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Zacks Small-Cap Research

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Document Security Systems (DSS-NYSE-Amer)

DSS Reports Highest Quarterly Revenues in History and Looks Forward to a Growing 2020

Based on blended multiples from its peers of 1.6 times enterprise value to sales, we believe DSS stock is worth $0.58 per share.

Current Price (04/07/20)	$0.19
Valuation	**$0.58**

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 consumer product marketing firm, a REIT startup, and soon a biotech acquisition.

SUMMARY DATA

52-Week High	**$1.40**
52-Week Low	**$0.16**
One-Year Return (%)	**-84.9**
Beta	**1.9**
Average Daily Volume (sh)	**10,639,498**
Shares Outstanding (mil)	**62.1**
Market Capitalization ($mil)	**$11.8**
Short Interest Ratio (days)	**0.2**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**34**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**1.4**
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)
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	6.8 A	19.4 A
2020	4.4 E	4.6 E	4.1 E	8.0 E	21.0 E
2021					30.1 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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 A	-$0.11 A
2020	-$0.01 E	-$0.01 E	-$0.01 A	$0.00 E	-$0.04 E
2021					-$0.01 E

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

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WHAT'S NEW

How is Business Now?

While DSS reported an excellent Q4, investors want most to know how is business now, during a pandemic. Fortunately DSS' manufacturing facilities in both California and New York have been deemed essential by their respective state governments and remain operational. DSS produces packaging for medical products and the USPS as well as badges for the Port Authority and municipalities. Employees are either working remotely or in sparsely staffed and widely spread plant operations. The company's two largest customers, Walgreens' and Shutterfly, who contributed 45% of 2019's sales, remain open.

Revenues from packaging remain strong as consumer products are flying off shelves and people have plenty of time on their hands to go through old photos and send them electronically off to Walgreens and Shutterfly for printing. No need even to go into a store. At Shutterfly, sales are up sharply as DSS receives early orders for inventory, possibly just pulled forward from latter quarters but that remains to be seen.

AuthentiGuard sales remain strong are expected to increase sequentially throughout the year. Both major customers continue to operate uninterrupted. The automaker customer is using AuthentiGuard on aftermarket car parts, which could even see a sales bump and people by parts to fix cars at home rather than bringing them to a shop. The worldwide focus on supply chain and counterfeits, especially in medical products, could even boost sales to new customers due to the pandemic.

The only part of the business adversely hit is plastic cards and badges as entertainment, sports, and conferences are cancelled worldwide. While we expect some sales to roar back from pent up demand for sports and entertainment, others are permanently lost.

Other Ventures

With new management, DSS continues its pursuit to grow through acquisition and new ventures. It hopes to pick up market share and perhaps competitors as the economy weeds out weaker players. There was much activity in Q4 as previously noted.

Impact Biomedical
On March 13th, DSS announced that it has entered into a binding term sheet to acquire Impact Biomedical. It plans to issue up to 14.5 M shares of stock and a perpetual convertible preferred. A proposed bonus is, for every one DSS share held, the shareholder would 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. DSS owns 52% and while it has no revenues, it will start to consolidate expenses as soon as it closes.

Nutraceuticals
DSS is also getting involved in nutraceuticals. It has two board members have considerable experience in that area and it can use that experience, plus it can turn this business into a lab and a showcase for its packaging and AuthentiGuard anticounterfeiting and supply chain tracking. As of April 3, 2020 DSS bought 14 million shares of nutraceutical marketing company, Sharing Services Global (OTCQB: SHRG.) This stake is worth $1 million and DSS now owns 11.1% of the company. One of DSS' board members, John (JT) Thatch, has been the CEO of this company since March 2018. In the nine months ending January 31, 2020 Sharing Services generated $106 million in sales, was profitable, and had operating cash flow of $7.7 million

in that nine months. The company is trading at a market value of $10.2 million and an enterprise value of $2 million. Sharing Services Global Corporation is a holding company based in Plano, Texas, with subsidiaries that market and distribute health and wellness products under the Elevate brand through an independent sales force of distributors using a marketing strategy that is a form of direct selling. The Elevate health and wellness product line was launched in December 2017 and consists of nutraceutical products that the company refers to as “D.O.S.E.” (Dopamine, Oxytocin, Serotonin, and Endorphins). The products can be found at www.elevacity.com

In Q4 DSS entered into convertible notes with RBC Life Sciences, Inc. with current combined value of $286,000. RBC Life is another direct seller of nutraceuticals and in based in Irving, Texas. In February 2020, DSS foreclosed and took ownership of certain assets of RBC which equal or exceeds the amounts outstanding under the obligations, installed new management, and has been running the business as a subsidiary of DSS. We expect to start to see revenues and expenses from this business begin to show up on DSS’s income statement when it reports Q1 2020.



