Zacks Small-Cap Research

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Augme Technologies Inc. (AUGT-OTC)

AUGT: Increasing estimates and adding 2014 quarterly data.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	03/06/2011
Current Price (05/20/11)	$2.80
Six- Month Target Price	**$8.00**

OUTLOOK

Augme is a provider of interactive mobile advertising systems. The company has reached critical mass, and fiscal 2012 should be profitable with positive cash flow.

Mobile marketing is being driven by new technology and the expanding use of Internet enabled cell phones. The process is interactive and mobile marketing is more effective than traditional passive advertising.

Revenue is ramping rapidly and we expect a profit for the 2012 fiscal year. We have increased our earnings estimates.

SUMMARY DATA

52-Week High	**$4.68**
52-Week Low	**$0.98**
One-Year Return (%)	**125.8**
Beta	**N/A**
Average Daily Volume (sh)	**197,889**
Shares Outstanding (mil)	**69.3**
Market Capitalization ($mil)	**$235.6**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**18.2**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2012 Estimate	**34.4**
P/E using 2013 Estimate	**14.2**

Risk Level	**N/A**
Type of Stock	**N/A**
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	2.0 E	4.0 E	5.0 E	7.0 E	18.0 E
2013	8.0 E	9.0 E	10.0 E	12.0 E	39.0 E

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

	Q1 May	Q2 Aug	Q3 Nov	Q4 Feb	YEAR Feb
2010	-$0.03A	-$0.03A	-$0.03A	-$0.07A	-$0.16A
2011	-$0.03A	-$0.03A	-$0.05A	-$0.02A	-$0.09A
2012	$0.00E	$0.01E	$0.02E	$0.05E	$0.08E
2013	$0.04E	$0.05E	$0.05E	$0.06E	$0.20E

Zacks Projected EPS Growth Rate - Next 5 Years %	**50**
Consensus Projected EPS Growth %	**N/A**

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RECENT NEWS

Fourth quarter and full year fiscal 2011 earnings:

The company reported its fourth fiscal quarter ending February 28, 2011 on May 16, 2011. Bookings exceeded our expectations but deferred revenue was slightly higher than our forecast. Excluding the charge for non-cash stock option expenses earnings were a loss of $1.35 million versus our estimate of a loss of $2.6 million. The company showed good control of operating expenses in the fourth quarter.

	4Q11A	4Q11E
Bookings:	$1.8	$1.7
Change in def. revenue:	$0.8	$0.6
Reported revenue:	$1.0	$1.1
GAAP net income:	-$6.0	-$2.6
Option expense:	$4.6	
Net for common:	-$1.4	-$2.6

(Dollars in millions, estimates by Zacks Investment Research)

Excluding the stock option expense SG&A was below our expectations. Total deferred revenue was $1.2 million at the end of the fourth quarter.

After equity related transaction the cash position was $11.2 million at the end of the fiscal year. We do not anticipate any major equity transaction in the near future.

Given the good control of operating expenses and the company's intention of increasing such expenses only as revenue grows (but declining as a percentage of revenue) we have reduced our estimates of SG&A in 2012.

Guidance:

Augme reiterated its guidance for fiscal 2012 revenue of $16 million and expects to achieve positive cash flow during the current fiscal year.

THQ:

THQ's recently released Homefront video game for the X-Box 360 contains 10 QR codes (two dimensional matrix bar codes) that, when scanned from the screen with a smart phone), allow the player to access unique game content that enhances the player's experience in playing the game.

THQ did not advertise the QR codes but players found them and this resulted in 30,000 scans over the first two days of the games release. The iPhone was the most popular phone used to scan the codes.

This is another example of the creativity of Augme Technologies and is an entry point into the video game market with its millions of devoted players worldwide.

Litigation :

Augme has filed patent infringement lawsuits against a number of companies including Time Warner Inc., Yahoo! Inc. and others, including two more in April 2011. The court has denied the motion by Yahoo for summary judgment in its case. Although Augme may prevail, there may be appeals, and we do not know when the cases will be settled. As such we are not including any compensation to Augme from any patent settlement. However, there is the potential of royalties and license revenue that could be significant.

