

Zacks Small-Cap Research

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Document Security Systems (DSS-NYSE-Amer)

DSS: Wyeth Rolls Out AuthentiGuard to Protect Against Counterfeit Baby Formula

Based on blended multiples from its peers of 1.9 times enterprise value to sales, we believe DSS stock is worth \$1.00 per share.

OUTLOOK

Document Security Systems is a small company with extensive patented expertise in authentication, anti-counterfeiting, and document and packaging printing. It also has an IP technology enforcement and licensing business with its biggest case against Apple for Bluetooth technology. It has a novel authentication system that allows customers to track and authenticate products using inked or etched marks that can be read by a generic smartphone. The company is implementing this system with two Fortune 100 customers and others, which should ultimately lead to accelerating revenue growth and profits.

Current Price (11/25/19) \$0.29
Valuation \$1.00

SUMMARY DATA

52-Week High	\$1.70
52-Week Low	\$0.26
One-Year Return (%)	-69.6
Beta	2.2
Average Daily Volume (sh)	257,080
Shares Outstanding (mil)	36.2
Market Capitalization (\$mil)	\$11
Short Interest Ratio (days)	0.7
Institutional Ownership (%)	2
Insider Ownership (%)	34
Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00
5-Yr. Historical Growth Rates	
Sales (%)	1.2
Earnings Per Share (%)	N/A
Dividend (%)	N/A
P/E using TTM EPS	N/M
P/E using 2019 Estimate	N/M
P/E using 2020 Estimate	N/M

Risk Level

Type of Stock
Industry

High
Small-Value
Business Services

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	4.8 A	3.9 A	4.2 A	5.8 A	18.7 A
2018	4.4 A	4.1 A	4.1 A	6.0 A	18.5 A
2019	4.8 A	4.1 A	3.5 A	6.6 E	19.0 E
2020					23.0 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-\$0.01 A	-\$0.02 A	-\$0.02 A	\$0.01 A	-\$0.04 A
2018	-\$0.01 A	\$0.16 A	-\$0.02 A	-\$0.02 A	\$0.09 A
2019	-\$0.02 A	-\$0.05 A	-\$0.05 A	-\$0.01 E	-\$0.13 E
2020					-\$0.07 E

Zacks Projected EPS Growth Rate - Next 5 Years %

N/A

WHAT'S NEW

Agreement with Wyeth Nutrition Could Lead to More Sales With Nestlé

Shareholders have long awaited announcements of customers for AuthentiGuard, but to date customers were reluctant to lend their names to any press releases for fear of admitting they had a counterfeit problem, or as to not alert the counterfeiters. Finally we see one that is proudly announcing that they are providing consumers with a way to be assured they have authentic product. Wyeth Nutrition, a part of Nestlé, has announced it is using AuthentiGuard on its baby formula brand, ILLUMA that is sold in China. A label is being embedded within the printed elements of the package, on both the container and box, with multiple points of authentication. This prevents counterfeiting and tampering as it enters the Asian market, as well as provides exact details about the product itself and how to use it all using a smartphone app. Not only can consumers be assured the formula is safe, it can be tracked throughout the supply chain. As an added feature, security is combined with a QR code that provides the family with added information about the product using augmented reality. Formula with AuthentiGuard packaging is already on store shelves in China as DSS has been working with them since July, however not all of the printers are up and running leaving room for growth even for this one brand. Wyeth plans a continued roll out into other geographies, and DSS is hopeful that use of AuthentiGuard will spread to other Nestlé's products worldwide. Nestle sells \$5.5 billion in product in Greater China alone, and is the market leader for baby formula globally. This sale was made in partnership with Luminescence Sun Chemical Security who provides the security ink with a custom taggant.

Baby formula in China is a high profile topic due to the 2008 scandal that found baby formula adulterated with melamine and led to the death of six babies with 54,000 others hospitalized. This problem was found at 22 different companies and led to the arrest and even execution of those found at fault. It has led to suspicion of the quality of baby formula and dairy products produced in China ever since.

AuthentiGuard Grows 115% in Q3 2019

While on the surface the third quarter was uninspiring, taking a look at the components of revenue and the outlook for Q4, DSS is poised for accelerating revenues across multiple product lines.

DSS reported total Q3 2019 revenues of \$3.5 million compared with \$4.1 million a year ago. However technology sales, services, and licensing increased 60.3% to \$498,000, and the AuthentiGuard part of the business grew 115% year over year to \$307,000, slightly down from \$319,000 in Q2 2019 as there were some one-time set up fees in Q2. Recurring revenue will build each quarter as new printers come online in various geographies for various customers, but onboarding will cause a few lumps. As printers are brought on, each printer could contribute upwards \$100,000-\$125,000 per year to revenues.

