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Zacks Small-Cap Research

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OptimizeRx Corp (OPRX-OTC)

OPRX: Record Revenue, Record Distributions, Expect Momentum to Continue

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/26/2011
Current Price (11/20/13)	$1.11
Target Price	**$3.50**

OUTLOOK

The expectation is that sales should significantly ramp with growth in revenue from voucher printing - which should pick as SampleMD's distribution is further expanded. The additional functionality and integration into new solutions should also increase awareness, increase value to the end user, increase the physician base and utilization, help to increase the number of drugs promoted, and expand opportunities for further growth. New EHR consulting business is off to strong start and could contribute in the near term. OPRX's business model is super scalable. OPRX was cash flow positive in Q4, full-year 2012 and 9mths 2013. Revenue up 142% in 9mths 2013. Distribution growth numbers are very encouraging. Further revenue growth could mean earnings/EPS/cash flow really accelerate.
We are maintaining our Outperform rating.

SUMMARY DATA

52-Week High	**$2.05**
52-Week Low	**$0.86**
One-Year Return (%)	**54.31**
One-Year Return (%)	**8.99**
Beta	**2.21**
Average Daily Volume (sh)	**24,919**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$16**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**347.0**
Earnings Per Share (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**37.0**
P/E using 2014 Estimate	**10.1**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in '000 of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	329 A	515 A	453 A	751 A	2,049 A
2013	669 A	1104 A	1373 A	1630 E	4,776 E
2014					9,212 E
2015					17,893 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.03 A
2013	-$0.01 A	$0.01 A	$0.00 A	$0.02 E	$0.03 E
2014					$0.11 E
2015					$0.18 E

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

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WHAT'S NEW....

Q3 2013 Results: Record Revenue, Record Distributions, Expect Momentum to Continue…

OptimizeRx filed their Q3 10-Q on November 14th. Q3 revenue came in at $1.4 million, as expected following the company's pre-announcement in early October. Revenue set an all-time record (as did the number of coupon distributions) and crushed the previous best of $1.1 million, set in Q2 of this year. The record revenue did not translate into record earnings, however, due mostly to a one-time ~$360k expense related to the departure of the previous CEO in September (see our October 9th Investor Note related to the CEO departure) as well as a somewhat substantial uptick in revenue share expense.

On the operational front, management noted that their newly formed OptimizEHR consulting-related business is garnering growing interest and that they already have engagements with three companies, including Eli Lilly and Astellas.

Q3 revenue and net income of $1.4 million and $11k compared to our (prior to the pre-announcement) estimates of $1.2 million and $397k. Actual coupon distributions in the quarter of 327k compared to our 341k estimate. EPS came in at $0.00 versus our $0.01 estimate. Excluding the one-time charge, net income and EPS were roughly $370k and $0.01.

Revenue continues to ramp nicely on strong growth in coupon distributions and expansion of OPRX's distribution platform. Revenue in Q3 and in the first nine months of 2013 increased on a yoy basis of 203% (from $453k in Q3 2012) and 142% (from $1.3M in first nine months of 2012) and has grown sequentially in six of the last eight quarters (with the two exceptions being contractions of less than 11%). Management noted on the call that Q4 is already off to a strong start with 139k distributions generated in October alone.

As we have noted in our prior updates, while we think that there may be some short-term variability, depending on timing/terms/length of couponing programs by OPRX's various pharma partners, the early numbers are very encouraging and continue to suggest that revenue could begin to ramp fairly substantially over the near-to-mid term. Importantly, the vast majority (90%+) of total revenue is coming from distributions (as opposed to set-up fees) - which will be the driver of revenue long term.

Along with consistent revenue growth and increasing distribution numbers, OPRX has generated positive cash flow from operations the last two consecutive quarters as well as through the first nine months of 2013. Ex-changes in working capital, cash flow from operations was $441k in Q2, $331k in Q3 and $715k through the first nine months of 2013. Free cash flow through the first nine months of 2013 was $615k.

We expect to see continued revenue acceleration through the end of the current year and into 2014 which should be fueled by several catalysts including growth of the fledgling EHR consulting business, PDR coming online, increased utilization and physician participation within the Allscripts platforms and additional drugs promoted through SampleMD.

