

Initial Research Report

Investors should consider this report as only a single factor in making their investment decision.

Borqs Technologies, Inc.

Speculative Buy

John Nobile

January 23, 2018

BRQS \$6.55 — (NASDAQ)

	<u>2015A</u>	<u>2016A</u>	<u>2017E</u>	<u>2018E</u>
Revenues (millions)	\$75.1	\$120.6	\$149.0	\$182.2
Earnings (loss) per share	\$(0.04)	\$0.31	\$(1.60)	\$(0.02)

52-Week range	\$6.90 – \$4.00	Fiscal year ends:	December
Common shares out as of 11/20/17	30.8 million	Revenue per share (TTM)	\$4.59
Approximate float	7.2 million	Price/Sales (TTM)	1.4X
Market capitalization	\$202 million	Price/Sales (FY2018)E	1.1X
Tangible book value/share	\$(2.32)	Price/Earnings (TTM)	NMF
Price/tangible book value	NMF	Price/Earnings (FY2018)E	NMF

Borqs Technologies, Inc., headquartered in Beijing, China, is a provider of software and products focused on the Internet of Things (IoT) market. The company is also a mobile virtual network operator (MVNO) in China.

Key investment considerations:

Initiating coverage of Borqs Technologies, Inc. with a Speculative Buy rating and twelve-month price target of \$8.25 per share.

Borqs has averaged revenue growth of nearly 60% over the past two years. While we do not project such a robust rate of growth, we believe continued customer acceptance of the company's products in the fast growing IoT market (28.5% CAGR to \$457 billion in 2020 from \$157 billion in 2016 projected by GrowthEnabler) should enable strong growth through our forecast horizon.

Borqs has received investments from large chipset vendors such as Intel and Qualcomm. The company works closely with these vendors in developing their software in order to produce a competitive product portfolio and benefits from the large global sales teams of both Intel and Qualcomm.

The company's connected solutions platform is built on Google's Android software. Borqs was among the first to obtain the Android source code and has since been focused on building its technology platform. The company also has the Google GMS license that can be used for Android phones and tablets.

For 2017, we project a loss of \$(1.60) per share on revenue growth of 23.6% to \$149 million. Growth should be driven primarily by increased hardware sales (such as mobile phones, tablets and wearables) scheduled for delivery in 2H17.

For 2018, we project revenue will grow 22.3% to \$182.2 million and a loss of \$(0.02) per share. Growth will be driven primarily by continued market acceptance of BRQS' hardware products in the growing IoT market.

****Please view our disclosures on pages 18 - 20.***

Recommendation and Valuation

We are initiating coverage of Borqs Technologies, Inc. with a Speculative Buy rating and twelve-month price target of \$8.25 per share.

Our rating reflects our projected 40% compound annual growth rate (CAGR) of the company's revenue to \$182.2 million in 2018 from \$47.5 million in 2014. Borqs is successfully penetrating the IoT market as customer acceptance of the company's products (such as mobile phones, tablets, and wearables) continues.

Borqs has received investments from large chipset vendors such as Intel and Qualcomm. In 2017, Qualcomm invested in a preferred stock offering from Borqs and as of 1/10/18, Intel's investment in Borqs was approximately 4.2 million shares or 13.6% of total shares outstanding based on 30.8 million shares.

Shares of BRQS currently trade at a multiple of 1.4X trailing twelve months sales. With the current multiple of 1.4X applied to our FY18 sales per share projection of \$5.91, we derive a year-ahead value of approximately \$8.25 per share. Our twelve-month price target implies a year-ahead return of over 25%.

We believe shares of BRQS are suitable for risk tolerant investors looking to make an investment in the fast growing IoT market. Investors are cautioned that with a substantial portion of Borqs' operations conducted in China, the company is subject to economic, political and legal developments in China which could adversely affect the company's business.

Organizational History

Borqs Technologies, Inc. (formerly known as Pacific Special Acquisition Corp.) was incorporated in the British Virgin Islands on July 1, 2015 for the purpose of acquiring, merging with, or engaging in a business combination with one or more businesses or entities.

On August 18, 2017, the company acquired a 100% equity interest in Borqs International Holding Corp. Concurrent with the completion of the acquisition, the company changed its name from Pacific Special Acquisition Corp. to Borqs Technologies, Inc.

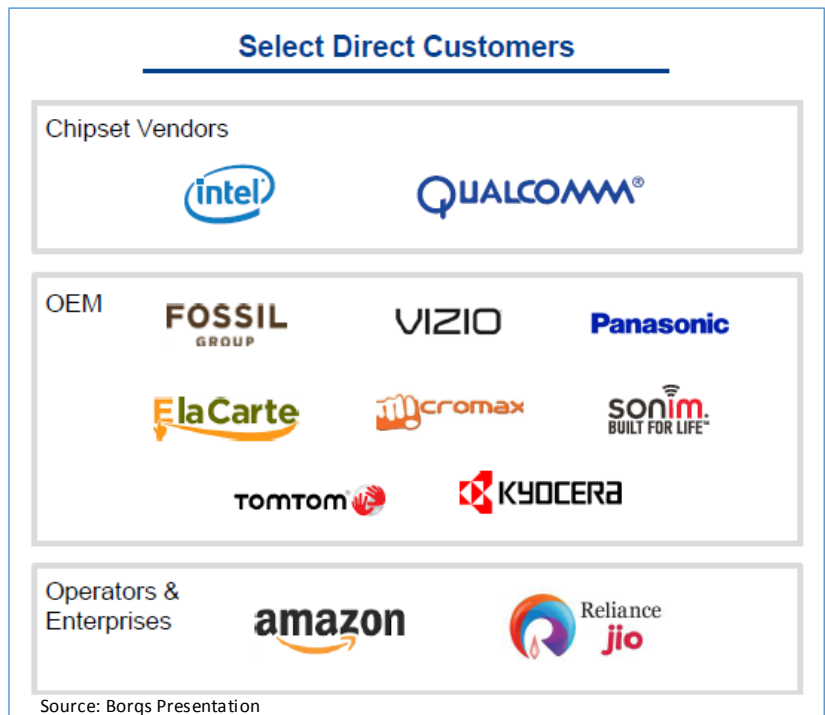
Business

Borqs Technologies, headquartered in Beijing, China, is a provider of software and products focused on the Internet of Things (IoT) market. Internet of Things refers to the network of objects (such as security systems, thermostats, cars, electronic appliances, and lights in household and commercial environments) that feature internet connectivity and the communication that occurs between these objects and other Internet-enabled devices and systems.

The company is also a mobile virtual network operator (MVNO) in China. An MVNO is a wireless communications services provider that does not own the wireless network infrastructure over which it provides services to its customers. An MVNO enters into a business agreement with a mobile network operator to obtain bulk access to network services at wholesale rates, then sets retail prices independently.

The company's operations include two business units, connected solutions and MVNO. The connected solutions unit develops wireless smart connected devices (hardware) and cloud solutions (software). The MVNO unit operates a mobile virtual network in China that provides a full range of 2G/3G/4G mobile communication services for consumers.

Connected Solutions – Borqs’ connected solutions unit designs chipsets and related software for mobile connected devices. The company outsources manufacturing of connected devices to third-party factories, buying key components for devices and consigning them to the factories to manufacture and assemble. Borqs sells the final products to its customers (select direct customers can be seen in table at right), which are responsible for marketing and retail distribution.



