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Zacks Small-Cap Research

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ShiftPixy, Inc. (PIXY-NASDAQ)

PIXY: Stellar FYQ3 Results Are Clouded By Convertible Note Disputes

We believe the stock could be worth $4.30 per share based on an average of 2.0 EV to revenues for calendar year 2020 if sales targets are met and using fully diluted shares.

Current Price (07/23/19)	$0.42
Valuation	**4.30**

OUTLOOK

ShiftPixy is a start-up providing staffing services for the gig economy. Focused 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 tasks. It is has introduced a novel, easy to use app, which will allow establishments to keep track of workers' hours and scheduling as well as giving a Match.com-like platform to fill shift openings. **It is at a $377 million annual gross billing run rate** and continues to roll out services in a number of cities in the US. Its goal it to serve 50,000 worksite employees by December 2019 compared with 10,000 in 2018 and 12,300 at quarter end.

SUMMARY DATA

52-Week High	**$4.42**
52-Week Low	**$0.38**
One-Year Return (%)	**-87.7**
Beta	**1.5**
Average Daily Volume (sh)	**351,534**
Shares Outstanding (mil)	**36.2**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**3.8**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**66**
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 2019 Estimate	**N/M**
P/E using 2020 Estimate	**N/M**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenues
(in millions of $)

	Q1 (Nov)	Q2 (Feb)	Q3 (May)	Q4 (Aug)	Year (Aug)
2017	$5.7 A	$5.4 A	$4.6 A	$4.7 A	$20.2 A
2018	$6.5 A	$7.9 A	$9.4 A	$11.2 A	$35.0 A
2019	$10.5 A	$13.2 A	$14.3 A	$15.2 E	$53.2 E
2020					$80.0 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	-$0.07 A	-$0.07 A	-$0.14 A	-$0.12 E	-$0.42 E
2020					-$0.14 E

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

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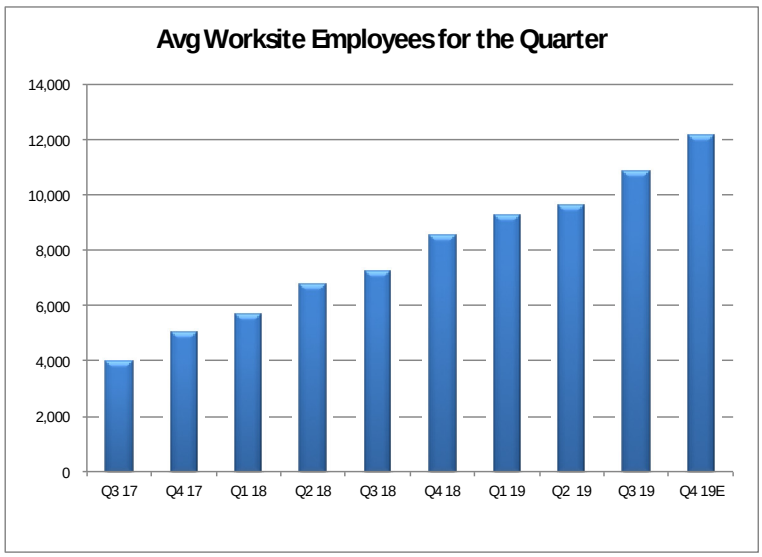
WHAT'S NEW

ShiftPixy Still Showing High Growth and Improving Margins in Q3 FY2019

While toxic financing has knock down the stock price, ShiftPixy still reported a solid quarter amidst all the drama from the recent convertible note transaction. For the first time ShiftPixy beat our gross billings number, coming in at $94.2 million compared with $60.2 million in FYQ3 2018, up 57%. Revenues were also strong at $14.3 million, **up 53%** year over year and inline with our estimates. Incredibly, despite this performance, the company is trading at $15 million market cap despite being at a $57 million revenue run rate with improving margins and growth over 50%.