Source: Document Security Systems

DSS Reports Best Quarterly Revenues to Date in Q4 2019

DSS turned in an exceptional Q4 in part because large orders were received late and shifted from being booked in Q3 to Q4 in the printed products business. Revenue was $6.1 million versus $5.5 million last year, up 14%. Technology sales, services, and licensing increased 61.4% to $723,000, and the AuthentiGuard part of the business grew 101% year over year to $558,000, up from $307,000 in Q3 2019.

Printed product sales were up 10.1% as orders were received late from major customers and slid into the fourth quarter from the third quarter. Plastic Cards, Badges, and Accessories grew 32.2% in the quarter, although it was down on an annual basis.

Gross margins increased to 36.2% from 33.5%, and gross margin dollars were up 23% due to higher revenues.

Operating expenses were up $727,000 year over year and $385,000 sequentially. The operating loss was $1438,000 compared to a loss of $180,000 last year. The biggest increase in spending in SG&A, specifically from professional fees, some one-time as the company increases its investment activities and other transactions. In other expenses there was a reversal of $542,000 as the auditors moved most other expenses into SG&A.

Interest expense was $16,000 versus $32,000 last year, bringing the net loss to $456,000 versus a GAAP loss of $379,000 last year (including a one-time impairment of investment of $160,000.

In the quarter the company reversed $125,000 in income taxes and it still has $50.6 million in federal net operating loss carry forwards.

The GAAP loss per share this year was $0.01 versus a loss of $0.02 a year ago. Non-GAAP it was a loss of $0.01 flat with last year. We do not know the amount of one-time items in Q4 that may have decreased the non-GAAP loss. The shares outstanding increased 108% to 36.2 million versus 17.4 million in Q4 2018. Shares outstanding as of March 20, 2020 were 62.1 million. The company plans a 30 for 1 reverse split to occur sometime this year.

Balance Sheet

On December 31, 2019 the company had $1.1 million in cash, working capital of $3.3 million and debt of $3.3 million. On February 25, 2020, DSS closed its previously announced underwritten public offering of 25,555,556 shares of stock for net proceeds of $4.0 million. Of that, Heng Fai Ambrose Chan, the Chairman of the Board, purchased 11,111,112 shares for $2,000,000.The company believes it now has sufficient funds for current and planned operations through March 2020. In 2019, the corporate cash burn reached approximately $255,000 per month primarily related to recurring costs related to the IP monetization line of business.

2019 Year

For the year revenues were $19.4 million, up 4.8% from a year ago. AuthentiGuard provided most of that growth growing 83.2% and going from $772,000 in revenues to $1.4 million. Overall the Technology sales services and licensing business grew 36.4% to $2.1 million. Printed products revenues were virtually flat. With added capacity the company now has a chance to grow in that category. All segments of printed products were down except Packaging, Printing, and Fabrication, which grew 4.8%.
Gross margin was down almost a percentage point; so gross margin dollars only grew 2.2%.

Operating expenses increased 15.7% or $1.3 million. Professional fees increased $914,000. The company burned over $3 million in cash funding IP litigation during the year. It is actively trying to exit this business. Payroll declined $1.1 million as DSS controlled costs in overhead and its IT tech support business.

In the quarter the company reversed $125,000 in income taxes and it still has $50.6 million in federal net operating loss carryforwards.

The GAAP loss per share this year was $0.11 versus a profit of $0.09 a year ago. Non-GAAP it was a loss of $0.10 compared with a loss of $0.11 last year. The shares outstanding increased 52.5% to 25.2 million versus 16.7 million in 2018. Shares outstanding as of March 20, 2020 were 62.1 million.

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 opportunistically in a variety of other industries. We expect the company to continue to invest while still focusing on its core businesses.

- DSS trades at an enterprise value of $10 million (including the capital raise of February 25th,) that 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 $0.58 per share** using a blended average EV/sales of 1.6 times and an estimate of $21 million in sales in 2020. Near term we believe announcements of new customer wins, or the success of new ventures could also drive the stock.

