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# Zacks Small-Cap Research

*Sponsored – Impartial - Comprehensive*

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: LOI to Buy Impact Bioscience with Plans to Spin it Off to Shareholders with an IPO

Based on blended multiples from its peers of 1.5 times enterprise value to sales, we believe DSS stock is worth $0.51 per share.

| | |
|---|---|
| Current Price (03/13/20) | $0.18 |
| **Valuation** | **$0.51** |

### OUTLOOK

Document Security Systems is a small company with extensive patented expertise in authentication, anti-counterfeiting, and document and packaging printing. 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. It has recently branched out to other investments such as a REIT startup and a pending biotech acquisition.

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$1.48** |
| **52-Week Low** | **$0.16** |
| **One-Year Return (%)** | **-86.9** |
| **Beta** | **2.1** |
| **Average Daily Volume (sh)** | **11,400,713** |
| **Shares Outstanding (mil)** | **62.1** |
| **Market Capitalization ($mil)** | **$11.2** |
| **Short Interest Ratio (days)** | **0.2** |
| **Institutional Ownership (%)** | **2** |
| **Insider Ownership (%)** | **37** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **1.2** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/M** |
| **P/E using 2020 Estimate** | **N/M** |
| **P/E using 2021 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 | 3.5 A | 6.6 E | 19.0 E |
| 2020 | | | | | 23.0 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 | -$0.05 A | -$0.01 E | -$0.13 E |
| 2020 | | | | | -$0.07 E |

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

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## WHAT'S NEW

### DSS Plans to Invest in Two New Ventures: Impact Biomedical and a Medical REIT

#### Impact Biomedical

On Friday DSS' stock popped when it announced that it has entered into a binding term sheet to acquire Impact Biomedical, Inc. Impact has a number of healthcare products in development. The stock rose because in the company's press release it highlighted Impact's product called *Equivir*, which has been shown in studies to be effective as an antiviral against a broad range of viruses including in vitro efficacy against multiple strains of Influenza (H1N1, H3N2, H5N1, H7N9, Influenza B, Parainfluenza 3), Human Rhinovirus-14, Human Coronavirus-A, and Ebola. Equivir's abilities to inhibit viruses via multiple targets have prompted further studies to test Equivir as a potential treatment of COVID-19, the disease caused by the pandemic novel coronavirus SARS-CoV2.

Impact Biomedical is a wholly owned subsidiary of Global Biomedical Pte Ltd and Singapore eDevelopment Limited, a public company listed in Singapore (SGX-ST)(StockCode: 40V). Singapore eDevelopment is an investment holding company, engaged in the property development, information technology (IT), biomedical, and investment businesses in Singapore, Australia, the United States, and the People's Republic of China. It was incorporated in 2009, based in Singapore, and is a subsidiary of Hengfai Business Development Pte. Ltd. Its chairman is executive chairman and CEO is Heng Fai Chan who is also Chairman of DSS and its major shareholder.

DSS plans a share exchange transaction with a purchase price capped at $50 million, subject to completion of due diligence and independent valuation. Impact is expected to be valued far in excess of that $50 million purchase price but will need significant funds to reach marketability of any of its potential products. DSS management believes that it can fund development costs through partnerships and an IPO of Impact. To acquire Impact, DSS will issue up to 14.5 M shares of stock and a perpetual convertible preferred. The preferred stock will be convertible at $0.216 per share and have a 19.9% blocker. The proposed bonus being, for every one DSS share held, the shareholder will be entitled to a bonus of two Impact shares. After acquisition, DSS will be the majority shareholder and management plans to pursue an IPO of Impact, at which point part of the company will be spun off to DSS shareholders.

#### Medical REIT

On March 3, 2020, DSS entered into a binding term sheet with LiquidValue Asset Management, AMRE Asset Management, and American Medical REIT, for a share subscription and loan arrangement to fund a **medical real estate investment trust (REIT)** in the US in a joint venture. This venture will be run by the original team that started Global Medical REIT (NYSE: GMRE) the $476 million REIT based in Bethesda, Maryland. Heng Fai Chan, DSS' current Chairman, and largest shareholder also founded global Medical.

