Zacks Small-Cap Research

October 2, 2012
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Augme Technologies Inc. (AUGT-OTC)

AUGT: Offering at $0.80- OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (10/01/12)	$0.74
Target Price	**$3.50**

OUTLOOK

Augme Technologies is a provider of strategic services and mobile technology to leading consumer and healthcare brands. The firm's primary interactive platform is its mobile marketing technology is one of the industry's only patented end to end mobile marketing platforms (AD LIFE tm). The AD LIFE tm platform provides marketers, brands and advertising agencies the ability to create, deliver, manage and track interactive marketing campaigns targeting mobile consumers. Beyond its blue chip portfolio of clients Augme has a valuable Intellectual property (IP) portfolio. The portfolio could provide licensing opportunities. We see value in the shares.

SUMMARY DATA

52-Week High	**$3.13**
52-Week Low	**$0.70**
One-Year Return (%)	**-73.99**
Beta	**0.13**
Average Daily Volume (sh)	**848,403**
Shares Outstanding (mil)	**98**
Market Capitalization ($mil)	**$72**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**22.9**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Growth**
Industry	**Diversified Com**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (May)	Q2 (Aug)	Q3 (Nov)	Q4 (Feb)	Year (Feb)
2010	0.0 A	0.0 A	0.1 A	0.2 A	0.3 A
2011	0.3 A	0.7 A	0.9 A	1.0 A	2.8 A
2012	1.2 A	1.3 A	4.4 A	5.0 A	11.9 A
2013	5.1 A	6.0 E	7.0 E	8.5 E	26.6 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 May	Q2 Aug	Q3 Nov	Q4 Feb	Year Feb
2010	-$0.03 A	-$0.03 A	-$0.03 A	-$0.07 A	-$0.16A
2011	-$0.02 A	-$0.02 A	-$0.03 A	-$0.02 A	-$0.09 A
2012	-$0.03 A	-$0.04 A	-$0.09 A	-$0.05 A	-$0.21 A
2013	-$0.06 A	-$0.05 E	-$0.03 E	-$0.01 E	-$0.15 E

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WHATS NEW

Offering

On September 28, 2012, Augme Technologies, Inc., reported that it priced an underwritten public offering of 8.500 million shares of its common stock together with warrants to purchase an additional 2.125 million shares of common stock.

The offering is expected to raise gross proceeds of approximately $6.8 million with each share of stock and warrant to be sold at $0.80. As a result, Augme's net proceeds from the sale are expected to be approximately $6.132 million after deducting underwriter discounts and other estimated offering expenses.

Furthermore, to cover any over-allotments, a 45-day option to purchase from the Company up to 1.275 million additional shares of common stock and warrants for the purchase of 318,750 shares of common stock has been granted to the underwriter by Augme.

The offering is expected to close on or about October 3, 2012 and the Company currently intends to use the net proceeds from this offering for organic expansion in existing and new markets, for general corporate purposes and to pay $200,000 in debt.

Unfavorable Ruling

On August 9, 2012 Hon. Magistrate Judge Joseph Spero granted Yahoo!'s motion for summary judgment. The decision concludes the district court phase of this litigation and involves only United States Patent Nos. 6,594,691 and 7,269,636. The suit had accused specific Yahoo! targeted advertising systems of infringement. The Court found, given the evidence presented, that the accused Yahoo! systems could not be found to infringe under the Court's interpretation of Augme's claims. The Court did not rule on invalidity issues raised by Yahoo!. We feel this lessens the chance for the firm to secure settlement payments without the hassle of litigation.

Solid Quarter at Augme

On July 10, 2012, Augme Technologies, Inc., reported financial results for its fiscal 2013 first quarter, ended May 31, 2012.

A concrete first quarter resulted in a 321 percent year over year and approximately 1 percent sequential increase in sales, with revenues expanding to a record $5.078 million for the three months ended May 31, 2012.

Similarly, the Company ended the quarter with over a $20 million annual run rate and its average deal size was $59,000 during the quarter compared to $57,000 for first quarter of fiscal 2012.

Augme's strength in its first quarter revenues was primarily driven by addition of the Hipcricket operations in August 2011 and the JAGTAG operations in July 2011.

Still, Augme reported a net loss of $7.560 million for the first quarter of fiscal 2013, with net loss increasing $3.544 million from a net loss of $4.016 million during the first quarter of fiscal 2012.

The increase in net loss was primarily a result of increased selling, general and administrative expenses

related to the expansion of the Company both organically and through acquisitions.

Total operating expenses jumped $5.832 million year over year to $10.706 million for the three months ended May 31, 2012.