Printed product sales were down 19.8% as orders were received late from major customers and slid into the fourth quarter. As a result, we are expecting an exceptionally good Q4. The plastics business returned to normal from a weak Q2. We still haven't seen the full effect of Walgreen adding 1,200 new stores to its chain. So far only about 500 of those Rite Aid stores have added photo processing and since this service was not available in Rite Aid locations before, they are generating 50-60% of the business seen at legacy Walgreen locations. Walgreens is DSS's largest customer and was responsible for 31% of the company's first nine months of sales in 2019.

Gross margins decreased to 37.2% from 37.7%, and gross margin dollars were down 14.7% due to lower revenues.

Operating expenses were up \$593,000 year over year and \$313,000 sequentially. The operating loss was \$1.2 million compared to a loss of \$379,000 last year. The biggest increase in spending was from professional fees related to litigation as the company moves closer to the February Apple trial, followed by an increase in stock-based compensation of \$253,000.

Interest expense was \$51,000 versus \$27,000 last year, bringing the net loss to \$1.3 million versus a GAAP loss of \$412,000 million last year. The GAAP loss per share this year was \$0.04 versus a loss of \$0.02 a year ago. Non-GAAP it was a loss of \$0.05 compared with a loss of \$0.02 last year. The shares outstanding increased 43% to 24.0 million versus 16.8 million in Q3 2018. Shares outstanding as of November 14, 2019 were 36.2 million.

EBITDA for the quarter was a loss of \$507,000 compared with a loss of \$69,000 in 2018.

Balance Sheet

As of September 30, 2019 the company had \$3.9 million in cash, working capital of \$4.3 million and debt of \$2.8 million. The company believes it has sufficient funds for current and planned operations through 2020.

Events During Q3 2019

On July 16, 2019 Jason Grady was promoted to Chief Operating Officer. For the past year, Jason was President of DSS's packaging and printing division, Premier Packaging Corp. and from January 2014 - July 2018, served as Premier's VP of Sales. From June 2010 – December 2013, Jason was Director of Sales and Marketing for DSS. He previously served as Business Development Director for Berlin Packaging from May 2009 – August 2010 where he led the creation of an innovative new vertical market selling approach that leveraged key capabilities and grew new accounts by 30%. From October 2004 – April 2009 Jason was the Director of Marketing at Parlec. Jason has a BFA and an MBA from Rochester Institute of Technology.

On August 6, 2019, [DSS](#) added two independent directors, José Escudero and Samson Lee to its board.

José Escudero has more than 18 years of professional experience in management consulting and corporate finance and has been a member of numerous boards of directors and Direction Committees of companies in the engineering, IT, retail banking, hotel, fashion and lifestyle industries He is an industry expert for Harvard Investment Group (HIG), Advent, Goldman Sachs, and others. He has experience in IT related projects, blockchain, cryptocurrencies and fintech. José has been working with international companies mainly in the United Kingdom, Spain, Latin America, Singapore, and Hong Kong. He began his career at PricewaterhouseCooper and has worked for the international consulting firm Hallman & Burke and for Ambers & Co., the Spanish M&A boutique firm. José earned a BS in Economics from the Francisco de Vitoria University, and an MS in Corporate Finance and Investment Banking from the Options & Futures Institute.

Samson Lee is: the Founder & CEO of Coinstreet Partners, and Co-founder of STO Global-X, Asia Pacific Digital Economy Institute, Blockchain Centre of Hong Kong, and Ethereum South China Community, Vice President of Blockchain Applications & Investment Alliance, Founding Chairman of Belt & Road TechFin Association, and Chief Crypto-Economic Advisor of Gibraltar Blockchain Exchange. Previously, he worked at UCast, Next-TV, Ericsson, UDN Asia, Movideo, Neulion, Rovi, DivX, PCCW, and Hong Kong's first publicly listed internet company-- TOM Group. Samson has proven success in commercializing various blockchain, digital, and e-business projects. Mr. Lee graduated from the University of Toronto, with a Bachelor of Commerce, and earned an MBA and MS at the Hong Kong University of Science and Technology.

SUBSEQUENT EVENTS

New Lawsuit

On October 23, 2019, Intel filed an antitrust and unfair competition complaint in the Northern District of California. DSS was named as a defendant in this lawsuit along with its partner Fortress Investment and two

other of its subsidiaries. VLSI Technology and DSS Technology Management are patent assertion entities of Fortress. Fortress is owned by Softbank.

The court filing can be found here:

https://regmedia.co.uk/2019/10/23/intel_vs_fortress_investment_group.pdf.