Worksite employees rose from an average of 7,250 employees for the three months ended May 31, 2018, to an average of 10,860 employees in this year's quarter, up 50%. The company indicated in its 10Q that it has **already added 17 clients with 6,600 worksite employees**. At quarter end there were 12,300 worksite employees. Adding that to gets us to 18,900. We believe this does not include churn in the client base, which lowers the total. These additions represent an annual gross billings value of $32.5 million. The company expects that this revenue may generate an additional of $1.1 million in quarterly gross profit. Cash breakeven is expected to be at approximately 25,000 worksite employees.

a. Gross margin dollars increased 75%, and the gross margin percentage also increased from 16.5% to 19% in 2019. Gross margin was helped by economies of scale from workers' comp as well as the good trend of its loss ratio on its new deductible program. ShiftPixy transferred from a guaranteed cost workers compensation program, to a deductible program resulting in lower workers compensation premium billed, offset by additional money funded to its claim loss fund as requirement to its deductible workers compensation program. The gross margin was down sequentially as the February quarter includes year-end when most of the worksite employees have already exceeded their $7k taxable limits for SUTA and FUTA. We expect margins to continue to improve sequentially throughout the calendar year. Currently the company's baseline engagement is now at 2.5% of payroll stack for service fees and once the new features and mobile technology is released and available to customers, ShiftPixy intends to increase this base line engagement to 5% of payroll stack, effectively doubling margins.



Operating expenses were $5.8 million versus $3.4 million a year ago an increase of $2.4 million. This increase broke down as follows:

- $860,000 was due to an increase in professional fees (due to litigation expense and corporate affairs and a workers compensation claim specialist),
- $720,000 in G&A (due to increased marketing expenses, penalties due to late remittances of payroll taxes and additional depreciation resulting from the capitalization of software development costs),
- $500,000 additional for salaries, wages, and payroll costs,
- and a $300,000 increase in commissions due to higher sales.

In these expenses is about $400,000 in one-time expenses due to litigation and hiring fees.

In this year's quarter there was no software development costs expensed, same as last year, but this compares to $718,000 in expense in FYQ2 2019.

The operating loss was $3.1 million versus $1.8 million loss a year ago.

Total other income was and expense of $1.9 million. Interest expense was $4.3 million from amortization expense related to the debt discount and debt issuance costs related to the March 2019 and June 2018 financings. Only $81,005 of interest was paid in cash. Two other charges were in other income; a non-cash $2.3 million inducement loss from debt and a $4.7 million non-cash gain on the change in fair value of the derivative and warrant liabilities.

With no taxes paid, the company reported a loss of $5 million versus a loss of $1.8 million a year ago or a loss of $0.14 per share versus a $0.06 per share loss.

On a non-GAAP basis the loss per share was $0.06 flat with a year ago. In this number we have taken out stock based compensation and one-time expenses. Average shares outstanding for the quarter were 34.5 million, up 20% from a year ago. Fully diluted shares using the treasury stock method were 44.5 million versus 28.8 million, an increase of 27%.

Dispute With Its Convertible Note Holders

ShiftPixy has been the victim of toxic financing, which has knocked down its stock price and greatly increased dilution. This has been driven by its new convertible note holders who have the incentive to drive down the stock price as they can convert more shares at a lower price down to floor of $0.31. On June 20, 2019, one note holder, Alpha Capital Anstalt, submitted a conversion notice to convert $310,000 of the principal of the note owned by Alpha into one million shares of common stock at the applicable conversion rate of $0.31 per share. The company refused to honor the conversion request. On June 27, 2019, ShiftPixy informed its convertible note holders that it would cease honoring conversion requests of those notes, forcing a voluntary default of the notes. The company believes that the conversions demanded and subsequent sales of the its common stock by the holders of the notes put extraordinary pressure on its stock price, which led to listing deficiency notices from NASDAQ.

