

SMTP Inc.**(SMTP-NASDAQ)****SMTP: Zacks Company Report –
INITIATION – Acquisitions Double
Revenues and Triple Prospects**

Current Recommendation	BUY
Prior Recommendation	N/A
Date of Last Change	10/14/2014
Current Price (10/14/14)	\$5.81
Twelve Month Target Price	\$16

OUTLOOK

SMTP is a small growing SaaS provider of email delivery services that is in the process of buying two other email services companies to add marketing automation and a front-end for email creation and tracking. These acquisitions should be accretive and double revenues next year while improving profitability and increasing the total addressable market for the company. With an 8.3% dividend yield and enterprise value to sales of only 2.7 times 2014 estimated revenues, far below its peers, we believe the stock is a BUY.

SUMMARY DATA

52-Week High	\$9.99
52-Week Low	\$1.43
One-Year Return (%)	17.2
Beta	-13.49
Average Daily Volume (sh)	12,622

Shares Outstanding (mil)	5
Market Capitalization (\$mil)	\$29
Short Interest Ratio (days)	0.49
Institutional Ownership (%)	12
Insider Ownership (%)	56

Annual Cash Dividend	\$0.48
Dividend Yield (%)	8.3

5-Yr. Historical Growth Rates	
Sales (%)	23.0
Earnings Per Share (%)	N/A
Dividend (%)	N/A

P/E using TTM EPS	12.0
P/E using 2014 Estimate	26.4
P/E using 2015 Estimate	14.9

Zacks Rank	N/A
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Risk Level	Average
Type of Stock	Small-Blend
Industry	Internet-Services
Zacks Rank in Industry	N/A

ZACKS ESTIMATES**Revenue**

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2012	\$1.2 A	\$1.4 A	\$1.4 A	\$1.4 A	\$5.4 A
2013	\$1.4 A	\$1.4 A	\$1.5 A	\$1.5 A	\$5.8 A
2014	\$1.5 A	\$1.5 A	\$1.7 E	\$1.9 E	\$6.5 E
2015					\$13.0 E

Earnings per Share

(EPS is fully diluted non-GAAP earnings)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2012	\$0.02 A	\$0.02 A	\$0.02 A	\$0.10 A	\$0.46 A
2013	\$0.15 A	\$0.14 A	\$0.17 A	\$0.14 A	\$0.60 A
2014	\$0.09 A	\$0.06 A	\$0.04 E	\$0.03 E	\$0.22 E
2015					\$0.39 E