Intel is requesting:

- a) That Defendants' unlawful conduct be declared a violation of Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2; Section 7 of the Clayton Act, 15 U.S.C. § 18; and Cal. Bus. Prov. Code § 17200, et seq.;
- b) That Intel recover damages against Defendants in an amount to be determined and multiplied to the extent provided by law;
- c) That all contracts or agreements Defendants entered into violation of the Sherman Act, Clayton Act, or Cal. Bus. Prov. Code § 17200, et seq. be declared void and the patents covered by those transfer agreements be transferred back to the transferors;
- d) That all patents transferred to Defendants in violation of the Sherman Act, Clayton Act, or Cal. Bus. Prov. Code § 17200, et seq. be declared unenforceable;
- e) Award Intel its costs and expenses associated with this case, together with interest; and
- f) Grant such other and further relief as the Court may deem just and proper under the circumstances.

Fortress is taking the lead in this case and DSS has yet to determine what costs it might have to incur to defend itself, or when these costs might occur.

New Board Member

October 30, 2019, William Wu was elected to the board of directors as a non-executive, independent member. He has served as the managing director of Investment Banking at Glory Sun Securities Limited since January 2019. Mr. Wu previously worked for a number of international investment banks and possesses over 26 years of experience in the investment banking, capital markets, institutional brokering, and direct investment business. Before Glory Sun, he was the executive director and CEO of Power Financial Group from November 2017 to January 2019. He has also been a director of Asia Allied Infrastructure Holdings Limited since February 2015. Mr. Wu previously served as a director and CEO of RHB Hong Kong Limited from April 2011 to October 2017. Mr. Wu was the of SW Kingsway Capital Holdings Limited (now known as Sunwah Kingsway Capital Holdings Limited) from April 2006 to September 2010. Mr. Wu earned a BBA and MBA at Simon Fraser University in Canada. He is a CFA and is a registered license holder to carry out Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Capital Raise

On November 1, 2019, Mr. Fai Heng Chan, Chairman, purchased 6,000,000 shares of the Company's common stock at \$0.3037 per share, resulting in gross proceeds of \$1,822,200, before deductions for placement agent fees and other expenses.

Proxy Fight

The company is in the midst of a proxy fight with dissident shareholders. The date of record for voting was November 4, 2019 and the annual meeting is December 9, 2019. Management and directors own 34% of the shares available to be voted and believes its slate will be elected. Management has put forth a slate of directors consisting of:

Heng Fai Ambrose Chan	Frank D. Heuszel
John Thatch	Lowell Wai Wah
Sassuan Lee	Jose Escudero
William Wu	

KEY POINTS

- Document Security Systems is a decades old company with expertise in security printing, but with revenues that have been flat for the past few years. Sales are primarily from printing and packaging, which is expected to grow from increased capacity and the growth of its largest customer. Longer term, its anti-counterfeiting and authentication SaaS product AuthentiGuard is expected to be the major growth driver.
- DSS's unique and patented authentication solution, AuthentiGuard, enables corporate customers, as well as end user consumers, to track and authenticate products throughout the supply chain. Its novel approach, which uses double blind labeling, competes with taggants and RFID tracking but is far cheaper and can be used without specialized equipment. The system **allows anyone with a smartphone to scan a product to determine if it is genuine.**
- The company has its first two Fortune 100 customers for this product, and has other smaller customers. We believe an increase in marketing effort, combined with a high-visibility reference customer, could be the catalysts to rapid growth for DSS.
- DSS has a uniquely structured IP enforcement business that has five different actions in process in areas of LED and Bluetooth technology that could be monetized in the next few years. Its biggest potential win is a suit against Apple for Bluetooth technology, which is used in virtually all its products. It has recently been assigned a trial date of February 24, 2020. In 2018, the company restructured its IP enforcement efforts to avoid costs while allowing it to participate in the upside of successful monetization events.
- The company trades at an enterprise value of \$9.5 million, which is only 0.5 times EV to its trailing 12-month sales, and we believe the stock has considerable upside as the company shows signs of growth. Based on metrics of its peer group, **we believe it is worth \$1.00 per share** using a blended average EV/sales of 1.9 times and an estimate of \$19 million in sales in 2019. Any upside from the successful resolution of its IP enforcement efforts has not been factored into this valuation and adds considerable incremental potential for shareholders. Near term we believe announcements of new customer wins could also drive the stock.

STATUS OF LITIGATION

During the quarter, the company filed three new lawsuits. They added patents to actions against Seoul Semiconductor, CREE and Nichia. Also the case with Apple, scheduled to go to trial on February 24th, 2020, had a mediation meeting on September 5, 2019 with no resolution. In company is complying with its obligations to pursue past actions but does not plan to pursue the IP enforcement business in the future.