However, it should be noted that operating expenses during the first quarter decreased $1.784 million or 14 percent sequentially, while the selling, general and administrative portion of total operating expenses dropped 7 percent sequentially as a result of improved efficiencies in selling activities and lower non-cash stock option expense.

Gross margin for the quarter fell to 61.9 percent from 69.9 percent for the three months ended May 31, 2011.

The decrease in gross margin was primarily due to the Company's shifting mix of revenue.

Still, It is important to note that during the first quarter, Augme's new business momentum and customer retention rate resulted in new order bookings (the dollar value of contracts signed during the first quarter) totaling $6.5 million, of which approximately 69 percent were received from existing customers and 31 percent from new customers.

Furthermore, Augme reported a record quarter end backlog (the dollar value of signed contracts including deferred revenue and unbilled revenue) of $17.4 million as of May 31, 2012, up 11 percent sequentially from $15.7 million for the three months ended February 29, 2012.

Similarly, Augme added more than 50 new customers during the quarter (spread across more than 15 industry verticals) and now supports over 350 customers (which includes 60 Fortune 500 companies and a dozen Fortune 100 companies) and more than 600 regional and national brands.

It important to note that even with the expanding customer base, Augme was able to maintain an over 95 percent retention rate per client basis.

Likewise, revenue per client increased to approximately $67,000 while customers signed 214 contracts and completed over 27,000 campaigns in the first quarter, which was a 52% sequential increase in completed campaigns.

Equally, 87 percent of the brands that completed campaigns with the Company in the fourth quarter increased the number of campaigns with Augme during the first quarter of fiscal 2013.

Based on the weighted average number of basic and diluted common shares of 94.489 million shares, basic and diluted net loss per share resulted in a net loss of $0.08 per basic and diluted share during the first quarter of fiscal 2013. This compared to a basic and diluted net loss per share of $0.06 on a weighted average number of basic and diluted shares of 69.414 million shares during the three months ended May 31, 2011.

As of May 31, 2012, Augme had $3.242 million in cash and equivalents and a working capital deficit of $22.248 million. This compares to $11.428 million in cash and equivalents and a working capital deficit of $15.512 million as of February 29, 2012.

Still, it should be noted that the Company ended the first quarter with its largest-ever pipeline of qualified sales opportunities due to the substantial investments that it has made in sales, client support and other revenue generating functions.

As a result of these quick returns, Augme intends to scale its business more rapidly through increased spending levels. To fund this increased investment, management is evaluating several options to secure additional funding, with a preference for non-dilutive financing.

Additionally, management believes the value of the Company's foundational mobile technology patent portfolio is becoming more apparent as a result of it signing its first license agreement in April 2012 and the first two patent infringement cases scheduled for trial within the next seven months.

The Company's IP portfolio now numbers 13 patents with 80 pending patents applications and over 1500 claims in the telecom media space.

Along the same lines, the Company intends to vigorously defend its proprietary technology as well as fortify barriers to entry.

Nevertheless, management remains optimistic that we will continue to achieve increasing sequential growth for the balance of the year with a rate of growth of 10 to 20 percent each quarter.

Furthermore, the Company's timetable to cash flow breakeven is unchanged and management continues to anticipate reaching this objective by fiscal year end.

New Patent Infringement Case

The Company asserts three causes of action involving patent infringement relating to Augme's-owned Method and Code Module for Adding Function to a Web Page; Method and Code Module For Adding Function to a Web Page; and Method and System for Adding Function to a Web Page.

Augme is seeking injunctive relief to prevent Millennial Media from continuing to infringe on the Company's patents as well as to recover monetary damages resulting from Millennial's past infringement of the patents and all legal fees associated with the patent enforcement effort.

The Company's complaint alleges that it has suffered irreversible harm as a result of the alleged infringement and thus seeks a permanent injunction against Millennial, thus preventing Millennial from manufacturing, using, offering for sale, selling and/or importing into the United States infringing products, methods, processes, services and/or systems that are primarily used or primarily adapted for use in an electronic or computer network system for targeting content via a Web browser.

Augme's management further stated that its patented intellectual property portfolio represents one of the Company's most valuable assets which provides significant market and competitive advantages which it intends to vigorously protect and enhance in the mobile marketing and mobile advertising industry.

Additionally, Augme believes that preserved injunctive relief rights, which if awarded, would prevent any further infringement by Millennial and monetary damages would compensate Augme for the harm caused by Millennial Media.

Likewise, if the case is awarded in the Company's favor, Augme would be entitled to a future royalty interest from Millennial's infringing revenues.

Evolving Business Model

Augme's business has been evolving into two primary business models utilizing the same Software-as-a-Service (SaaS) platform. The recent acquisition of Hipcricket has quickened this change.