In February 2011, the company announced that it had retained Goodwin Procter, a leading national law firm. Goodwin Procter is charged with identifying possible additional violations of Augme's intellectual property rights and initiating legal proceedings as appropriate.

On Feb. 14, 2011 the company raised $9 million from the sale of unregistered stock and warrants.

KEY POINTS

Guidance for fiscal 2012 is for revenue to exceed $16 million. In the 4Q11 reported revenue was $1 million, and deferred revenue exceeded $1 million. This ensures that Augme is a viable force in the mobile advertising market.

The $11 million on the balance sheet should carry the company until positive cash flow occurs in fiscal 2012, and we see no need for further financing.

Industry revenue is driven by increasing penetration of web enabled cell phones and the adoption of new technology.

A successful software company generates a lot of cash.

Mergers and acquisitions are the facts of life in emerging technology markets.

COMPANY OVERVIEW

Augme has a number of products that facilitate the use of the mobile device to access the advertising platform and improve the buying experience to the consumer. The company also provides consulting services to advertisers on how to better design websites to optimize the buying experience.

AD LIFE ^{tm} is the advertising platform. The consumer inputs a text message (SMS), UPC, QR Code or even a photo of the product using a camera phone. The system is device-agnostic. It has patented-device detection and advanced mobile content adaptation software. AD LIFE enables brands to access targeted audiences, regardless of device type mobile operator or cell phone operating system.

When the consumer has accessed the web site, the software can provide product information and price, store location and product availability, coupons and suggest complementary products. The system can also collect demographic data and buying behavior patterns. This data is available to the advertiser and can be used in future campaigns.

The process is interactive between the AD LIFE platform and the consumer. Since the consumer initiates the contact, they are predisposed to buying the product, and the advertising campaign is more effective.

AD SERVE[tm] is an advertising delivery platform that sells marketing content to web sites by placing banners and wallpapers onto web pages. Its advantage is that the marketing content can be changed every time the user refreshes the site.

AD BOOM[tm] is a secure video platform that can deliver streaming video content to computers and mobile devices. The service has been used to deliver internet pay-for-view video. Video over IP has been a difficult market for many companies.

OVERVIEW

Mobile advertising is becoming the most effective medium in the world to reach consumers. The mobile advertising market is about to explode. As the proliferation of smart-devices accelerates faster than even the most bullish forecasts, we expect calendar 2011 to be the year when corporations direct big money to the mobile advertising space. According to Gartner, as reported by Augme, the U.S. mobile advertising market is expected to grow at a 3-year CAGR of nearly 60%. By 2013 this sector should be approaching $2.5B in revenues.

Arc Worldwide, the marketing services arm of Leo Burnett that specializes in digital communications, direct and database marketing, promotions and shopper marketing, has identified 37 mobile shopping activities.

In November 2009 Google acquired AdMod. Apple computer acquired Quattro Wireless for its mobile advertising experience, and, since Apple does not want to support competing platforms, then incorporated the technology into its iAd advertising network and closed iAd to non Apple devices. iAd advertisements are designed to get iPhone, iPad and iPod touch users to spend far more time engaging with the ads than they do with typical banner ads on mobile websites. “iAds are captivating viewers with high-quality video and rich media experiences, engaging customers like never before and already delivering dramatic results,” said Andy Miller, the former Quattro CEO who’s now vice president of Apple’s iAd division, in today’s memo to advertisers. “Advertisers are seeing a huge spike in the amount of time customers spend watching and interacting with ads, making them more comparable to television advertising than traditional online ads, and developers are thrilled with this new source of revenue.”

It is expected that Groupon will announce its IPO in 2011. This will focus investor attention on other companies in the mobile advertising area. When AUGT moves to NASDAQ the stock will be more attractive to institutional investors.