Company	Date and Location	Status	Patent numbers
Apple	Case originally filed in the United States District Court for the Eastern District of Texas on November 26, 2013. The case is currently pending in the United States District Court for the Northern District of California	Trial scheduled for February 24, 2020.	6,128,290
Seoul Semiconductor	United States District Court for the Central District of California, on June 7, 2017	On Sept 23, 2019, DSS filed a Notice of Appeal with the Federal Circuit Court of Appeals challenging the PtAB's decisions. These challenged patents are the patents that are the subject matter of the infringement lawsuit, which is pending but stayed pending the outcome of the IPR proceedings.	6949771, 7256486, 7524087
	United States District Court for the Central District of California, on September 18, 2019		7,315,119
Cree	United States District Court for the Central District of California on June 8, 2017	IPR's pending with PTAB	7256486, 7524087, 6949771
	United States District Court for the Central District of California on September 19, 2019		6,784,460
Lite-On	United States District Court for the Central District of California on August 15, 2017	Stayed pending IPR resolutions filed by others.	6949771, 7524087, 7256486
Nichia	United States District Court for the Central District of California on December 7, 2017	On September 17, 2019, the PTAB issued a written decision determining claims 1-14 of the '787 patent unpatentable. On October 30, 2019, the PTAB issued a written decision determining claims 1-17 of the '297 patent unpatentable.	7919787, 7652297, 6949771, 7256486
	United States District Court for the Central District of California on September 30, 2019		6,879,040

RISKS

- In the first nine months of 2019 two customers, Walgreens and Shutterfly were responsible for 44% of revenues versus 40% last year. Loss of either customer would affect results significantly.
- DSS is small and not profitable and potential customers may be hesitant to do business with it particularly when implementing long term solutions due to its financial situation and limited resources.

- The company bases a lot of its potential on the success of its new AuthentiGuard product. While being competitively superior in price and capability compared with alternative solutions, it has not yet gotten traction with customers. Future growth will depend of the success of marketing to convince manufacturers to take a chance an implement its new technology.
- The stock trades based on the company's progress in its lawsuits against various companies in it IP enforcement efforts. It lawsuits, and primarily the one against Apple, will drive events that is expected to affect the stock price.
- The company is operating with new management and an almost entirely new board of directors and is in the midst of a proxy fight with dissident shareholders.

FINANCIALS

Forecasts

2019 Year

The 2019-year should show meaningful revenue growth. The company has the opportunity to capture more business from Walgreens and Shutterfly and take on new customers due to increased capacity. It has a two-year plan to increase sales by 25% from these efforts. Also revenues should ramp with its two Fortune 100 customers as the system is implemented throughout their organizations. This coupled with sales wins expected from its fertile Authentiguard pipeline should propel the company to \$19 million in revenues for 2019. While new business should be at higher margins, we expect the company to continue to spend on marketing and litigation. We estimate a 2019 EPS loss of \$3.1 million or \$0.13 per share.