The first model involves a shorter-term duration mobile marketing campaign that is more tactical in nature. For example, a back to school campaign conducted for a retailer or the development of a branded mobile application. The type of campaign might run over 60 days and then conclude. The client may come back in the future for more campaigns or might not. This is a smaller portion of Augme's overall revenues.
The second model involves long-term contracts generating recurring revenue that is fairly predictable and currently accounts for approximately 60% of the Company's revenue. This model utilizes the same SaaS

platform and is primarily offered in one of two ways. One offering consists of a fully managed service in which Augme uses its SaaS platform to execute, measure and optimize campaigns for its customers. The other is a self-service licensing fee-based model that drives revenues primarily through license fees where the clients themselves employ the Company's software and revenues are generated primarily through license fees. Access to the platform drives the economics rather than a strict per campaign fee. The accelerated growth of the campaigns powered by Augme's platform indicates market growth, customer uptake, and the proven scalable technology platform built by Augme. Therefore, the total campaign count (over 30,000 in the first six months of 2011) doesn't directly indicate revenues but offers more directional guidance to the stability, adoption, traction and success of the platform. As a result, Augme has built a reputation as a premium provider with a scalable and reliable platform.

The Company's self-service (SaaS based) solution has begun its growth trajectory and today accounts for <10% of revenue. This type of business naturally has higher margins and is very scalable. Licensing opportunities offer Augme attractive partnership opportunities with third parties. In addition, Augme receives recurring revenue opportunities from software licenses and royalties for associated IP. While recurring revenue would be recognized over the license term, this would also offer the Company the additional opportunity to receive recurring monthly service fees for marketing campaigns as well as professional services and transactional fees. Augme recently became a validated partner for Oracle and this should open up the firm to more clients and larger campaigns.

Customers running mobile campaigns are shifting from the $50,000 variety to more typically, over $1 million in annual revenues. However, these contracts have a longer lead time which makes providing guidance a bit tricky. As the business model continues to shift, deferred revenue should become less important. Breakeven for the Company remains $28-30 million on an annual basis or $7-7.5 million per quarter. We feel Augme could reach that per quarter figure by the fourth quarter of 2012. (FY Ends February 29, 2012) Augme counts 50+ of the Fortune 500 companies as clients and supports over 300 brands. The Company enjoys higher than industry average margins.

INVESTMENT THESIS

- There are over 240 million cell phone subscribers in the United States exposed to an average of over 80,000 ad impressions annually that could be augmented by interactive mobile marketing messages.
- Mobile advertising is expected to be a multibillion dollar market within the next few years.
- The Acquisition of JAGTAG as well as Hipcricket should open the firm up to the Entertainment industry and the Radio and Television Industries.
- Augme may also be positioned to develop new revenue streams from its IP portfolio.

Augme Technologies, Headquartered out of New York, New York, is a provider of strategic services and mobile technology to leading consumer and healthcare brands. The products and services that the Company offers include website mobilization, content rendering, mobile campaign management, ad serving, data analytics and tracking, as well as content distribution.

Augme's primary interactive software-as-a-service ("SaaS") platform is its mobile marketing technology AD LIFE™. As one of the industry's only patented end to end mobile marketing platform, AD LIFE™ provides marketers, brands and advertising agencies the ability to create, deliver, manage and track interactive

marketing campaigns targeting mobile consumers.

By utilizing consumer response tags, such as 1D UPC codes, Text Messaging (SMS), 2D Barcodes, Logo (Image) Recognition and Audio, AD LIFE™ is able to track and analyze key metrics and results of client campaigns.

What's more, the patented device-detection system and proprietary mobile content adaptation software in AD LIFE™ formats the technology to operate on nearly all cellular networks and mobile devices without conflict by permiting proper viewing and navigation irrespective of phone type, operating system, or mobile service provider.

The Multi-channel analytics platform allows brands a centralized database, campaigns analysis, and access to over 120 million consumer data records.

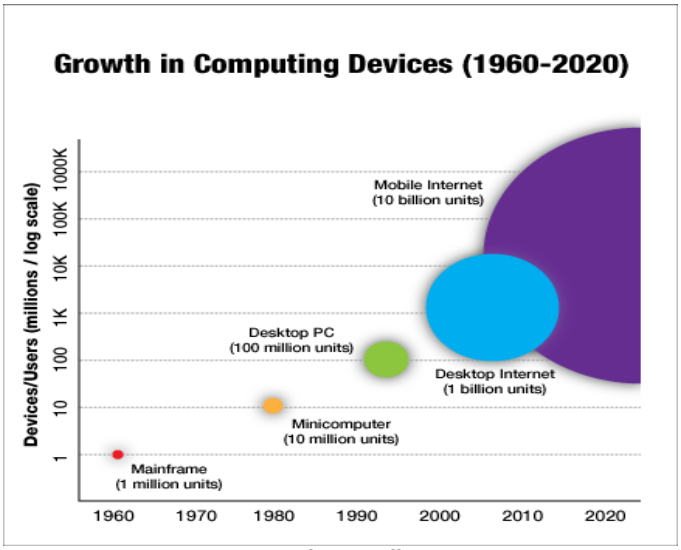
Other components of the Augme's software platform include AD SERVE, a digital advertising delivery platform which places advertisements onto web pages on websites and mobile devices. The platform then updates those advertisements each time the user refreshes the page.

