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Zacks Small-Cap Research

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Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Document Security Systems (DSS-NYSE-Amer)

DSS: AuthentiGuard Grows 83% in Q2 With Increasing Sequential Improvement Expected

Based on blended multiples from its peers of 2.0 times enterprise value to sales, we believe DSS stock is worth $1.50 per share.

Current Price (08/15/19)	$0.39
Valuation	**$1.50**

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 with its biggest case against Apple for Bluetooth technology. It has 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 is implementing this system with two Fortune 100 customers and others, which should ultimately lead to accelerating revenue growth and profits.

SUMMARY DATA

52-Week High	**$1.70**
52-Week Low	**$0.39**
One-Year Return (%)	**-70.2**
Beta	**2.2**
Average Daily Volume (sh)	**266,574**
Shares Outstanding (mil)	**29.7**
Market Capitalization ($mil)	**$11.6**
Short Interest Ratio (days)	**0.6**
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	**N/M**
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	4.1 A	4.8 E	7.0 E	20.7 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	-$0.05 A	-$0.02 E	$0.01 E	-$0.07 E
2020					-$0.02 E

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

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WHAT'S NEW

AuthentiGuard Grows 83% in Q2 2019

While on the surface the second quarter was uninspiring, taking a look at the components of revenue and the outlook for the second half, DSS is poised for accelerating revenues across multiple product lines. DSS reported total Q2 2019 revenues of $4.1 million flat with a year ago. However technology sales, services, and licensing increased 33% to $484,000, and the AuthentiGuard part of the business grew 83% to $319,000. AuthentiGuard grew sequentially $89,000 from $230,000 last quarter and we expect that incremental dollar amount to increase each quarter going forward as additional printers are deployed worldwide for multiple customers. This recurring revenue will build each quarter as new printers come online in various geographies for various customers. We believe there are approximately eight or nine printers up and running right now. Each printer could contribute upwards $100,000-$125,000 per year to revenues, which shows how exciting the roll out should be for investors.

Printed product sales were down 2.7% due primarily to a decline in plastic cards. The printed product business is not only seasonal, but in last year's quarter in the plastics business there was a large first time corporate customer that ordered a year's worth of badge inventory and has not made an add on purchase since. It is expected to buy more product in Q3. While it is counter intuitive that packaging printing and fabrication revenues could decline sequentially given the company's claim it is capacity constrained, it is rather building capacity to meet what it anticipates for sales in the seasonally strong Christmas quarter as Walgreen adds 1200 new stores to its chain. Capacity will be increased by approximately 25% and the company expects that capacity to be filled. Walgreen is DSS's largest customer and was responsible for 48% of the company's first six months of sales in 2019.

Gross margins declined to 29.4% from 32.6%, and gross margin dollars were down 9% as the company spent to install printers for its customers worldwide and spend on marketing.

Operating expenses were up $53,000 and the operating loss was $992,000 compared to a loss of $818,000 last year. Sequentially they were up $130,000 with increased spend on marketing and travel and with some severance costs from employee reductions.

Interest expense was $40,000 versus $34,000 last year, bringing the net loss to $1,000,000 versus a GAAP gain of $2.7 million last year on $3.7 million gain on extinguishment of debt. The GAAP loss per share this year was $0.05 versus a gain of $0.16 a year ago. Non-GAAP it was a loss of $0.05 flat with last year. The shares outstanding increased 32% to 21.9 million versus 16.6 million in Q2 2018. Shares outstanding as of August 13, 2019 were 29.7 million.

EBITDA for the quarter was a loss of $630,000 compared with a positive $3.1 million last year if you include the $3.5 million gain on extinguishment of debt.

Balance Sheet

As of June 30, 2019 the company had $5.3 million in unrestricted cash, working capital of $4.9 million and debt of $2.3 million. The company believes it has sufficient funds for the next twelve months of operations.