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

Still formative, no clear winner.

VALUATION

Based on the February 2013 Fiscal year earnings of $0.20, a earnings growth rate of 50% compounded over the next five years and a PEG ratio of 0.8 (well below the current group average) our price target is $8 a share.

In November 2009 Google acquired AdMob for $750 million. At that time the press estimated that AdMob's revenue run rate was $70 million. We estimate that Augme should reach that run rate in early Calendar 2015, about four years from now. Discounting $750 million by 10% a year for four years leads to a value of $490 million, or $7.25 a share based on 68 million basic shares.

Apple acquired Quattro Wireless for a reputed $275 million. This equates to $4.23 a share for Augme. 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.

Based on the data shown in Yahoo Finance for AUGT the forward P/E is 17.5 and the PEG ratio is 3.20. This implies an earnings growth rate of 5.5% a year. Since Augme will grow at well above this number we consider the current valuation to be unreasonably low.

COMPARISON TABLE	Ticker	Price	Mkt	ROE	P/E	P/E	P/B	P/S	EV/Sales	EV/EBITDA	PEG
		5/20/11	Cap	(%)	L4Q	N4Q	LQ	L4Q	L4Q	L4Q	
			(in million)								
Augme Technology	**AUGT.OB**	**$2.80**	**$194**	**NM**	**NM**	**NM**	**6.45**	**68.78**	**NM**	**0.37**	**0.69**
Constant Contact	**CTCT**	$25.74	$758	1.6	NM	28.0	5.9	4.2	3.5	52.9	0.77
Glu Mobile Inc.	**GLUU**	$3.91	$311	NM	N/A	N/A	8.0	3.5	2.9	NM	N/A
Harte-Hanks Inc	HHS	$8.44	$538	11.94	10.68	10.42	1.23	0.63	0.76	5.96	3.00
Mediacontech	MCH.MI	$1.98	$37	8.85	NA	NA	0.93	0.28	0.67	3.71	N/A
Marchex Inc.	MCHX	$7.45	$241	NM	N/A	24.03	1.63	2.27	1.98	NM	1.55
MediaMind Technology	MDMD	$16.79	$313	10.60	33.18	19.30	2.32	3.64	2.53	14.29	1.62
Velti PLC	VELT	$19.00	$966	NM	N/A	29.23	5.42	6.99	7.13	47.78	1.78
Mean				8.24	21.93	22.19	3.98	11.28	2.78	20.83	1.57
Median				9.73	21.93	24.03	3.87	3.57	2.53	10.13	1.59
(Source: Yahoo Finance and Zacks Investment Research estimates)											

RISKS

There is no assurance that the company will be able to develop the infrastructure necessary to achieve the potential sales growth.

Achieving revenue growth will require the development of additional infrastructure in sales, technical and client support functions. The company will continue to design plans to establish growth, adding sales and sales support resources as capital permits.

The company has a short operating history and a new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate future prospects and increases the risk of your investment.

The markets that we are targeting for revenue opportunities may change before we can access them.

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.

There is significant competition from large and small companies offering products and services related to mobile marketing technologies and services, targeted advertising delivery and the delivery of Web-based video. Many of these companies have greater financial, technical and marketing resources than does Augme at this point in time.

On 03/03/2011 the web site WikiMobiDex.org [www. wikimobidex.org] listed 190 companies in the mobile advertising networks area.

If Augme does not continue to innovate and provide products and services that are useful to users, the company may not remain competitive, and revenues and operating results could suffer.

Business success depends on the continued growth and acceptance of mobile marketing/advertising and Web-based video delivery as a communications tool, and the related expansion and reliability of the Internet infrastructure.

Relationships with the company's channel partners may be terminated or may not continue to be beneficial in generating new clients, which could adversely affect Augme's ability to increase its client base.

Augme maintains a network of active channel partners, who refer clients to the company within different industries. It is critical to maintain contractual relationships with existing channel partners and establish new contractual relationships with potential channel partners. Additional clients from these marketing relationships is dependent on the marketing efforts of the partners, over which Augme has very little control.