Additionally, the Company anticipates the marketing launch of its secure video platform AD BOOM, the next generation of its BoomBox service. The AD SERVE platform will provide secure video broadcasts of both live and on demand video content to computers and mobile devices.

The Company has a number of possible growth drivers including the building on customer penetration and developing revenues streams from its IP portfolio.

Growth in Smartphones

Market Research Firm IDC estimates units shipped by makers of smartphones globally would increase an estimated 49.2% in 2011. The smartphone sector will represent the area of largest growth in the cell phone market. According to IDC, shipments of smartphones in 2011 are expected to be in the range of 450 million units. This figure represents an increase of 140 million smartphones over the sales total from 2010. Last year's high market growth was due in part to pent-up demand from a challenging 2009, when many buyers held off on mobile phone purchases.



Source; Minneapolis News

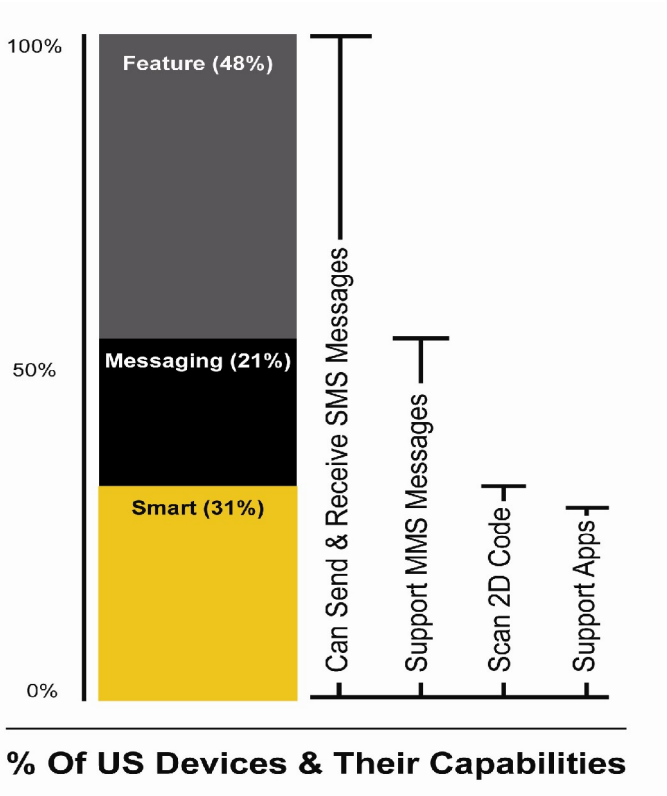
There are over 240 million cell phone subscribers in the United States exposed to an average of over 80,000 ad impressions annually that could be augmented by interactive mobile marketing messages. Along the same lines, 61.5 million US subscribers currently own a smartphone and this number is expected to reach parity with feature phone users in the second half of 2011.

That being said, mobile advertising is expected to be a multibillion dollar market within the next few years.

Augme's AD LIFE™ platform enables marketers an easy, affordable, and effective way to fully integrate mobile into existing marketing and advertising campaigns. The AD LIFE ^{tm} platform has over 130,000 campaigns executed and increased customer demand for the platform can be credited as a primary factor in the Company's 730 percent year over year increase in revenues for the year ended February 28, 2011.

What's more, with its experience in supplying mobile advertising solutions to Fortune 500 companies such as Pfizer (PFE), Johnson & Johnson (JNJ), Kellogg (K) and Kraft (KFT), Augme may be well positioned to increase its customer penetration and capture a sizable portion of the growing mobile ad market.