The company developed the Android software platform and hardware platform for Intel and Qualcomm phones and tablets. In February 2016, Qualcomm announced its planned business expansion for its next generation Qualcomm® Snapdragon™ Wear platform with the addition of new ecosystem partners (including Borqs).

The platform is targeted for next generation connected and tethered wearables, such as smartwatches, watches for children and elderly individuals, smart bands, smart eyewear, and smart headsets.

The company’s connected solutions platform is built on Google’s Android software. Android is an open source operating system for mobile devices such as smartphones and tablet computers, and was first released to the public by Google in late 2008. Borqs, which was among the first to obtain the Android source code, built a technology platform used in the first deployment of Android-based mobile devices to support a network for China Mobile.

Borqs provides customers with customized, integrated, commercial grade Android platform software and service solutions through its BorqsWare software platform consisting of client and server software. The client software platform offers commercial grade Android software that works with selective mobile chipsets, functionality enhancements of open source Android software, and mobile operator required services. Customers may require the company to provide further software customization to meet their specific market needs. Borqs’ client software has been used in Android phones, tablets, watches and various Internet-of-Things (IoT) devices.

Borqs’ server platform consists of back-end server software that allows customers to develop their own mobile end-to-end services for their devices. Customers may require the company to provide further customization of its server software to meet their specific needs.

As of October 2017, the company has collaborated with six mobile chipset manufacturers and 29 mobile device OEMs to commercially launch Android based connected devices in 11 countries. Connected devices embedded with the BorqsWare software platform are in more than 10 million units worldwide.

Borqs’ connected solutions unit generated approximately 77% of the company’s revenue in 9M17.

In January 2018, Borqs announced it signed an agreement to acquire 13.8% of both Shenzhen Crave Communication Co., Ltd (Crave) and its affiliated business entity in Hong Kong, Colmei Technology International Ltd (Colmei). Crave is a manufacturer of mobile terminal devices and Colmei is a sales entity located in Hong Kong. In 2017, Borqs contracted Crave/Colmei for multiple projects in the manufacturing of Borqs’ products. Terms call for payment of 3 million of BRQS shares and \$10 million in cash to be paid over 3 years for total consideration of \$13 million.

Borqs believes its Crave and Colmei investment will provide access to quality manufacturing and assist Borqs in supply chain financing by leveraging their relationships with financial institutions in Hong Kong.

In January 2018, Borqs announced it signed a letter of intent to acquire 60% of Shanghai KADI Machinery Technology Co., Ltd (KADI), a developer of embedded software and hardware for core electric control modules in electric vehicles. The consideration proposed to be paid by Borqs includes \$15 million in cash and shares distributed over three years. Borqs is likely to raise equity capital to complete this acquisition.

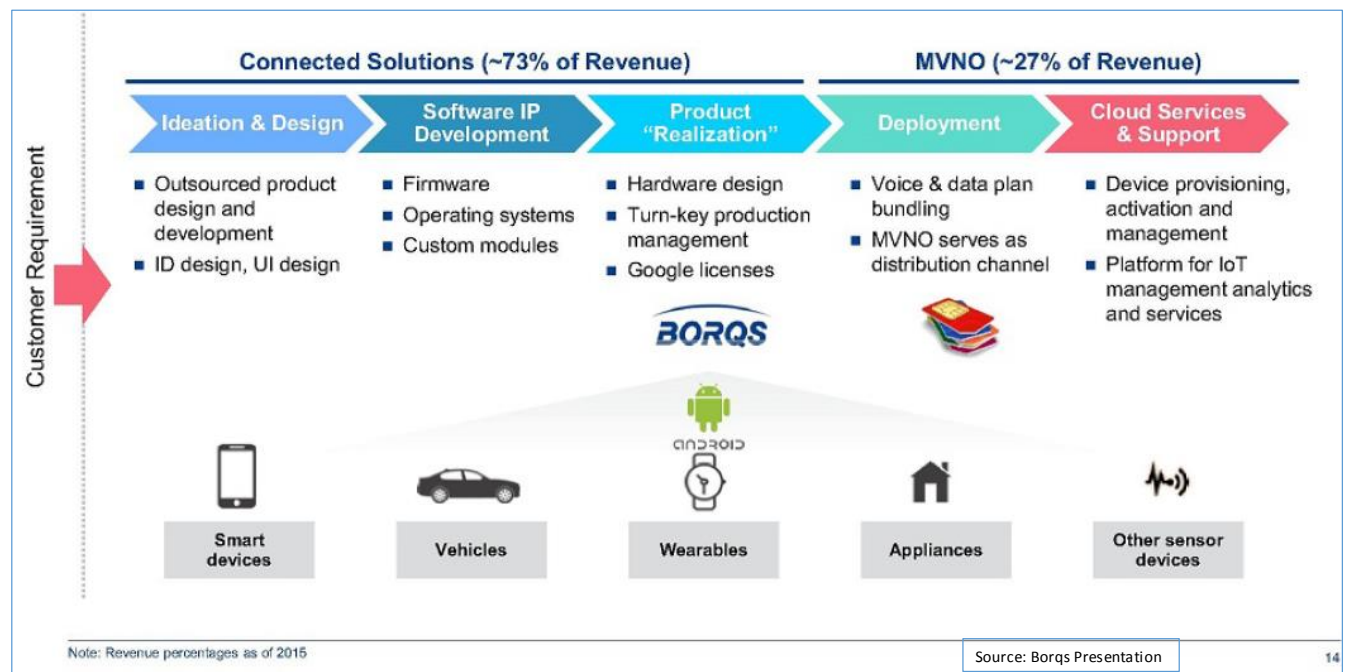
KADI was awarded a \$48.5 million supply contract for its core electric control modules from a key automotive contractor in China, Shenzhen Espirit Technology Co., Ltd. The products are to be delivered between 2018 through 2020.

MVNO – This unit provides a full range of 2G/3G/4G voice and data services for general consumer usage and IoT devices, as well as traditional telecom services such as voice conferencing. The MVNO unit also acts as a sales and promotion channel for the products developed by the connected solutions unit. With nearly 4.6 million subscribers as of December 31, 2016 (latest figures available), Borqs’ MVNO unit is the second largest MVNO in China.

Borqs’ MVNO unit generated approximately 23% of the company’s revenue in the first nine months of 2017.

End-to-End Business Model

Borqs’ connected solutions unit aids customers in the design, development and commercialization of their connected devices. The company’s MVNO unit helps customers deploy their devices in China with 2G/3G/4G cellular connectivity and a flexible voice/data plan. Borqs’ business model helps to satisfy specific customer requirements through five key offerings that include ideation and design, software IP development, product realization, deployment, and cloud services and support. Following is a brief description of these offerings.



Ideation & Design — Based on customer requirements, Borqs helps design the product ID and user interface. The company offers design engineering for 2D/3D rendering and can provide a physical mockup with different color, material and finishes, so the customer can hold and feel the product before it is manufactured.

Software IP Development — IoT devices are often highly customized and require special software to display the data (i.e. watch display and user interface), reduce power consumption (i.e. a small battery in a wearable device), perform specific functions (i.e. push-to-talk), and to connect to the network. Borqs has developed a large number of software libraries that can be reused for various connected devices.

Product Realization — Borqs’ research and development team helps customers design hardware. The company also provides services to help customers handle manufacturing logistics.