RISKS

- In 2019 two customers, Walgreens and Shutterfly were responsible for 45% of revenues versus 44% 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.

VALUATION

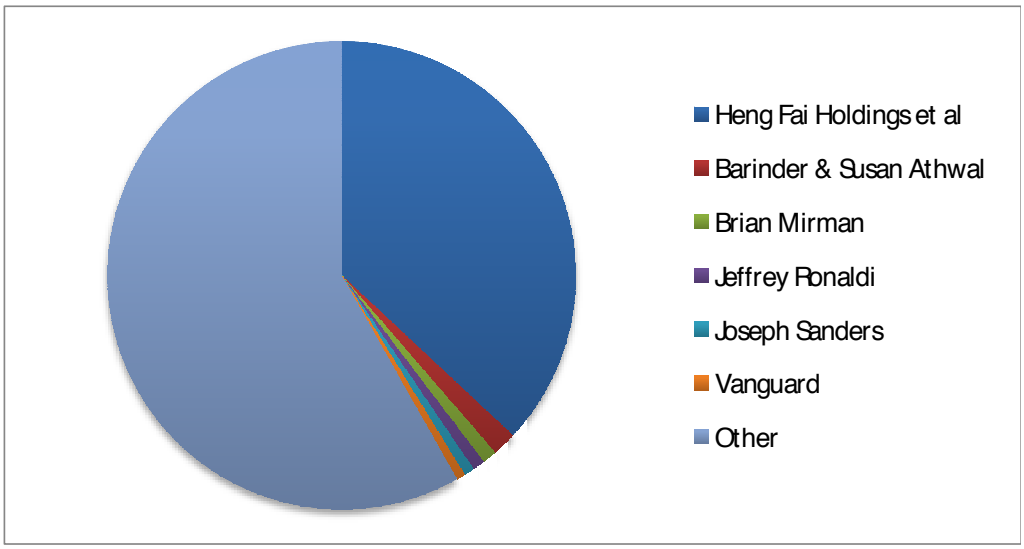
Since the two new ventures discussed previously have not yet closed we have not changed our valuation methodology. Once they do we will revisit valuation and look at prices of biotech startups, but for now Document Security Systems is comprised of two main businesses with public comparables. Companies that are primarily providers of packaging and printing and those involved in higher margin anti-counterfeiting type solutions. Since in 2020 we expect revenues at DSS to be roughly 83% packaging and consumer and 17% 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 1.6 times EV to sales on trailing 12 months. Applying that 2020's $21 million to in revenues gets an enterprise value of $34 million and market value of $36.2 million, and a price per share of $0.58 using the current 62.1 million shares outstanding. By next year this moves to a multiple of 1.7 times as the product mix switches and revenues go to $30 million leading to a stock price of $0.85.

			Cal. Revenue			EBIDTA	Enterprise Value / Sales		EV/EBITDA	Included	
Company	Ticker	2020E	2019	LTM	EBITDA	Margin	2019E	LTM		in Average?	Ent. Value
Applied DNA	APDN	NA	$5	$5	-8.2	-160%	1.3x	1.3x	-0.8x	y	7
Brady Corp.	BRC	$1,190	$1,150	$1,150	191.5	17%	1.9x	1.9x	11.6x	y	2,224
Digimarc	DMRC	$28	$23	$23	-31.7	-138%	5.8x	5.8x	-4.2x	y	132
Graphic Packaging	GPK	$6,350	$6,160	$6,160	977.4	16%	1.1x	1.1x	6.8x	y	6,622
Huhtamaki	HUH1V.HE	NA	$3,400	$3,400	413.5	12%	1.2x	1.2x	10.0x	y	4,153
Nocopi	NNUP	NA	$3	$3	0.8	32%	1.8x	1.8x	5.5x	y	5
WestRock	WRK	$18,100	$18,400	$18,400	3180.0	17%	1.0x	1.0x	5.6x	y	17,796
Zebra	ZBRA	$4,720	$4,490	$4,430	890.0	20%	2.6x	2.6x	13.2x	y	11,711
Average						**-0.2x**	**2.1x**	**2.1x**			**5,331**