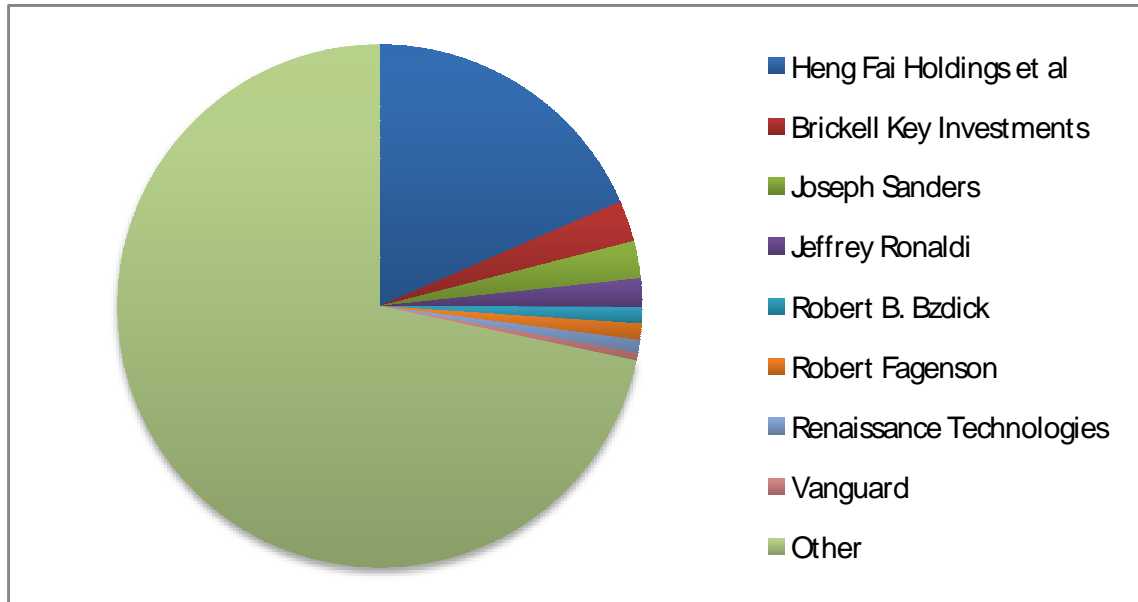
VALUATION

Document Security Systems is comprised of two main businesses with public comparables. Companies that are primarily providers of packaging and printing and those involved in higher margin anti-counterfeiting type solutions. Since in 2019 we expect revenues at DSS to be roughly 90% packaging and 10% anti-counterfeiting, we are using a blended multiple of enterprise value to sales to calculate valuation. As that percent shifts, we expect the multiple to increase proportionally.

Using Applied DNA, Digimarc, and Zebra as the anti-counterfeiting revenue comps and the rest for packaging, we get a blended multiple of 1.9 times EV to sales on trailing 12 months. Applying that to 2019's \$19 million in revenues gets an enterprise value of \$36.1 million and market value of \$37.2 million, and a price per share of \$1.00 using 36.2 million shares outstanding. By next year this moves to a multiple of 2.2 times as the product mix switches and revenues go to \$23 million leading to a stock price of \$1.43.

Company	Ticker	2020E	Cal. Revenue		EBITDA	EBIDTA Margin	Enterprise Value / Sales		EV/EBITDA	Included in Average?	Ent. Value
			2019E	LTM			2019E	LTM			
Applied DNA	APDN	NA	\$9	\$5	-10.3	-209%	0.6x	1.2x	-0.6x	y	6
Brady Corp.	BRC	NA	\$1,156	\$1,154	186.8	16%	2.3x	2.3x	14.5x	y	2,700
De La Rue	DLAR.L	NA	\$663	\$663	79.6	12%	0.5x	0.5x	3.8x	y	305
Digimarc	DMRC	\$27	\$23	\$23	-31.0	-136%	14.9x	15.0x	-11.1x	y	344
Graphic Packaging	GPK	\$6,380	\$6,220	\$6,140	976.3	16%	1.4x	1.4x	8.7x	y	8,540
Huhtamaki	HUH1V.HE	\$3,310	\$3,090	\$3,340	405.4	12%	1.7x	1.6x	13.0x	y	5,260
WestRock	WRK	NA	\$18,500	\$18,290	3180.0	17%	1.1x	1.1x	6.2x	y	19,810
Zebra	ZBRA	\$4,750	\$4,490	\$4,430	890.0	20%	3.2x	3.2x	16.1x	y	14,290
Average						-0.3x	3.2x	3.3x			6,407