Zacks Projected EPS Growth Rate - Next 5 Years % **25**

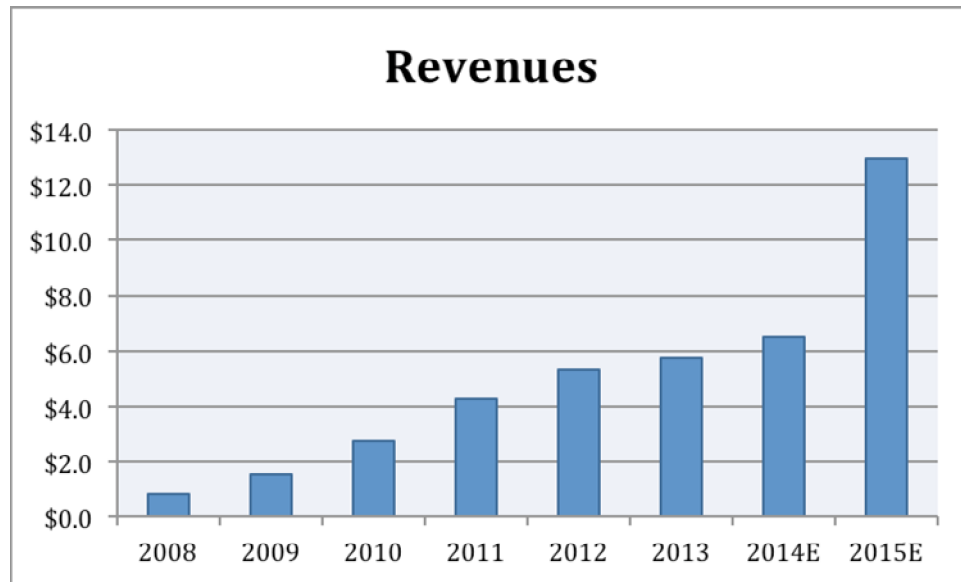
INVESTMENT THESIS

- SMTP is an experienced, profitably growing SaaS company in the \$2 billion email marketing industry.
- CEO, Jonathan Strimling, was hired in 2013 to take the company to the next level and kick up growth rates by improving marketing, expanding product offerings, and increasing revenues through an acquisition strategy.
- In August, it announced the acquisitions of SharpSpring and GraphicMail which will more than triple the companies' addressable market opportunity, make it much more competitive against larger players, and lower the combined company's tax rate.
- The company's 8.3% dividend yield makes it attractive to both growth and yield investors and increases investor's ROI as well as limiting the stock's downside risk.
- With these acquisitions and internal growth, the company may be able to double revenues and increase earnings next year to \$13 million in sales and an EPS of \$0.39. Should the company achieve these numbers we believe the stock would be worth considerably more in the next twelve months.
- We are INITIATING coverage with a BUY and a target price of \$16.

OVERVIEW

Historically, SMTP has provided an email delivery service for large volume emailers that improves deliverability. Its core business focuses on providing cloud-based email delivery services for companies in over 130 countries with a recurring revenue subscription model. No single customer accounts for more than 2% of sales, and half of sales are outside the US. SMTP is an email industry acronym that stands for Simple Mail Transfer Protocol that is the standard for sending email. The company's main business is the improved deliverability of opt-in emails. When customers mail through SMTP servers, ISPs recognize the emails as from a reputable sender and being wanted material. Without a service like SMTP, a mailer typically gets only 78% of its emails delivered as many ISPs will flag large mailings as spam and not put them through to the addressee. Using SMTP's service, delivery can be in the high 90%. Higher delivery often gives marketers a measurable return on investment, making the service an easy sell to many. The company achieves higher delivery by building a reputable sending reputation on the sending server and by knowing the ISP filter rules, whether it is by the look of the email or the pattern of mailing. Prices for the service range from \$15 per month for 10,000 emails per month to \$10,000 per month for 100,000 emails per month.

The company was founded in 1998, went public in 2011, and has been a steady consistent growth company showing high margins and high cash flow. It also pays an extremely high dividend that is currently \$0.48 per share (8.3% dividend yield) that it has no plans of reducing or eliminating in the near future. In the past five years, the company has achieved revenue CAGR of 48%.



In the past year the company outlined a strategy to aggressively rejuvenate growth through the acquisition of companies providing service offerings complementary to its existing business. In the email and sales automation market there are multiple companies that have shown significantly higher growth than SMTP, so the company decided to broaden its market scope and try to capture some of this business.

- As a first step, it recruited new management including a new CEO and CFO with M&A and marketing expertise.
- Then it raised a war chest by selling shares for \$11.5 million in January and uplisted to the NASDAQ.
- This new team then systematically reviewed the landscape to find companies that were a good addition to SMTP's product offering, and also available at a reasonable valuation.

After analyzing hundreds of companies across the globe it settled on two. These recently announced acquisitions are SharpSpring and GraphicMail. SharpSpring closed August 15, 2014, and GraphicMail is expected to close before year-end. These two companies will broaden the company's offerings, increase its total addressable market, increase its geographic reach, and make it more competitive against larger vendors. With these acquisitions, we expect the company's revenues to double next year.

Recent Acquisitions

SharpSpring, a new start up, was purchased for \$5 million in cash plus an earn out of cash and stock. To qualify for its earn-out, SharpSpring must reach a \$5 million run rate by the end of 2015, at which point it would receive an additional \$10 million in cash and stock. The deal closed on August 15, 2014. It only launched its product this year, but as of August it was bringing in business at a \$2 million annual run rate. SharpSpring's product is a marketing automation and call-tracking platform that is a direct challenger to Marketo in the small and medium business market. Marketing automation helps marketers track the web traffic of potential customers visiting its site and tracks phone contacts with customers and prospects. It is an excellent add-on service offering for SMTP's current customer base, as SMTP's deliverability services will allow SharpSpring to upsell to larger customers. SharpSpring also offers a customer relationship management module or a customer can bring their own system.