Deployment — A number of connected devices require cellular connectivity to connect to the network to access backend cloud services. If a customer intends to deploy their connected devices in China, the customer can acquire SIM cards with flexible voice/data plans from Borqs’ MVNO for cellular connectivity.

Cloud Services and Support — Borqs’ MVNO can help customers manage their subscribers database, handle the payment and re-charging, as well as provide data analytics of the subscribers usage traffic models.

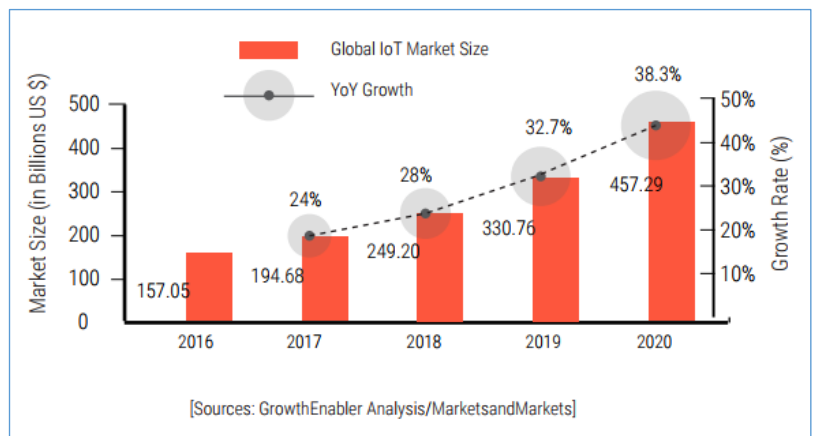
Applications of Borqs’ technology include a prominent mobile chipset manufacturer that decided to enter the wearable market with its newly designed chipset. Borqs collaborated with this customer to develop the latest Android software to support its chipset. In June of 2016, Borqs announced the launch of one of the world’s first 4G watches for this customer.

Other applications include a major TV manufacturer in the US selecting Borqs to develop its TV Wi-Fi tablet remote using Qualcomm chipsets with BorqsWare software, a customer that supplies restaurant ordering tablets to Applebee’s restaurants in the US using BorqsWare software running on Intel and Qualcomm chipsets, and a major mobile operator in India launching the world’s first 4G LTE FDD/TDD carrier aggregation Android phone provided by Borqs which uses BorqsWare and Qualcomm chipsets.

IoT Market

IoT is broadly classified into nine segments, five for businesses and four for individuals. Businesses use consists of industrial IoT, retail, smart utilities and energy, healthcare, and smart cities. Individual use consists of connected homes, wearables, cars, and personal health. In a report on the IoT market (April 2017), the research firm GrowthEnabler broke the IoT market into two distinct groups – businesses and individuals.

Businesses consider investing in IoT to reduce business continuity risk through predictive analytics that optimize operational performance, reduce costs, and consequently increase profits and customer impact. Other benefits include higher workforce productivity and new product development opportunities. End-customers (individuals) increasingly use IoT to save time, money and heighten personal convenience by using smart home automation, and rely on health tracking devices to enhance well-being and lifestyle. Adoption is set to grow as machine sensors in smartphones, wearable devices, and other smart devices become more prevalent and affordable.



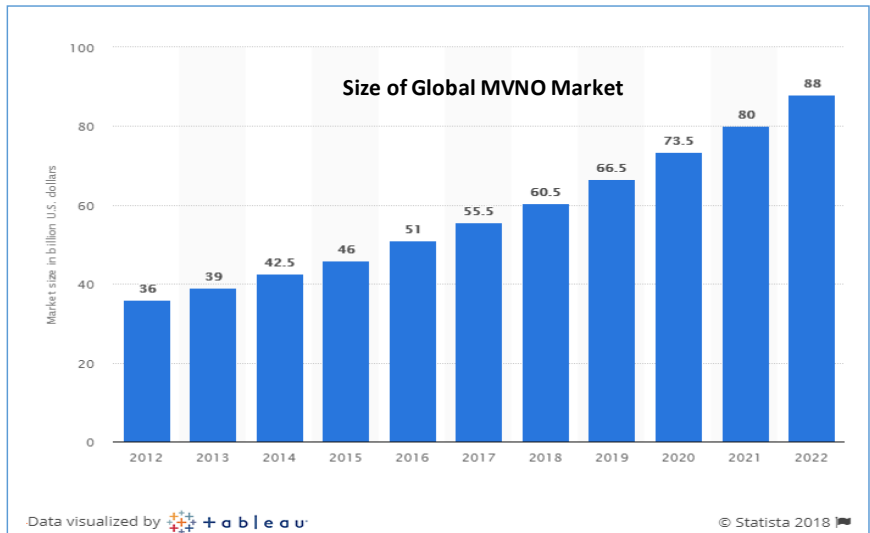
GrowthEnabler projects that IoT will connect 20 billion devices or ‘things’ to the existing internet infrastructure by 2020. Sophisticated sensors, embedded into everyday objects are already enabling data led decision making for early adopters across industries. IoT has enabled the connected home to become a reality, and as a consequence minimized human effort with inventions such as smart refrigerators that can pre-order groceries

through e-commerce. Gadgets such as Amazon’s Echo Dot and Google’s Nest represent the first generation of IoT products with the best of IoT still to come. GrowthEnabler projected the global IoT market to grow from \$157 billion in 2016 to \$457 billion by 2020 for a compound annual growth rate of 28.5% (see chart at lower right on previous page).

Supporting growth in the IoT market will be an increase in the number of IoT connections. GrowthEnabler projected the number of IoT connections will increase at a CAGR of 16% from 6 billion in 2015 to 27 billion by 2025.

MVNO Market

The global MVNO market was valued at \$55.5 billion in 2017 and is projected to reach \$88 billion by 2022 for a compound annual growth rate (CAGR) of 9.7% (see chart at right). Driving growth is rising advancements in mobile technology (such as 4G and LTE infrastructure). However, low profit margins restrain market growth.



While the global MVNO market is expected to growth at a CAGR of 9.7% into 2022, the MVNO market in China is expected to grow more rapidly. Reportlinker projects China’s MVNO market to grow at a CAGR of 65.1% from 2016 to 2021. Some factors driving growth in China are growing smartphone penetration, increasing traffic, telecom infrastructure development in rural and remote areas, and the increasing adoption of IoT solutions.

Competition

The marketplace for connected devices and cloud service solutions is highly fragmented. The company competes on the basis of various factors, including reliability, performance, experience, product features and functionality, time-to-market, price, and customer support to name a few.

Borqs expects competition to intensify as more competitors enter the market, and as existing competitors attempt to diversify and expand their software and service solutions offerings across the Android platform. The company’s primary competitors include traditional hardware-centric OEMs and software development companies. Traditional OEMs include Foxconn and Compal. Large software development companies include Neusoft and Wipro.

Major MVNO competitors include Snail Mobile, d.Mobile and Soshare. The company estimates that these three MVNOs and Borqs have more than a 50% market share of all the MVNO subscribers in China.

Some of Borqs’ competitors have significantly greater financial, technical, marketing and other resources than the company.

Competitive Advantage

Borqs’ competitive strengths come from its relationships with leading chipset vendors, its software capabilities across parts of the Android platform, its large MVNO subscriber base, its significant investment in research and development, and its experienced management team.