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, 2019	Mar 31, 2020E	Jun. 30, 2020E	Sep. 30, 2020E	Dec. 31, 2020E	2018	2019	2020E	2021E
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	$ 4,688,000	$ 3,000,000	$ 2,900,000	$ 2,000,000	$ 5,000,000	$ 11,741,000	12,307,000	12,900,000	$ 15,000,000
Commercial and Security Printing	308,000	338,000	253,000	342,000	352,000	225,000	251,000	331,000	300,000	300,000	300,000	320,000	1,241,000	1,159,000	1,220,000	1,500,000
Technology Integrated Plastic Cards & Badges	252,000	253,000	409,000	440,000	503,000	158,000	306,000	295,000	100,000	100,000	200,000	500,000	1,354,000	1,262,000	900,000	1,500,000
Plastic Cards, Badges and Assessories	753,000	643,000	640,000	568,000	550,000	465,000	595,000	751,000	100,000	100,000	300,000	800,000	2,604,000	2,361,000	1,300,000	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	6,065,000	3,500,000	3,400,000	2,800,000	6,620,000	16,940,262	17,089,000	16,320,000	20,200,000
Yr-Yr Growth	-10.9%	10.1%	0.4%	0.6%	11.3%	-2.7%	-19.8%	10.1%	-19.8%	-6.2%	-7.7%	9.2%	-0.5%	0.9%	-4.5%	23.8%
Information Technology Sales and Services	130,000	78,000	61,000	76,000	74,000	32,000	46,000	37,000	40,000	40,000	40,000	40,000	345,000	189,000	160,000	200,000
Digital Authentication Products and Services	*178,000*	*174,000*	*143,000*	*277,000*	*230,000*	*319,000*	*307,000*	*558,000*	*625,000*	*700,000*	*780,000*	*850,000*	*772,000*	*1,414,000*	2,955,000	*6,000,000*
Yr-Yr Growth					29.2%	83.3%	114.7%	101.4%	171.7%	119.4%	154.1%	52.3%	50.8%	83.2%	109.0%	103.0%
Royalities from Licensees	147,000	110,000	107,000	94,000	139,000	133,000	145,000	128,000	130,000	130,000	130,000	130,000	458,000	545,000	520,000	500,000
Technology sales, services and licensing	454,275	362,081	310,511	447,953	442,866	483,638	497,700	723,000	795,000	870,000	950,000	1,020,000	$ 1,574,820	$ 2,148,000	$ 3,635,000	$ 6,700,000
Yr-Yr Growth	23.6%	-24.2%	-28.0%	24.7%	-2.5%	33.6%	60.3%	61.4%	79.5%	79.9%	90.9%	41.1%	-3.7%	36.4%	69.2%	84.3%
RBC Life Sciences									100,000	300,000	310,000	320,000	0	0	1,030,000	3,200,000
Total revenue	**4,377,554**	**4,087,061**	**4,094,290**	**5,956,177**	**4,808,920**	**4,106,829**	**3,532,919**	**6,788,000**	**4,395,000**	**4,570,000**	**4,060,000**	**7,960,000**	**18,515,082**	**19,409,230**	**20,985,000**	**30,100,000**
Yr-Yr Growth	-8.2%	5.9%	-2.5%	2.1%	9.9%	0.5%	-13.7%	14.0%	-8.6%	11.3%	14.9%	17.3%	-0.8%	4.8%	8.1%	43.4%
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	4,327,447	2,870,500	2,919,000	2,492,000	5,312,800	11,853,499	12,602,494	13,594,300	20,010,000
Gross Margin	1,795,939	1,330,614	1,542,508	1,992,522	1,649,369	1,209,155	1,315,097	2,460,553	1,524,500	1,651,000	1,568,000	2,647,200	6,661,583	6,806,736	7,390,700	10,090,000
Gross Margin %	41.0%	32.6%	37.7%	33.5%	34.3%	29.4%	37.2%	36.2%	34.7%	36.1%	38.6%	33.3%	36.0%	35.1%	35.2%	33.5%
Selling, general and administrative	968,000	855,000	795,000	997,000	920,000	814,000	773,000	1,760,000	800,000	900,000	900,000	900,000	3,615,000	4,267,000	3,500,000	4,000,000
Depreciation and amortization	345,667	346,816	310,330	278,821	294,407	336,740	420,063	352,626	430,000	430,000	430,000	430,000	1,281,634	1,403,836	1,720,000	1,800,000
Professional fees	234,000	352,000	243,000	244,000	292,000	434,000	544,000	717,000	550,000	400,000	400,000	600,000	1,073,000	1,987,000	1,950,000	2,000,000
Stockbased compensation	1,000	85,000	20,000	26,000	31,000	28,000	273,000	89,673	100,000	100,000	100,000	100,000	132,000	421,673	400,000	400,000