GraphicMail, is a ten-year-old integrated email solutions company based in Cape Town, South Africa, It operates in 25 countries and provides service in 13 languages. It employs about 50 people and has 9,000 direct customers who sell to 35,000 end users. It will be purchased for \$5.2 million in cash and stock with a possible \$0.6 million earn out. It had \$4 million in billings in 2013, and was profitable. SMTP believes it will be immediately accretive to earnings. GraphicMail has a robust front-end email platform that competes with products like MailChimp and Constant Contact, but needs help scaling for larger customers. SMTP on the other hand was looking for a front end but had the back end scaling capabilities. Together, the two should create an impressive offering for customers as well as expand the sales force and market reach for SMTP and SharpSpring. The GraphicMail acquisition, which is more complex due to its international operations, is expected to close in Q4 2014.

INDUSTRY

Until its recent acquisitions, SMTP competed only in the \$800 million email delivery segment of the email marketing industry; this segment has an average compound growth rate of 9.9% according to Forrester Research as shown on the graph. These acquisitions allow SMTP to increase its total addressable market (TAM) closer to the \$2 billion opportunity for all aspects of email marketing spending.

SMTP

SMTP's typical customer is a large emailer with considerable in-house expertise that already has the capability and know-how to create email campaigns and only needs assistance with delivery due to the large volume of sent emails that could be construed as spam. As a result of this niche expertise, SMTP has been able to offer its service at very competitive prices. The company also competes by offering excellent service with staff on hand 24/7 to help customers.

One current SMTP customer is Retirementjobs.com, a website for retired professionals seeking new jobs and volunteer opportunities. The company sends a handful of emails a month to its 1 million members, totaling 5 million emails per month. According to the CEO, once the company reached 800,000 members and two million emails a month, it decided that it should enlist some outside help on delivery. After evaluating a number of providers, it selected SMTP based on its competitive pricing as well as its professional service and support capabilities that were key differentiators. Retirementjobs.com is currently evaluating the products available from SharpSpring and GraphicMail and may use them in the future to obtain better information on its members as they move through the employment process. The company believes one of the most attractive features of SharpSpring's product is the ability to use a variety of customer relationship management (CRM) solutions. As a result the commitment is not as great as using other vendors that would require you to switch CRM systems.

The company believes its competitors in the SMTP relay business are:

- AuthSmt.com
- JangoMail.com
- SocketLabs.com
- StrongMail.com
- ExactTarget.com
- CheetahMail.com
- iContact.com
- bronto.com
- TurboSMTP.com
- SMTP2Go