Competition for qualified employees is intense, and Augme may not be able to attract and retain the highly skilled employees whom needed to support its business.

The company's intellectual property rights are valuable, and any inability to protect them could reduce the value of its products, services and brand.

Problems with third party hosting companies could harm Augme.

Since there is limited trading volume in the common stock, there is a high degree of volatility in the stock price, and investors may not be able to resell any of the shares they own or may have to sell shares at a substantially reduced price.

INSIDER TRADING AND OWNERSHIP

According to Yahoo there were no insider sales over the past six months. Phil C. Rapp, COO, has acquired 50,000 shares though an option exercise. Paul R. Arena, CEO, has purchased 43,750 shares in non-open market transactions. There is an outstanding shelf registration for the sale of up to one million shares by Paul R. Arena and David Ide.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Augme Technologies																						
Consolidated Statements of Operations																						
(Dollars in millions except per share data)																						
Fiscal Year Feb. 28	2010	1Q11	2Q11	3Q11 A	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14	2Q14	3Q14	4Q14	2014	2015
	Act.					Act	Est.				Est.	Est.				Est.					Est.	Est.
Net sales	**$0.34**	**$0.29**	**$0.72**	**$0.85**	**$0.96**	**$2.82**	**$2.00**	**$4.00**	**$5.00**	**$7.00**	**$18.00**	**$8.00**	**$9.00**	**$10.00**	**$12.00**	**$39.00**	**$15.00**	**$21.00**	**$28.00**	**$35.00**	**$99.00**	**$198.23**
% Change	0.76	639.99	1719.12	1099.42	405.33	730.01	598.51	456.55	486.05	626.90	538.02	300.00	125.00	100.00	71.43	116.67	87.50	133.33	180.00	191.67	153.85	100.23
Cost Goods	0.49	0.23	0.25	0.36	0.40	1.25	0.60	1.20	1.20	1.30	4.30	1.60	1.80	2.00	2.40	7.80	3.00	4.20	5.60	7.00	19.80	29.73
G & A	5.58	1.54	2.18	3.06	1.64	8.43	1.60	1.80	2.00	2.00	7.40	2.50	3.00	3.00	3.50	12.00	4.00	4.00	4.00	5.00	17.00	18.70
In process R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depr. & Amort.	0.84	0.25	0.24	0.26	0.27	1.02	0.25	0.25	0.25	0.25	1.00	0.24	0.24	0.24	0.24	0.96	0.20	0.20	0.20	0.20	0.80	2.00
Op Income GAAP	(6.57)	(1.74)	(1.96)	(2.83)	(1.35)	(7.88)	(0.45)	0.75	1.55	3.45	5.30	3.66	3.96	4.76	5.86	18.24	7.80	12.60	18.20	22.80	61.40	147.80
Interest Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	1.00	0.25	0.50	0.50	0.50	1.75	0.50	0.50	0.50	0.50	2.00	2.00
Non Op Income	0.00	0.00	0.00	0.00	(4.60)	(4.60)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	(0.34)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Calc.Pretax	(6.91)	(1.74)	(1.96)	(2.83)	(5.95)	(12.48)	(0.20)	1.00	1.80	3.70	6.30	3.91	4.46	5.26	6.36	19.99	8.30	13.10	18.70	23.30	63.40	149.80
Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.01	0.63	0.71	0.84	1.02	3.20	1.33	2.10	2.99	3.73	10.14	23.97
Tax Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pro-forma adj.	0.00	0.00	0.00	0.00	4.60	6.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	(6.91)	(1.74)	(1.96)	(2.83)	(5.95)	(12.48)	(0.20)	1.00	1.80	3.70	6.30	3.28	3.75	4.42	5.34	16.79	6.97	11.00	15.71	19.57	53.26	125.83
Costs and expenses are on a pro-forma basis																						
Disc. Operations	(1.47)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net For Common	(8.38)	(1.74)	(1.96)	(2.83)	(5.95)	(12.48)	(0.20)	1.00	1.80	3.70	6.30	3.28	3.75	4.42	5.34	16.79	6.97	11.00	15.71	19.57	53.26	125.83
Shares Used, millions	50.98	57.28	57.97	60.41	65.31	60.24	68.00	80.00	80.00	82.00	77.50	82.00	82.00	82.00	82.50	82.13	84.00	84.00	84.00	84.00	84.00	85.00
Earnings Per Share																						
EPS	**($0.16)**	**($0.03)**	**($0.03)**	**($0.05)**	**($0.09)**	**($0.21)**	**($0.00)**	**$0.01**	**$0.02**	**$0.05**	**$0.08**	**$0.04**	**$0.05**	**$0.05**	**$0.06**	**$0.20**	**$0.08**	**$0.13**	**$0.19**	**$0.23**	**$0.63**	**$1.48**
Pro Forma EPS	**($0.16)**	**($0.03)**	**($0.03)**	**($0.05)**	**($0.02)**	**($0.09)**	**($0.00)**	**$0.01**	**$0.02**	**$0.05**	**$0.08**	**$0.04**	**$0.05**	**$0.05**	**$0.06**	**$0.20**	**$0.08**	**$0.13**	**$0.19**	**$0.23**	**$0.63**	**$1.48**