Events During Q2 2019

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 had been serving as interim CEO of Document Security Systems since April 11, 2019, was appointed the permanent CEO. As previously reported, Frank 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 resigned from the Board of Directors.

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 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 also granted the underwriters a 45-day option to purchase up to 1,680,000 additional shares of common stock to cover over-allotments, 519,186 shares were exercised on July 18, 2019 resulting in total proceeds to the company of $5.2 million. As of August 13, 2019, the company had 29.7 million primary shares outstanding.

SUBSEQUENT EVENTS

On July 16, 2019 Jason Grady was promoted to Chief Operating Officer. For the past year, Jason was President of DSS's packaging and printing division, Premier Packaging Corp. and from January 2014 - July 2018, served as Premier's VP of Sales. From June 2010 – December 2013, Jason was Director of Sales and Marketing for DSS. He previously served as Business Development Director for Berlin Packaging from May 2009 – August 2010 where he led the creation of an innovative new vertical market selling approach that leveraged key capabilities and grew new accounts by 30%. From October 2004 – April 2009 Jason was the Director of Marketing at Parlec. Jason has a BFA and an MBA from Rochester Institute of Technology.

On August 6, 2019, DSS added two independent directors, José Escudero and Samson Lee to its board.

José Escudero has more than 18 years of professional experience in management consulting and corporate finance and has been a member of numerous boards of directors and Direction Committees of companies in the engineering, IT, retail banking, hotel, fashion and lifestyle industries He is an industry expert for Harvard Investment Group (HIG), Advent, Goldman Sachs, and others. He has experience in IT related projects, blockchain, cryptocurrencies and fintech. José has been working with international companies mainly in the United Kingdom, Spain, Latin America, Singapore, and Hong Kong. He began his career at PricewatershouseCooper and has worked for the international consulting firm Hallman & Burke and for Ambers & Co., the Spanish M&A boutique firm. José earned a BS in Economics from the Francisco de Vitoria University, and an MS in Corporate Finance and Investment Banking from the Options & Futures Institute.

Samson Lee is: the Founder & CEO of Coinstreet Partners, and Co-founder of STO Global-X, Asia Pacific Digital Economy Institute, Blockchain Centre of Hong Kong, and Ethereum South China Community, Vice President of Blockchain Applications & Investment Alliance, Founding Chairman of Belt & Road TechFin Association, and Chief Crypto-Economic Advisor of Gibraltar Blockchain Exchange. Previously, he worked at UCast, Next-TV, Ericsson, UDN Asia, Movideo, Neulion, Rovi, DivX, PCCW, and Hong Kong's first publicly listed internet company-- TOM Group. Samson has proven success in commercializing various blockchain, digital, and e-business projects. Mr. Lee graduated from the University of Toronto, with a Bachelor of Commerce, and earned an MBA and MS at the Hong Kong University of Science and Technology.

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, which is expected to grow from increased capacity and the growth of its largest customer. Longer term, its anti-counterfeiting and authentication SaaS product AuthentiGuard is expected to be the major growth driver.

- DSS's unique and patented authentication solution, AuthentiGuard, 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, and has other smaller customers. 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 $1.50 per share** using a blended average EV/sales of 2.0 times and an estimate of $20.7 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.

STATUS OF LITIGATION

Although it appears there is no progress on the IP enforcement front, there has been activity. The case with Apple, scheduled to go to trial on February 24th, 2020, has a date for a mediation meeting on September 5, 2019. Given Apple's recent IP losses, management is hopeful that this meeting will be productive.

In addition, the company heard back PTAB decisions on its LED patents, three of which it lost, one it is appealing and one that was won. It has also identified five more parties to approach for licensing deals or served for litigation, with even more in sight.