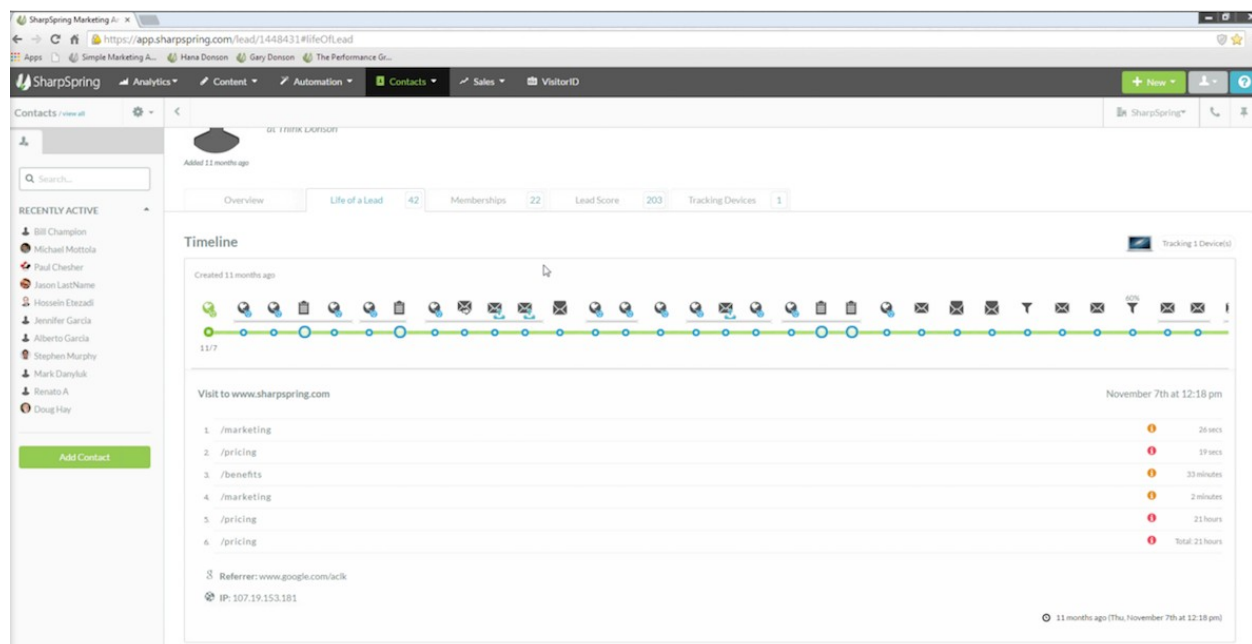
SharpSpring

SharpSpring is a small startup founded and located in Gainesville, FL with 25 employees. It created a new platform that was launched early 2014 and is rapidly generating revenues at a \$2 million run rate. SharpSpring provides a software platform for **marketing automation and call tracking**. It is vendor independent and **integrates with any Customer Relationship Management (CRM) software**, or a user can use the SharpSpring CRM. The company's end user customer is primarily small and medium businesses but it has been primarily sold wholesale to marketing and advertising agencies. The agency

can either just resell the license or can sell a marketing service to the client using the SharpSpring software and create a new line of business at the company. By servicing only the ad agencies, rather than the end user, the price for support is significantly less for the company and it can be priced well below the competition. For \$500 per month, an ad agency can buy a license that can be used for five clients which is a price far less than the end user price from Marketo or HubSpot. They typically charge \$2400 per year per end user. So far, the company has over 200 resellers of its product of which 60-70 are outside the US.

Marketing automation allows a company to track what a visitor does on its site, what pages he looks at and how long he stays. If the visitor registers, the company knows what he is interested in and can send relevant emails to encourage a transaction or start a conversation to engage the prospect. If there is no registration, SharpSpring can capture the IP address and do a reverse look up to see from what company the visitor may be. They can then search the integrated ZoomInfo database to see who at that company might be the best person to contact to make a sale.

SharpSpring Demo Timeline View



In addition to web sites, SharpSpring has also added the ability to trace telephone inquiries and match them to specific ads, which is referred to as Call Tracking. Call Tracking enables users to better assess ROI for marketing campaigns and improve the ability to engage with prospects. For example, if your company places a Facebook ad, the ad can be assigned a specific telephone number that can be monitored to determine the success of that ad.

By targeting primarily smaller businesses, SharpSpring's chief competition is HubSpot, Marketo, InfusionSoft and Act|On rather than companies like Elequa and Pardot who target very large enterprises and cost tens of thousands of dollars per month. In addition to its extremely low cost, SharpSpring's advantage is its ease of use and more modern look and feel which is a salient characteristic when selling to smaller businesses with less in house specialization and expertise. As a new kid on the block, SharpSpring needs greater visibility as a competitor and we believe the publicity from and stability of being owned by SMTP should boost its growth rate and prospects.

SharpSpring Competition

HubSpot

[HubSpot](#) was founded in 2006 in MA, has had \$100.5 million in venture capital funding to date. The company claims over 11,500 customers in 70 countries and more than 2000 agency partners. In 2013, the company's revenues grew 50% to \$77.6 million and lost \$34.3 million according to its recently filed [S-1](#). It has 700 employees. It plans to raise \$120 million in its imminent IPO at a \$700 million valuation, or 7 times its current run rate.