The PDR relationship is expected to come online in Q4 and progress through integration into 2014 - this could increase their physician base (currently at about 100k) by more than 40k and the HealthTronics channel just came online and is expected to add over 2k physicians and bring on key urology drugs including Viagra as well as expand promotion for existing drugs including Cialis and VESIcare. The other significant near-term catalyst to driving SampleMD utilization and related revenue could come from Allscripts PRO moving to opt-out versus from an opt-in option - while this was anticipated to be live earlier this year, management indicated on the Q3 call that this should now be functional in December and full phased in January. The EHR business, which was just launched in September, also has potential to make a meaningful contribution in the near-term. The EHR business appears to be off to a strong start with engagements with three companies including Eli Lilly and Astellas, both of which OPRX had relationships via their SampleMD business. Leveraging these types of synergistic opportunities with SampleMD and EHR is a key strategy to build the businesses and solidify existing relationships which appears to be paying early dividends.

CEO Resignation A Non-Event

OptimizeRx (OPRX) explained in a September conference call that the resignation of the company's Chairman and CEO, Shad Stastney, was related to the revelation of a settlement between the SEC and Stastney in a matter unrelated to OptimizeRx.

The settlement relates to accusations by the SEC that Stastney breached his fiduciary duties when he was a principal at Vicis Capital LLC, which occurred years prior to becoming OPRX's CEO. OptimizeRx noted on the call that after consulting with their attorneys that it was in the best interest of the company for Shad to step down as CEO - although clearly there is no liability risk to OPRX. Similarly, Stastney also resigned from other companies in which he held a board seat, including from Ambient Corp (AMBT) and Deer Valley (DVLY).

While OPRX's share price has languished since the resignation announcement, we do not view this as an overly material event. Stastney, a founding partner of Vicis Capital which has been a significant financier of OPRX, had been on OptimizeRx's board of directors since 2009 and was named CEO in January of this year. As management explained on the call, he was not entrenched in the day-to-day operations of the business. And coupled with the fact that David Harrell (the founder of OPRX and prior CEO who will re-assume the Chairman role), David Lester (the prior CEO) and Terry Hamilton (V.P. of Sales since 2008) which have all played significantly into the success of OPRX over the last few years and remain with company, we think OptimizeRx remains in good hands and expect Stastney's departure to create little disruption. OPRX is now undergoing a search for a qualified replacement. Stastney will serve in a consulting capacity through the end of the current year.

Recent Operational Highlights

- **Integration Into Add'l Platforms**: SampleMD was first integrated into Allscripts' e-prescription system in late 2010. Since then OPRX has been very active in expanding the SampleMD footprint in additional e-prescription providers including NewCrop and DrFirst, two e-prescriber applications that adopted SampleMD since late 2011. In Q3 2012 integration of SampleMD with Allscripts' PRO EMR application was completed and went live. This will eventually afford SampleMD access to an additional 25k physicians - the physicians have to opt-in which has been somewhat of a hindrance to capturing all the potential prescribers. Allscripts has agreed to make this an opt-out option instead which should increase utilization. The opt-out functionality should be implemented in December and fully phased in January 2014.

  In the last few months OPRX also began integration with HealthTronics, the largest urology EMR in the U.S. which touches over 2,200 physicians. OPRX beta-launched the HealthTronics platform in mid-May with a small group of doctors and recently noted that the integration was completed during Q2 and take about two months to be fully phased in. OPRX notes that this partnership could be key for certain of their current promoted drugs including Cialis and VESIcare and in acquiring other brands for promotion through their system which have a large urology prescription base - including Viagra. The total urology base of physicians that OPRX's platform should touch, including those in HealthTronics, is estimated at about 8,000.

  OPRX is also in discussions with other eprescribing platforms and EMRs to further increase their distribution reach and customer base. They recently signed an agreement with Physicians Desk Reference (PDR) whereby SampleMD will be incorporated into a PDR-branded downloadable application in physician's offices. PDR has a significant user base and expands OPRX potential distribution by up to as many as an additional 100k physicians. Integration within the PDR application is expected to be completed by year-end 2013 with a greater contribution from this channel expected in 2014 when it should be fully phased in.