The company works closely with the world's two leading chipset vendors, Intel and Qualcomm, in their software development, including software for their latest state-of-the-art chipsets. These strategic relationships enable the company to come up with a competitive product portfolio and also benefit from the large global sales teams of both Intel and Qualcomm.

Borqs' software capabilities across core parts of the Android platform value chain have driven a full suite of software and services and a significant shortening of the time to market for customers. The company was among the first to obtain the Android source code in early 2008 and has since been focused on building its technology platform. Borqs has partnered with Qualcomm and launched the world's first 4G watch. The company also has the Google GMS license that can be used for Android phones and tablets.

According to the MVNO Cooperative Office of the Regulatory Affairs Department of China Unicom (the incumbent mobile operator), Borqs had 4.56 million registered subscribers as of December 31, 2016, making it the second largest MVNO in China. The company plans to launch IoT connected devices together with SIM cards (and voice/data plans) in order to convert one-time device sales into recurring monthly voice/data revenue.

Strategy

The company's strategic goal is to lead and expand the market for smart connected devices, and to increase its MVNO market share in China. Borqs plans to achieve its goal by adhering to the following key strategies:

Maintain and grow market share and technology leadership – Borqs intends to leverage its core technology to maintain its position as an independent provider of commercial grade Android platform software for mobile chipset manufacturers, mobile device OEMs, and mobile operators. The company also intends to grow market share by expanding its software and service platform solutions. Borqs intends to hire additional experienced engineers in China and India and further invest in research and development efforts to strengthen its core technology expertise and capabilities.

Deepen relationships with existing customers – While Borqs believes that its relationships with existing customers are strong, it intends to further strengthen those relationships in order to create more business opportunities. Through collaborations with customers from the early stages of a product launch, the company intends to gain insight into its customers' long-term goals.

Expand its MVNO market share in China – Based on publically available data from China, the company is believed to be one of the top MVNO businesses in China, as measured in terms of registered subscribers. Borqs intends to expand its market share organically or by acquiring smaller MVNOs. The company also intends to bundle its connected products with its SIM cards (with voice/data plans) and focus the bundling on IoT devices.

Selectively pursue acquisitions, strategic alliances, joint ventures and partnerships – Borqs intends to pursue acquisition opportunities, strategic alliances, joint ventures and partnerships to complement its core technology, further its geographic expansion, and grow its business.

R&D and Intellectual Property

The company has research and development centers in Beijing, China and Bangalore, India. At December 31, 2016, the company had 565 full-time employees and contractors of which 71% were technical professionals dedicated to platform research and development and project-specific customization. For the three and nine months ended September 30, 2017, research and development expenses represented 22% and 24% of operating expenses, respectively.

We anticipate R&D expenses could represent 33.3% of operating expenses in 2018. Borqs' R&D efforts are focused on developing the BorqsWare software and service platform solutions to improve and enhance its Android platform. A typical R&D project takes between six to nine months to complete. A significant portion of a typical project consists of existing Android platform software and service solutions, while incorporating necessary customizations for a particular customer.

Borqs has been granted 128 patents in China and four patents in the US, and as of December 31, 2016, the company had 20 pending patent applications in China and six pending patent applications in the US. Borqs also has 68 software copyrights and 45 trademarks registered and 10 pending trademarks in China.

Among Borqs' intellectual property rights are patents related to mobile device user interface and operation, mobile application software algorithms, and new network technology for mobile devices.

Borqs believes that certain intellectual property may be subject to intellectual property arrangements and joint patent ownership agreements the company entered into with China Mobile and China Mobile Research Institute. The rights of and related to historical revenues generated from such intellectual property may be subject to objections or claims raised by China Mobile or China Mobile Research Institute.

3Q and Nine-month Financial Results

3Q17 – Revenue increased 63% to \$44.9 million. The net loss widened to \$18.3 million or \$(1.21) per share from a net loss of \$2.1 million or \$(0.49) per share. Included in the net loss for 3Q17 was net income of \$250,000 or \$0.02 per share attributable to noncontrolling interests and a loss of \$6.5 million or \$(0.43) per share related to the accretion to redemption value of convertible preferred shares. Included in the net loss for 3Q16 was a net loss of \$174,000 or \$(0.04) per share attributable to noncontrolling interests and a loss of \$191,000 or \$(0.04) per share related to the accretion to redemption value of convertible preferred shares. Excluding these items, the net loss was \$11.6 million or \$(0.76) per share in 3Q17 versus a net loss of \$2.1 million or \$(0.48) per share in 3Q16.

Connected Solutions revenue (includes hardware and software revenue) increased 97% to \$36.6 million while MVNO revenue (includes MVNO and other revenue) decreased 7% to \$8.3 million in 3Q17.

Hardware revenue increased 130% to \$34.7 million while software revenue decreased 46% to \$1.9 million. MVNO revenue (excludes traditional telephony activities) increased 9% to \$7.8 million while other revenue decreased 73% to \$463,000.

Gross profit increased 78% to \$8.9 million. Gross margins increased to 19.9% from 18.3%. Connected Solutions gross margins decreased to 17% from 20% while MVNO gross margins increased to 35% from 15%. The decrease in Connected Solutions gross margins were due to a higher volume of lower margin hardware sales. The increase in MVNO gross margins was due to increased economies of scale.

	3m 9/17A	3m 9/16A
Net revenues	44,864	27,492
Cost of revenues	(35,915)	(22,453)
Gross profit	8,949	5,039
Operating expenses	(20,432)	(5,752)
Operating income / (expense)	(11,483)	(713)
Non-operating income / (expense)	(24)	(17)
Income before taxes	(11,507)	(730)
Income tax	(58)	(1,320)
Net income (loss)	(11,565)	(2,050)
Noncontrolling interests	250	(174)
Net income / (loss)	(11,815)	(1,876)
Accretion of convertible preferred stock	(6,508)	(191)
Net income (loss) to common stock	(18,323)	(2,067)
EPS	(1.21)	(0.49)
Shares Outstanding	15,193	4,260
<u>Margin Analysis</u>		
Gross margin	19.9%	18.3%
Sales and marketing	7.3%	5.9%
General and administrative	28.1%	13.3%
Research and development	10.1%	3.0%
Operating margin	(25.6)%	(2.6)%
Net margin	(40.8)%	(7.5)%
Tax rate	0.5%	-180.8%
<u>Year / Year Growth</u>		
Total Revenues	63.2%	
Source: Company filings		

Borqs Technologies, Inc.

Operating expenses increased to \$20.4 million from \$5.8 million. General and administrative expenses increased to \$12.6 million from \$3.7 million due to a non-cash and non-recurring merger transaction related expense in the amount of \$8.8 million paid to consultants associated with the August 2017 merger. R&D expenses increased to \$4.5 million from \$825,000 as a significant portion of the company's design activities were expensed as cost of revenue of its hardware projects. Selling and marketing expenses increased to \$3.3 million from \$1.6 million.

The company paid \$58,000 in income tax versus \$1.3 million in 3Q16. Borqs' tax rates have been higher than statutory rates because losses experienced by certain subsidiaries could not be used to offset gains in other subsidiaries within the same jurisdiction.