Sales and marketing	92,000	121,000	137,000	209,000	116,000	164,000	111,000	225,000	160,000	164,000	111,000	150,000	559,000	616,000	585,000	1,170,000
Rent and utilities	154,000	161,000	173,000	167,000	190,000	176,000	187,000	297,000	300,000	300,000	300,000	300,000	655,000	850,000	1,200,000	1,200,000
Other expenses	234,000	222,000	241,000	212,000	227,000	230,000	239,000	(542,000)	35,000	35,000	35,000	35,000	909,000	154,000	140,000	140,000
R&D	99,000	6,000	2,000	39,000	1,000	18,000	(32,000)	1,000	1,000	1,000	1,000	1,000	146,000	(12,000)	4,000	4,000
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	2,900,299	2,376,000	2,330,000	2,277,000	2,516,000	8,370,634	9,687,509	9,499,000	10,714,000
Operating (loss) income	(331,728)	(818,202)	(378,822)	(180,299)	(422,038)	(991,585)	(1,199,966)	(439,746)	(851,500)	(679,000)	(709,000)	131,200	(1,709,051)	(2,880,773)	(2,108,300)	(624,000)
Operating Margin	-7.6%	-20.0%	-9.3%	-3.0%	-8.8%	-24.1%	-34.0%	-6.5%	-19.4%	-14.9%	-17.5%	1.6%	-9.2%	-14.8%	-10.0%	-2.1%
Other expense:																
Interest expense, net	(46,064)	(30,735)	(27,246)	(32,140)	(27,997)	(37,952)	(50,776)	(15,641)	(10,000)	(10,000)	(10,000)	(10,000)	(136,185)	(132,366)	(169,000)	(100,000)
Amortized debt discount	(27,731)	(6,168)	(6,168)	(6,184)	(600)	(600)	(351)	(350)	0	0	0	0	(46,251)	(1,901)	0	0
Impairment of investment	0	0	0	(160,000)	0	0	0	0	0	0	0	0	(160,000)	0	0	0
Gain on extinguishment of liabilities, net	0	3,532,659	0	0	0	0	0	0	0	0	0	0	3,532,659	0	0	0
Loss before income taxes	(405,523)	2,677,554	(412,236)	(378,623)	(450,635)	(1,030,137)	(1,251,093)	(455,737)	(861,500)	(689,000)	(719,000)	121,200	1,481,172	(3,015,040)	(2,277,300)	(724,000)
Income tax expense	0	0	0	16,593	0	0	0	(125,487)	0	0	0	0	16,593	(125,487)	-	0
Net loss	(405,523)	2,677,554	(412,236)	(395,216)	(450,635)	(1,030,137)	(1,251,093)	(330,250)	(861,500)	(689,000)	(719,000)	121,200	1,464,579	(2,889,553)	(2,277,300)	(724,000)
Other comprehensive loss:																
Foreign currency translation	0	0	(5,088)	5,088	0	0	0	0	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	0	0	0	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)	$ (330,250)	$ (861,500)	$ (689,000)	$ (719,000)	$ 121,200	$ 1,480,596	$ (2,882,501)	$ (2,277,300)	$ (724,000)
Non-GAAP earnings	(404,272)	(770,183)	(391,792)	(210,100)	(419,934)	(1,002,228)	(919,829)	(240,577)	(831,500)	(659,000)	(689,000)	151,200	(1,788,827)	(2,467,880)	(2,162,634)	(384,000)
Non-GAAP EPS	$ (0.02)	$ (0.05)	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.05)	$ (0.04)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)	$ 0.00	$ (0.11)	$ (0.10)	$ (0.03)	$ (0.01)
GAAP Basic and diluted loss per share	**$ (0.01)**	**$ 0.16**	**$ (0.02)**	**$ (0.02)**	**$ (0.02)**	**$ (0.05)**	**$ (0.05)**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**	**$ 0.00**	**$ 0.09**	**$ (0.11)**	**$ (0.04)**	**$ (0.01)**
Yr-Yr Growth	0.0%	-897.0%	0.0%	-298.4%	140.0%	-129.6%	160.4%	-59.4%	-44.2%	-76.8%	-78.1%	-121.1%	-326.9%	-229.2%	-67.5%	-68.9%
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	62,086,099	63,000,000	63,000,000	63,000,000	16,724,376	25,505,404	62,086,099	63,500,000
Yr-Yr Growth	21.8%	21.5%	19.0%	23.5%	5.4%	32.0%	43.3%	107.7%	254.9%	187.6%	162.2%	74.1%	15.9%	52.5%	143.4%	2.3%
Diluted shares		16,842,204	17,010,869	17,626,429	17,701,179	22,150,185	24,294,322	36,180,626	62,086,099	63,000,000	63,000,000	63,000,000	16,930,805	25,505,404	62,086,099	63,500,000
EBIDTA	15,190	3,144,810	(69,000)	116,000	(94,000)	(630,000)	(507,000)	2,553	(94,000)	(630,000)	(507,000)	661,200	3,238,000	(1,231,000)	(1,134,447)	1,376,000