Management is pursuing a renegotiation and amendment of the notes with the note holders in an effort to avoid litigation. The company requested to amend the terms of the notes and related agreements to remove the conversion features, and revise the cash amortization schedule to be more in alignment with the its improving cash flow, among other items. However on July 3, 2019, Alpha filed claim No. 19 CV 6199 in the United States District Court, Southern District of New York seeking preliminary injunctive relief against the ShiftPixy to **immediately deliver one million shares** of its common stock and to honor all future conversion requests duly submitted by Alpha in accordance with the terms of the notes. A court date is set for today, July 24, 2019 at 4:15 p.m. EDT. If the Alpha Capital cannot prove it has suffered irreparable harm, then it will need to file a suit and it would take at least a year until it is on a docket. If it can prove harm, ShiftPixy will appeal delaying the outcome for a few months and buying time to reach cash flow breakeven.

In addition to the lawsuit, the company subsequently discovered that it had been given incorrect advice and had converted its notes incorrectly and at a price 15% below where it should have. As a result it has restated

the FY2019 Q2 quarter to reflect that. To recap what happened: on June 4, 2018, ShiftPixy sold $10,000,000 of 8% senior secured convertible notes due September 4, 2019. The notes are repaid monthly. They are convertible into shares of common stock, at the option of the holder at price of $2.49, subject to adjustment, mainly related to standard anti-dilution adjustments and subsequent issuances of equity securities at effective prices that are lower than the initial conversion price. The notes state that "from and after the maturity date, the conversion price should be equal to the lesser of (i) the then conversion price and (ii) 85% of the volume weighted average price ("VWAP"), which is immediately prior to the applicable conversion date". Since October 29, 2018, ShiftPixy honored conversion requests from the investors not at $2.49 price as provided in the Notes but at a fifteen percent (15%) discount to the lowest VWAP in excess of the securities issuable pursuant to the original conversion terms, **creating an induced conversion under GAAP**. GAAP requires that the additional shares issued in the conversion be treated as an inducement, with an expense recognized equal to the fair value of the additional shares of common stock transferred in the transaction, with such fair value being measured as of the date of the inducement offer is accepted by the convertible debt holder. Accordingly, the company recognized a non-cash debt conversion expense of $1.6 million for the three and six months ended February 28, 2019, which caused some financial results for the February quarter to be restated. We have revised the financials in this report.

During the quarter the company added to senior management:

In March, it hired Amy Wang as Chief Marketing Officer. She most recently served as co-founder and CEO of Dawn Design Studios, where she helped businesses grow their brands. She was previously the marketing manager for the international skin care line of Sebamed. Amy has several years experience in brand management, market strategy and business development.

On April 30, 2019 ShiftPixy promoted Doug Moss to CTO. He originally joined ShiftPixy in 2018 as Senior Director of Development, bringing with him more than 20 years of industry experience including web and mobile customer expertise, developed at Levy Restaurants, Pacific Life, The Los Angeles Galaxy, and his own consulting firm, Evergreen Experience.

Software Update

ShiftPixy continues to make progress with its app's capabilities and expects to roll the driver metering function to customers this quarter. It already has customers in Southern California eager to use it. Management believes **the availability of this product alone should cause accelerating sales** to new customers, as it is a unique and salient differentiator. It was introduced at the National Restaurant Show and gathered much interest as it solves the problem of high costs for meal delivery as well as often-shoddy brand representation not under the restaurant's control.

March Capital Raise

On the earnings call, ShiftPixy said it is currently burning $700,000 a month in cash. As of May 31, it had $2.9 million in cash, a working capital deficit of $9.0 million, and debt from its convertible of $1.4 million. On March 11, 2019, the company sold $4.75 million of senior convertibles notes due September 12, 2020, and warrants to purchase 2,840,909 shares of common stock via a PIPE transaction. These were sold for $3,750,000, and the net proceeds from the transaction to the company were approximately $3.4 million. As of quarter end, the company had $2.9 million in cash and believes it has enough cash to make it to cash breakeven by the end of November.