OWNERSHIP



Source: Zacks Investment Research

PROJECTED INCOME STATEMENT

	Mar 31, 2018	Jun. 30, 2018	Sep. 30, 2018	Dec. 31, 2018	Mar 31, 2019	Jun. 30, 2019	Sep. 30, 2019	Dec. 31, 2019E	2018	2019E	2020E
Revenue:											
Packaging Printing and Fabrication	\$ 2,610,000	\$ 2,491,000	\$ 2,482,000	\$ 4,158,000	\$ 2,961,000	\$ 2,775,000	\$ 1,883,000	\$ 4,900,000	\$ 11,741,000	12,519,000	\$ 14,021,280
Commercial and Security Printing	308,000	338,000	253,000	342,000	352,000	225,000	251,000	250,000	1,241,000	1,078,000	1,500,000
Technology Integrated Plastic Cards & Badges	252,000	253,000	409,000	440,000	503,000	158,000	306,000	310,000	1,354,000	1,277,000	1,500,000
Plastic Cards, Badges and Assessories	753,000	643,000	640,000	568,000	550,000	465,000	595,000	595,000	2,604,000	2,205,000	2,200,000
Printed products	3,923,279	3,724,980	3,783,779	5,508,224	4,366,054	3,623,191	3,035,219	6,055,000	16,940,262	17,079,464	19,221,280
Yr-Yr Growth	-10.9%	10.1%	0.4%	0.6%	11.3%	-2.7%	-19.8%	9.9%	-0.5%	0.8%	12.5%
Information Technology Sales and Services	130,000	78,000	61,000	76,000	74,000	32,000	46,000	50,000	345,000	202,000	200,000
Digital Authentication Products and Services	178,000	174,000	143,000	277,000	230,000	319,000	307,000	350,000	772,000	1,206,000	3,000,000
Yr-Yr Growth					29.2%	83.3%	114.7%	26.4%	50.8%	56.2%	148.8%
Royalties from Licensees	147,000	110,000	107,000	94,000	139,000	133,000	145,000	145,000	458,000	562,000	580,000
Technology sales, services and licensing	454,275	362,081	310,511	447,953	442,866	483,638	497,700	545,000	\$ 1,574,820	\$ 1,969,204	\$ 3,780,000
Yr-Yr Growth	23.6%	-24.2%	-28.0%	24.7%	-2.5%	33.6%	60.3%	21.7%	-3.7%	25.0%	92.0%
Total revenue	4,377,554	4,087,061	4,094,290	5,956,177	4,808,920	4,106,829	3,532,919	6,600,000	18,515,082	19,048,668	23,001,280
Yr-Yr Growth	-8.2%	5.9%	-2.5%	2.1%	9.9%	0.5%	-13.7%	10.8%	-0.8%	2.9%	20.8%
Costs and expenses:											
Cost of revenue	2,581,615	2,756,447	2,551,782	3,963,655	3,159,551	2,897,674	2,217,822	4,608,000	11,853,499	12,883,047	15,209,747
Gross Margin	1,795,939	1,330,614	1,542,508	1,992,522	1,649,369	1,209,155	1,315,097	1,992,000	6,661,583	6,165,621	7,791,533
Gross Margin %	41.0%	32.6%	37.7%	33.5%	34.3%	29.4%	37.2%	30.2%	36.0%	32.4%	33.9%
Selling, general and administrative	968,000	855,000	795,000	997,000	920,000	814,000	773,000	775,000	3,615,000	3,282,000	3,100,000
Depreciation and amortization	345,667	346,816	310,330	278,821	294,407	336,740	420,063	430,000	1,281,634	1,481,210	1,720,000
Professional fees	234,000	352,000	243,000	244,000	292,000	434,000	544,000	550,000	1,073,000	1,820,000	2,200,000
Stockbased compensation	1,000	85,000	20,000	26,000	31,000	28,000	273,000	30,000	132,000	362,000	362,000
Sales and marketing	92,000	121,000	137,000	209,000	116,000	164,000	111,000	150,000	559,000	541,000	900,000
Rent and utilities	154,000	161,000	173,000	167,000	190,000	176,000	187,000	188,000	655,000	741,000	752,000
Other expenses	234,000	222,000	241,000	212,000	227,000	230,000	239,000	240,000	909,000	936,000	960,000
R&D	99,000	6,000	2,000	39,000	1,000	18,000	(32,000)	13,000	146,000	0	0
Total costs and expenses	2,127,667	2,148,816	1,921,330	2,172,821	2,071,407	2,200,740	2,515,063	2,376,000	8,370,634	9,163,210	9,994,000
Operating (loss) income	(331,728)	(818,202)	(378,822)	(180,299)	(422,038)	(991,585)	(1,199,966)	(384,000)	(1,709,051)	(2,997,589)	(2,202,467)
Operating Margin	-7.6%	-20.0%	-9.3%	-3.0%	-8.8%	-24.1%	-34.0%	-5.8%	-9.2%	-15.7%	-9.6%
Other expense:											
Interest expense, net	(46,064)	(30,735)	(27,246)	(32,140)	(27,997)	(37,952)	(50,776)	(52,000)	(136,185)	(168,725)	(220,000)
Amortized debt discount	(27,731)	(6,168)	(6,168)	(6,184)	(600)	(600)	(351)	0	(46,251)	(1,551)	0
Impairment of investment	0	0	0	(160,000)	0	0	0	0	(160,000)	0	0
Gain on extinguishment of liabilities, net	0	3,532,659	0	0	0	0	0	0	3,532,659	0	0
Loss before income taxes	(405,523)	2,677,554	(412,236)	(378,623)	(450,635)	(1,030,137)	(1,251,093)	(436,000)	1,481,172	(3,167,865)	(2,422,467)
Income tax expense	0	0	0	16,593	0	0	0	0	16,593	0	0
Net loss	(405,523)	2,677,554	(412,236)	(395,216)	(450,635)	(1,030,137)	(1,251,093)	(436,000)	1,464,579	(3,167,865)	(2,422,467)
Other comprehensive loss:											
Foreign currency translation	0	0	(5,088)	5,088	0	0	0	0	0	0	0
Interest rate swap gain (loss)	14,889	6,963	(4,458)	(1,377)	(778)	(14,653)	22,483	0	16,017	7,052	0
Comprehensive loss:	\$ (390,634)	\$ 2,684,517	\$ (421,782)	\$ (396,593)	\$ (451,413)	\$ (1,044,790)	\$ (1,228,610)	\$ (436,000)	\$ 1,480,596	\$ (3,160,813)	\$ (2,422,467)
Non-GAAP earnings	(404,272)	(770,183)	(391,792)	(530,100)	(419,934)	(1,002,228)	(919,829)	(406,000)	(2,108,827)	(2,747,991)	(2,082,467)
Non-GAAP EPS	\$ (0.02)	\$ (0.05)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.01)	\$ (0.13)	\$ (0.11)	\$ (0.06)
GAAP Basic and diluted loss per share	\$ (0.01)	\$ 0.16	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.05)	\$ (0.01)	\$ 0.09	\$ (0.13)	\$ (0.07)
Yr-Yr Growth	0.0%	-897.0%	0.0%	-298.4%	140.0%	-129.6%	160.4%	-46.8%	-326.9%	-245.1%	-47.3%
Basic shares outstanding	16,599,327	16,599,327	16,767,992	17,420,000	17,494,750	21,907,308	24,026,417	36,180,626	16,724,376	24,902,275	36,200,000
Diluted shares		16,842,204	17,010,869	17,626,429	17,701,179	22,150,185	24,294,322	36,448,531	16,930,805	25,148,554	36,467,905
EBIDTA	15,190	3,144,810	(69,000)	116,000	(94,000)	(630,000)	(507,000)	76,000	3,238,000	(1,231,000)	(282,467)

