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Initial Research Report

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

Pareteum Corporation

Speculative Buy

John Nobile
May 25, 2018

TEUM $2.36 — (NYSE: American)

	2016A	2017A	2018E	2019E
Revenues (millions)	$12.9	$13.5	$22.1	$43.2
Earnings (loss) per share	$(4.56)	$(0.84)	$(0.07)	$0.14

52-Week range	$3.59 – $0.50	Fiscal year ends:	December
Common shares out as of 5/10/18	51.6 million	Revenue per share (TTM)	$0.56
Approximate float	44.9 million	Price/Sales (TTM)	4.2X
Market capitalization	$122 million	Price/Sales (FY2019)E	3.5X
Tangible book value/share	$0.33	Price/Earnings (TTM)	NMF
Price/tangible book value	7.2X	Price/Earnings (FY2019)E	16.9X

Pareteum Corporation, headquartered in New York, NY, is a cloud communications platform company. Cloud communications involves the integration of multiple communication methods and services that can be accessed over the Internet and are handled and hosted by a third-party (such as Pareteum) through the cloud.

Key investment considerations:

We are initiating coverage of Pareteum Corporation with a Speculative Buy rating and twelve-month price target of $3.50 per share.

Worldwide spending on public cloud services and infrastructure is forecast to achieve a five-year compound annual growth rate (CAGR) of 21.9% with public cloud services spending totaling $277 billion by 2021. One of the industries projected to grow the fastest is the telecommunications industry with a 23.3% CAGR over the five year period. Software as a Service (such that Pareteum offers) is projected to be the largest cloud computing category, capturing nearly two thirds of all public cloud spending in 2018.

At March 31, 2018, the company's 36-month backlog increased to $200 million from $147 million at December 31, 2017. Over the past year, Pareteum has managed to convert over 100% of its backlog into revenue. In 1Q18, the company has increased by 94% the number of connections using its technology to 2.2 million compared to the year-ago period, and 30% since December 31, 2017.

Pareteum's 36-month contractual backlog and growing number of connections using its technology suggest strong revenue growth through our forecast horizon. We project strong revenue growth will result in $11.2 million EBITDA in 2019.

For 2018, we project a 63.2% increase in revenue to $22.1 million and a net loss of $3.8 million or $(0.07) per share. The increase in revenue should be supported by the company's 36-month backlog.

For 2019, we project a 95.4% increase in revenue to $43.2 million and net income of $9 million or $0.14 per share. Growth should be driven by a doubling in deployments that are scheduled for 2019.

****Please view our disclosures on pages 14 - 16.***

Recommendation and Valuation

We are initiating coverage of Pareteum Corporation with a Speculative Buy rating and twelve-month price target of $3.50 per share.

Our rating should be supported by worldwide spending on public cloud services and infrastructure, which is forecasted to achieve a five-year compound annual growth rate (CAGR) of 21.9% with public cloud services spending totaling $277 billion by 2021. One of the industries projected to grow the fastest is the telecommunications industry with a 23.3% CAGR over the five year period. Software as a Service (such that Pareteum offers) is projected to be the largest cloud computing category, capturing nearly two thirds of all public cloud spending in 2018.

At March 31, 2018, the company's 36-month backlog increased to $200 million from $147 million at December 31, 2017. Over the past year, Pareteum has managed to convert over 100% of its backlog into revenue. In 1Q18, the company has increased by 94% the number of connections using its technology to 2.2 million compared to the year-ago period, and 30% since December 31, 2017. Pareteum's 36-month contractual backlog and growing number of connections using its technology suggest strong revenue growth through our forecast horizon. We project strong revenue growth should result in $11.2 million of 2019 EBITDA.

TEUM trades at a TTM multiple of 4.2X sales while industry (telecommunications software and services) peers trade at a trailing multiple of 2.3X sales. We believe Pareteum's premium compared to the industry is due to its substantial growth prospects. We project sales growth of over 95% for TEUM in 2019 compared to 7.1% for the industry. As the company's sales growth accelerates, we believe investors are likely to accord TEUM a higher multiple. We applied a multiple of 5.6X to our FY19 sales per share projection of $0.68, discounted for execution risk, to derive a year-ahead value of approximately $3.50 per share.

Organizational History

Pareteum Corporation, a Delaware corporation, was originally formed in 2001 as Elephant Talk Communications Corp. as a result of a merger between Staruni Corporation and Elephant Talk Limited. In December 2011, the company moved its listing from the OTCBB to the NYSE American and began trading at under the ticker symbol ETAK.