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 first targeted 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 251 clients who utilize over 12,300 workers. 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. This quarter the company expects to add the car insurance metering product for deliveries. In future quarters, the company expects it to launch features to facilitate 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. It already has offices in Southern California, New York City, Austin, and Chicago. It plans to open offices in Miami and San Francisco.

- 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 2.0 times enterprise value to calendar 2020 revenues, we believe the company could be worth $180 million or $4.30 per share.

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 0.2-1.4 enterprise value to sales with an average of 0.7 times estimated 2019 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 9.4 times EV/EBITDA.

Using a calendar year estimate for revenues in 2019 of $60 million and 1.5 times enterprise value to sales, ShiftPixy should be worth $90 million or $2.06 per share using a fully diluted share count of 44.5 million shares. 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. Looking at 2020 we can see the company growing another 50% and the multiple expanding to 2.0Xs (closer to TriNet's 5.6Xs), with a corresponding price rise to $4.30.

Company	Ticker	Calendar Revenue 2019E	LTM	EBIDTA Margin	Enterprise Value / Sales 2019E	Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
AMN Healthcare Services, Inc.	AMN	2,200	2,150	11%	1.4	1.4	y	3,100
Cross Country Healthcare, Inc.	CCRN	802	801	3%	0.5	0.5	y	414
GEE Group, Inc.	JOB	152	155	7%	0.7	0.7	y	105
Insperity, Inc.	NSP	4,330	3,970	5%	1.2	1.3	y	5,340
Kelly Services, Inc. Class A	KELYA	5,670	5,530	2%	0.2	0.2	y	1,150
Kforce Inc.	KFRC	1,430	1,430	6%	0.7	0.7	y	956
ManpowerGroup Inc.	MAN	21,450	21,510	4%	0.3	0.3	y	6,280
ASGN Inc.	ASGN	3,890	3,640	11%	1.1	1.2	y	4,360
Robert Half International Inc.	RHI	6,070	5,870	11%	1.1	1.1	y	6,720
Staffing 360 Solutions, Inc.	STAF	317	279	2%	0.2	0.3	y	70
TrueBlue, Inc.	TBI	2,520	2,500	5%	0.4	0.4	y	902
Average				6.2%	0.7	0.7		2,672

Company	Ticker	Calendar Revenue 2019E	LTM	EBIDTA Margin	Enterprise Value / Sales 2019E	Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
Match Group	MTCH	2,020	1,790	33%	11.3	12.7	y	22,800
Paychex	PAYX	4,079	3,770	41%	7.5	8.1	y	30,460
TriNet	TNET	933	924	32%	5.6	5.6	y	5,190
Workday	WDAY	3,570	3,030	-9%	13.5	15.9	y	48,060
Average				24.2%	9.4	10.6		26,628

RISKS

- The company is an early stage company and has just reported an annual gross billing run-rate of $377 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 with a unique business model 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.