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	On June 10, 2019, the PTAB issued a written decision determining claims 1-3 of the '486 patent unpatentable. On **August 12, 2019**, the Company filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PTAB's decision. On January 25, 2018, Seoul Semiconductor filed an IPR challenging the validity of certain claims of '087. On **July 22, 2019**, the PTAB issued a written decision determining claims 1, 6-8, 15, and 17 of the '087 patent unpatentable. DSS is presently reviewing the decision to determine the next course of action with respect to this patent. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings.	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

RISKS

- In the first six months of 2019 two customers, Walgreens and Shutterfly were responsible for 48% of revenues versus 38% last year. Loss of either customer would affect results significantly.
- 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.
- The company is operating with new management and an almost entirely new board of directors.

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 $20.7 million in revenues for 2019, up 10%. 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 $1.9 million or $0.07 per share.

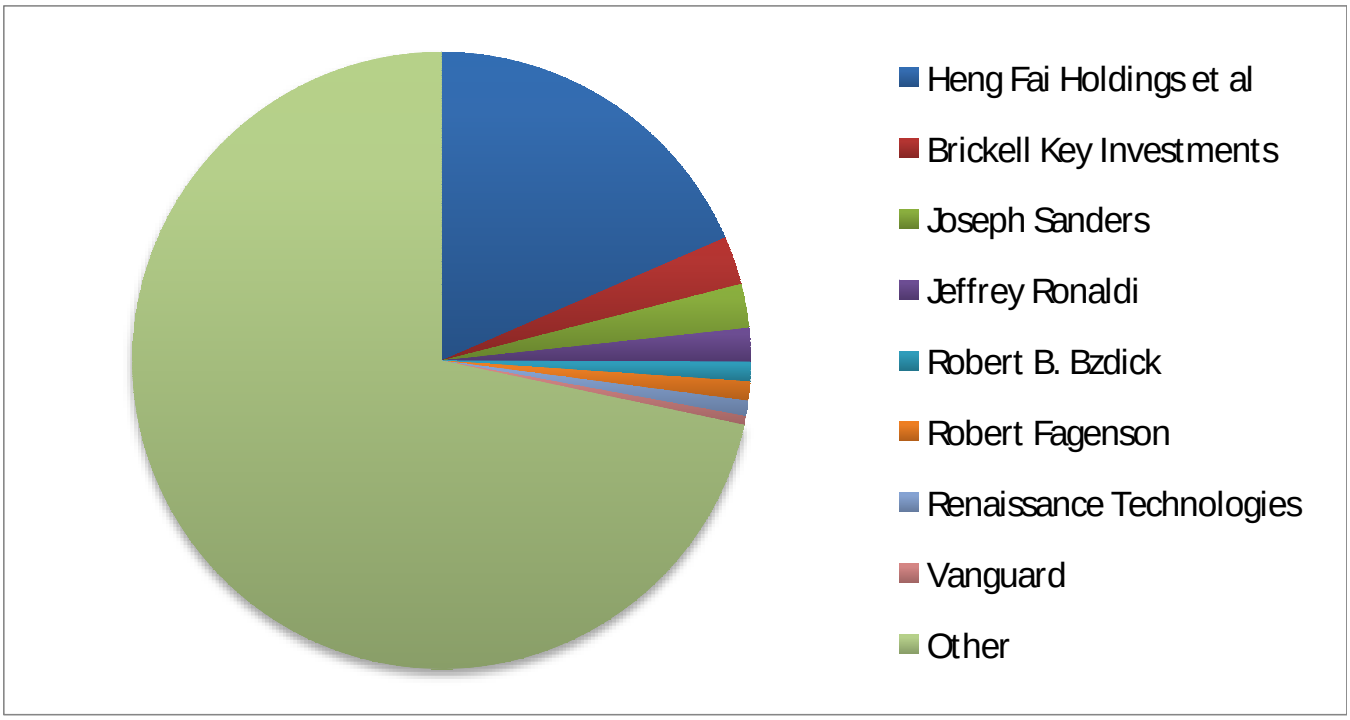
VALUATION

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 2.0 times EV to sales on trailing 12 months. Applying that to 2019's $20.7 million in revenues gets an enterprise value of $41.4 million and market value of $44.6 million, and a price per share of $1.50 using 29.7 million shares outstanding.