Marketo

[Marketo](#) was founded in 2007 in California and went public in April 2013. It is growing over 50% a year, has a \$144 million revenue run rate, and just reached cash flow break even last quarter. It has over 3,400 customers and 600 employees. It is ranked second, just below Oracle in Gartner's Magic Quadrant for CRM Lead Management. It caters more to SMB than some of its larger competitors. Marketo's product was the inspiration for SharpSpring and its management set out to build a better product using Marketo as the product to beat.

[Infusionsoft](#)

Infusionsoft, based in Chandler, AZ was founded in 2001 and has had \$73 million in venture funding to date. It has over 580 employees and in 2013 it generated \$56.8 million in sales, up from \$39 million the year before.

[Act|On](#)

Act|On Software was founded in 2008 in Beaverton, OR. In 2013 it reported \$19.3 million in sales, double its 2012 revenues and now has over 400 employees. It also has had \$73 million in venture funding. Its \$42 million April round was lead by TCV and it is eyeing a 2015 IPO. It has over 2000 customers and its average clients has 15 employees.

GraphicMail

[GraphicMail](#) provides a front end for customers to create, launch and track email, social media and text campaigns all from the same software. Its capabilities are similar to MailChimp and Constant Contact and its features are robust enough for the sophisticated user, but intuitive enough for a neophyte. Its major competitive advantages are: pricing that is lower and more flexible than its major competitors, and support that is accessible 24/7 to all users. The company uses two different types of pricing schemes, by volume per month for the occasional users, and by maximum contacts reached per month for the heavy user.

Per Sends Plans

Great for those who send as needed. Only pay for your monthly sends with no cap on your contacts.

Sends	2,000	5,000	10,000	20,000	50,000	100,000
Price	\$9.95	\$19.95	\$29.95	\$59.95	\$129.95	\$229.95
	Buy now	Buy now	Buy now	Buy now	Buy now	Buy Now

**Plans are charged monthly. Unused sends do not carry over to the next month.*

Per Contact Plans

Great for regular senders. Save on frequent sending to your contacts, including daily sends.

Subscribers	2,000	5,000	10,000	25,000	50,000	100,000
Price	\$25.00	\$45.00	\$75.00	\$150.00	\$240.00	\$520.00
	Buy Now	Buy Now	Buy Now	Buy Now	Buy Now	Buy Now

**Plans are charged monthly. Fees are based on the number of email addresses in your account.*

Competitors

Constant Contact (CTCT)

Constant Contact is an \$865 million public company that was founded in 1995 and is located in Waltham, MA. Last year it did \$285 million in revenues and is expected to sell \$330 million in services in 2014. It has over 1,100 employees. It sells a suite of online marketing tools to SMBs, the components of which are called: Email Marketing, EventSpot, Social Campaigns, SaveLocal, SinglePlatform, and Survey.

MailChimp

MailChimp is the name of the product created by the Rocket Science Group a company located in Atlanta and was founded in 2001. It claims over 7 million users of its product. It has 90 employees and reported that its customers sent 70 billion emails in 2013. It has taken no outside funding. It uses a freemium model and does not charge for sending emails to less than 2000 contacts up to 12,000 emails per month.

ExactTarget

ExactTarget was founded in 2000, went public in 2012 and was acquired by salesforce.com in 2013 for \$2.5 billion. It also owns Pardot, a marketing automation company that competes with SharpSpring but is more appropriate for large enterprise customers. The last quarter it reported ending March 31, 2013, it generated \$88 million in revenues and was still losing money. Thus it was purchased at 7 times its revenue run rate. It currently employees approximately 1,900 people worldwide.

VALUATION

SMTP can be valued against other public SaaS companies. Many of the highly valued SaaS companies are not yet profitable, so we are looking at valuation based on a multiple of sales. As shown on the chart below company valuations range from a low of 1.9 times enterprise value to forecasted 2014 revenues for the small struggling social business software platform vendor Jive Software, to a high of 18.3 times for \$14 billion Workday, which provides a SaaS platform for human resource information systems (HRIS). The group yields an average of 6.8 times forecasted 2014 revenues and 7.7 times trailing twelve month. Using this metric, if we plug in SMTP's revenues, we can see the stock moving to \$16.38 by next year if the forecasts are reached.