CASH FLOWS

	2017	March 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018	2018	March 31, 2019	June 30, 2019	Sept. 30, 2019
Cash flows from operating activities:									
Net income (loss)	\$ (578,156)	\$ (406,091)	\$ 2,677,458	\$ (412,067)	\$ (394,331)	\$ 1,464,969	\$ (450,450)	\$ (1,030,822)	\$ (1,250,671)
Adjustments to reconcile net income (loss) to net cash used by operating activities:									
Depreciation and amortization	1,413,838	345,667	346,816	310,330	278,821	1,281,634	294,407	336,740	420,064
Stock based compensation	214,862	1,251	84,922	20,444	25,116	131,733	30,701	27,909	272,654
Paid in-kind interest	72,000	12,000	0	0	0	12,000	0	0	0
Change in deferred tax provision	80,363	0	0	0	9,673	9,673	0	0	0
Amortization of deferred financing costs	154,142	27,731	6,168	6,168	6,184	46,251	600	0	(249)
Gain on extinguishment of liabilities, net	(219,364)	0	(3,532,659)	0	0	(3,532,659)	0	0	0
Impairment of investment					0	160,000	0	0	0
Decrease (increase) in assets:									
Accounts receivable	(134,303)	25,689	92,802	(10,783)	(300,301)	(192,593)	(277,951)	(68,350)	436,451
Inventory	(444,869)	51,699	237,814	(580,842)	378,982	87,653	217,926	73,556	(379,773)
Prepaid expenses and other current assets	51,409	13,329	(41,100)	(27,603)	24,176	(31,198)	720	53,175	(213,999)
Restricted cash	0	0	0	0	0	0	0	0	0
Increase (decrease) in liabilities:									
Accounts payable	(893,431)	188,795	115,112	458,497	(143,568)	618,836	(100,692)	317,188	(222,981)
Accrued expenses	(60,791)	(103,928)	13,610	(303,852)	280,377	(113,793)	(213,370)	(36,533)	(68,838)
Other liabilities	(944,834)	(249,594)	(357,334)	(535,001)	(183,498)	(1,325,427)	(378,183)	(519,675)	(555,018)
Net cash used by operating activities	(1,289,134)	(93,452)	(356,391)	(1,074,709)	141,631	(1,382,921)	(876,292)	(846,812)	(1,562,360)
Cash flows from investing activities:									
Purchase of property, plant and equipment	(958,819)	(132,937)	(178,465)	(214,849)	(477,162)	(1,003,413)	(210,945)	(50,610)	(561,793)
Purchase of intangible assets	(11,552)	(15,780)	(4,357)	(25,334)	(54,667)	(100,138)	(350,000)	0	(7,816)
Net cash used by investing activities	(970,371)	(148,717)	(182,822)	(240,183)	(531,829)	(1,103,551)	(560,945)	(50,610)	(569,609)
Cash flows from financing activities:									
Payments of long-term debt	(818,332)	(206,542)	(551,760)	(207,775)	(222,004)	(1,188,081)	(57,309)	(64,251)	(72,826)
Borrowing from eqt line of credit	522,000	0	0	87,703	414,452	502,155	500,000	0	87,750
Borrowings from convertible note	0	0	0	0	0	0	0	0	0
Issuance of common stock, net	951,118	0	0	300,000	587,755	887,755	(6,793)	0	5,048,404
Subscription receivable, net	0	288,000	0	0	0	288,000	0	0	0
Net cash used by financing activities	654,786	81,458	(551,760)	179,928	780,203	489,829	435,898	4,822,386	676,691
Net decrease in cash	(1,604,719)	(160,711)	(1,090,973)	(1,134,964)	390,005	(1,996,643)	(1,001,339)	3,924,964	(1,455,278)
Cash and restricted cash at beginning of period	6,049,347	4,444,628	4,283,917	3,192,944	2,057,980	4,444,628	2,447,985	1,446,646	5,371,610
Cash and restricted cash at end of period	\$ 4,444,628	\$ 4,283,917	\$ 3,192,944	\$ 2,057,980	\$ 2,447,985	\$ 2,447,985	\$ 1,446,646	\$ 5,371,610	\$ 3,916,332
Operating Cash Flow	\$ 1,137,685	\$ (19,442)	\$ (417,295)	\$ (75,125)	\$ (74,537)	\$ (586,399)	\$ (124,742)	\$ (666,173)	\$ (558,202)
Free Cash Flow	\$ 167,314	\$ (168,159)	\$ (600,117)	\$ (315,308)	\$ (606,366)	\$ (1,689,950)	\$ (685,687)	\$ (716,783)	\$ (1,127,811)