  OPRX also had an agreement with LDM Group, which provides prescription management programs touching prescribers, EHRs and pharmacies. The agreement would have afforded OPRX to leverage LDM's communications and contacts to promote at the pharmacy level, thereby giving them an additional distribution channel and allowing them to offer coupons and discounts at the time a patient fills a prescription. The relationship, however, has been somewhat contentious and after dropping an earlier lawsuit against OPRX (claiming patent infringement) after the two parties came to terms for resolution, LDM subsequently filed another lawsuit claiming OPRX violated the terms of the agreement. The LDM channel is clearly on hold, at best, unless and until the two parties resolve the latest action.

- **Medication Adherence Collaboration With DrFirst:** SampleMD was recently integrated into DrFirst's Patient Advisor as that platform's exclusive provider of electronic coupons. Patient Advisor is a medication adherence solution within DrFirst's e-prescribing system and includes value-added services from KRAMES Staywell, Adheris and now SampleMD. The system allows doctors insight into Rx fill rates of their patients to help inform

them of patient compliance and is expected to increase medication adherence rates - which when not followed has shown to have a significant and direct adverse effect on patient health and health care costs (particularly for chronic diseases which are harder and more expensive to treat if not properly managed). Addressing these problems is at the forefront of recent healthcare reform measures focused on reducing healthcare costs and improving patient care and outcomes - which should increase demand for solutions such as Patient Advisor. KRAMES is one of the largest providers of health information and health management solutions. Adheris is the leading provider of direct-to-patient medication adherence programs. Together, this collaboration exposes OPRX to about 150 drug brands (including major brands such as Lipitor), increases distribution reach of SampleMD, and further bolsters its credibility from the relationships with DrFirst, KRAMES and Adheris, leaders in their respective areas.

- **SampleMD Enhancements:** OPRX has been working on certain enhancements to SampleMD including their eVITEREP functionality for physicians to be able to schedule meetings with drug reps. eVITEREP, which also allows the prescriber to live chat with a drug manufacturer, was launched in Q3 2012. eVITEREP is expected to be a valuable feature as it can reduce the hassle physicians deal with heeding drug reps' sales calls at all points during the day and eliminate rep cold calling - potentially benefitting both the doctor and drug rep/drug companies. The company is currently in the midst of upgrading SampleMD to what they call a "2.0" version which will have certain improvements including increased speed and enhanced integration capabilities.

- **OptimizEHR:** OptimizEHR launched in September 2013. The consulting business will look to leverage the contacts, client base and distribution reach already established through the SampleMD business by offering additional marketing and information-oriented services. OPRX has alluded to this type of offering in the past but with the recently consummated relationships with the likes of PDR and Krames-Staywell, prescribing and patient education information sources that will likely be part of the additional service offerings, and the advent of OptimizEHR moniker, this business line is now functional. After only about two months following the official launch, the EHR busines appears to be off to a strong start with engagements with three companies including Eli Lilly and Astellas, both of which OPRX had relationships via their SampleMD business. Leveraging these types of synergistic opportunities with SampleMD and EHR is a key strategy to build the businesses and solidify existing relationships which appears to be paying early dividends.

- **Client Base / Drugs Promoted:** OPRX continues to grow the number of pharmaceutical companies participating and drugs being promoted through SampleMD. OPRX notes that they have at least 22 pharmaceutical companies and manufacturers participating which encompasses many of the "majors" including Eli Lilly, Pfizer, and Roche, among others. They currently have about 65 drugs under promotion.

- **Patent Portfolio Beefed Up:** OPRX was recently awarded a patent covering electronically processing, displaying and distributing eligible prescription savings on medications. The company notes that they have also recently submitted and will be preparing additional IP filings.

Outlook / Valuation

Revenue was $1.1 million in the full year 2011, $2.1 million (+84% yoy) in 2012 and revenue is up 142% through the first nine months of 2013. We currently model $4.8 million in revenue for the full year, implying 133% growth from 2012.