Company	Ticker	Revenue		EBIDTA Margin	Enterprise Value / Sales		Included in Average?	Enterprise Value
		2014E	LTM		2014E	LTM		
Callidus Software	CALD	\$131	\$124	NM	4.5x	4.8x	y	594
Concur Technologies	CNQR	\$728	\$668	3%	9.8x	10.6x	y	7,110
Salesforce	CRM	\$5,370	\$4,770	4%	7.0x	7.9x	y	37,700
Constant Contact	CTCT	\$331	\$307	13%	2.3x	2.5x	y	760
Ellie Mae	ELU	\$152	\$136	17%	5.9x	6.7x	y	901
Hubspot	HUBS	\$110	\$94	-24%	8.0x	9.4x	y	880
Jive Software	JIVE	\$174	\$161	-35%	1.9x	2.0x	y	326
LogMeIn	LOGM	\$218	\$192	13%	4.4x	5.0x	y	967
Live Person	LPSN	\$206	\$191	5%	3.0x	3.2x	y	617
Marketo	MKTO	\$145	\$122	-34%	8.9x	10.6x	y	1,290
Netsuite	N	\$549	\$477	-8%	12.6x	14.5x	y	6,890
Realpage	RP	\$402	\$389	12%	3.2x	3.3x	y	1,270
Synchronoss Technologies	SNCR	\$444	\$389	27%	4.0x	4.6x	y	1,790
Solarwinds	SWI	\$424	\$382	26%	7.2x	8.0x	y	3,050
2U inc.	TWOU	\$108	\$96	?	4.8x	5.4x	y	521
Textura	TXTR	\$65	\$59	-40%	9.6x	10.6x	y	621

RISKS

- SMTP is small company that may not have the resources to compete with much larger well-established competitors.
- If the company is not able to raise money should it use up all its cash on acquisitions and operations it may have to cut its dividend.
- The new companies purchased by SMTP may not be able to integrate their software efficiently and the disparate offerings may not be competitive.
- The three marketing teams may not be able to cross sell products efficiently.
- The company will now have multiple locations worldwide with operations and these companies may be difficult to manage.
- The disruption of the merger may cause SMTP and GraphicMail to lose business.
- As a start up business, SharpSpring has no track record of sales and we may have over estimated its potential.

MANAGEMENT

In the past year there has been almost an entire revamp of management as the decision was made to pursue growth by expanding product offerings and synergistic acquisitions. Executives were brought in from outside the company to add expertise and perspective. Jonathan Strimling was hired as CEO in 2013, and brings with him the views of an eCommerce email user. Ed Lawton, who was hired as CFO in 2014, added considerable expertise in M&A.

Jonathan Strimling CEO

Jonathan became CEO of SMTP in August of 2013. He has 20 years of experience as an executive and entrepreneur, largely focused on the commercialization of innovative products and services. From 2006 to 2011, Mr. Strimling served as the President and CEO of online retailer American Biomass Corp. Also, from 2012 to present, Mr. Strimling served as the President and CEO of US Dynamics, LLC, a consulting company, UltraCell Insulation, LLC, a manufacturing company, and Secure Neighborhoods, LLC, a security company, all of which are located in Manchester, NH. Also, Mr., Strimling was a governor's appointee to the Economic Strategy Commission for the state of New Hampshire. Mr. Strimling received his BS in Mechanical Engineering from Northeastern University in 1992 and an MS in Mechanical Engineering and in Management from MIT in 1996.

Ed Lawton CFO

Ed just joined SMTP in September 2014 from Bottomline Technologies where he worked for eight years and was Sr. Director of Finance. At Bottomline he was involved in 20 acquisitions. Before that he was a senior finance executive at Trico Marine Services. He is a CPA. He earned a BS in Accounting from Babson College in 1999.

Yvonne Gaudette VP of Marketing

Yvonne joined the firm in September of 2013 after being a marketing consultant and advisor for eight years at a variety of small companies. She earned a BS in Business Administration at Franklin Pierce College in 1995 and an MS in Administrative Studies in Innovation and Technology at Boston University.

Rick Carlson CEO/Founder of SharpSpring

Rick came to SMTP in August 2014 with the acquisition of his company, SharpSpring. Rick has 12 years of executive management experience in the technology sector, holding president, CEO, general manager, and board positions at several successful Internet security companies. He was the founder of CyberPatrol, and before that worked at Panda Security and AVG Technologies. Rick earned an MBA from the University of Florida in 2001.