DSS will subscribe for 5,250 shares of AAMI at $0.01 per share for total consideration of $52.50. Concurrently, AAMI will issue 2,500 shares to LVAM, and 1,250 shares to AMRE Tennessee, LLC, AMRE's executive management's holding company. As a result, DSS will hold 52.5% of the outstanding shares of AAMI, with LVAM and AMRE Tennessee, LLC, holding 35% and 12.5% of the remaining outstanding shares of AAMI, respectively. LVAM is an 82% owned subsidiary of Singapore eDevelopment whose CEO and largest shareholder is **Heng Fai Ambrose Chan**, the Chairman of the Board and largest shareholder of DSS. Also DSS lent AMRE $800,000 via a promissory note which matures on March 3, 2022 and accrues interest at the rate of 8.0% with an option to provide AMRE an additional $800,000 on the same terms. AMRE also issued DSS warrants to purchase 160,000 shares of AMRE common stock at $5.00 per share expiring on March 3, 2024. AMRE was formed to originate, acquire, and lease a credit-centric portfolio of licensed medical real estate. AMRE intends to acquire purpose-built healthcare facilities and lease them to leading clinical operators with strong market share under secure triple net leases. AMRE targets hospitals

(both Critical Access and Specialty Surgical), Physician Group Practices, Ambulatory Surgical Centers, and other licensed medical treatment facilities.

We expect DSS to report Q4 numbers on or about March 26th at which point we will do another update on the rest of the business.

## 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.

- Recently management, with the Chairman being the driving force, has begun to invest in a variety of other industries acting as a sort of incubator. In addition to the pending acquisition of Impact Biomedical it is creating a startup REIT to invest in medical facilities with an experienced team. We expect the company to continue to invest opportunistically while still focusing on its core businesses.

- The company trades at an enterprise value of $5.8 million (including the capital raise of February 25th,) that is only 0.3 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 $0.51 per share** using a blended average EV/sales of 1.5 times and an estimate of $19 million in sales in 2019. Near term we believe announcements of new customer wins, or a completion and valuation of its pending ventures could also drive the stock.

## RISKS

- In the first nine months of 2019 two customers, Walgreens and Shutterfly were responsible for 44% of revenues versus 40% 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 has traded based on the company's progress in its lawsuits against various companies in it IP enforcement efforts. This business is however winding down.
- The company is embarking on a number of new ventures outside its field of expertise and it is uncertain of they will be success and non-dilutive.
- Since it is unprofitable, DSS continues to raise money, often through equity, diluting current shareholders.

## 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 $19 million in revenues for 2019. While new business should be at higher margins, we expect the company to continue to spend on marketing and litigation. We estimate a 2019 EPS loss of $3.1 million or $0.13 per share.