Company	Ticker	Cal. Revenue 2020E	Cal. Revenue 2019E	Cal. Revenue LTM	EBITDA	EBIDTA Margin	Enterprise Value / Sales 2019E	Enterprise Value / Sales LTM	EV/EBITDA	Included in Average?	Ent. Value
Applied DNA	APDN	NA	NA	$4	-11.7	-302%	NA	3.0x	-1.0x	y	11
Brady Corp.	BRC	NA	$1,174	$1,160	185.7	16%	NA	2.0x	12.6x	y	2,340
De La Rue	DLAR.L	NA	NA	$565	79.6	14%	NA	0.6x	4.4x	y	347
Digimarc	DMRC	$29	$24	$22	-31.6	-144%	14.9x	19.7x	-13.7x	y	433
Graphic Packaging	GPK	$6,350	$6,200	$6,090	989.1	16%	1.2x	1.3x	7.8x	y	7,700
Huhtamaki	HUH1V.HE	$3,310	$3,090	$3,260	390.4	12%	1.4x	1.4x	11.9x	y	4,630
WestRock	WRK	$19,100	$18,600	$17,870	2920.0	16%	1.0x	1.1x	6.4x	y	18,770
Zebra	ZBRA	$4,720	$4,500	$4,390	866.0	20%	2.7x	2.9x	14.6x	y	12,610
Average						**-44%**	**2.6x**	**4.0x**			