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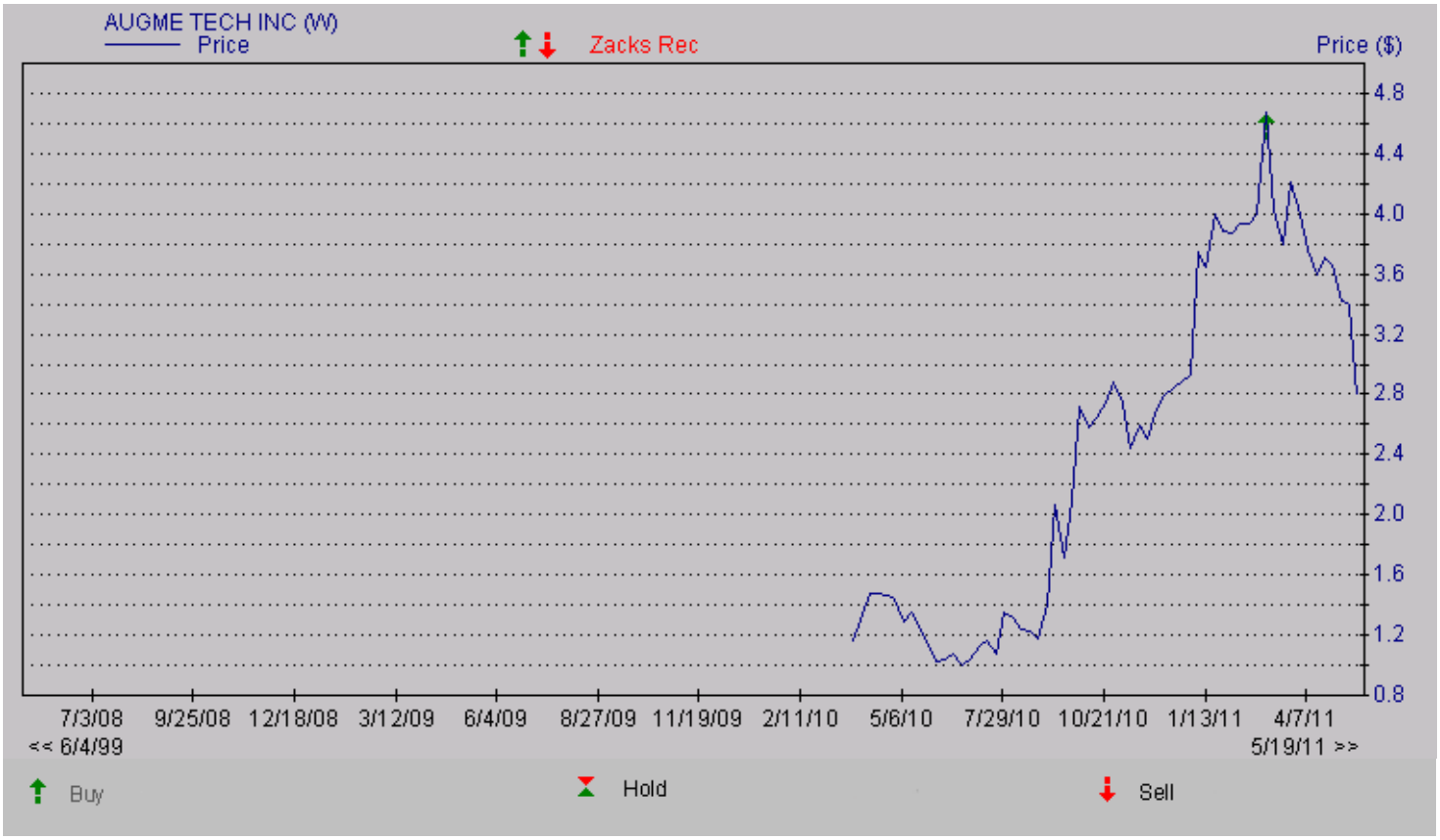
Augme Technology Inc.						
Consolidated Balance Sheet (in millions)						
Fiscal Year Feb. 28						
	4Q09	**4Q10**	**1Q11**	**2Q11**	**3Q11 A**	**4Q11**
ASSETS						Act.
Cash & Equiv.	0.375	1.618	0.179	0.351	0.658	11.182
A/R	0.374	0.116	0.123	0.416	1.073	2.025
Other	0.476	0.079	0.125	0.722	0.602	0.132
Total current assets	1.224	1.812	0.427	1.489	2.333	13.339
Net plant, property & equipment	0.508	0.465	0.497	0.580	0.664	0.571
Investments	0.000	0.000	0.000	0.000	0.000	0.000
Intangibles	1.935	17.549	17.385	17.210	17.040	18.053
Other	1.746	0.027	0.027	0.027	0.027	0.068
All Assets	5.414	19.854	18.336	19.306	20.064	32.031
LIABILITIES AND NET WORTH						
Debt Due 1 Yr	0.000	0.000	0.000	0.000	0.000	0.000
Notes Payable	0.000	0.000	0.000	0.000	0.000	0.000
A/P	1.059	0.880	0.711	0.829	1.026	0.709
Defered revenue	0.000	0.222	0.094	0.099	0.396	1.190