Nine-months 2017 – Revenue increased 26.7% to \$98.9 million. The net loss widened to \$19.8 million or \$(2.50) per share from a net loss of \$586,000 or \$(0.14) per share. Included in the net loss for the nine-months of 2017 was net income of \$369,000 or \$0.05 per share attributable to noncontrolling interests and a loss of \$7 million or \$(0.88) per share related to the accretion to redemption value of convertible preferred shares. Included in the net loss for the nine-months of 2016 was a net loss of \$834,000 or \$(0.20) per share attributable to noncontrolling interests and a loss of \$788,000 or \$(0.18) per share related to the accretion to redemption value of convertible preferred shares. Excluding these items, the net loss was \$12.5 million or \$(1.57) per share in the nine-months of 2017 versus a net loss of \$632,000 or \$(0.15) per share in the nine-months of 2016.

Connected Solutions revenue (includes hardware and software revenue) increased 47% to \$76 million while MVNO revenue (includes MVNO and other revenue) decreased 13% to \$23 million.

Hardware revenue increased 66% to \$67.5 million while software revenue decreased 24% to \$8.5 million. The increase in hardware revenue reflects an increase in hardware product orders from the emerging markets in Asia. The decrease in software revenue primarily reflects the loss of one of the company's major chip manufacturer clients from the Android based product platform.

MVNO revenue (excludes traditional telephony activities) decreased 8% to \$21.5 million while other revenue decreased 52% to \$1.5 million. The decrease in net MVNO revenue is attributable to Chinese government policies requiring heightened security checks for authentication of PRC identification cards at the point of sale of SIM cards, which adversely impacted subscription activities.

The company designed a new security check and activation system that simplified the sales procedure. Using this new activation system, Borqs was able to overcome the adverse effect from tightened security measures for SIM card activation.

	<u>9m 9/17A</u>	<u>9m 9/16A</u>
Net revenues	98,912	78,083
Cost of revenues	<u>(78,067)</u>	<u>(60,159)</u>
Gross profit	20,845	17,924
Operating expenses	<u>(30,997)</u>	<u>(16,171)</u>
Operating income / (expense)	(10,152)	1,753
Non-operating income / (expense)	<u>(1,412)</u>	<u>211</u>
Income before taxes	(11,564)	1,964
Income tax	<u>(948)</u>	<u>(2,596)</u>
Net income (loss)	(12,512)	(632)
Noncontrolling interests	<u>369</u>	<u>(834)</u>
Net income / (loss)	<u>(12,881)</u>	<u>202</u>
Accretion of convertible preferred stock	<u>(6,956)</u>	<u>(788)</u>
Net income (loss) to common stock	<u>(19,837)</u>	<u>(586)</u>
EPS	<u>(2.50)</u>	<u>(0.14)</u>
Shares Outstanding	7,944	4,260
<u>Margin Analysis</u>		
Gross margin	21.1%	23.0%
Sales and marketing	6.3%	5.9%
General and administrative	17.7%	9.7%
Research and development	7.4%	6.7%
Operating margin	(10.3)%	2.2%
Net margin	(20.1)%	(0.8)%
Tax rate	8.2%	132.2%
<u>Year / Year Growth</u>		
Total Revenues	26.7%	
Source: Company filings		

Gross profit increased 16% to \$20.8 million. Gross margins decreased to 21.1% from 23%. Connected Solutions gross margins decreased to 18% from 30% while MVNO gross margins increased to 31% from 9%. The decrease in Connected Solutions gross margins were due to a higher volume of lower margin hardware sales. The increase in MVNO gross margins was due to increased economies of scale.

Operating expenses increased to \$31 million from \$16.2 million. General and administrative expenses increased to \$17.5 million from \$7.6 million due to a non-cash and non-recurring merger transaction related expense in the amount of \$8.8 million paid to consultants associated with the August 2017 merger and increased head-count. R&D expenses increased to \$7.4 million from \$5.2 million as a significant portion of the company's design activities were expensed as cost of revenue of its hardware projects. Selling and marketing expenses increased to \$6.2 million from \$4.6 million.

The company paid \$948,000 in income tax versus \$2.6 million in the nine-months of 2016. Borqs' tax rates have been higher than statutory rates because losses experienced by certain subsidiaries could not be used to offset gains in other subsidiaries within the same jurisdiction.

Liquidity – As of September 30, 2017, Borqs had \$19.4 million cash of which \$3.4 million is restricted, a current ratio of 1.4, a debt to equity ratio of 0.1, and 38% of assets were financed by equity.

Cash used in operations in the first nine months of 2017 was \$9.9 million consisting of \$6.4 million cash earnings and a \$16.4 million decrease in working capital. The decrease in working capital was primarily due to an increase in prepaid expenses, receivables, and inventories, offset in part by an increase in amounts due to related parties.

The bulk of cash used in investing consisted primarily of \$6.5 million purchases of intangible assets related to capitalized software development costs. Cash provided by financing of \$28.3 million consisted primarily of \$18 million cash received from merger and \$9 million proceeds from the issuance of convertible preferred shares.

While the company had no long-term bank debt as of September 30, 2017, it had \$14.4 million of current bank debt with interest rates ranging from 6.73% to 7.97%.

Economic Outlook

In October 2017, the IMF raised its global economic growth estimate to 3.6% in 2017 and 3.7% in 2018, up from its earlier (July 2017) growth forecast of 3.5% for 2017 and 3.6% for 2018. The upward revision reflects broad based economic activity in 1H17.

The IMF raised its economic growth estimate for the US to 2.2% in 2017 and 2.3% in 2018, up from its earlier (July 2017) growth forecast of 2.1% for both years. The upward revision reflects strong, broad based US economic activity in 1H17.

The third estimate of US GDP growth (released on December 21, 2017) showed the US economy grew at an annual rate of 3.2% in 3Q17, up from 3.1% growth in 2Q17. The 3Q17 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, business investment, and exports.

The IMF raised its economic growth estimate for China to 6.8% in 2017 and 6.5% in 2018, up from its earlier (July 2017) growth forecast of 6.7% for 2017 and 6.4% for 2018. The upward revision reflects strong economic activity in 1H17 and more buoyant external demand.

Projections

Our estimates will not include contribution from the pending 13.8% acquisition of Crave and Colmei or 60% acquisition of KADI until they are completed.

2017 – We project revenue will grow 23.6% to \$149 million and a net loss of \$21.9 million or \$(1.60) per share. Growth will be driven primarily by increased hardware sales.

We project a \$4.8 million increase in gross profit to \$31.1 million from \$26.3 million and gross margins decreasing to 20.9% from 21.8% due primarily to increased sales of lower margin hardware products.

We anticipate sales and marketing expenses increasing to \$9.5 million from \$5.9 million. We project an \$11.7 million increase in general and administrative expenses to \$21.7 million due primarily to an \$8.8 million non-cash, non-recurring merger transaction related expense and increased headcount. R&D expenses are projected to increase \$5 million to \$11.9 million from \$6.9 million due primarily to increased hardware and software development projects.

Interest expense should increase to \$1.8 million from \$797,000 due to higher average debt levels. We project the company paying \$1.1 million in taxes for an 8.2% tax rate, consistent with the year-to-date rate.

We project cash earnings of \$7.7 million and a \$5.3 million increase in working capital for \$2.4 million cash provided by operations. The increase in working capital should come primarily from increases in prepaid expenses, receivables, and a decrease in deferred revenue, offset in part by an increase in amounts due to related parties. We project \$6.6 million cash used in investing due primarily to purchases of intangible assets. Cash of \$24.3 million provided by financing activities should come primarily from cash received from merger and proceeds from the issuance of convertible preferred stock. We project a \$20.6 million increase in cash to \$24.2 million at December 31, 2017.