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	Dec. 31, 2019	2019
Cash flows from operating activities:											
Net income (loss)	$ (578,156)	$ (406,091)	$ 2,677,458	$ (412,067)	$ (394,721)	$ 1,464,579	$ (450,450)	$ (1,030,822)	$ (1,250,671)	$ (157,204)	$ (2,889,147)
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	352,625	1,403,836
Stock based compensation	214,862	1,251	84,922	20,444	25,116	131,733	30,701	27,909	272,654	90,409	421,673
Paid in-kind interest	72,000	12,000	0	0	0	12,000	0	0	0	0	0
Change in deferred tax provision	80,363	0	0	0	9,673	9,673	0	0	0	(125,419)	(125,419)
Amortization of deferred financing costs	154,142	27,731	6,168	6,168	6,184	46,251	600	0	(249)	1,550	1,901
Gain on extinguishment of liabilities, net	(219,364)	0	(3,532,659)	0	0	(3,532,659)	0	0	0	0	0
Impairment of investment					0	160,000	0	0	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	(2,084,179)	(1,994,029)
Inventory	(444,869)	51,699	237,814	(580,842)	378,982	87,653	217,926	73,556	(379,773)	(55,806)	(144,097)
Prepaid expenses and other current assets	51,409	13,329	(41,100)	(27,603)	24,176	(31,198)	720	53,175	(213,999)	26,260	(133,844)
Restricted cash	0	0	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)	151,488	145,003
Accrued expenses	(60,791)	(103,928)	13,610	(303,852)	280,377	(113,793)	(213,370)	(36,533)	(68,838)	39,705	(279,036)
Other liabilities	(944,834)	(249,594)	(357,334)	(535,001)	(183,498)	(1,325,427)	(378,183)	(519,675)	(555,018)	(296,839)	(1,749,715)
Net cash used by operating activities	(1,289,134)	(93,452)	(356,391)	(1,074,709)	141,241	(1,383,311)	(876,292)	(846,812)	(1,562,360)	(2,057,410)	(5,342,874)
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)	(165,528)	(988,876)
Purchase of investment	0	0	0	0	0	0	0	0	0	(1,829,245)	(1,829,245)
Issuance of note receivable	0	0	0	0	0	0	0	0	0	(793,195)	(793,195)
Purchase of intangible assets	(11,552)	(15,780)	(4,357)	(25,334)	(54,667)	(100,138)	(350,000)	0	(7,816)	(11,919)	(369,735)
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)	(2,799,887)	(3,981,051)
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)	(80,082)	(274,468)
Borrowing from lines of credit	522,000	0	0	87,703	414,452	502,155	500,000	0	87,750	0	587,750
Borrowings from revolver	0	0	0	0	0	0	0	0	0	500,000	500,000
Borrowings from convertible note	0	0	0	0	0	0	0	0	0	0	500,000
Issuance of common stock, net	951,118	0	0	300,000	587,755	887,755	(6,793)	0	5,048,404	1,617,295	6,658,906
Subscription receivable, net	0	288,000	0	0	0	288,000	0	0	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	2,037,213	7,972,188
Net decrease in cash	(1,604,719)	(160,711)	(1,090,973)	(1,134,964)	389,615	(1,997,033)	(1,001,339)	3,924,964	(1,455,278)	(2,820,084)	(1,351,737)
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	2,447,595	1,446,256	5,371,220	3,915,942	2,447,595
Cash and restricted cash at end of period	$ 4,444,628	$ 4,283,917	$ 3,192,944	$ 2,057,980	$ 2,447,595	$ 2,447,595	$ 1,446,256	$ 5,371,220	$ 3,915,942	$ 1,095,858	$ 1,095,858
Operating Cash Flow	$ 1,137,685	$ (19,442)	$ (417,295)	$ (75,125)	$ (74,927)	$ (586,789)	$ (124,742)	$ (666,173)	$ (558,202)	$ 161,961	$ (1,187,156)
Free Cash Flow	$ 167,314	$ (168,159)	$ (600,117)	$ (315,308)	$ (606,756)	$ (1,690,340)	$ (685,687)	$ (716,783)	$ (1,127,811)	$ (1,844,731)	$ (4,375,012)