BALANCE SHEET

	Sept. 30, 2019	Jun. 30, 2019	Qtr-Qtr % Growth	Sept. 30, 2018	Yr-Yr % Growth
Current assets:					
Cash	\$ 3,916,332	\$ 5,321,344	-26.4%	\$ 2,051,800	90.9%
Restricted cash	0	50,266	-100.0%	6,180	-100.0%
Accounts receivable, net	2,127,727	2,564,178	-17.0%	1,917,576	11.0%
Inventory	1,651,884	1,272,111	29.9%	1,942,575	-15.0%
Prepaid expenses & other curr assets	470,047	256,048	83.6%	309,755	51.7%
Total current assets	8,165,990	9,463,947	-13.7%	6,227,886	31.1%
Property, plant and equipment, net	5,122,138	4,854,786	5.5%	4,736,113	8.2%
Investment	324,930	324,930	0.0%	484,930	-33.0%
Other assets	90,319	90,319	0.0%	90,320	0.0%
Right-of-use assets	1,344,601	1,313,742	2.3%	0	NM
Goodwill	2,453,597	2,453,597	0.0%	2,453,597	0.0%
Other intangible assets, net	1,048,503	1,166,310	-10.1%	842,385	24.5%
Total assets	18,550,078	19,667,631	-5.7%	14,835,231	25.0%
Current liabilities:					
Accounts payable	1,341,003	1,563,986	-14.3%	1,491,058	-10.1%
Accrued expenses & deferred revenue	779,638	818,773	-4.8%	831,689	-6.3%
Other current liabilities	935,404	1,473,163	-36.5%	2,295,681	-59.3%
Current portion of long-term debt, net	467,382	348,574	34.1%	796,734	-41.3%
Current portion of lease liability	361,713	332,883	8.7%	0	NM
Total current liabilities	3,885,140	4,537,379	-14.4%	5,415,162	-28.3%
Long-term debt, net	2,361,696	1,965,829	20.1%	1,354,264	74.4%
Lease liability	1,007,251	1,005,222	0.2%	0	NM
Other long-term liabilities	311,986	329,348	-5.3%	582,653	-46.5%
Deferred tax liability, net	168,986	169,986	-0.6%	125,982	34.1%
Stockholders' equity					
Common stock	603,613	584,054	3.3%	336,272	79.5%
Additional paid-in capital	113,335,147	112,972,366	0.3%	107,024,040	5.9%
Accumulated other comp loss	0	(22,483)	-100.0%	(5,675)	-100.0%
Accumulated deficit	(103,123,741)	(101,873,070)	1.2%	(99,997,467)	3.1%
Total stockholders' equity	10,815,019	11,660,867	-7.3%	7,357,170	47.0%
Total liabilities and stockholders' equity	18,550,078	\$ 19,667,631	-5.7%	14,835,231	25.0%
Current ratio	2.1	2.1	0.8%	1.2	82.8%
Quick ratio	1.7	1.8	-7.1%	0.8	111.9%
Working Capital	4,280,850	4,926,568	-13.1%	812,724	426.7%
Net cash	3,916,332	5,321,344	-26.4%	2,051,800	90.9%
Debt	2,829,078	2,314,403	22.2%	2,150,998	31.5%
Debt/TA	15%	12%	29.6%	14%	5.2%

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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