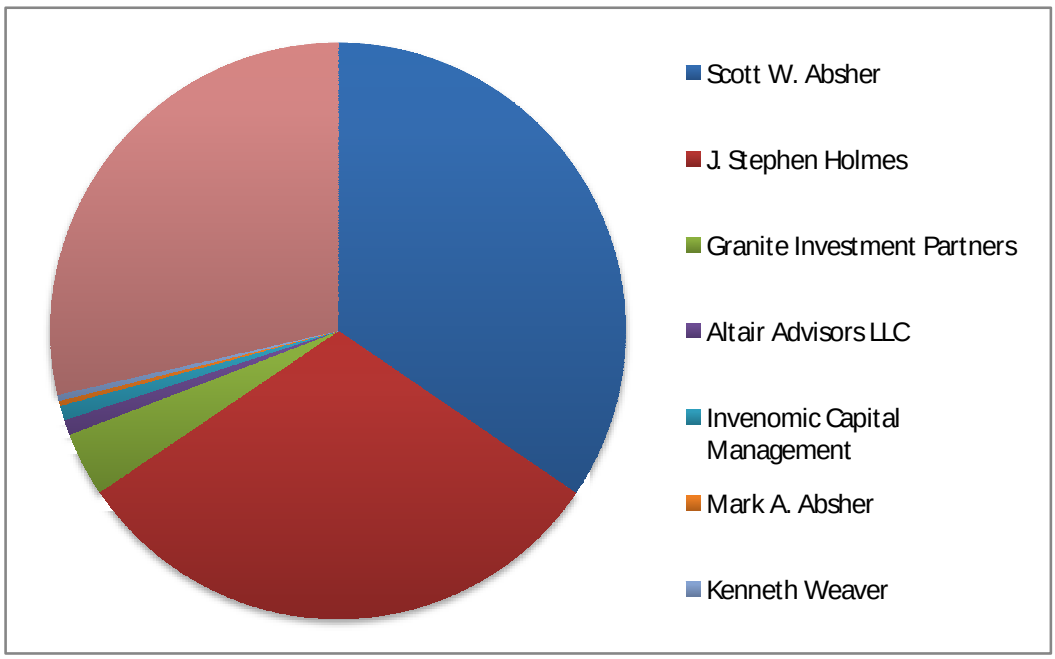
- As ShiftPixy expands geographically to other states, its offering may not be as compelling in those states compared with California as the economic savings may not be the same due to different pricing for salaries and insurance and different regulatory burdens. Revenues from customers in California are approximately 86% of the total revenues.

- 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 needs to raise more capital to reach profitability.

- It is in litigation with certain of its convertible note holders, which could be costly and result in even more dilution to the common stock.