2018 – We project revenue growth of 22.3% to \$182.2 million and a net loss of \$543,000 or \$(0.02) per share. Growth will be driven primarily by continued market acceptance of BRQS' hardware and software products in the growing IoT market. We project governmental policies in China will continue to impact the company's subscription activities resulting in moderate growth in the company's MVNO sales.

We project a \$7.5 million increase in gross profit to \$38.6 million from \$31.1 million and gross margins increasing to 21.2% from 20.9% due primarily to increased manufacturing overhead coverage.

Sales and marketing expenses should increase \$1.4 million to \$10.9 million from \$9.5 million. We project a \$7.1 million decrease in general and administrative expenses to \$14.6 million due primarily to the absence of the \$8.8 million non-cash, non-recurring merger transaction related expense that occurred in 2017. R&D expenses are projected to increase \$1.6 million to \$13.5 million from \$11.9 million due primarily to increased hardware and software development projects.

Interest expense is projected to decrease to \$690,000 from \$1.8 million due to lower average debt levels. We project the company paying \$8,000 in taxes for an 18.5% tax rate.

We project cash earnings of \$12.1 million and a \$4.3 million increase in working capital for \$7.9 million cash provided by operations. The increase in working capital should come primarily from an increase in receivables and inventories offset in part by an increase in payables and accrued expenses. We project \$435,000 of capital expenditures. Cash used in financing activities of \$16.8 million reflect purchases of common stock and debt repayments. We project a \$9.4 million decrease in cash to \$14.9 million at December 31, 2018.

Management

Pat Sek Yuen Chan, Founder, Chairman of the Board, Chief Executive Officer and President - Served as CEO and President since 2007. Served as Senior VP and General Manager of the infrastructure business unit of UTStarcom Inc. from 2000 to 2007. Prior, Chan was an engineering manager in Motorola. Bachelor's degree in computer science from the University of Toronto, Master's degree in computer science from the University of British Columbia.

Anthony K. Chan, Chief Financial Officer and Executive Vice President, Corporate Finance – Chan joined Borqs in April 2015. From July 2013 until March 2015, Chan served as the President of Asia Sourcing for Portables Unlimited in New York. From March 2009 until July 2013, served as the CFO for Tianjin Tong Guang Digital Broadcasting Co. Ltd. For 20 years prior, Chan was involved in multiple investment and technology transfer projects between China, the US and Europe in the areas of communication products, chemical fibers, textile machinery and medical equipment. Bachelor's and MBA degrees from the University of California at Berkeley.

Risks

In our view, these are the principal risks underlying the stock.

High concentration of business in China – A substantial portion of Borqs' operations are conducted in China, and a significant portion of revenues are derived from customers where the contracting entity is located in China. Accordingly, the company's business, financial condition, results of operations, prospects and certain transactions are subject to economic, political and legal developments in China.

The People's Republic of China (PRC) government restricts or imposes conditions on foreign investment in telecommunication business. Borqs and its PRC subsidiaries are considered foreign-invested enterprises under PRC foreign investment related laws. As a result, the company is subject to PRC legal restrictions or conditions regarding foreign ownership of a telecommunication business. If Borqs is found to be in violation of PRC laws, or changes are made to existing laws, the company's business is likely to be adversely affected.

Uncertainty regarding MVNO license in China – The company's license to operate its mobile communications services as a mobile virtual network operator in China is based on a government issued extension of a trial license that was originally set to expire on December 31, 2015. If Borqs cannot obtain a renewed license, or the current extension is terminated, the company would need to cease its MVNO operation.

Limited number of major customers – Borqs has derived a significant portion of its revenue from a small number of major customers and key projects. For 2015 and 2016, the company's top five customers accounted for 54.1% and 51.7%, respectively, of revenue. Any loss of business from these customers or key projects could reduce Borqs' revenue and significantly harm its business.

Competition – The mobile operating system industry is intensely competitive and characterized by rapid technological changes, which often result in shifts in market share among the industry's participants as one operating system may become more widely used than others. There can be no assurance that the Android platform will continue to compete effectively with alternative mobile operating system platforms, such as Apple's iOS platform or Windows mobile operating system from Microsoft.

Material weakness of internal controls over financial reporting – In the course of preparing its consolidated financial statements, Borqs has identified material weaknesses, significant deficiencies and other deficiencies in its internal control over financial reporting. The company is currently in the process of implementing remedial steps to improve its internal control over financial reporting. If Borqs fails to timely achieve and maintain the adequacy of its internal controls, investors could lost confidence in the reliability of its financial statements.

Exchange rate risk - Approximately half of Borqs' revenues and costs are denominated in the Renminbi (RMB). Any significant revaluation of RMB may materially and adversely affect the company's cash flows, revenues, earnings and financial position. For example, an appreciation of RMB against the US dollar would make new RMB denominated investments or expenditures more costly to the company. Conversely, a significant depreciation of the RMB against the US dollar may significantly reduce the US dollar equivalent of the company's earnings.

Delisting risk – In October 2017, Borqs received notice from the NASDAQ stock market that it was not in compliance with its listing rules of 300 round lot holders of common stock and 400 round lot holders of warrants. In December 2017, Borqs announced that a NASDAQ Hearings Panel granted the company's request for the continued listing of its ordinary shares on The NASDAQ Capital Market pursuant to an extension to evidence compliance with the minimum 300 round lot shareholder requirement through April 10, 2018. The Panel determined to delist the company's warrants from NASDAQ due to its continued non-compliance with the minimum 400 round lot shareholder requirement. The warrants will be eligible to trade on the OTC Markets.

Liquidity risk - Shares of Borqs Technologies have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. There are 7.2 million shares in the float and the average daily volume is approximately 4,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Borqs Technologies, Inc.

Consolidated Balance Sheets
(in thousands \$)

	2014A	2015A	2016A	9/17A	2017E	2018E
Cash and cash equivalents	13,418	7,787	3,610	15,978	24,249	14,868
Restricted cash	981	770	1,153	3,419	3,419	3,419
Receivables	13,030	15,361	33,066	41,422	40,858	49,950
Inventories	2,190	6,264	12,682	17,938	15,853	19,308
Deferred cost of revenues	3,275	984	969	453	453	453
Prepaid and other current assets	3,399	3,225	6,599	13,056	13,056	13,056
Total current assets	36,293	34,391	58,079	92,266	97,888	101,054
Net property and equipment	2,487	2,250	1,488	1,398	1,176	986
Intangible assets	9,753	13,262	15,498	19,835	19,835	19,835
Goodwill	786	741	693	725	725	725
Deferred tax assets	283	1,074	1,054	1,102	1,102	1,102
Deferred cost of revenues	355	177	689	1,521	1,521	1,521
Other non-current assets	182	1,184	529	3,028	3,028	3,028
Total assets	50,139	53,079	78,030	119,875	125,275	128,251
Accounts payable	7,693	6,951	22,691	18,250	28,364	34,546
Accrued expenses and other payables	4,167	6,263	7,634	10,801	9,433	11,532
Advances from customers	-	-	-	1,284	1,284	1,284
Amount due to related parties	-	-	-	12,127	12,127	12,127
Deferred revenue	12,863	17,334	11,995	7,835	7,835	7,835
Other current liabilities	-	-	-	52	52	52
Income tax payable	-	165	847	1,790	1,790	1,790
Short-term bank borrowings	2,817	2,000	6,306	10,751	6,751	-
Current portion of long-term borrowings	-	571	1,381	3,667	3,667	3,667
Deferred government grants	3,056	1,762	264	-	-	-
Total current liabilities	30,596	35,046	51,118	66,557	71,303	72,833
Unrecognized tax benefits	46	691	1,755	1,350	1,350	1,350
Warrant liabilities	-	-	1,344	-	-	-
Deferred tax liabilities	2,032	1,779	1,539	1,509	1,509	1,509
Deferred revenue	23	440	2,428	2,449	2,449	2,449
Other non-current liabilities	-	-	-	89	89	89
Long-term bank borrowings	-	381	4,491	-	-	-
Deferred government grants	4,260	2,252	1,844	1,927	1,927	1,927
Total liabilities	36,957	40,589	64,519	73,881	78,627	80,157
Preferred equity	65,469	67,886	68,862	-	-	-
Common equity (deficit)	(53,441)	(55,031)	(54,256)	46,656	47,310	48,756
Noncontrolling interest	1,154	(365)	(1,095)	(662)	(662)	(662)
Total stockholders' equity	13,182	12,490	13,511	45,994	46,648	48,094
Total liabilities & stockholders' equity	50,139	53,079	78,030	119,875	125,275	128,251