Set-up fees (as opposed to voucher distributions) had been a meaningful portion of total revenue in the past but now distributions are accounting for ~90% of total revenue. We view this as a significant positive shift as the expectation is that sales should significantly ramp with growth in revenue from voucher printing - which should pick as SampleMD's distribution is further expanded, especially as it relates to Allscripts, DrFirst and NewCrop. Initial distribution numbers and related growth that OPRX has provided are encouraging. The additional functionality and integration into new solutions (such as platforms and partnerships with Patient Advisor, HealthTronics, and PDR) should also increase awareness, increase value to the end user, increase the physician base and utilization, help to increase the number of drugs promoted, and expand opportunities for further growth. Complementary revenue sources, particularly from the EHR business could also make a meaningful contribution, potentially in the relatively near-term.

Sales are being handled by a small internal sales team which has helped keep operating expenses and cash burn to a minimum. OptimizeRx's cost base is relatively low and largely fixed - this coupled with what we model to be quickly ramping revenue, means sustainable profitability could materialize in short order. We think OPRX is now on the front end of sustainable profitability and cash flow generation. Both Q2 and Q3 were profitable and cash flow positive (ex changes in wc). We look for OPRX to generate positive net income for the full current year. Both revenue and coupon distributions have shown sequential and yoy growth in at least six of the last eight quarters.

As the launch of SampleMD, OptimizeRx's flagship product, is still in its infancy, using P/E ratio based on a near-term EPS estimate would unfairly penalize valuation. Instead we think it is more appropriate to use our EPS estimate for 2015, at which time SampleMD should be fully commercialized and OptimizeRx's financials should more accurately reflect the earning power of the company.

As there are no publicly traded direct competitors to OptimizeRx to use for comparable P/E multiples, we think it is appropriate to use the average valuations of a handful of indirect competitors to price OPRX. Our comparable base is represented by MDRX, MDAS, QSII, ATHN and ESRX, all of which operate in the healthcare information technology space and most of which are involved to some extent in e-prescription services or EMR / EHR.

These five companies currently trade at an average of 18.7x analysts' estimated 2015 EPS. Applying this multiple to our 2015 EPS estimate of $0.18 values OptimizeRx at approximately $3.50 per share. We are maintaining our Outperform rating. Our price target is $3.50/share.

FINANCIAL MODEL

OptimizeRx Corporation

	2012 A	Q1A	Q2A	Q3A	Q4E	2013 E	2014 E	2015 E	2016 E
Revenue	$2,048.7	$669.3	$1,104.1	$1,373.0	$1,630.0	$4,776.4	$9,211.7	$17,893.0	$26,490.0
YOY Growth	*84.3%*	*103.2%*	*114.2%*	*203.0%*	*117.1%*	*133.1%*	*92.9%*	*94.2%*	*48.0%*
SG&A	$2,413.0	$774.2	$750.0	$1,362.3	$1,034.0	$3,920.5	$5,227.9	$8,692.9	$12,451.8
% SG&A	*117.8%*	*115.7%*	*67.9%*	*99.2%*	*63.4%*	*60.6%*	*56.8%*	*48.6%*	*47.0%*
Operating Income	($364.3)	($104.9)	$354.1	$10.7	$596.0	$855.9	$3,983.8	$9,200.1	$14,038.2
Operating Margin	*-17.8%*	*-15.7%*	*32.1%*	*0.8%*	*36.6%*	*17.9%*	*43.2%*	*51.4%*	*53.0%*
Other income	$0.0	$0.1	$1.0	$0.1	$1.0	$2.1	$75.0	$100.0	$135.0
Pre-Tax Income	($364.3)	($104.8)	$355.1	$10.8	$597.0	$858.1	$4,058.8	$9,300.1	$14,173.2
Taxes (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1,422.0	$4,110.2
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.3%*	*29.0%*
Net Income	($364.3)	($104.8)	$355.1	$10.8	$597.0	$858.1	$4,058.8	$7,878.1	$10,063.0
Net Margin	*-17.8%*	*-15.7%*	*32.2%*	*0.8%*	*36.6%*	*18.0%*	*44.1%*	*44.0%*	*38.0%*
EPS	($0.03)	($0.01)	$0.01	$0.00	$0.02	$0.03	$0.11	$0.18	$0.21
YOY Growth	-					*-215.3%*	*272.4%*	*67.0%*	*16.9%*
Diluted Shares O/S	14,264	14,232	33,608	34,086	34,600	29,132	37,000	43,000	47,000