Following approval at the company's 2016 annual shareholder meeting, the company was rebranded and formally renamed Pareteum Corporation. In November 2016, the company started trading on the NYSE American Exchange under the ticker symbol TEUM.

Pareteum currently has offices in New York, Madrid, Barcelona, Bahrain and the Netherlands.

Business

Pareteum Corporation, headquartered in New York, NY, is a cloud communications platform company. Cloud communications involves the integration of multiple communication methods and services that can be accessed over the Internet and are handled and hosted by a third-party (such as Pareteum) through the cloud.

Pareteum has developed patent pending software which is connected to mobile networks in various countries using multiple communications channels including mobile telephony, data, SMS (Short Message Service or text messaging), VOIP (Voice over Internet Protocol is a methodology for the delivery of voice communications and multimedia sessions over the Internet), and OTT services (Over-The-Top is where a telecommunications service provider delivers one or more services across an Internet network). Pareteum integrates these distinct communications methods and services for customers and application developers. Some of the company's partners include: HP, Cisco, Sonus, Vodafone, and T-Mobile among others (see chart at top right on next page).

Pareteum targets large and growing sectors such as IoT (Internet of Things) and MVNOs (a Mobile Virtual Network Operator is a wireless communications services provider that does not own the wireless network infrastructure over which it provides services) that need Communications-as-a-Service (CaaS) that Pareteum offers. CaaS is an outsourced enterprise communications solution that can be leased from a single vendor responsible for all hardware and software management. CaaS allows businesses to selectively deploy communications devices on a pay-as-you-go, as-needed basis, eliminating the large capital investment and ongoing overhead for a system whose capacity may often exceed or fall short of current demand.

Source: Pareteum

Services

Managed Services Platform - Fully-managed services designed for Mobile Virtual Network Enablers (an MVNE provides network infrastructure and related services to an MVNO), large Mobile Network Operators (MNO) and Mobile Virtual Network Operators (MVNO). This platform provides integrated operational and billing management services enabling real-time account (SIM) management, policy (service and rules) management and charging (pricing, rating, and billing).

Global Cloud Services Platform - Cloud based services for Communications Service Providers (a CSP is a telecommunications/Internet/cable/satellite service provider that transports information electronically), IoT providers and enterprises. This platform is increasingly automated with services that include billing, rating, and customer relationship management.

Application Exchange and Developer Platform – Pareteum's customers can easily integrate with the company's solutions through a set of application programming interfaces (an API is a set of clearly defined methods for building application software). This allows for the integration across any channel, for both new systems and legacy infrastructures.

Beyond enabling communications between people and devices, Pareteum's platforms enable smart homes (including smart appliances and smart energy meters), connected cars, and smart cities.

Benefits of Cloud Services

According to the communications industry publisher UC Today, the hosted cloud service model offers several benefits to businesses compared with buying equipment outright and running it on their premises. These benefits include lower capital costs, lower maintenance overhead, faster and easier deployment, as well as flexibility and scalability.

With no upfront purchases, cloud communications subscribers incur only operational expenses (such as the cost of a subscription). Included in the subscription are the costs of system management, maintenance and repair. With no complex hardware to install or software to configure, cloud communications offers customers a fast and easy way of deployment. Since only an Internet connection is required, cloud services allow customers access to cloud tools on any device, anywhere. Cloud communications enables customers the ability to scale their communications needs with their business by adding new users, new branch offices, and new communications tools, with a simple change to the subscription.

An example of how cloud communications can benefit a business can be seen in how it makes it easier for people in large enterprises to work and collaborate together, even over distance. Cloud communications has coincided with various platforms such as integrated messaging, conferencing, and document sharing, as large businesses look for ways for workers to connect and remain productive on the move. The cloud makes it easier to connect regional and global offices under a single, unified network.

Industry

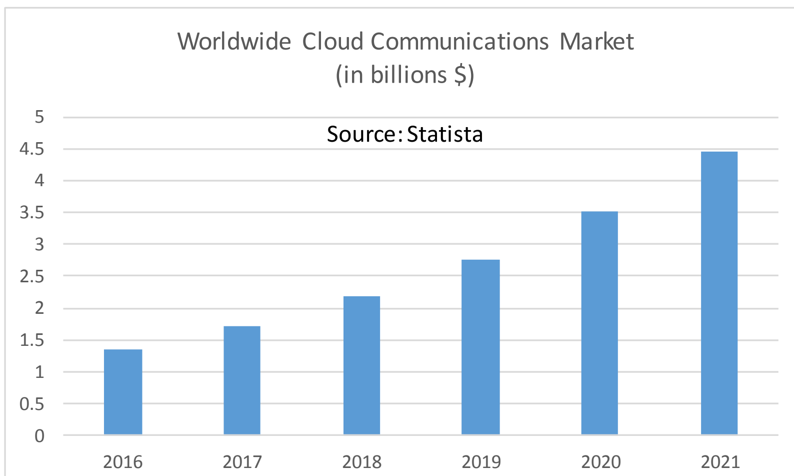
According to a report by Research and Markets[1], the managed communication services market is witnessing accelerated growth due to the penetration of technologies like mobility, cloud computing and big data across different industry verticals. Though privacy and security concerns remain, these are being addressed by various managed services providers.