OWNERSHIP



INCOME STATEMENT

	Q1 Nov 30, 2017	Q2 Feb 28, 2018	Q3 May 31, 2018	Q4 Aug 31, 2018	Q1 Nov 30, 2018	Q2 Feb 28, 2019	Q3 May 31, 2019	Q4 Aug 31, 2019E	FY 2017	FY 2018	FY 2019E	FY 2020E
Gross billings	**40.200**	**48.600**	**60.200**	**73.400**	**70.900**	**82.500**	**94.220**	**100.000**	**$126.391**	**$222.400**	**$347.620**	**$500.00**
Yr-to-Yr Growth	15%	58%	119%	121%	76%	70%	57%	36%	149.4%	76.0%	56.3%	43.8%
Adjustment to gross billings	33.600	40.800	50.825	62.215	60.380	69.312	79.916	84.819	106.147	187.441	294.427	420.000
Net Revenue	**$6.512**	**$7.886**	**$9.375**	**$11.185**	**$10.520**	**$13.188**	**$14.304**	**$15.181**	**$20.244**	**$34.959**	**53.193**	**$80.000**
Yr-to-Yr Growth	15%	46%	103%	138%	62%	67%	53%	36%	139.3%	72.7%	52.2%	128.8%
Net Rev as % of Gross Billing	16.2%	16.2%	15.6%	15.2%	14.8%	16.0%	15.2%	15.2%	16.0%	15.7%	15.3%	16.0%
Cost of goods	5.266	7.006	7.826	9.360	7.134	9.967	11.592	12.181	16.552	29.458	40.875	57.500
Gross margin	1.246	0.880	1.550	1.825	3.386	3.221	2.712	3.000	3.692	5.500	12.319	22.500
Percent of gross billings	3.1%	1.8%	2.6%	2.5%	4.8%	3.9%	2.9%	3.0%	2.9%	2.5%	3.5%	4.5%
Percent of revenues	19.1%	11.2%	16.5%	16.3%	32.2%	24.4%	19.0%	19.8%	18.2%	15.7%	23.2%	28.1%
Salaries, wages & payroll taxes	1.180	1.346	1.310	1.547	1.795	1.987	1.814	1.800	4.269	5.383	7.395	9.244
Stock-based compensation	0.070	0.027	0.072	0.031	0.077	0.081	(0.005)	0.000	0.043	0.200	0.154	0.300
Commissions	0.272	0.338	0.463	0.520	0.553	0.589	0.765	0.800	0.846	1.594	2.707	3.600
Professional Fees	0.492	0.509	0.416	0.823	0.624	0.895	1.280	1.300	1.369	2.241	4.099	3.000
Software development	1.900	0.486	0.000	1.441	0.310	0.718	0.000	0.000	2.683	3.828	1.028	0.000
Depreciation and amortization	0.018	0.058	0.059	0.139	0.188	0.191	0.222	0.230	0.065	0.274	0.830	1.104
General and administrative	0.654	0.834	1.046	1.018	1.128	0.988	1.763	1.500	1.908	3.553	5.379	7.500
Total operating expenses	4.587	3.598	3.367	5.520	4.675	5.448	5.838	5.630	11.184	17.072	21.591	23.344
Operating income	(3.341)	(2.718)	(1.817)	(3.696)	(1.289)	(2.227)	(3.126)	(2.630)	(7.492)	(11.572)	(9.273)	(0.844)
Operating margin	-8.3%	-34.5%	-19.4%	-33.0%	-1.8%	-16.9%	-21.9%	-17.3%	-37%	-33%	-17%	-1%
Interest expense	0.000	0.000	0.000	(1.505)	(0.957)	(0.969)	(4.345)	(1.800)	0.000	(1.505)	(8.071)	(4.400)
Registration rights penalties	0.000	0.000	0.000	(3.500)	0.000	2.611	0.000	0.000	0.000	(3.500)	2.611	0.000
Inducement loss from debt	0.000	0.000	0.000	0.000	0.000	(1.556)	(2.273)	0.000	0.000	0.000	(3.829)	0.000
Chg in FV of der. & warr. liability	0.000	0.000	0.000	0.000	0.000	0.000	4.748	0.000	0.000	0.000	4.748	0.000
Total other income	0.000	0.000	0.000	(5.005)	(0.957)	0.087	(1.870)	(1.800)	0.000	(5.005)	(4.540)	(4.400)
Net Income	(3.341)	(2.500)	(1.817)	(8.700)	(2.246)	(2.140)	(4.996)	(4.430)	(7.492)	(16.576)	(13.813)	(5.244)
Net loss per share	**$ (0.12)**	**$ (0.09)**	**$ (0.06)**	**$ (0.30)**	**$ (0.08)**	**$ (0.07)**	**$ (0.14)**	**$ (0.12)**	**$ (0.28)**	**$ (0.58)**	**$ (0.42)**	**$ (0.14)**
Non-GAAP loss per share	$ (0.12)	$ (0.09)	$ (0.06)	$ (0.15)	$ (0.08)	$ (0.03)	$ (0.06)	$ (0.12)	$ (0.28)	$ (0.54)	$ (0.29)	$ (0.13)
Shares outstanding	26.8	28.8	28.8	28.8	28.9	31.2	34.5	36.2	26.8	28.8	32.7	37.0
Yr-to-Yr Growth	2%	10%	8%	0%	8%	8%	20%	26%	4%	8%	14%	13%
Fully diluted shares	30.1	32.2	28.8	38.0	37.3	40.9	44.5	46.2		38.0	42.7	42.7