Source: Company filings and Taglich Brothers' estimates

Borqs Technologies, Inc.

Income Statements for the Fiscal Years Ended
(in thousands \$)

	2014A	2015A	2016A	2017E	2018E
Software	17,222	22,468	14,912	10,373	9,700
Hardware	28,058	32,647	70,536	107,280	138,000
MVNO	58	16,007	29,309	29,360	32,500
Other	2,150	3,950	5,829	1,989	1,960
Net revenues	47,488	75,072	120,586	149,002	182,160
Software	(8,966)	(12,660)	(6,347)	(4,145)	(3,395)
Hardware	(24,303)	(26,101)	(57,452)	(92,565)	(116,610)
MVNO	(786)	(16,225)	(28,784)	(20,278)	(22,750)
Other	(1,592)	(2,980)	(1,709)	(879)	(800)
(Cost) of revenues	(35,647)	(57,966)	(94,292)	(117,867)	(143,555)
Gross profit	11,841	17,106	26,294	31,135	38,605
Operating income/(expense)					
Sales and marketing	(4,419)	(7,359)	(5,874)	(9,502)	(10,930)
General and administrative	(4,197)	(4,883)	(10,042)	(21,715)	(14,573)
Research and development	(11,743)	(7,245)	(6,886)	(11,860)	(13,480)
Change in fair value of warrant liabilities	-	-	(12)	(200)	-
Other operating income	648	3,094	1,760	360	360
Operating income (loss)	(7,870)	713	5,240	(11,782)	(17)
Interest income	23	61	65	16	16
Interest expense	(82)	(156)	(797)	(1,829)	(690)
Other income	282	208	114	768	768
Other expense	(402)	(35)	(59)	(122)	(120)
Foreign exchange (loss) gain	72	855	692	(387)	-
Income before taxes	(7,977)	1,646	5,255	(13,336)	(43)
Income tax	(194)	(851)	(2,659)	(1,093)	(8)
Net income (loss)	(8,171)	795	2,596	(14,429)	(51)
Noncontrolling interests	(510)	(1,316)	(632)	492	492
Net income / (loss)	(7,661)	2,111	3,228	(14,921)	(543)
Accretion of convertible preferred stock	(2,848)	(2,417)	(976)	(6,956)	-
Net income (loss) to common stock	(10,509)	(306)	2,252	(21,877)	(543)
EPS	(1.46)	(0.04)	0.31	(1.60)	(0.02)
Shares Outstanding	7,175	7,176	7,177	13,659	30,805
<u>Margin Analysis</u>					
Gross margin	24.9%	22.8%	21.8%	20.9%	21.2%
Sales and marketing	9.3%	9.8%	4.9%	6.4%	6.0%
General and administrative	8.8%	6.5%	8.3%	14.6%	8.0%
Research and development	24.7%	9.7%	5.7%	8.0%	7.4%
Operating margin	(16.6)%	0.9%	4.3%	(7.9)%	(0.0)%
Net margin	(22.1)%	(0.4)%	1.9%	(14.7)%	(0.3)%
Tax rate	2.4%	51.7%	50.6%	(8.2)%	(18.5)%
<u>Year / Year Growth</u>					
Total Revenues		58.1%	60.6%	23.6%	22.3%

Source: Company filings and Taglich Brothers' estimates

Borqs Technologies, Inc.

Quarterly Income Statements 2017E - 2018E (in thousands \$)