Operational efficiency is key to any organization's growth. This can be achieved by streamlining core processes that help in enhancing customer satisfaction and by focusing more on key revenue generating businesses. Research and Markets reports that vendors are planning to shift their services to a cloud-based delivery with the intention to provide customers the choice of having mobile access to unified communication platforms that are hosted by the provider or a third party (such as Pareteum).

The factors responsible for driving the growth of the managed communication services market would be business process efficiency, a growing focus on core businesses, and the need to provide enhanced customer satisfaction. The increasing availability of network connectivity and bandwidth facilitate the new types of cloud and managed services.

Worldwide spending on public cloud services and infrastructure is forecast to reach $160 billion in 2018, an increase of 23.2% over 2017, according to the latest update to the International Data Corporation (IDC) Worldwide Semiannual Public Cloud Services Spending Guide. Although annual spending growth is expected to slow somewhat over the forecast period to 2021, the market is forecast to achieve a five-year compound annual growth rate (CAGR) of 21.9% with public cloud services spending totaling $277 billion in 2021. One of the industries that will see the fastest spending growth over the five-year forecast period is the telecommunications industry with a 23.3% forecasted CAGR. Software as a Service (SaaS) will be the largest cloud computing category, capturing nearly two thirds of all public cloud spending in 2018.

Statista projects the worldwide cloud communications platform market to grow at a compound annual growth rate (CAGR) of 26.8% to 2021 (see chart at right).



Competitive Environment

Pareteum's competitors fall into three broad categories: traditional telecom/infrastructure vendors, large software solution and SaaS vendors - offering a suite of specialized software components, solutions and APIs, and niche solution providers, providing narrowly focused BSS/OSS (business support system/operations support system) and prepaid solutions.

1. "Global Managed Communication Services Market 2017: Analysis by End-User Industry, Geography & Vendor Analysis" (Press Release). Research and Markets. November 9, 2017. Retrieved May 17, 2018.

Some of the company's competitors have greater financial, technical and sales and marketing resources, as well as greater brand and market awareness. As Pareteum executes on its growth strategies and enters new markets or disrupts existing markets, expectations are for competition to become more intense.

The company believes that the key competitive differentiators in the near-term will be the scale and international reach of connectivity, the comprehensiveness of platform offerings, the ease of deployment and implementation, and the scalability and reliability of service, of which Pareteum considers itself well placed.

Strategy

Pareteum's strategy is to grow both organically and through mergers and acquisitions. The company is focused on selling and implementing new communications services and IoT opportunities as the world of connected devices and people continues to grow.

Pareteum's strategy includes attracting new subscribers through direct sales, existing channel partnerships and new initiatives such as referral programs. The company aims to continue to on-board new communication services providers through business development and direct sales in each defined sales region (North America, Latin America, Europe, Middle East, Africa, and Asia-Pac). Pareteum also looks to drive adoption through on-boarding more connections which are already active on its Managed Services and Global Cloud Platforms, and to draw in new customers and end-users to the Application Exchange and Developer Platform.

Economic Outlook

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects firmer external demand and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The advance estimate of US GDP growth (released on April 27, 2018) showed the US economy grew at an annual rate of 2.3% in 1Q18, down from 2.9% growth in 4Q17. The 1Q18 US GDP growth estimate primarily reflects increases in business investment, consumer spending, exports, and inventory investment.

Because Pareteum's business is conducted globally, the increased economic growth projections both domestically and abroad, should allow for continued growth.

Projections

The company's 36-month backlog increased to $200 million as of March 31, 2018 from $147 million as of December 31, 2017. The company has also increased the number of connections using its technology to 2.2 million as of March 31, 2018, up 94% since March 31, 2017 and 30% since December 31, 2017. Pareteum's 36-month contractual backlog and growing number of connections using its technology should support our revenue growth forecasts.