OWNERSHIP



PROJECTED INCOME STATEMENT

	Mar 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019E	Dec. 31, 2019E	2018	2019E	2020E
Revenue:											
Packaging Printing and Fabrication	$ 2,610,000	$ 2,491,000	$ 2,482,000	$ 4,158,000	$ 2,961,000	$ 2,775,000	$ 3,200,000	$ 5,240,000	$ 11,741,000	14,176,000	$ 15,877,120
Commercial and Security Printing	308,000	338,000	253,000	342,000	352,000	225,000	225,000	225,000	1,241,000	1,027,000	1,500,000
Technology Integrated Plastic Cards & Badges	252,000	253,000	409,000	440,000	503,000	158,000	420,000	420,000	1,354,000	1,501,000	1,800,000
Plastic Cards, Badges and Assessories	753,000	643,000	640,000	568,000	550,000	465,000	465,000	465,000	2,604,000	1,945,000	2,100,000
Printed products	3,923,279	3,724,980	3,783,779	5,508,224	4,366,054	3,623,191	4,310,000	6,350,000	16,940,262	18,649,245	21,277,120
Yr-Yr Growth	-10.9%	10.1%	0.4%	0.6%	11.3%	-2.7%	13.9%	15.3%	-0.5%	10.1%	14.1%
Information Technology Sales and Services	130,000	78,000	61,000	76,000	74,000	32,000	50,000	50,000	345,000	206,000	200,000
Digital Authentication Products and Services	*178,000*	*174,000*	*143,000*	*277,000*	*230,000*	*319,000*	*409,000*	*500,000*	*772,000*	*1,458,000*	*3,000,000*
Yr-Yr Growth					29.2%	83.3%	186.0%	80.5%	50.8%	88.9%	105.8%
Royalities from Licensees	147,000	110,000	107,000	94,000	139,000	133,000	100,000	100,000	458,000	472,000	300,000
Technology sales, services and licensing	454,275	362,081	310,511	447,953	442,866	483,638	450,000	650,000	$ 1,574,820	$ 2,026,504	$ 3,500,000
Yr-Yr Growth	23.6%	-24.2%	-28.0%	24.7%	-2.5%	33.6%	44.9%	45.1%	-3.7%	28.7%	72.7%
Total revenue	**4,377,554**	**4,087,061**	**4,094,290**	**5,956,177**	**4,808,920**	**4,106,829**	**4,760,000**	**7,000,000**	**18,515,082**	**20,675,749**	**24,777,120**
Yr-Yr Growth	-8.2%	5.9%	-2.5%	2.1%	9.9%	0.5%	16.3%	17.5%	-0.8%	11.7%	19.8%
Costs and expenses:											
Cost of revenue	2,581,615	2,756,447	2,551,782	3,963,655	3,159,551	2,897,674	3,200,000	4,300,000	11,853,499	13,557,225	16,132,840
Gross Margin	1,795,939	1,330,614	1,542,508	1,992,522	1,649,369	1,209,155	1,560,000	2,700,000	6,661,583	7,118,524	8,644,280
Gross Margin %	41.0%	32.6%	37.7%	33.5%	34.3%	29.4%	32.8%	38.6%	36.0%	34.4%	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	1,864,685	1,900,000	2,000,000	7,088,610	7,541,500	8,000,000
Depreciation and amortization	345,667	346,816	310,330	278,821	294,407	336,740	336,740	336,740	1,281,634	1,304,627	1,100,000
Total costs and expenses	2,128,235	2,148,912	1,921,161	2,171,936	2,071,222	2,201,425	2,236,740	2,336,740	8,370,244	8,846,127	9,100,000
Operating (loss) income	(332,296)	(818,298)	(378,653)	(179,414)	(421,853)	(992,270)	(676,740)	363,260	(1,708,661)	(1,727,603)	(455,720)
Operating Margin	-7.6%	-20.0%	-9.2%	-3.0%	-8.8%	-24.2%	-14.2%	5.2%	-9.2%	-8.4%	-1.8%
Other expense:											
Interest expense, net	(46,064)	(30,735)	(27,246)	(32,140)	(27,997)	(37,952)	(37,952)	(37,952)	(136,185)	(141,853)	0
Amortized debt discount	(27,731)	(6,168)	(6,168)	(6,184)	(600)	(600)	(600)	(600)	(46,251)	(2,400)	0
Impairment of investment	0	0	0	(160,000)	0	0	0	0	(160,000)	0	0
Gain on extinguishment of liabilities, net	0	3,532,659	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)	(1,030,822)	(715,292)	324,708	1,481,562	(1,871,856)	(455,720)
Income tax expense	0	0	0	16,593	0	0	0	0	16,593	0	0
Net loss	(406,091)	2,677,458	(412,067)	(394,331)	(450,450)	(1,030,822)	(715,292)	324,708	1,464,969	(1,871,856)	(455,720)
Other comprehensive loss:											
Foreign currency translation	0	0	(5,088)	5,088	0	0	0	0	0	0	0
Interest rate swap gain (loss)	14,889	6,963	(4,458)	(1,377)	(778)	(14,653)	0	0	16,017	(15,431)	0
Comprehensive loss:	$ (391,202)	$ 2,684,421	$ (421,613)	$ (395,708)	$ (451,228)	$ (1,045,475)	$ (715,292)	$ 324,708	**$ 1,480,986**	**$ (1,887,287)**	**$ (455,720)**
Non-GAAP earnings	(404,840)	(770,279)	(391,623)	(529,215)	(419,749)	(1,002,913)	(685,292)	354,708	(2,109,174)	(1,753,246)	(115,720)
Non-GAAP EPS	$ (0.02)	$ (0.05)	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.02)	$ 0.01	$ (0.13)	**$ (0.07)**	$ (0.00)
Basic and diluted loss per share	**$ (0.01)**	**$ 0.16**	**$ (0.02)**	**$ (0.02)**	**$ (0.02)**	**$ (0.05)**	**$ (0.02)**	**$ 0.01**	**$ 0.09**	**$ (0.08)**	**$ (0.02)**
Yr-Yr Growth	0.0%	-896.9%	0.0%	-297.9%	139.9%	-129.6%	0.0%	-148.3%	-327.0%	-187.3%	-79.9%
Basic shares outstanding	16,599,327	16,599,327	16,767,992	17,420,000	17,494,750	21,907,308	29,721,907	29,731,907	16,724,376	24,713,968	29,731,907
Diluted shares		16,842,204	17,010,869	17,626,429	17,701,179	22,150,185	29,964,784	29,974,784	16,930,805	24,947,733	29,974,784