Current Mobile Landscape



- **Over 300M devices can send and receive SMS text messages in the US**
- **Over 150B SMS messages sent each month in US**
- **61.5 million US subscribers own a smartphone**
  - **Approximately 20M devices in the US have 2D code reader downloaded on device**
  - **By 2nd quarter 2011, over 40M devices will have 2D code readers**

Acquisitions

On August 25, 2011 Augme completed its acquisition of Hipcricket. The adjusted purchase price for the assets was $42,500,000, of which $3,000,000 was paid in cash, $1,000,000 was paid by issuance of a Note to Hipcricket, and $40,100,757 was paid by the issuance of 11,457,359 restricted shares of common stock of Augme. Looking closer at the shares 9,165,887 of the Shares will be distributed to the stockholders of Hipcricket. The company adds a number of new industries to Augme Technologies, in particular radio and television companies. Hipcricket also has a presence in Latin America.

In 2010 the company grew its mobile advertising network significantly, but 55% of its message delivery is SMS. Over 50% of its 2010 revenue was from repeat customers. In 2009 the company passed both 45,000 and 50,000 mobile marketing campaign milestones, 65,000 and 75,000 in 2010 and 100,000 in May 2011.

Augme Technology has announced the acquisition of JAGTAG for about 1.3 million shares of stock (actually $5.25 million worth of stock) and $0.25 million in cash.

JAGTAG complements Augme in two ways. Augme is aimed at the digital smart phone, which is about 30% of all phones in use whereas JAGTAG delivers multimedia to nearly all phones, featured or not. In other words Augme will be able to offer its clients access to a market three times bigger than it had previously. That is a powerful marketing advantage.

Augme's client base is currently concentrated in consumer products and pharmaceuticals. JAGTAG adds several client in both areas as well as entertainment companies (which could use Augme's BOOMBOX software), electronics companies and advertising agencies.

Typical Customer Case Study

Let’s look at typical case such as Ford Motor. Ford is projected to spend $1.3 billion on advertising in 2011. Like all advertising the primary purpose is to create leads that eventually turn into sales. Prior to aligning with Augme (Hipcricket) the firm had virtually zero advertising dollars attributed to mobile campaigns. Through a combination including a mobile call to action, giving consumers a real-time opportunity to interact with Ford,

and measuring response levels Augme created results with a 15.4% conversion rate in which leads were delivered to local dealers and followed up on that day.

According to market research firm ABI Research, compared to campaigns in more traditional media, mobile marketing can be relatively inexpensive. Moreover, ads can be highly targeted and naturally paired with rich mobile content that growing numbers of consumers are accessing through smart mobile devices. Combine this type of cost saving potential with the fact that most advertising campaigns are heavily scrutinized in low growth environments and you have a powerful business model.

Customer Portfolio



IP Portfolio

Augme may also be positioned to develop new revenue streams from its IP portfolio. The Company owns the "Method and System for Adding Function to a Webpage" portfolio of four U.S. patents. The patents revolve around technical methods/systems enabling the dynamic customization of Web pages based upon user (Web site visitor) information (such as browser type, geographic location, behavioral data, etc.).

Simply put, the patents covers the enabling of a single traditional Internet and mobile Web webpage to have an infinite number of tailored service responses based on user data.

The Company has filed lawsuits against AOL (AOL) and Yahoo! (YHOO), seeking damages for alleged patent infringement. While both lawsuits remain in the pre-trail discovery phase, any positive outcome could include potential continuing licensing fees as well as a larger potential list of patent infringers and licensees.

Litigation Update (per company press release)

Augme vs. Tacoda & AOL

Augme intends to terminate its case against AOL and Tacoda which is directly related to the Tacoda system as acquired by AOL but only as used prior to AOL's integration of that system into its own operations. On May 31, 2012, the court in the Tacoda case had denied AOL and Tacoda's motion for summary judgment holding that Augme could prove infringement of certain limitations under the doctrine of equivalents. Later, on August 2, 2012, Judge Colleen McMahon ruled that this case was limited to Tacoda operations prior to their integration into AOL's operations. As a result of this ruling, the recovery available to Augme in this case was negligible compared to the expense involved and no prospective injunctive relief was available. Accordingly, in order not to waste the time of the court or the parties, Augme intends to terminate the case and allow for the expeditious pursuit of the other litigations against AOL.

A second and separate case filed against AOL in 2009 is now proceeding in the U.S. District Court of New York and also includes United States Patent No. 6,594,691, "Method and System for Adding Function to a Web Page," and United States Patent No. 7,269,636, "Method and Code Module for Adding Function to a Webpage" is being asserted against AOL, Time Warner and Platform-A. The complaint also includes a claim against AOL for trademark infringement, unfair competition and false designation of origin in connection with AOL's use of THE BOOMBOX designation located at their portal website www.theboombox.com, which is alleged to be confusingly similar to Augme's registered trademark BOOMBOX RADIO® and BOOMBOX®.