2018 – We project a 63.2% increase in revenue to $22.1 million and a net loss of $3.8 million or $(0.07) per share. Our revenue growth forecast should supported by the company's 36-month backlog.

Gross profit is projected to increase 61.9% to $16 million with gross margins remaining relatively steady at 72.2%. We project SG&A expenses of $12.6 million or 56.9% of sales compared to $11.7 million or 86.2% of sales. The increase in SG&A expenses should result from increased headcount to support the growth in business. Product development costs are projected to grow $1.8 million to $3.3 million as the company continues to expand its lines of business. Depreciation and amortization expense is projected to decrease to $3 million from $4.5 million due primarily to lower depreciable fixed assets. We project the operating loss narrowing to $3.2 million from $8.8 million as the increase in revenue more than offsets the growth in operating expenses.

We project interest expense decreasing to $233,000 from $5.1 million on a significantly lower average debt level. The company should not pay taxes in the foreseeable future given its large amount of net operating loss carryforwards ($109 million as of December 31, 2017).

We project cash earnings of $3.9 million and a $206,000 increase in working capital resulting in $3.7 million cash provided by operations. The increase in working capital should come primarily from an increase in receivables and prepaid expenses offset in part by an increase in accrued expenses. Capital expenditures of $1.3 million and $7.9 million provided by financing activities (primarily from a stock offering and the exercise of warrants and options) should result in a net increase in cash of $10.4 million to $24.2 million at December 31, 2018.

2019 – We project a 95.4% increase in revenue to $43.2 million and net income of $9 million or $0.14 per share. Growth should be driven by a doubling in deployments that are scheduled for 2019.

Gross profit is projected to increase 95.6% to $31.3 million with gross margins remaining relatively steady at 72.5%. We project SG&A expenses increasing 12.8% to $14.2 million or 32.9% of sales from $12.6 million or 56.9% of sales. The increase in SG&A expenses is due primarily to continued increases in headcount to support growth. Product development costs are projected to grow $1.9 million to $5.2 million as the company continues to expand its lines of business. Depreciation and amortization expense is projected to decrease to $2.2 million from $3 million due primarily to lower depreciable fixed assets. Operating expense margins are projected to decrease to 50.6% from 119.8% as revenue grows faster than expenses. We project a swing to operating income of $9.5 million versus an operating loss of $3.2 million as the increase in revenue more than offsets the growth in operating expenses.

We project the company will not have interest expense due to the payoff of debt in 2018. The company should not pay taxes in 2019 given its large amount of net operating loss carryforwards.

We project cash earnings of $15.5 million and a $202,000 decrease in working capital resulting in $15.7 million cash provided by operations. The decrease in working capital should come primarily from an increase in accrued expenses and payables offset in part by an increase in receivables. Cash from operations and capital expenditures of $1.3 million should result in a net increase in cash of $14.4 million to $38.6 million at December 31, 2019.

1Q18 and FY2017 Financial Results

1Q18 – Revenue increased 47.2% to $4.1 million. The net loss (includes currency translation changes) was $2 million or $(0.04) per share versus a loss of $1.3 million or $(0.14) per share in 1Q17. The company realized a $314,000 expense or $(0.01) per share in 1Q18 versus a 1.9 million or $0.21 per share gain in 1Q17 related to the change in derivative liabilities.

The increase in revenue was primarily due to increased deployments with existing and new customers. Gross profit increased to $2.9 million from $2 million and gross margins increased to 71% from 69.9%.

Product development costs increased to $727,000 from $285,000 as the company expands its lines of business. SG&A expenses increased to $3 million from $2.7 million due primarily to the hiring of new employees and allocating resources to growing the business.

Interest income increased to $43,000 from $39,000 due to higher bank balances and interest charged to customers for extended payment terms. Interest expense decreased to $93,000 from $1.6 million. The decrease in interest expense is due mainly to the company paying off all senior secured debt in 4Q17.

2017 – Revenue increased 5.4% to $13.5 million. The net loss (includes currency translation changes) was $13.7 million or $(0.84) per share versus a loss of $30.7 million or $(4.56) per share in 2017. The company realized a $795,000 or $0.05 per share gain in 2017 versus a $3.3 million or $(0.49) per share expense in 2016 related to the change in derivative liabilities.

The increase in revenue was primarily due to the company's focus on growing the mobile bundled services portion of its business. Gross profit increased to $9.9 million from $9.2 million and gross margins increased to 72.8% from 71.5%.