Travis Whitton CTO of SharpSpring

Travis joined SMTP with the acquisition of SharpSpring in August 2014. Before joining SharpSpring, Whitton was the primary data storage architect at Grooveshark.com where he implemented solutions for scaling the website to millions of visitors per day and also developed machine learning technologies used

for intelligent radio, social feeds, and enriched user experiences. Prior to Grooveshark, Travis was the Chief Data Officer at PPB Environmental Labs. Travis has been a professional musician and member of the local music community for over fifteen years.

BOARD OF DIRECTORS

Semyon Dukach Chairman

Semyon is Chairman as well as the largest shareholder of SMTP with over 50% ownership (before the upcoming issuance of stock for the acquisitions.) He bought the company in 2002. He is a serial entrepreneur, inventor, philanthropist and angel investor. Since May 2014, he has been a managing director at [TechStars](#). He co-founded Fast Engines, Vert, Global Cycle Solutions, PDFfiller, and East of Air, and has led SMTP since 2002. He received his BS in Computer Science from Columbia University in 1989 and his MS in Computer Science from MIT in 1992, where he was known in the early nineties for creating the SNPP Internet payment protocol, as well as for managing one of the notorious MIT Blackjack Teams.

Rens Troost

Rens has been a director of SMTP since July 2010. He is the President of Virtual Clarity, Ltd. Previously, he was: an Executive Director at UBS, AG; a managing partner at Surgam Technology Partners; CTO at NAME, Inc.; the Manager of Systems and Network Engineering at Moor Capital Management; and a Senior Systems Administrator at Lehman Brothers. Rens was a contributor to the development of the original standards for email attachments (MIME standard RFCs). Mr. Troost lives in London and earned BA in Philosophy from Columbia University in 1990.

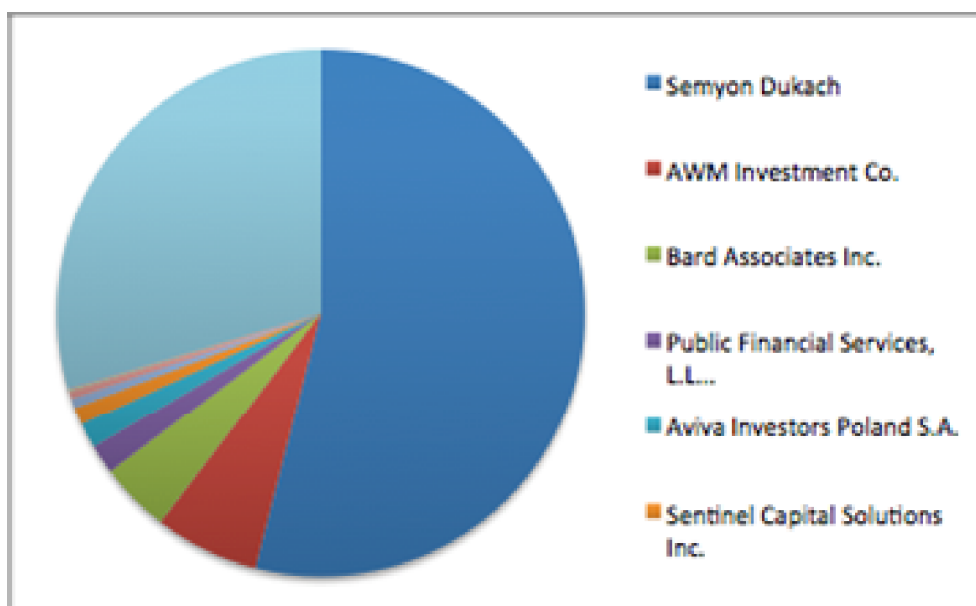
Vadim Yasinovsky

Vadim is CEO of PDFFiller.com. Previously, he was CTO at FurnitureFan.com, an owner at ClearWeb.com and President and CEO of Clear Software, Inc. (which was sold to SPSS, Inc.) for 13 years.