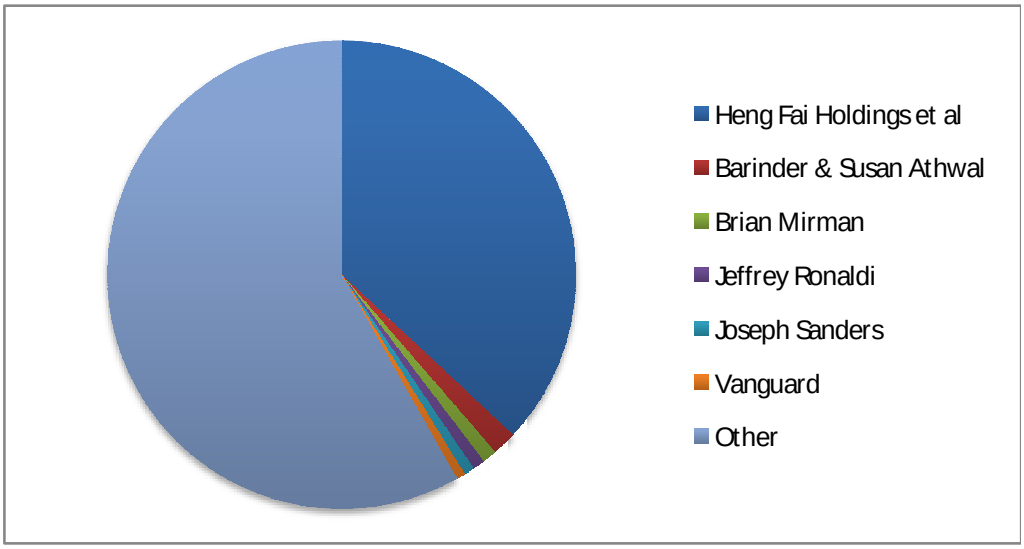
## VALUATION

Since the two new ventures discussed previously have not yet closed we have not changed our valuation methodology. Once they do we will revisit valuation and look at prices of biotech startups, but for now 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 1.5 times EV to sales on trailing 12 months. Applying that to 2019's $19 million in revenues gets an enterprise value of $27.8 million and market value of $31.9 million, and a price per share of $0.51 using the current 62.1 million shares outstanding. By next year this moves to a multiple of 1.6 times as the product mix switches and revenues go to $23 million leading to a stock price of $0.65.

| Company | Ticker | 2020E | 2019E | LTM | EBITDA | Margin | 2019E | LTM | | in Average? | Ent. Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Applied DNA | APDN | NA | $5 | $5 | -8.2 | -160% | 1.9x | 1.9x | -1.2x | y | 10 |
| Brady Corp. | BRC | $1,190 | $1,150 | $1,150 | 191.5 | 17% | 1.9x | 1.9x | 11.4x | y | 2,180 |
| Digimarc | DMRC | $28 | $23 | $23 | -31.7 | -138% | 4.9x | 4.9x | -3.5x | y | 112 |
| Graphic Packaging | GPK | $6,350 | $6,160 | $6,160 | 977.4 | 16% | 1.1x | 1.1x | 6.9x | y | 6,710 |
| Huhtamaki | HUH1V.HE | NA | $3,400 | $3,400 | 413.5 | 12% | 1.2x | 1.2x | 10.0x | y | 4,136 |
| WestRock | WRK | $18,100 | $18,400 | $18,400 | 3180.0 | 17% | 0.9x | 0.9x | 5.3x | y | 16,746 |
| Zebra | ZBRA | $4,720 | $4,490 | $4,430 | 890.0 | 20% | 2.5x | 2.6x | 12.8x | y | 11,400 |
| **Average** | | | | | | **-0.3x** | **2.1x** | **1.8x** | | | **5,162** |