Product development costs decreased to $1.5 million from $3.5 million due to restructuring costs in 2016 and ceasing the outsourcing of its Asian product development. SG&A expenses decreased to $11.7 million from $13 million due primarily to a reduction in staff related payroll.

Interest income increased to $172,000 from $112,000 due to higher bank balances and interest charged to customers for extended payment terms. Interest expense decreased to $5.1 million from $7.3 million. 2017 included a debt discount and conversion feature of $3.4 million, down from $6 million in 2016 due mainly to the stabilization and absence of major amendments of outstanding debt. The company paid $107,000 in taxes in 2017 versus $38,000 in 2016.

Liquidity – As of March 31, 2018, Pareteum had $16 million cash (of which $230,000 in restricted), a current ratio of 2.5X, $720,000 of total debt, and a nominal debt equity ratio. Total debt is related to a private offering of unsecured convertible notes in 4Q15-1Q16 that have an annual interest rate of 9%.

At March 31, 2018, the company had cash earnings of $258,000 and a $229,000 increase in working capital that resulted in $29,000 cash provided by operations. The increase in working capital was primarily due to a decrease in accruals and an increase in prepaid expenses, offset in part by an increase in payables and a decrease in receivables. The exercise of warrants and options were partially offset by capital expenditures, increasing cash by $2.3 million to $16 million at March 31, 2018.

The fair market value of derivative liabilities as of March 31, 2018 was approximately $1.9 million.

On May 11, 2018, Pareteum closed on a public offering of common stock for gross proceeds of $6.1 million in which it sold approximately 2.4 million shares of common stock at a price of $2.50 per share.

Management

Robert H. Turner, Executive Chairman and Principal Executive Officer - Appointed Executive Chairman of the Board in November 2015. 40 years' experience with global software, telecom and tech companies. Turner launched his career at AT&T and served at a broad spectrum of international, start-up, and corporate firms, including NeoNova Network Services, Inc., Pac West, Telecom, Inc., Panterra Networks, PTT Telecom Netherlands, US Inc. (now KPN), and BellSouth Communications, Inc. (now AT&T). Turner is also an advisory board member of The Capital Angels, affiliated with SC Angel Network. Bachelor of Science and a Master of Business Administration from the University of South Carolina.

Victor Bozzo, Chief Executive Officer - Appointed Chief Executive Officer in November, 2016. Bozzo served as Senior Vice President, Worldwide Sales and Marketing for Telarix Inc. Prior to joining Telarix, Bozzo served as President and General Manager of Pac-West's Emerging Technologies division after selling Pac-West his startup, Factor Communications, an innovative portfolio of cloud-based communications services. Also responsible for significant revenue and customer growth and investor returns at exTone Communications, ITXC Corporation, and Voxware.

Edward O'Donnell, Chief Financial Officer – Appointed Chief Financial Officer in January, 2017. O'Donnell has over 23 years of experience in investment banking, advertising, private equity, investment, venture capital, technology, internet and other new media businesses. Prior to joining Pareteum, O'Donnell served as the Chief Financial Officer of Ameri Holdings, Inc. from January 2016 through December 2016. Served as the Chief Operating Officer of Radbourne Property Group, Inc. From February 2013 until April 2015, O'Donnell served as Chief Financial Officer of AudioEye, Inc. From December 2010 until January 2013, O'Donnell served as Vice President of Finance for Augme Technologies, Inc. From January 2007 until November 2010, O'Donnell served as Chief Financial Officer of Carlyle Capital Group LLC. Previously, O'Donnell served as Senior Vice President of Finance & Investor Relations of ACTV, Inc. O'Donnell was a member of Aloysius Lyons, LLC. Certified Public Accountant in New York and a member of NYSSCPAs and AICPA. BS degree in Accountancy from Villanova University. MBA from Columbia Business School.

Risks

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

Economic – The economic climate, especially in Europe, may have an adverse effect in the markets in which Pareteum operates. Many of the company's customers' business is consumer driven, and to the extent there is a decline in consumer spending, Pareteum's customers could experience a reduction in the demand for their services.

International markets – Pareteum has significant international operations in Europe, and to a lesser extent in the US, Middle East and elsewhere. There can be no assurance that the company will be able to obtain the permits and operating licenses required for it to operate

Technological obsolescence - The telecommunications industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. If Pareteum fails to adapt successfully to technological advances, it could lose customers.

Integration of acquisitions - Strategic acquisitions are a part of the company's growth strategy. Acquisitions of businesses and customer lists involve operational risks, including the possibility that an acquisition may not ultimately provide the benefits originally anticipated by management.