BALANCE SHEET

	Dec. 31, 2019	Sept. 30, 2019	Qtr-Qtr % Growth	Dec. 31, 2018	Yr-Yr % Growth
Current assets:					
Cash	$ 1,096,248	$ 3,916,332	-72.0%	$ 2,317,659	-52.7%
Restricted cash	0	0	0.0%	130,326	-100.0%
Accounts receivable, net	4,211,906	2,127,727	98.0%	2,217,877	89.9%
Inventory	1,707,690	1,651,884	3.4%	1,563,593	9.2%
Prepaid expenses & other curr assets	459,868	470,047	-2.2%	285,580	61.0%
Total current assets	7,475,712	8,165,990	-8.5%	6,515,035	14.7%
Property, plant and equipment, net	5,060,698	5,122,138	-1.2%	5,014,494	0.9%
Investment	2,154,175	324,930	563.0%	324,930	563.0%
Note receivable	793,195	0	NM	0	NM
Other assets	49,875	90,319	-44.8%	90,319	-44.8%
Right-of-use assets	1,222,742	1,344,601	-9.1%	0	NA
Goodwill	2,453,597	2,453,597	0.0%	2,453,597	0.0%
Other intangible assets, net	934,765	1,048,503	-10.8%	881,411	6.1%
Total assets	20,144,759	18,550,078	8.6%	15,279,786	31.8%
Current liabilities:					
Accounts payable	1,492,494	1,341,003	11.3%	1,347,491	10.8%
Accrued expenses & deferred revenue	935,041	779,638	19.9%	1,106,346	-15.5%
Other current liabilities	390,494	935,404	-58.3%	2,255,942	-82.7%
Revolving line of credit	**500,000**	**0**	NM	**0**	NM
Current portion of long-term debt, net	**440,699**	**467,382**	-5.7%	**713,427**	-38.2%
Current portion of lease liability	397,097	361,713	9.8%	0	NA
Total current liabilities	4,155,825	3,885,140	7.0%	5,423,206	-23.4%
Long-term debt, net	**2,309,847**	**2,361,696**	-2.2%	**1,721,936**	34.1%
Lease liability	825,645	1,007,251	-18.0%	0	NM
Other long-term liabilities	507,058	311,986	62.5%	391,325	29.6%
Deferred tax liability, net	43,567	168,986	-74.2%	168,986	-74.2%
Stockholders' equity					
Common stock	723,612	603,613	19.9%	348,517	107.6%
Additional paid-in capital	114,860,150	113,335,147	1.3%	107,624,666	6.7%
Accumulated other comp loss	0	0	0.0%	(7,052)	-100.0%
Accumulated deficit	(103,280,945)	(103,123,741)	0.2%	(100,391,798)	2.9%
Total stockholders' equity	12,302,817	10,815,019	13.8%	7,574,333	62.4%
Total liabilities and stockholders' equity	20,144,759	18,550,078	8.6%	15,279,786	31.8%
Current ratio	1.8	2.1	-14.4%	1.2	49.7%
Quick ratio	1.4	1.7	-17.2%	0.9	52.0%
Working Capital	3,319,887	4,280,850	-22.4%	1,091,829	204.1%
Net cash	596,248	3,916,332	-84.8%	2,317,659	-74.3%
Debt	3,250,546	2,829,078	14.9%	2,435,363	33.5%
Debt/TA	16%	15%	5.8%	16%	1.2%

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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