BALANCE SHEET

	May 31, 2019	Feb 28, 2019	Qtr-Qtr % Change	May 31, 2018	Yr-Yr % Change
Assets:					
Cash and cash equivalents	**$ 2,931,274**	**$ 1,798,867**	63%	**$ 1,187,386**	147%
Accounts receivable	338,112	743,580	-55%	307,847	10%
Unbilled accounts receivable	6,700,054	5,170,887	30%	0	NM
Deposit workers' compensation	2,250,103	2,164,847	4%	0	NM
Prepaid expenses	762,990	314,187	143%	2,205,741	-65%
Other current assets	227,103	219,590	3%	177,712	28%
Total current assets	13,209,636	10,411,958	27%	3,878,686	241%
Fixed assets	3,013,062	3,150,767	-4%	1,086,282	177%
Deposits- workers' comp	5,438,125	3,968,435	37%	0	NM
Deposits and other	94,083	94,375	0%	137,980	-32%
Total Assets	21,754,906	17,625,535	23%	5,102,948	326%
Current Liabilities:					
Accounts payable	2,178,351	1,690,384	29%	850,225	156%
Payroll related liabilities	14,311,903	11,476,809	25%	5,374,954	166%
Convertible note, net	**1,407,340**	**4,362,333**	-68%	**0**	NM
Derivative liability	1,577,328	**0**	NM	0	NM
Accrued workers' compensation cost	1,027,043	1,012,676	1%	0	NM
Registration rights penalty accrual	0	0	0%	0	NM
Other current liabiliities	1,670,997	1,837,493	-9%	795,192	110%
Total current liabilities	22,172,962	20,379,695	9%	7,020,371	216%
Accrued workers' compensation costs	3,000,732	2,009,869	49%	0	NM
Total Liabilities	25,173,694	22,389,564	12%	7,020,371	259%
Stockholders' Equity					
Common Stock	3,604	3,212	12%	2,881	25%
Additional paid in capital	32,183,503	25,842,632	25%	15,357,342	110%
Accumulated deficit	(35,605,895)	(30,609,873)	16%	(17,277,646)	106%
Total Stockholders' Equity	(3,418,788)	(4,764,029)	-28%	(1,917,423)	78%
Total Liabilities and Stockholders' Equity	21,754,906	17,625,535	23%	5,102,948	326%
Current and quick ratios	0.6	0.5	17%	0.6	8%
Cash as % of assets	13%	10%	32%	23%	-42%
Working Capital	(8,963,326)	(9,967,737)	-10%	(3,141,685)	185%
Debt	1,407,340	4,362,333	-68%	0	NM
Debt/Total Assets	6%	25%	-74%	0%	NM