Foreign currency exchange rates - Because most of Pareteum's business is conducted outside the US, fluctuations in foreign currency exchange rates versus the US dollar could adversely affect its financial results.

Competition – Pareteum is substantially smaller than its major competitors, whose marketing and pricing decisions, and relative size advantage, could adversely affect the company's ability to attract and retain customers and are likely to continue to cause significant pricing pressures that could adversely affect Pareteum's financial results.

Customer dependency - For the year ended December 31, 2017, Pareteum had one significant customer which accounted for 88% of its revenue. The loss or reduction in services to this significant could have an adverse impact on the company's business and financial condition.

Regulations – Pareteum operates in a heavily regulated industry. As a provider of communications technology, the company is subject to varying degrees of regulation in each of the jurisdictions in which it provides services. There can be no assurance that future regulatory changes will not have a material adverse effect on the company or that regulators will not raise issues with regard to Pareteum's compliance with applicable regulations.

Liquidity risk - Shares of Pareteum Corporation 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 44.9 million shares in the float and the average daily volume is approximately 2.1 million 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.

Consolidated Balance Sheets
(in thousands $)

	2016A	2017A	3/18A	2018E	2019E
Cash and cash equivalents	931	13,538	15,759	24,166	38,582
Restricted cash	564	200	230	230	230
Receivables	615	2,058	1,954	3,359	6,562
Prepaid expenses	1,085	900	1,154	1,154	1,154
Total current assets	3,195	16,696	19,097	28,909	46,528
Other assets	129	91	94	94	94
Note receivable	1,012	595	602	602	602
Net property and equipment	8,709	4,714	4,176	3,223	2,352
Long term investments	-	3,230	3,230	3,230	3,230
Total assets	**13,045**	**25,326**	**27,199**	**36,058**	**52,806**
Accounts payable and customer deposits	2,317	1,979	2,286	2,560	3,960
Obligations under capital leases	11	-	-	-	-
Net billings in excess of revenues	952	243	316	316	316
Accrued expenses and other payables	6,013	5,250	4,841	6,634	8,640
Convertible promissory note	-	66	119	-	-
Senior loan	4,000	-	-	-	-
Total current liabilities	13,293	7,538	7,562	9,510	12,916
Derivative liabilites	4,266	1,598	1,911	1,911	1,911
Other long term liabilites	193	151	138	138	138
Convertible promissory note	821	618	601	-	-
Senior loan	3,716	-	-	-	-
Net billings in excess of revenues	121	-	-	-	-
Total liabilities	**22,410**	**9,905**	**10,212**	**11,559**	**14,965**
Total stockholders' equity	**(9,365)**	**15,421**	**16,987**	**24,499**	**37,841**
Total liabilities & stockholders' equity	**13,045**	**25,326**	**27,199**	**36,058**	**52,806**

Source: Company filings and Taglich Brothers' estimates

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

	2016A	2017A	2018E	2019E
Revenue	12,856	13,548	22,113	43,200
Cost of revenue (excluding D&A)	3,659	3,684	6,145	11,880
Gross profit	9,197	9,864	15,968	31,320
Product development	3,544	1,480	3,277	5,200
Sales, general and administrative	13,049	11,672	12,586	14,200
Depreciation and amortization	4,247	4,533	2,975	2,170
Impairment, sale of assets, restructuring	7,260	966	296	296
Operating income (loss)	(18,903)	(8,787)	(3,166)	9,454
Interest income	112	172	172	172
Interest expense	(7,270)	(5,063)	(233)	-
Other income (expense)	(4,643)	103	(584)	(584)
Income (loss) before taxes	(30,704)	(13,575)	(3,811)	9,042
Income tax (benefit)	38	107	-	-
Net income (loss)	(30,742)	(13,682)	(3,811)	9,042
EPS	(4.56)	(0.84)	(0.07)	0.14
Shares Outstanding	6,739	16,338	52,720	63,981
EBITDA	(19,187)	(3,979)	(603)	11,212
Margin Analysis				
Gross margin	71.5%	72.8%	72.2%	72.5%
Product development	27.6%	10.9%	14.8%	12.0%
SG&A	101.5%	86.2%	56.9%	32.9%
Operating margin	(147.0)%	(64.9)%	(14.3)%	21.9%
Year / Year Growth				
Total Revenues		5.4%	63.2%	95.4%
Net Income		NMF	NMF	NMF
EPS		NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2017A - 2019E
(in thousands $)