## OWNERSHIP




**Source: Zacks Investment Research**

# PROJECTED INCOME STATEMENT

| | Mar 31, 2018 | Jun. 30, 2018 | Sep. 30, 2018 | Dec. 31, 2018 | Mar 31, 2019 | Jun. 30, 2019 | Sep. 30, 2019 | 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 | $ 1,883,000 | $ 4,900,000 | $ 11,741,000 | 12,519,000 | $ 14,021,280 |
| Commercial and Security Printing | 308,000 | 338,000 | 253,000 | 342,000 | 352,000 | 225,000 | 251,000 | 250,000 | 1,241,000 | 1,078,000 | 1,500,000 |
| Technology Integrated Plastic Cards & Badges | 252,000 | 253,000 | 409,000 | 440,000 | 503,000 | 158,000 | 306,000 | 310,000 | 1,354,000 | 1,277,000 | 1,500,000 |
| Plastic Cards, Badges and Assessories | 753,000 | 643,000 | 640,000 | 568,000 | 550,000 | 465,000 | 595,000 | 595,000 | 2,604,000 | 2,205,000 | 2,200,000 |
| **Printed products** | 3,923,279 | 3,724,980 | 3,783,779 | 5,508,224 | 4,366,054 | 3,623,191 | 3,035,219 | 6,055,000 | 16,940,262 | 17,079,464 | 19,221,280 |
| Yr-Yr Growth | -10.9% | 10.1% | 0.4% | 0.6% | 11.3% | -2.7% | -19.8% | 9.9% | -0.5% | 0.8% | 12.5% |
| | | | | | | | | 26.00 | | | |
| Information Technology Sales and Services | 130,000 | 78,000 | 61,000 | 76,000 | 74,000 | 32,000 | 46,000 | 50,000 | 345,000 | 202,000 | 200,000 |
| *Digital Authentication Products and Services* | *178,000* | *174,000* | *143,000* | *277,000* | *230,000* | *319,000* | *307,000* | *350,000* | *772,000* | *1,206,000* | *3,000,000* |
| Yr-Yr Growth | | | | | 29.2% | 83.3% | 114.7% | 26.4% | 50.8% | 56.2% | 148.8% |
| Royalities from Licensees | 147,000 | 110,000 | 107,000 | 94,000 | 139,000 | 133,000 | 145,000 | 145,000 | 458,000 | 562,000 | 580,000 |
| **Technology sales, services and licensing** | 454,275 | 362,081 | 310,511 | 447,953 | 442,866 | 483,638 | 497,700 | 545,000 | $ 1,574,820 | $ 1,969,204 | $ 3,780,000 |
| Yr-Yr Growth | 23.6% | -24.2% | -28.0% | 24.7% | -2.5% | 33.6% | 60.3% | 21.7% | -3.7% | 25.0% | 92.0% |
| **Total revenue** | **4,377,554** | **4,087,061** | **4,094,290** | **5,956,177** | **4,808,920** | **4,106,829** | **3,532,919** | **6,600,000** | **18,515,082** | **19,048,668** | **23,001,280** |
| Yr-Yr Growth | -8.2% | 5.9% | -2.5% | 2.1% | 9.9% | 0.5% | -13.7% | 10.8% | -0.8% | 2.9% | 20.8% |
| **Costs and expenses:** | | | | | | | | | | | |
| Cost of revenue | 2,581,615 | 2,756,447 | 2,551,782 | 3,963,655 | 3,159,551 | 2,897,674 | 2,217,822 | 4,608,000 | 11,853,499 | 12,883,047 | 15,209,747 |
| Gross Margin | 1,795,939 | 1,330,614 | 1,542,508 | 1,992,522 | 1,649,369 | 1,209,155 | 1,315,097 | 1,992,000 | 6,661,583 | 6,165,621 | 7,791,533 |
| Gross Margin % | 41.0% | 32.6% | 37.7% | 33.5% | 34.3% | 29.4% | 37.2% | 30.2% | 36.0% | 32.4% | 33.9% |
| Selling, general and administrative | 968,000 | 855,000 | 795,000 | 997,000 | 920,000 | 814,000 | 773,000 | 775,000 | 3,615,000 | 3,282,000 | 3,100,000 |
| Depreciation and amortization | 345,667 | 346,816 | 310,330 | 278,821 | 294,407 | 336,740 | 420,063 | 430,000 | 1,281,634 | 1,481,210 | 1,720,000 |
| Professional fees | 234,000 | 352,000 | 243,000 | 244,000 | 292,000 | 434,000 | 544,000 | 550,000 | 1,073,000 | 1,820,000 | 2,200,000 |