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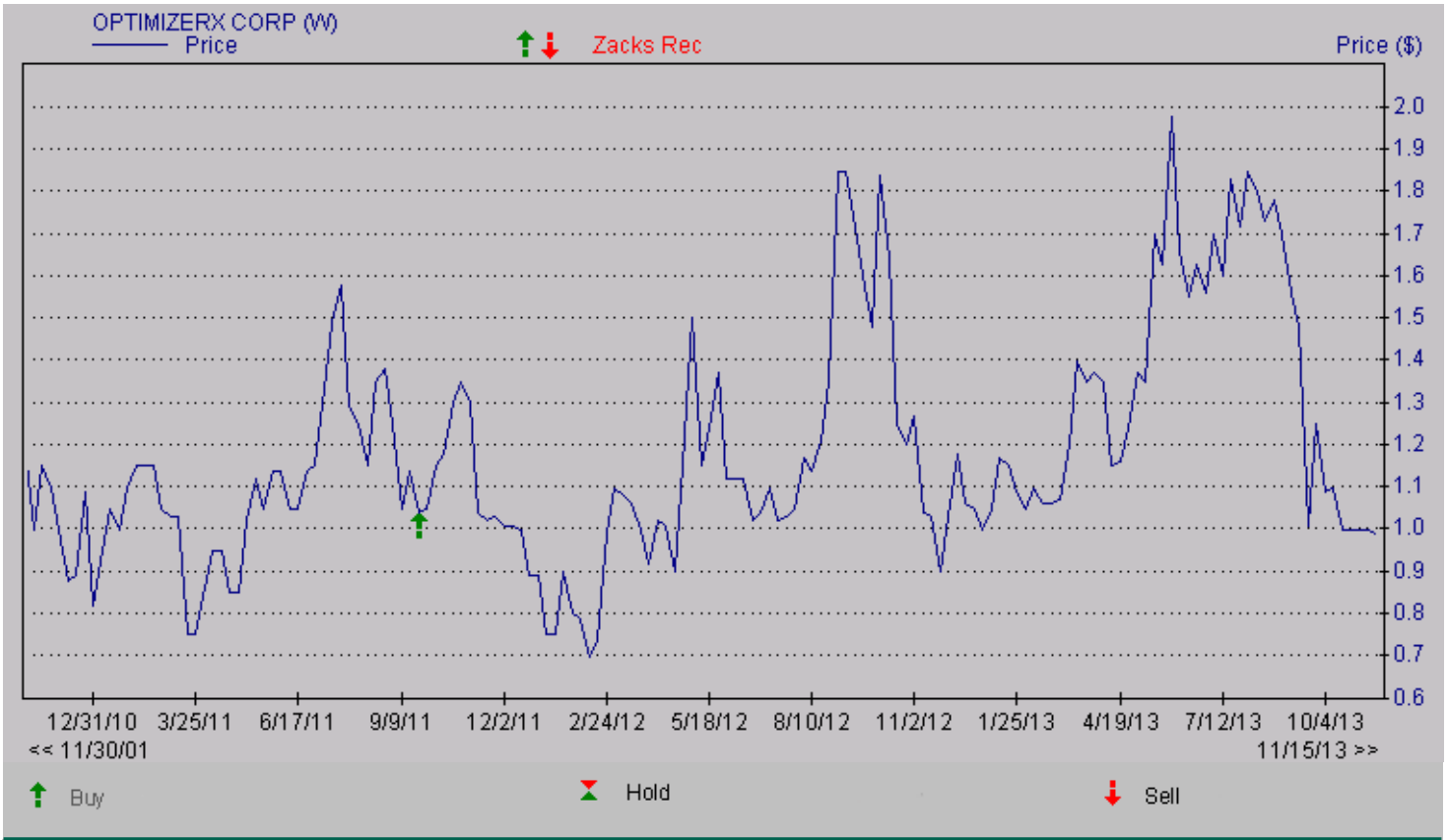

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