	3/17A	6/17A	9/17A	12/17A	2017A	3/18A	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Revenue	2,795	3,239	3,499	4,015	13,548	4,113	5,000	6,000	7,000	22,113	7,200	9,500	12,000	14,500	43,200
Cost of revenue (excluding D&A)	842	946	791	1,105	3,684	1,195	1,375	1,650	1,925	6,145	1,980	2,613	3,300	3,988	11,880
Gross profit	1,953	2,293	2,708	2,910	9,864	2,918	3,625	4,350	5,075	15,968	5,220	6,888	8,700	10,513	31,320
Product development	285	273	497	425	1,480	727	800	850	900	3,277	1,150	1,250	1,350	1,450	5,200
Sales, general and administrative	2,685	1,861	1,992	5,134	11,672	2,986	3,100	3,200	3,300	12,586	3,400	3,500	3,600	3,700	14,200
Depreciation and amortization	844	873	1,433	1,383	4,533	965	750	670	590	2,975	570	550	530	520	2,170
Impairment, sale of assets, restructuring	129	459	253	125	966	74	74	74	74	296	74	74	74	74	296
Operating income (loss)	(1,990)	(1,173)	(1,467)	(4,157)	(8,787)	(1,834)	(1,099)	(444)	211	(3,166)	26	1,514	3,146	4,769	9,454
Interest income	39	55	42	36	172	43	43	43	43	172	43	43	43	43	172
Interest expense	(1,566)	(699)	(627)	(2,171)	(5,063)	(93)	(70)	(45)	(25)	(233)	-	-	-	-	-
Other income (expense)	2,198	423	(107)	(2,411)	103	(146)	(146)	(146)	(146)	(584)	(146)	(146)	(146)	(146)	(584)
Income (loss) before taxes	(1,319)	(1,394)	(2,159)	(8,703)	(13,575)	(2,030)	(1,272)	(592)	83	(3,811)	(77)	1,411	3,043	4,666	9,042
Income tax (benefit)	1	(68)	148	26	107	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(1,320)	(1,326)	(2,307)	(8,729)	(13,682)	(2,030)	(1,272)	(592)	83	(3,811)	(77)	1,411	3,043	4,666	9,042
EPS	(0.14)	(0.10)	(0.16)	(0.31)	(0.84)	(0.04)	(0.02)	(0.01)	0.00	(0.07)	(0.00)	0.02	0.05	0.07	0.14
Shares Outstanding	9,322	12,911	14,304	28,613	16,338	50,062	52,792	54,012	54,012	52,720	54,012	67,304	67,304	67,304	63,981
EBITDA	1,091	178	(99)	(5,149)	(3,979)	(972)	(452)	123	698	(603)	493	1,961	3,573	5,186	11,212
Margin Analysis															
Gross margin	69.9%	70.8%	77.4%	72.5%	72.8%	70.9%	72.5%	72.5%	72.5%	72.2%	72.5%	72.5%	72.5%	72.5%	72.5%
Product development	10.2%	8.4%	14.2%	10.6%	10.9%	17.7%	16.0%	14.2%	12.9%	14.8%	16.0%	13.2%	11.3%	10.0%	12.0%
SG&A	96.1%	57.5%	56.9%	127.9%	86.2%	72.6%	62.0%	53.3%	47.1%	56.9%	47.2%	36.8%	30.0%	25.5%	32.9%
Operating margin	(71.2)%	(36.2)%	-41.9%	(103.5)%	(64.9)%	(44.6)%	(22.0)%	-7.4%	3.0%	(14.3)%	0.4%	15.9%	26.2%	32.9%	21.9%
Year / Year Growth															
Total Revenues					5.4%	47.2%	54.4%	71.5%	74.3%	63.2%	75.1%	90.0%	100.0%	107.1%	95.4%
Net Income					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS					NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

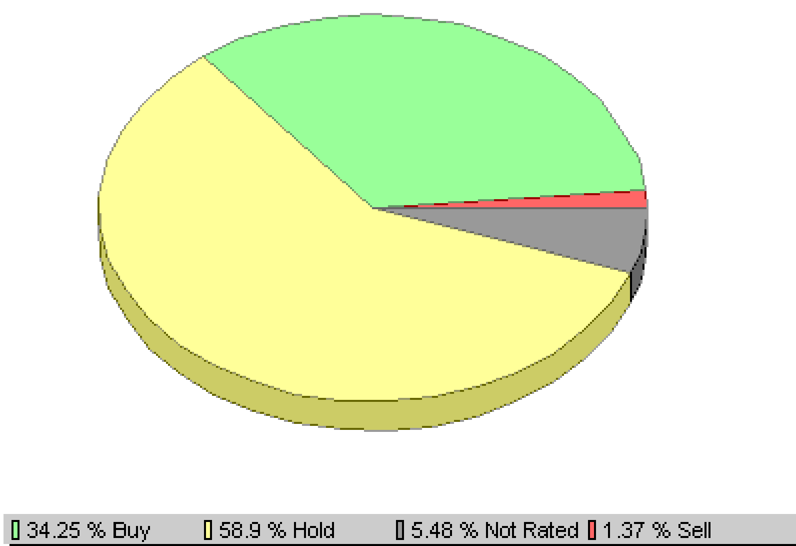
Statement of Cash Flows for the Periods Ended
(in thousands $)