CASH FLOWS

	2017	March 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018	2018	March 31, 2019	June 30, 2019
Cash flows from operating activities:								
Net income (loss)	$ (578,156)	$ (406,091)	$ 2,677,458	$ (412,067)	$ (394,331)	$ 1,464,969	$ (450,450)	$ (1,030,822)
Adjustments to reconcile net income (loss) to net cash used by operating activities:								
Depreciation and amortization	1,413,838	345,667	346,816	310,330	278,821	1,281,634	294,407	336,740
Stock based compensation	214,862	1,251	84,922	20,444	25,116	131,733	30,701	27,909
Paid in-kind interest	72,000	12,000	0	0	0	12,000	0	0
Change in deferred tax provision	80,363	0	0	0	9,673	9,673	0	0
Amortization of deferred financing costs	154,142	27,731	6,168	6,168	6,184	46,251	600	0
Gain on extinguishment of liabilities, net	(219,364)	0	(3,532,659)	0	0	(3,532,659)	0	0
Impairment of investment						160,000		
Decrease (increase) in assets:								
Accounts receivable	(134,303)	25,689	92,802	(10,783)	(300,301)	(192,593)	(277,951)	(68,350)
Inventory	(444,869)	51,699	237,814	(580,842)	378,982	87,653	217,926	73,556
Prepaid expenses and other current assets	51,409	13,329	(41,100)	(27,603)	24,176	(31,198)	720	53,175
Restricted cash	0	0	0	0	0	0	0	0
Increase (decrease) in liabilities:								
Accounts payable	(893,431)	188,795	115,112	458,497	(143,568)	618,836	(100,692)	317,188
Accrued expenses	(60,791)	(103,928)	13,610	(303,852)	280,377	(113,793)	(213,370)	(36,533)
Other liabilities	(944,834)	(249,594)	(357,334)	(535,001)	(183,498)	(1,325,427)	(378,183)	(519,675)
Net cash used by operating activities	(1,289,134)	(93,452)	(356,391)	(1,074,709)	141,631	(1,382,921)	(876,292)	(846,812)
Cash flows from investing activities:								
Purchase of property, plant and equipment	(958,819)	(132,937)	(178,465)	(214,849)	(477,162)	(1,003,413)	(210,945)	(50,610)
Purchase of intangible assets	(11,552)	(15,780)	(4,357)	(25,334)	(54,667)	(100,138)	(350,000)	0
Net cash used by investing activities	(970,371)	(148,717)	(182,822)	(240,183)	(531,829)	(1,103,551)	(560,945)	(50,610)
Cash flows from financing activities:								
Payments of long-term debt	(818,332)	(206,542)	(551,760)	(207,775)	(222,004)	(1,188,081)	(57,309)	(64,251)
Borrowing from eqt line of credit	522,000	0	0	87,703	414,452	502,155	500,000	0
Issuance of common stock, net	951,118	0	0	300,000	587,755	887,755	(6,793)	0
Subscription receivable, net	0	288,000	0	0	0	288,000	0	0
Net cash used by financing activities	654,786	81,458	(551,760)	179,928	780,203	489,829	435,898	4,822,386
Net decrease in cash	(1,604,719)	(160,711)	(1,090,973)	(1,134,964)	390,005	(1,996,643)	(1,001,339)	3,924,964
Cash and restricted cash at beginning of period	6,049,347	4,444,628	4,283,917	3,192,944	2,057,980	4,444,628	2,447,985	1,446,646
Cash and restricted cash at end of period	$ 4,444,628	$ 4,283,917	$ 3,192,944	$ 2,057,980	$ 2,447,985	$ 2,447,985	$ 1,446,646	$ 5,371,610
Operating Cash Flow	$ 1,137,685	$ (19,442)	$ (417,295)	$ (75,125)	$ (74,537)	$ (586,399)	$ (124,742)	$ (666,173)
Free Cash Flow	$ 167,314	$ (168,159)	$ (600,117)	$ (315,308)	$ (606,366)	$ (1,689,950)	$ (685,687)	$ (716,783)