A third case against AOL, Inc. was originally filed in 2011 in the U.S. District Court for the Eastern District of Virginia, seeking damages relating to the alleged infringement of additional patents owned by Augme, U.S. Patent Nos. 7,783,721 ("Method and Code Module For Adding Function to a Web Page") and 7,831,690 ("Appliance Metaphor For Adding Media Function To A Web Page"). On July 26, 2011 the case was moved to the U.S. District Court for the Southern District of New York. This case remains pending.

Augme vs. Pandora

Litigation was brought against Pandora for infringement of U.S. Patent No. 7,831,690, ("Appliance Metaphor for adding Media Function to a Webpage") on April 29, 2011. The discovery process in this case has been complete. A Markman Hearing has been held and the parties await the issuance of a Markman Order.

Augme vs. Velti

Augme brought litigation against Velti, a global provider of mobile marketing and advertising technology on March 9, 2012 in the District of Delaware for infringement of U.S. Patent Nos. 6,594,691; 7,269,636 and 7,783,721. The parties recently submitted a schedule and a trial date is expected to be set soon.

Augme vs. Millennial Media

On April 5, 2012, Augme brought a case against Millennial Media, a provider of mobile marketing and advertising services for infringement of U.S. Patent Nos. 6,594,691; 7,269,636 and 7,783,721. The parties recently submitted a proposed schedule and a trial date is expected to be set shortly.

On August 9, 2012, Millennial Media reported revenue from existing customers up 118% year over year and that brand advertising made up 60% of its revenue. While only 12% of revenue was from international sales. Sales & Marketing spend increased 67% year over year due to a 70% increase in the size of the sales team. A raised forecast is due from better than expected response in Asia-Pac market and North America. We believe Augme's potential damages are increasing and that Millennial's need of license of the Augme technology is now paramount to Millennial's forward operations.

INDUSTRY OUTLOOK

The mobile advertising business is still in its infancy. Many verticals have little or no penetration, smartphone sales are still well below maximum penetration and tablet PCs (like the iPad) have barely penetrated the small form factor laptop market. All of these are drivers for growth in mobile advertising. Mobile advertising is one of the most efficient and cost effective ways of reaching an audience.

Industry sources show Global Internet advertising revenue growing at 60% a year over the period 1995 to 2010. Worldwide Internet users grew 44% a year and advertising revenue per user grew at 40% a year over the same period. The penetration of all feature phones by Smartphone users was 31% at year end 2010 and is expected to exceed 50% by year end 2011. Over 60 million US subscribers own a smartphone. The Gartner Group forecasts a growth rate of 59% a year over the next four years for mobile advertising.

INDUSTRY POSITION

AD LIFE™ is an interactive SaaS platform to provide marketers, brands, and advertising agencies the ability to create, deliver, manage, and track interactive marketing campaigns targeting mobile consumers through print advertising channels. The platform offers only end-to-end mobile solution that allows brands a scalable, centralized execution and reporting platform. More importantly, AD LIFE™ solves numerous mobile complications using the only content rendering and device detection patents in the industry. The firm's patents allow AUGT to provide clients a full suite of mobile marketing services, thus providing a flexible end-to-end mobile campaign management software system.

Augme competes with larger, well capitalized firms such as Google, Apple, AOL and Yahoo. The four firms have recently made acquisitions to get a foothold in this growing industry.

Augme Competes on the basis of

- Device Agnostic technology that formats traditional digital assets into content that can be viewed on virtually any mobile device regardless of operating system or network provider;
- Ability to measure campaign effectiveness using data analysis gathered and processed using proprietary techniques (key metrics and results of client campaigns including demographic and behavioral data.)
- Software platform enables customers to implement mobile campaigns in a short time frame, typically 10 to 20 days and is significantly more cost effective than sourcing technology;
- Provides brands with centralized database and access to over 120 million consumer data records.

VALUATION

Since Augme has cash flow in its current business along with the potential cash flow in its developing IP Portfolio, we feel the firm should be valued by a sum of the parts valuation. In valuing the shares it is helpful to look at three recent deals in the space.

In July 2011 MediaMind Technology was acquired by DG FirstChannel Inc. for $422 million, or about 5X N4Q sales. MediaMind had revenue of $81 million in 2010 and was profitable. Its 4Q10 revenue growth was 15% Y/Y.

In November 2009 Google acquired AdMob for $750 million. At that time the press estimated that AdMob's revenue run rate was $70 million.

Apple acquired Quattro Wireless for a reputed $275 million. Since Apple has always preferred a closed system, it took the iAD application and shut down all competing applications that ran on other smart phones.