| Stockbased compensation | 1,000 | 85,000 | 20,000 | 26,000 | 31,000 | 28,000 | 273,000 | 30,000 | 132,000 | 362,000 | 362,000 |
| Sales and marketing | 92,000 | 121,000 | 137,000 | 209,000 | 116,000 | 164,000 | 111,000 | 150,000 | 559,000 | 541,000 | 900,000 |
| Rent and utilities | 154,000 | 161,000 | 173,000 | 167,000 | 190,000 | 176,000 | 187,000 | 188,000 | 655,000 | 741,000 | 752,000 |
| Other expenses | 234,000 | 222,000 | 241,000 | 212,000 | 227,000 | 230,000 | 239,000 | 240,000 | 909,000 | 936,000 | 960,000 |
| R&D | 99,000 | 6,000 | 2,000 | 39,000 | 1,000 | 18,000 | (32,000) | 13,000 | 146,000 | 0 | 0 |
| Total costs and expenses | 2,127,667 | 2,148,816 | 1,921,330 | 2,172,821 | 2,071,407 | 2,200,740 | 2,515,063 | 2,376,000 | 8,370,634 | 9,163,210 | 9,994,000 |
| Operating (loss) income | (331,728) | (818,202) | (378,822) | (180,299) | (422,038) | (991,585) | (1,199,966) | (384,000) | (1,709,051) | (2,997,589) | (2,202,467) |
| Operating Margin | -7.6% | -20.0% | -9.3% | -3.0% | -8.8% | -24.1% | -34.0% | -5.8% | -9.2% | -15.7% | -9.6% |
| **Other expense:** | | | | | | | | | | | |
| Interest expense, net | (46,064) | (30,735) | (27,246) | (32,140) | (27,997) | (37,952) | (50,776) | (52,000) | (136,185) | (168,725) | (220,000) |
| Amortized debt discount | (27,731) | (6,168) | (6,168) | (6,184) | (600) | (600) | (351) | 0 | (46,251) | (1,551) | 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 | (405,523) | 2,677,554 | (412,236) | (378,623) | (450,635) | (1,030,137) | (1,251,093) | (436,000) | 1,481,172 | (3,167,865) | (2,422,467) |
| Income tax expense | 0 | 0 | 0 | 16,593 | 0 | 0 | 0 | 0 | 16,593 | 0 | 0 |
| Net loss | (405,523) | 2,677,554 | (412,236) | (395,216) | (450,635) | (1,030,137) | (1,251,093) | (436,000) | 1,464,579 | (3,167,865) | (2,422,467) |
| **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) | 22,483 | 0 | 16,017 | 7,052 | 0 |
| Comprehensive loss: | $ (390,634) | $ 2,684,517 | $ (421,782) | $ (396,593) | $ (451,413) | $ (1,044,790) | $ (1,228,610) | $ (436,000) | **$ 1,480,596** | **$ (3,160,813)** | **$ (2,422,467)** |
| Non-GAAP earnings | (404,272) | (770,183) | (391,792) | (530,100) | (419,934) | (1,002,228) | (919,829) | (406,000) | (2,108,827) | (2,747,991) | (2,082,467) |
| Non-GAAP EPS | $ (0.02) | $ (0.05) | $ (0.02) | $ (0.03) | $ (0.02) | $ (0.05) | $ (0.04) | $ (0.01) | $ (0.13) | $ (0.11) | $ (0.06) |
| **GAAP Basic and diluted loss per share** | **$ (0.01)** | **$ 0.16** | **$ (0.02)** | **$ (0.02)** | **$ (0.02)** | **$ (0.05)** | **$ (0.05)** | **$ (0.01)** | **$ 0.09** | **$ (0.13)** | **$ (0.07)** |
| Yr-Yr Growth | 0.0% | -897.0% | 0.0% | -298.4% | 140.0% | -129.6% | 160.4% | -46.8% | -326.9% | -245.1% | -47.3% |
| Basic shares outstanding | 16,599,327 | 16,599,327 | 16,767,992 | 17,420,000 | 17,494,750 | 21,907,308 | 24,026,417 | 36,180,626 | 16,724,376 | 24,902,275 | 36,200,000 |
| Diluted shares | | 16,842,204 | 17,010,869 | 17,626,429 | 17,701,179 | 22,150,185 | 24,294,322 | 36,448,531 | 16,930,805 | 25,148,554 | 36,467,905 |
| EBIDTA | 15,190 | 3,144,810 | (69,000) | 116,000 | (94,000) | (630,000) | (507,000) | 76,000 | 3,238,000 | (1,231,000) | (282,467) |