	<u>6m/17A*</u>	<u>9/17A</u>	<u>12/17E</u>	<u>2017E</u>	<u>3/18E</u>	<u>6/18E</u>	<u>9/18E</u>	<u>12/18E</u>	<u>2018E</u>
Software	6,583	1,890	1,900	10,373	2,350	2,400	2,450	2,500	9,700
Hardware	32,801	34,679	39,800	107,280	33,000	34,000	35,000	36,000	138,000
MVNO	13,628	7,832	7,900	29,360	8,050	8,100	8,150	8,200	32,500
Other	<u>1,036</u>	<u>463</u>	<u>490</u>	<u>1,989</u>	<u>490</u>	<u>490</u>	<u>490</u>	<u>490</u>	<u>1,960</u>
Net revenues	54,048	44,864	50,090	149,002	43,890	44,990	46,090	47,190	182,160
Software	(2,598)	(777)	(770)	(4,145)	(823)	(840)	(858)	(875)	(3,395)
Hardware	(29,246)	(29,719)	(33,600)	(92,565)	(27,885)	(28,730)	(29,575)	(30,420)	(116,610)
MVNO	(9,820)	(5,228)	(5,230)	(20,278)	(5,635)	(5,670)	(5,705)	(5,740)	(22,750)
Other	<u>(488)</u>	<u>(191)</u>	<u>(200)</u>	<u>(879)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(800)</u>
(Cost) of revenues	<u>(42,152)</u>	<u>(35,915)</u>	<u>(39,800)</u>	<u>(117,867)</u>	<u>(34,543)</u>	<u>(35,440)</u>	<u>(36,338)</u>	<u>(37,235)</u>	<u>(143,555)</u>
Gross profit	11,896	8,949	10,290	31,135	9,348	9,550	9,753	9,955	38,605
Operating income/(expense)									
Sales and marketing	(2,985)	(3,257)	(3,260)	(9,502)	(2,633)	(2,699)	(2,765)	(2,831)	(10,930)
General and administrative	(4,866)	(12,599)	(4,250)	(21,715)	(3,511)	(3,599)	(3,687)	(3,775)	(14,573)
Research and development	(2,820)	(4,540)	(4,500)	(11,860)	(3,248)	(3,329)	(3,411)	(3,492)	(13,480)
Change in fair value of warrant liabilities	(161)	(39)	-	(200)	-	-	-	-	-
Other operating income	<u>267</u>	<u>3</u>	<u>90</u>	<u>360</u>	<u>90</u>	<u>90</u>	<u>90</u>	<u>90</u>	<u>360</u>
Operating income (loss)	1,331	(11,483)	(1,630)	(11,782)	45	12	(21)	(54)	(17)
Interest income	10	2	4	16	4	4	4	4	16
Interest expense	(1,143)	(378)	(308)	(1,829)	(254)	(200)	(146)	(90)	(690)
Other income	354	222	192	768	192	192	192	192	768
Other expense	(276)	184	(30)	(122)	(30)	(30)	(30)	(30)	(120)
Foreign exchange (loss) gain	<u>(333)</u>	<u>(54)</u>	<u>-</u>	<u>(387)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	(57)	(11,507)	(1,772)	(13,336)	(43)	(22)	(1)	22	(43)
Income tax	<u>(890)</u>	<u>(58)</u>	<u>(145)</u>	<u>(1,093)</u>	<u>(4)</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>	<u>(8)</u>
Net income (loss)	(947)	(11,565)	(1,917)	(14,429)	(47)	(24)	(1)	20	(51)
Noncontrolling interests	<u>119</u>	<u>250</u>	<u>123</u>	<u>492</u>	<u>123</u>	<u>123</u>	<u>123</u>	<u>123</u>	<u>492</u>
Net income / (loss)	<u>(1,066)</u>	<u>(11,815)</u>	<u>(2,040)</u>	<u>(14,921)</u>	<u>(170)</u>	<u>(147)</u>	<u>(124)</u>	<u>(103)</u>	<u>(543)</u>
Accretion of convertible preferred stock	<u>(448)</u>	<u>(6,508)</u>	<u>-</u>	<u>(6,956)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss) to common stock	<u>(1,514)</u>	<u>(18,323)</u>	<u>(2,040)</u>	<u>(21,877)</u>	<u>(170)</u>	<u>(147)</u>	<u>(124)</u>	<u>(103)</u>	<u>(543)</u>
EPS	NA	(1.21)	(0.07)	(1.60)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)
Shares Outstanding	NA	15,193	30,805	13,659	30,805	30,805	30,805	30,805	30,805
<u>Margin Analysis</u>									
Gross margin	22.0%	19.9%	20.5%	20.9%	21.3%	21.2%	21.2%	21.1%	21.2%
Sales and marketing	5.5%	7.3%	6.5%	6.4%	6.0%	6.0%	6.0%	6.0%	6.0%
General and administrative	9.0%	28.1%	8.5%	14.6%	8.0%	8.0%	8.0%	8.0%	8.0%
Research and development	5.2%	10.1%	9.0%	8.0%	7.4%	7.4%	7.4%	7.4%	7.4%
Operating margin	2.5%	(25.6)%	(3.3)%	(7.9)%	0.1%	0.0%	(0.0)%	(0.1)%	(0.0)%
Net margin	(2.8)%	(40.8)%	(4.1)%	(14.7)%	(0.4)%	(0.3)%	(0.3)%	(0.2)%	(0.3)%
Tax rate	(1561.4)%	(0.5)%	(8.2)%	(8.2)%	(9.3)%	(9.1)%	0.0%	9.0%	(18.5)%
<u>Year / Year Growth</u>									
Total Revenues				23.6%					22.3%

* Quarterly breakout and outstanding shares not provided
Source: Company filings and Taglich Brothers' estimates

Borqs Technologies, Inc.

Statement of Cash Flows for the Periods Ended
(in thousands \$)

	2014A	2015A	2016A	9m17A	2017E	2018E
Net income (loss)	(8,171)	795	2,596	(12,512)	(14,429)	(51)
Foreign exchange (gain) loss	(72)	(855)	(692)	387	387	-
Loss (gain) on disposal of property and equipment	8	(350)	1	-	-	-
Depreciation	1,373	1,371	1,011	560	747	625
Amortization	594	1,109	2,146	2,764	3,731	3,669
Deferred income taxes	(189)	(1,044)	(220)	(78)	(78)	-
Interest expense	-	-	352	613	732	276
Share-based compensation	-	-	-	14,504	16,405	7,600
Changes in fair value of warrant liabilities	-	-	12	200	200	-
Cash earnings	(6,457)	1,026	5,206	6,438	7,695	12,119
<i>Changes in assets and liabilities</i>						
Restricted cash	(818)	211	(383)	(2,266)	(2,266)	-
Receivables	(153)	(2,331)	(17,705)	(8,356)	(7,792)	(9,092)
Inventories	(573)	(4,074)	(6,418)	(5,256)	(3,171)	(3,455)
Deferred cost of revenues	(489)	2,469	(497)	(316)	(316)	-
Prepaid expenses and other current assets	(1,400)	579	(3,175)	(8,990)	(8,956)	-
Accounts payable	4,206	(742)	15,740	(4,441)	5,673	6,182
Accrued expenses and other	65	2,100	1,371	3,473	1,799	2,099
Unrecognized tax benefits	46	645	1,064	(405)	(405)	-
Advances from customers	-	-	-	1,284	1,284	-
Amount due to related parties	-	-	-	12,127	12,127	-
Deferred revenue	608	4,888	(3,351)	(4,139)	(4,139)	-
Income tax payable	-	165	682	943	943	-
Deferred government grants	(174)	(3,302)	(1,906)	(181)	(181)	-
Other assets	-	-	-	141	141	-
(Increase) decrease in working capital	1,318	608	(14,578)	(16,382)	(5,259)	(4,266)
Net cash provided by (used in) operations	(5,139)	1,634	(9,372)	(9,944)	2,436	7,852
Purchases of property and equipment	(481)	(798)	(494)	(326)	(435)	(435)
Purchases of intangible assets	(692)	(5,175)	(5,230)	(6,521)	(6,521)	-
Proceeds from disposal of property and equipment	69	14	1	-	-	-
Acquisition of business	238	-	-	-	-	-
Loan to a third party	-	(1,482)	-	-	-	-
Repayments of third party loan	-	75	457	371	371	-
Net cash used in investing	(866)	(7,366)	(5,266)	(6,476)	(6,585)	(435)
Contribution by noncontrolling interest	28	-	-	-	-	-
Purchases of stock	-	-	-	-	-	(10,048)
Proceeds from issuance of stock	-	-	-	62	62	-
Cash received from merger	-	-	-	18,034	18,034	-
Proceeds from issuance of convertible preferred stock	8,000	-	-	9,000	9,000	-
Proceeds from exercise of warrants	-	-	-	8	8	-
Issuance costs for convertible preferred stock	(126)	-	-	(312)	(312)	-
Proceeds from short-term bank borrowings	2,000	-	6,776	5,388	5,388	-
Repayments of short-term bank borrowings	-	(817)	(2,000)	(4,005)	(8,005)	(6,751)
Proceeds from long-term bank borrowings	-	999	6,000	2,000	2,000	-
Repayments of long-term bank borrowings	-	(47)	(571)	(1,881)	(1,881)	-
Net cash provided by (used in) financing	9,902	135	10,205	28,294	24,294	(16,799)
Effect of foreign exchange rate changes	(2)	(34)	256	494	494	-
Net change in cash	3,895	(5,631)	(4,177)	12,368	20,639	(9,382)
Cash - beginning of period	9,523	13,418	7,787	3,610	3,610	24,249
Cash - end of period	13,418	7,787	3,610	15,978	24,249	14,868

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



33.33 % Buy 58.33 % Hold 6.94 % Not Rated 1.39 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	4
Hold		
Sell		
Not Rated	1	33

Important Disclosures

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Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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