We value the business using the average of our DCF analysis and our relative valuation analysis. We assume a moderate capture of the market and for the firm to outgrow the industry for a period of ten years followed by a period where growth looks more like the economy. We used discount rates of 12.67% in the growth period and 11.37% in the stable period. We also added the cost of acquisitions to the capital expenditures for a true apples to apples comparison. Relative valuation assumes the same growth and discount rates and uses a multiple of 5x sales which is a bit more conservative than the deals listed above. Using these methods we come to a value of $2.50. Finally we estimate the IP Portfolio could produce somewhere between $100-150 million or $1.00 per share (using a relatively high discount rate.) The unfavorable ruling in August certainly makes settlements without litigation more difficult. Our target price is $3.50 per share.

RISKS

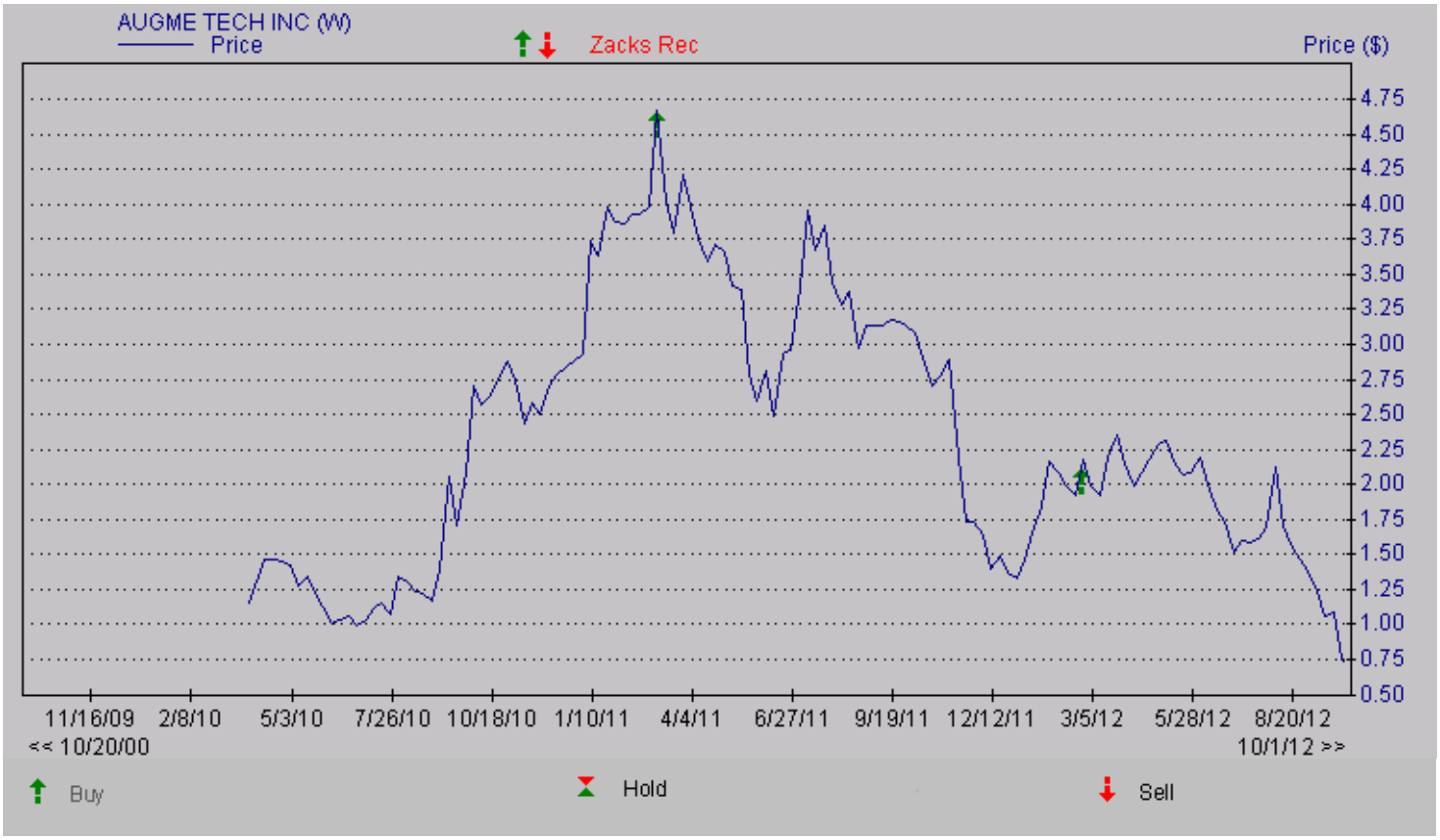
- Achieving revenue growth will require the development of additional infrastructure in sales, technical and client support functions.
- The markets for traditional Internet and mobile Web products and services being targeted for revenue opportunities are changing rapidly and are being pursued by many other companies, and the barriers to entry are relatively low.
- The company's intellectual property rights are valuable, and any inability to protect them could reduce the value of its products, services and brand.
- Equity deals serve to dilute current shareholders and could cause increased selling as lock up periods expire.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	May-11 Q1 12	Aug-11 Q2 12	Nov-11 Q3 12	Feb-12 Q4 12	May-12 Q1 13	Aug-12 Q2 13 E	FY 2010	FY 2011	FY 2012	FY 2013 E	FY 2014 E
REVENUE											
Net Revenue	**1.2**	**1.3**	**4.4**	**5.0**	**5.1**	**6.0**	**0.3**	**2.8**	**11.9**	**26.6**	**45.0**
Sequential Growth	*20%*	*7%*	*244%*	*14%*	*1%*	*18%*					
OPERATING EXPENSES											
Cost of Revenues	0.4	0.4	1.4	2.0	1.9	2.0	0.5	1.3	4.2	8.3	12.0
% of Revenue	*70%*	*32%*	*32%*	*39%*	*38%*	*33%*			*30%*		