	2016A	2017A	3m18A	2018E	2019E
Net income (loss)	(31,445)	(12,463)	(2,134)	(3,811)	9,042
Depreciation & amortization	4,247	4,533	965	2,974	2,171
Provision for doubtful accounts	(89)	3	-	-	-
Stock based compensation	3,897	4,289	1,078	4,300	4,300
Change in fair value of warrant liability	3,316	(795)	314	314	-
Amortization of deferred financing costs	1,267	341	6	6	-
Interest expense related to debt discount and conversion	6,042	3,409	29	116	-
Expense settled by issuance of shares	-	784	-	-	-
Other (income) expense	221	-	-	-	-
Amortization of debt discount and deferred financing costs	542	-	-	-	-
Impairment of assets	851	-	-	-	-
Impairment of goodwill	3,229	-	-	-	-
Loss on sale of assets	1,542	-	-	-	-
Cash earnings (loss)	(6,380)	101	258	3,899	15,513
Changes in assets and liabilities					
Receivables	622	(1,446)	111	(1,301)	(3,203)
Prepaid expenses, deposits and other	1,637	640	(320)	(943)	-
Payables and customer deposits	81	(349)	308	581	1,400
Net billings in excess of revenues	(1,169)	(830)	55	73	-
Accrued expenses and other	1,551	(732)	(383)	1,384	2,006
(Increase) decrease in working capital	2,722	(2,717)	(229)	(206)	202
Net cash provided by (used in) operations	**(3,658)**	**(2,616)**	**29**	**3,693**	**15,715**
Purchase of property, equipment, and software development	(1,413)	(722)	(434)	(1,300)	(1,300)
Advance purchase payment on assets held for sale	450	-	-	-	-
Proceeds from sale of assets	2,000	-	-	-	-
Net cash provided by (used in) investing	**1,037**	**(722)**	**(434)**	**(1,300)**	**(1,300)**
Financing receivable	355	-	-	-	-
Exercise of warrants and options	-	5,050	2,489	2,489	-
Equity and debt issuance costs	(1,339)	(227)	-	-	-
Principal payment on Eurodollar loan	(967)	-	(17)	(17)	-
Increase in short-term loans	-	-	53	53	-
Proceeds from convertible promissory note	2,273	-	-	-	-
Payment on convertible promissory note	-	-	-	(720)	-
Unsecured promissory note	350	-	-	-	-
Gross proceeds from public offering	-	21,202	-	6,100	-
Reclassify accrued interest to principal	-	(84)	-	-	-
Principal repayment to senior lender	-	(10,082)	-	-	-
Gross proceeds from preferred stock	2,490	-	-	-	-
Net cash provided by (used in) financing	**3,162**	**15,859**	**2,525**	**7,905**	**-**
Effect of currency exchange rates	21	(279)	131	131	-
Net change in cash	**562**	**12,242**	**2,251**	**10,429**	**14,415**
Cash - beginning of period	**933**	**1,495**	**13,737**	**13,737**	**24,166**
Cash - end of period	**1,495**	**13,737**	**15,988**	**24,166**	**38,582**

Source: Company filings and Taglich Brothers' estimates

Price Chart

Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	**3**	**12**
Hold		
Sell		
Not Rated		

Important Disclosures

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public companies mentioned in this report:

Ameri Holdings (OTC: AMRH)
AT&T (NYSE: T)
AudioEye (OTC: AEYE)
Cisco Systems (NASDAQ: CSCO)
Fair Isaac Corporation (NYSE: FICO)
Hewlett Packard Enterprise Company (NYSE: HPE)
ImageWare Systems (OTC: IWSY)
T-Mobile (NYSE: TMUS)
Virtusa Corporation (NASDAQ: VRTU)
Vodafone Group Plc. (NASDAQ: VOD)

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.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.