Other	1.468	0.362	0.254	0.248	0.246	0.031
Total current liabilities	2.527	1.464	1.059	1.176	1.669	1.930
LT Def. Rev	0.000	0.012	0.013	0.013	0.013	0.000
L.T.Debt	0.000	0.000	0.000	0.000	0.000	0.000
Other LT	0.000	0.000	0.000	0.000	0.000	0.000
Def. Taxes & ITC	0.000	0.000	0.000	0.000	0.000	0.000
Other	0.000	0.000	0.000	0.000	0.000	0.000
All Liabilities	2.527	1.476	1.072	1.189	1.682	1.930
Pref.Stock	0.000	0.000	0.000	0.000	0.000	0.000
Common Stock	0.004	0.006	0.006	0.006	0.006	0.007
Surplus	21.348	45.847	46.469	49.280	52.373	70.047
Retained Earnings	-18.465	-27.475	-29.211	-31.169	-33.996	-39.953
Other	0.000	0.000	0.000	0.000	0.000	0.000
Treasury Stock	0.000	0.000	0.000	0.000	0.000	0.000
Net Worth	2.887	18.378	17.264	18.117	18.382	30.101
Total liabilities & stockholders' equity	5.414	S	18.336	19.306	20.064	32.031

HISTORICAL ZACKS RECOMMENDATIONS



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