CASH FLOW

	3 Months Ending May 31, 2019	3 Months Ending Feb 28, 2019	3 Months Ending Nov 30, 2018	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
Net Income	$ (4,996,022)	$ (2,386,681)	$ (2,000,186)	$ (16,576,479)	$ (8,699,060)	(1,817,319)	$ (2,718,883)	$ (3,341,217)	$ (7,491,990)
Adjustments to reconcile net loss to net cash used in operating activities:									
Financing costs	2,588,000	0	0	0	0	0	0	0	0
Inducement loss	2,273,000	1,555,550	0	0	0	0	0	0	0
Depreciation and amortization	221,523	191,114	187,723	274,321	139,335	59,342	57,949	17,695	65,369
Settlement of reg. rights penalties accrual	0	(2,611,112)	0	0	-	0	0	0	0
Amort. Debt discount, debt iss.	1,703,352	1,184,502	710,922	704,746	704,746	0	0	0	0
Stock issued for services	112,503	0	112,503	162,857	37,503	75,000	3,114	47,240	329,645
Stock-based compensation	(4,743)	81,092	77,222	200,332	30,925	72,311	26,800	70,296	43,415
Registration rights penalties	0	0	0	3,500,000	3,500,000	0	0	0	0
Non-cash interest	210,632	211,101	86,777	0					
Change in FV derivative & warrant liabilities	(4,748,342)	0	0	0					
Changes in assets and liabilities:									
Restricted cash-worker's comp	0	0	0	(305,218)	(305,218)	0	0	0	0
Accounts recievable	405,468	(614,128)	(18,521)	317,859	196,916	(115,937)	279,279	(42,399)	(372,352)
Unbilled accounts receivable	(1,529,167)	(411,746)	1,433,490	(6,192,631)	(6,192,631)	0	0	0	0
Prepaid expenses	(448,803)	64,338	184,477	(210,814)	(692,261)	574,418	114,917	(207,888)	(2,344,192)
Other current assets	(7,513)	131,965	(92,654)	(242,985)	(81,189)	(144,433)	(16,916)	(447)	57,566
Deposits and other assets	292	0	26,231	5,874	17,374	20,435	(8,935)	(23,000)	(21,867)
Deposits- workers' comp	(1,554,946)	(1,367,935)	(891,694)	(1,233,435)	(1,233,435)	0	0	0	0
Accounts payable	487,967	203,803	240,120	85,987	396,236	(509,702)	(413,391)	612,844	334,027
Payroll related liabilities	2,835,094	3,988,547	(1,988,379)	7,088,187	4,101,687	2,045,691	1,034,001	(93,192)	1,665,739
Accrued workers' comp costs	1,005,230	747,948	1,068,402	1,206,195	1,206,195	0	0	0	0
Other current liabilities	(166,496)	607,075	(725,503)	1,676,939	1,160,729	106,881	546,236	(136,907)	157,713
Net Cash Used In Operating Activities	(1,612,971)	1,575,433	(1,589,070)	(9,538,265)	(5,712,148)	366,687	(1,095,829)	(3,096,975)	(7,576,927)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of fixed assets	(83,818)	(4,020)	(493,259)	(3,018,580)	(2,085,378)	(83,722)	(822,075)	(27,405)	(4,661)
Net Cash Used In Investing Activities	(83,818)	(4,020)	(493,259)	(3,018,580)	(2,085,378)	(83,722)	(822,075)	(27,405)	(4,661)
CASH FLOWS FROM FINANCING ACTIVITIES:									
Proceeds from issuance of common stock	0	0	0	0	(50,000)	50,000	0	0	12,000,000
Issuance costs from common stock	0	0	0	0	0	0	0	0	(1,112,739)
Proceeds from issuance of common stock with warrants	0	0	0	0	0	0	0	0	1,577,500
Proceeds from exercise of warrants	0	0	660,000	75,000	75,000	(50,000)	0	50,000	145,000
Proceeds from issuance of convertible notes	3,750,000	0	0	9,000,000	9,000,000	0	0	0	0
Issuance costs from convertible notes	(485,198)	0	0	(765,077)	(765,077)	0	0	0	0
Repayment of convertible notes	(435,606)	0	0	0	-	0			
Proceeds from stock subscription receivable	0	0	0	0	0	0	0	0	0
Net Cash Provided By Financing Activities	2,829,196	0	660,000	8,309,923	8,259,923	0	0	50,000	12,609,761
Net Increase in Cash	1,132,407	1,571,413	(1,422,329)	(4,246,922)	462,397	282,965	(1,917,904)	(3,074,380)	5,028,173
Cash - Beginning of Period	1,798,867	227,454	1,649,783	5,896,705	1,187,386	904,421	2,822,325	5,896,705	868,532
Cash - End of Period	2,931,274	1,798,867	227,454	1,649,783	1,649,783	1,187,386	904,421	2,822,325	5,896,705
		0							
Cash Paid During the Period for:									
Income taxes	0	0	0	0	0	0	0	0	0
Interest	81,005	11,556	133,333	133,333	133,333	0	0	0	0
Operating cash flow	(2,640,097)	(1,774,434)	(825,039)	(11,734,223)	(4,286,551)	(1,610,666)	(2,631,020)	(3,205,986)	(7,053,561)
Free cash flow	(2,723,915)	(1,778,454)	(1,318,298)	(14,752,803)	(6,371,929)	(1,694,388)	(3,453,095)	(3,233,391)	(7,058,222)

HISTORICAL STOCK PRICE



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