# CASH FLOWS

| | 2017 | March 31, 2018 | June 30, 2018 | Sept. 30, 2018 | Dec. 31, 2018 | 2018 | March 31, 2019 | June 30, 2019 | Sept. 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) | $ (1,250,671) |
| **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 | 420,064 |
| Stock based compensation | 214,862 | 1,251 | 84,922 | 20,444 | 25,116 | 131,733 | 30,701 | 27,909 | 272,654 |
| Paid in-kind interest | 72,000 | 12,000 | 0 | 0 | 0 | 12,000 | 0 | 0 | 0 |
| Change in deferred tax provision | 80,363 | 0 | 0 | 0 | 9,673 | 9,673 | 0 | 0 | 0 |
| Amortization of deferred financing costs | 154,142 | 27,731 | 6,168 | 6,168 | 6,184 | 46,251 | 600 | 0 | (249) |
| Gain on extinguishment of liabilities, net | (219,364) | 0 | (3,532,659) | 0 | 0 | (3,532,659) | 0 | 0 | 0 |
| Impairment of investment | | | | | 0 | 160,000 | 0 | 0 | 0 |
| **Decrease (increase) in assets:** | | | | | | | | | |
| Accounts receivable | (134,303) | 25,689 | 92,802 | (10,783) | (300,301) | (192,593) | (277,951) | (68,350) | 436,451 |
| Inventory | (444,869) | 51,699 | 237,814 | (580,842) | 378,982 | 87,653 | 217,926 | 73,556 | (379,773) |
| Prepaid expenses and other current assets | 51,409 | 13,329 | (41,100) | (27,603) | 24,176 | (31,198) | 720 | 53,175 | (213,999) |
| Restricted cash | 0 | 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 | (222,981) |
| Accrued expenses | (60,791) | (103,928) | 13,610 | (303,852) | 280,377 | (113,793) | (213,370) | (36,533) | (68,838) |
| Other liabilities | (944,834) | (249,594) | (357,334) | (535,001) | (183,498) | (1,325,427) | (378,183) | (519,675) | (555,018) |
| 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) | (1,562,360) |
| **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) | (561,793) |
| Purchase of intangible assets | (11,552) | (15,780) | (4,357) | (25,334) | (54,667) | (100,138) | (350,000) | 0 | (7,816) |
| Net cash used by investing activities | (970,371) | (148,717) | (182,822) | (240,183) | (531,829) | (1,103,551) | (560,945) | (50,610) | (569,609) |
| **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) | (72,826) |
| Borrowing from eqt line of credit | 522,000 | 0 | 0 | 87,703 | 414,452 | 502,155 | 500,000 | 0 | 87,750 |
| Borrowings from convertible note | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Issuance of common stock, net | 951,118 | 0 | 0 | 300,000 | 587,755 | 887,755 | (6,793) | 0 | 5,048,404 |
| Subscription receivable, net | 0 | 288,000 | 0 | 0 | 0 | 288,000 | 0 | 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 | 676,691 |
| 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 | (1,455,278) |
| 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 | 5,371,610 |
| 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 | $ 3,916,332 |
| | | | | | | | | | |
| Operating Cash Flow | $ 1,137,685 | $ (19,442) | $ (417,295) | $ (75,125) | $ (74,537) | $ (586,399) | $ (124,742) | $ (666,173) | $ (558,202) |
| Free Cash Flow | $ 167,314 | $ (168,159) | $ (600,117) | $ (315,308) | $ (606,366) | $ (1,689,950) | $ (685,687) | $ (716,783) | $ (1,127,811) |

