-327.0%	-110.2%	71.4%
Basic shares outstanding	16,599,327	16,599,327	16,767,992	17,420,000	17,494,750	21,002,721	29,203,000	29,213,000	14,424,344	16,724,376	24,228,368	29,213,000
Diluted shares		16,842,204	17,010,869	17,626,429	17,701,179	21,208,721	29,409,000	29,419,000	14,424,344	16,930,805	24,434,475	29,419,000

CASH FLOWS

	March 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017	2017	March 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018	2018	March 31, 2019
Cash flows from operating activities:											
Net income (loss)	$ (184,039)	$ (264,527)	$ (277,051)	$ 147,461	$ (578,156)	$ (406,091)	$ 2,677,458	$ (412,067)	$ (394,331)	$ 1,464,969	$ (450,450)
Adjustments to reconcile net income (loss) to net cash used by operating activities:											
Depreciation and amortization	342,774	346,975	352,040	372,049	1,413,838	345,667	346,816	310,330	278,821	1,281,634	294,407
Stock based compensation	133,807	57,553	11,751	11,751	214,862	1,251	84,922	20,444	25,116	131,733	30,701
Paid in-kind interest	18,000	18,000	18,000	18,000	72,000	12,000	0	0	0	12,000	0
Change in deferred tax provision	4737	4,737	4,737	66,152	80,363	0	0	0	9,673	9,673	0
Amortization of deferred financing costs	35,288	37,144	40,854	40,856	154,142	27,731	6,168	6,168	6,184	46,251	600
Gain on extinguishment of liabilities, net	0	0	0	(219,364)	(219,364)	0	(3,532,659)	0	0	(3,532,659)	0
Impairment of investment										160,000	
Decrease (increase) in assets:											
Accounts receivable	(133,989)	150,604	75,361	(226,279)	(134,303)	25,689	92,802	(10,783)	(300,301)	(192,593)	(277,951)
Inventory	2,854	(320,356)	(389,233)	261,866	(444,869)	51,699	237,814	(580,842)	378,982	87,653	217,926
Prepaid expenses and other current assets	(27,076)	79,572	18,342	(19,429)	51,409	13,329	(41,100)	(27,603)	24,176	(31,198)	720
Restricted cash	0	0	(158,563)	158,563	0	0	0	0	0	0	0
Increase (decrease) in liabilities:											
Accounts payable	(419,482)	(26,108)	(61,159)	(386,682)	(893,431)	188,795	115,112	458,497	(143,568)	618,836	(100,692)
Accrued expenses	(259,678)	(2,513)	(605,511)	806,911	(60,791)	(103,928)	13,610	(303,852)	280,377	(113,793)	(213,370)
Other liabilities	0	(393,842)	393,842	(944,834)	(944,834)	(249,594)	(357,334)	(535,001)	(183,498)	(1,325,427)	(378,183)
Net cash used by operating activities	(486,804)	(312,761)	(576,590)	87,021	(1,289,134)	(93,452)	(356,391)	(1,074,709)	141,631	(1,382,921)	(876,292)
Cash flows from investing activities:											
Purchase of property, plant and equipment	(66,206)	(299,453)	(72,691)	(520,469)	(958,819)	(132,937)	(178,465)	(214,849)	(477,162)	(1,003,413)	(210,945)
Purchase of intangible assets	(4,949)	46	0	(6,649)	(11,552)	(15,780)	(4,357)	(25,334)	(54,667)	(100,138)	(350,000)
Net cash used by investing activities	(71,155)	(299,407)	(72,691)	(527,118)	(970,371)	(148,717)	(182,822)	(240,183)	(531,829)	(1,103,551)	(560,945)
Cash flows from financing activities:											
Payments of long-term debt	(203,647)	(204,001)	(204,771)	(205,913)	(818,332)	(206,542)	(551,760)	(207,775)	(222,004)	(1,188,081)	(57,309)
Borrowing from eqt line of credit	0	0	0	522,000	522,000	0	0	87,703	414,452	502,155	500,000
Issuance of common stock, net	0	0	783,094	168,024	951,118	0	0	300,000	587,755	887,755	(6,793)
Subscription receivable, net	0	0	0	0	0	288,000	0	0	0	288,000	0
Net cash used by financing activities	(203,647)	(204,001)	578,323	484,111	654,786	81,458	(551,760)	179,928	780,203	489,829	435,898
Net decrease in cash	(761,606)	(816,169)	(70,958)	44,014	(1,604,719)	(160,711)	(1,090,973)	(1,134,964)	390,005	(1,996,643)	(1,001,339)
Cash and restricted cash at beginning of period	6,049,347	5,287,741	4,471,572	4,400,614	6,049,347	4,444,628	4,283,917	3,192,944	2,057,980	4,444,628	2,447,985
Cash and restricted cash at end of period	$ 5,287,741	$ 4,471,572	$ 4,400,614	$ 4,444,628	$ 4,444,628	$ 4,283,917	$ 3,192,944	$ 2,057,980	$ 2,447,985	$ 2,447,985	$ 1,446,646
Operating Cash Flow	$ 350,567	$ 199,882	$ 150,331	$ 436,905	$ 1,137,685	$ (19,442)	$ (417,295)	$ (75,125)	$ (74,537)	$ (586,399)	$ (124,742)
Free Cash Flow	$ 279,412	$ (99,525)	$ 77,640	$ (90,213)	$ 167,314	$ (168,159)	$ (600,117)	$ (315,308)	$ (606,366)	$ (1,689,950)	$ (685,687)