Gross Profit -	**0.8**	**0.9**	**3.02**	**3.1**	**3.1**	**4.0**	**-0.2**	**1.5**	**7.8**	**18.3**	**33.0**
Proforma Gross Margin	*66.7%*	*68.0%*	*68.2%*	*60.8%*	*61.9%*	*66.7%*	*-66.7%*	*53.6%*	*69.6%*	*68.8%*	*73.3%*
R&D + Engg	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*26.3%*
SG&A	3.0	4.0	11.4	10.0	9.2	9.0	3.7	6.2	28.4	33	17.0
% of Revenue	*0.0%*	*313.0%*	*257.0%*	*197.7%*	*181.4%*	*150.0%*	*1233.3%*	*221.4%*	*82.7%*	*122.2%*	*37.8%*
GW Amort, Restructuring, other	*1.90*	*2.46*	*2.21*	*4.29*	*1.49*	*1.50*	3.1	*7.9*	10.85	*6.00*	*4.50*
% of Revenue											
Total Operating Expenses	4.9	6.5	13.6	14.2	10.7	10.5	6.80	14.10	39.20	38.50	21.50
% of Revenue	*21.9%*	*503.9%*	*306.8%*	*282.9%*	*210.8%*	*175.0%*	*2266.7%*	*503.6%*	*328.2%*	*145%*	*26.3%*
Operating Income -	**-4.10**	**-5.61**	**-10.6**	**-11.2**	**-7.6**	**-6.5**	**-7.000**	**-12.600**	**-31.446**	**-20.200**	**11.500**
Operating Margin	*7.6%*	*-436.0%*	*-33.6%*	*-222.2%*	*-148.9%*	*-108.3%*	*-2333%*	*-450%*	*-263%*	*-76%*	*5.0%*
EBITDA											
Earnings before Int, Taxes, Dep, Amort	-2.20	-3.15	-8.35	-6.89	-6.07	-5.00	-3.90	-4.70	-20.59	-14.20	16.00
% of Revenue	*0.19%*	*-244.99%*	*11.82%*	*-136.97%*	*-119.51%*	*-83.33%*	*-1300.00%*	*-167.86%*	*-172.41%*	*-53.38%*	*-0.16%*
Tax Provision	0.0	0.01	0.00	0.00	0.00	0.00	0.0	0.0	0	0	0.0
Effective Tax Rate		*0%*	*0%*	*0%*	*0%*	*0%*			*0%*		
Net Income -	**-4.10**	**-5.62**	**-10.6**	**-11.2**	**-7.56**	**-6.50**	**-7.00**	**-12.61**	**-31.45**	**-20.21**	**11.50**
Net Income Margin	*6.3%*	*-436.4%*	*-21.8%*	*-222.2%*	*-148.9%*	*-108.3%*	*-2333.3%*	*-450.2%*	*-263.3%*	*-76.0%*	*3.4%*
Stock Based Comp	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
EARNINGS PER SHARE											
EPS - Basic	-$0.06	-$0.08	-$0.12	-$0.12	-$0.08	-$0.07	-$0.14	-$0.20	-$0.38	-$0.21	$0.12
EPS - Diluted	-$0.06	-$0.08	-$0.12	-$0.12	-$0.08	-$0.07	-$0.14	-$0.20	-$0.38	-$0.21	$0.12
EPS - (Non_GAAP)	-$0.03	-$0.04	-$0.09	-$0.05	-$0.06	-$0.05	-$0.10	-$0.09	-$0.21	-$0.15	$0.17

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HISTORICAL ZACKS RECOMMENDATIONS



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