## BALANCE SHEET

| | Sept. 30, 2019 | Jun. 30, 2019 | Qtr-Qtr % Growth | Sept. 30, 2018 | Yr-Yr % Growth |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash | $ 3,916,332 | $ 5,321,344 | -26.4% | $ 2,051,800 | 90.9% |
| Restricted cash | 0 | 50,266 | -100.0% | 6,180 | -100.0% |
| Accounts receivable, net | 2,127,727 | 2,564,178 | -17.0% | 1,917,576 | 11.0% |
| Inventory | 1,651,884 | 1,272,111 | 29.9% | 1,942,575 | -15.0% |
| Prepaid expenses & other curr assets | 470,047 | 256,048 | 83.6% | 309,755 | 51.7% |
| Total current assets | 8,165,990 | 9,463,947 | -13.7% | 6,227,886 | 31.1% |
| | | | | | |
| Property, plant and equipment, net | 5,122,138 | 4,854,786 | 5.5% | 4,736,113 | 8.2% |
| Investment | 324,930 | 324,930 | 0.0% | 484,930 | -33.0% |
| Other assets | 90,319 | 90,319 | 0.0% | 90,320 | 0.0% |
| Right-of-use assets | 1,344,601 | 1,313,742 | 2.3% | 0 | NM |
| Goodwill | 2,453,597 | 2,453,597 | 0.0% | 2,453,597 | 0.0% |
| Other intangible assets, net | 1,048,503 | 1,166,310 | -10.1% | 842,385 | 24.5% |
| Total assets | 18,550,078 | 19,667,631 | -5.7% | 14,835,231 | 25.0% |
| | | | | | |
| **Current liabilities:** | | | | | |
| Accounts payable | 1,341,003 | 1,563,986 | -14.3% | 1,491,058 | -10.1% |
| Accrued expenses & deferred revenue | 779,638 | 818,773 | -4.8% | 831,689 | -6.3% |
| Other current liabilities | 935,404 | 1,473,163 | -36.5% | 2,295,681 | -59.3% |
| Current portion of long-term debt, net | **467,382** | **348,574** | 34.1% | **796,734** | -41.3% |
| Current portion of lease liability | 361,713 | 332,883 | 8.7% | 0 | NM |
| Total current liabilities | 3,885,140 | 4,537,379 | -14.4% | 5,415,162 | -28.3% |
| | | | | | |
| Long-term debt, net | **2,361,696** | **1,965,829** | 20.1% | **1,354,264** | 74.4% |
| Lease liability | 1,007,251 | 1,005,222 | 0.2% | 0 | NM |
| Other long-term liabilities | 311,986 | 329,348 | -5.3% | 582,653 | -46.5% |
| Deferred tax liability, net | 168,986 | 169,986 | -0.6% | 125,982 | 34.1% |
| | | | | | |
| **Stockholders' equity** | | | | | |
| Common stock | 603,613 | 584,054 | 3.3% | 336,272 | 79.5% |
| Additional paid-in capital | 113,335,147 | 112,972,366 | 0.3% | 107,024,040 | 5.9% |
| Accumulated other comp loss | 0 | (22,483) | -100.0% | (5,675) | -100.0% |
| Accumulated deficit | (103,123,741) | (101,873,070) | 1.2% | (99,997,467) | 3.1% |
| Total stockholders' equity | 10,815,019 | 11,660,867 | -7.3% | 7,357,170 | 47.0% |
| Total liabilities and stockholders' equity | 18,550,078 | $ 19,667,631 | -5.7% | 14,835,231 | 25.0% |
| | | | | | |
| Current ratio | 2.1 | 2.1 | 0.8% | 1.2 | 82.8% |
| Quick ratio | 1.7 | 1.8 | -7.1% | 0.8 | 111.9% |
| Working Capital | 4,280,850 | 4,926,568 | -13.1% | 812,724 | 426.7% |
| Net cash | 3,916,332 | 5,321,344 | -26.4% | 2,051,800 | 90.9% |
| Debt | 2,829,078 | 2,314,403 | 22.2% | 2,150,998 | 31.5% |
| Debt/TA | 15% | 12% | 29.6% | 14% | 5.2% |

## HISTORICAL STOCK PRICE




**Source: Zacks Investment Research**

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