BALANCE SHEET

	Jun. 30, 2019	March 31, 2019	Qtr-Qtr % Growth	Jun. 30, 2018	Yr-Yr % Growth
Current assets:					
Cash	$ 5,321,344	$ 1,336,754	298.1%	$ 3,051,593	74.4%
Restricted cash	50,266	109,892	-54.3%	141,351	-64.4%
Accounts receivable, net	2,564,178	2,495,828	2.7%	1,906,793	34.5%
Inventory	1,272,111	1,345,667	-5.5%	1,361,733	-6.6%
Prepaid expenses & other curr assets	256,048	309,223	-17.2%	289,095	-11.4%
Total current assets	9,463,947	5,597,364	69.1%	6,750,565	40.2%
Property, plant and equipment, net	4,854,786	5,015,358	-3.2%	4,764,223	1.9%
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	1,313,742	1,396,278	-5.9%	0	NM
Goodwill	2,453,597	2,453,597	0.0%	2,453,597	0.0%
Other intangible assets, net	1,166,310	1,291,868	-9.7%	605,756	92.5%
Total assets	19,667,631	16,169,714	21.6%	15,142,447	29.9%
Current liabilities:					
Accounts payable	1,563,986	1,246,798	25.4%	1,032,559	51.5%
Accrued expenses & deferred revenue	818,773	965,652	-15.2%	986,486	-17.0%
Other current liabilities	1,473,163	1,846,281	-20.2%	2,495,967	-41.0%
Current portion of long-term debt, net	**348,574**	**698,369**	-50.1%	**624,281**	-44.2%
Current portion of lease liability	332,883	360,839	-7.7%	0	NM
Total current liabilities	4,537,379	5,117,939	-11.3%	5,139,293	-11.7%
Long-term debt, net	**1,965,829**	**1,680,285**	17.0%	**1,640,621**	19.8%
Lease liability	1,005,222	1,059,802	-5.2%	0	NM
Other long-term liabilities	329,348	350,906	-6.1%	783,300	-58.0%
Deferred tax liability, net	169,986	168,986	0.6%	125,982	34.9%
Stockholders' equity					
Common stock	584,054	360,054	62.2%	331,987	75.9%
Additional paid-in capital	112,972,366	108,281,820	4.3%	106,707,881	5.9%
Accumulated other comp loss	(22,483)	(7,830)	187.1%	(1,217)	1747.4%
Accumulated deficit	(101,873,070)	(100,842,248)	1.0%	(99,585,400)	2.3%
Total stockholders' equity	11,660,867	7,791,796	49.7%	7,453,251	56.5%
Total liabilities and stockholders' equity	$ 19,667,631	$ 16,169,714	21.6%	$ 15,142,447	29.9%
Current ratio	2.1	1.1	90.7%	1.3	58.8%
Quick ratio	1.8	0.8	117.3%	1.0	72.2%
Working Capital	4,926,568	479,425	927.6%	1,611,272	205.8%
Net cash	5,321,344	1,336,754	298.1%	3,051,593	74.4%
Debt	2,314,403	2,378,654	-2.7%	2,264,902	2.2%
Debt/TA	12%	15%	-20.0%	15%	-21.3%

HISTORICAL STOCK PRICE



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