BALANCE SHEET

	March 31, 2019	Dec. 31, 2018	Qtr-Qtr % Growth	March 31, 2018	Yr-Yr % Growth
Current assets:					
Cash	$ 1,336,754	$ 2,317,659	-42.3%	$ 3,728,086	-64.1%
Restricted cash	109,892	130,326	-15.7%	555,831	-80.2%
Accounts receivable, net	2,495,828	2,217,877	12.5%	1,999,595	24.8%
Inventory	1,345,667	1,563,593	-13.9%	1,599,547	-15.9%
Prepaid expenses & other curr assets	309,223	285,580	8.3%	247,996	24.7%
Total current assets	5,597,364	6,515,035	-14.1%	8,131,055	-31.2%
Property, plant and equipment, net	5,015,358	5,014,494	0.0%	4,762,554	5.3%
Investment	324,930	324,930	0.0%	484,930	-33.0%
Other assets	90,319	90,319	0.0%	83,376	8.3%
Right-of-use assets	1,396,278	0	NM	0	NM
Goodwill	2,453,597	2,453,597	0.0%	2,453,597	0.0%
Other intangible assets, net	1,291,868	881,411	46.6%	1,066,888	21.1%
Total assets	16,169,714	15,279,786	5.8%	16,982,400	-4.8%
Current liabilities:					
Accounts payable	1,246,798	1,347,491	-7.5%	917,451	35.9%
Accrued expenses & deferred revenue	965,652	1,106,346	-12.7%	1,004,025	-3.8%
Other current liabilities	1,846,281	2,255,942	-18.2%	2,933,591	-37.1%
Short-term debt	**0**	**0**	0.0%	**3,714,129**	-100.0%
Current portion of long-term debt, net	**698,369**	**713,427**	-2.1%	**806,202**	-13.4%
Current portion of lease liability	360,839	0	NM	0	NM
Total current liabilities	5,117,939	5,423,206	-5.6%	9,375,398	-45.4%
Long-term debt, net	**1,680,285**	**1,721,936**	-2.4%	**1,659,291**	1.3%
Lease liability	1,059,802	0	NM	0	NM
Other long-term liabilities	350,906	391,325	-10.3%	1,137,821	-69.2%
Deferred tax liability, net	168,986	168,986	0.0%	125,982	34.1%
Stockholders' equity					
Common stock	360,054	348,517	3.3%	331,987	8.5%
Additional paid-in capital	108,281,820	107,624,666	0.6%	106,622,960	1.6%
Accumulated other comp loss	(7,830)	(7,052)	11.0%	(8,180)	-4.3%
Accumulated deficit	(100,842,248)	(100,391,798)	0.4%	(102,262,859)	-1.4%
Total stockholders' equity	7,791,796	7,574,333	2.9%	4,683,908	66.4%
Total liabilities and stockholders' equity	$ 16,169,714	15,279,786	5.8%	$ 16,982,400	-4.8%
Current ratio	1.1	1.2	-9.0%	0.9	26.1%
Quick ratio	0.8	0.9	-9.0%	0.7	19.2%
Working Capital	479,425	1,091,829	-56.1%	(1,244,343)	-138.5%
Net cash	1,446,646	2,447,985	-40.9%	4,283,917	-66.2%
Debt	2,378,654	2,435,363	-2.3%	6,179,622	-61.5%
Debt/TA	15%	16%	-7.7%	36%	-59.6%

HISTORICAL STOCK PRICE



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