David Buckel

Over the past fifteen years, Mr. Buckel has served as CFO for public and private companies in the IT, software, service, health care, Internet and technology industries, ranging from startup ventures, consolidations, turnaround situations and leading fast growing profit driven corporations. He is currently a partner at TechCXO, a consulting firm for technology companies and is on the board of SouthPeak Interactive and Racemi. He earned a BS in Accounting from Canasius College in 1983 and an MBA from Syracuse University in 1994 and is a CMA.

OWNERSHIP



FINANCIAL FORECASTS

Q3 2014

This quarter there was a lot of action with the announced acquisitions of both SharpSpring and GraphicMail. SharpSpring closed August 15th and payment for it has reduced the cash balance by \$5 million, leaving the company with \$6.5 million. Twenty-five new people will join 35 SMTP resources and we expect the company to add \$250,000 in revenue from half a quarter's addition. We expect this acquisition to be dilutive to earnings.

We expect revenues to be \$1.7 million up 14% over last year's \$1.5 million, but expect earnings to decline to a non-GAAP \$0.04 per share versus \$0.17 per share in 2013. Share count should be up 61% from last year due to the \$11.5 million offering earlier in 2014.

Q4 2014

In the December quarter we expect the GraphicMail acquisition to close. This company sold \$4 million in services last year so we expect that it could add between \$0 and \$1.2 million in revenues depending on the date it closes. When the shares used for the acquisition of GraphicMail are added in, we expect shares outstanding to be 7.6 million up from 3.1 million in 2013, or 144%. With all the noise of the acquisition, we do not expect the acquisition to be immediately additive, but it should be so in 2015.

2014

For the year we are expecting revenues of \$6.5 million versus \$5.7 million in 2013 up 13%. However we expect non-GAAP EPS to be down to \$0.22 versus \$0.60 the year before as the new management and M&A expenses lower margins.

2015

All of 2015 should contain all the revenues and expenses of both SharpSpring and GraphicMail so we expect revenue comparisons to be huge through all four quarters. In 2015, we are looking for \$13.0 million in revenues versus \$6.5 million in 2014, up 100%. As SharpSpring grows and the company achieves some cross selling between the three businesses, we expect margins to increase throughout the year.

We expect a big tax rate improvement as GraphicMail, the larger acquisition is headquartered in Switzerland. SMTP will receive over half its revenue from overseas. So far in 2014, the company has paid a 40% tax rate versus the 20% tax rate levied in Switzerland for GraphicMail. We are modeling the rate to go down to 32% but it could turn out even lower than that.

The share count should be 7.6 million shares versus 5.5 million in 2014, reflecting the shares issued in the acquisitions. However, once the acquisitions are fully paid for, the company will have spent almost all its cash. As a result it may raise capital to continue to pursue more acquisitions. Also keep in mind if the earn outs are achieved on the acquisitions of SharpSpring and GraphicMail, another approximately 700,000 shares (or whatever equals \$4.3 million then) will be added to the outstanding in 2016.

PROJECTED INCOME STATEMENT

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014E	Q4 2014E				
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec		2013	2014E	2015E
Net revenue	\$1,369,438	\$1,395,147	\$1,468,962	\$1,520,382	\$1,490,054	\$1,480,770	\$1,675,000	\$1,850,000		\$5,753,929	\$6,495,824	\$13,000,000
Yr-to-yr Growth					8.8%	6.1%	14.0%	21.7%		7.5%	12.9%	100.1%
Cost of services	274,558	253,196	311,392	\$210,179	288,370	351,153	450,000	525,000		1,049,325	\$1,614,523	2,950,000
Gross profit	1,094,880	1,141,951	1,157,570	1,310,203	1,201,684	1,129,617	1,225,000	1,325,000		4,704,604	4,881,301	10,050,000
Gross Margin	80.0%	81.9%	78.8%	86.2%	80.6%	76.3%	73.1%	71.6%		81.8%	75.1%	77.3%
Operating expenses:												
Sales and marketing	202,767	179,594	295,005	\$140,605	148,672	228,013	278,013	328,013		817,971	\$982,711	2,018,135
General and administrative	466,293	334,404	302,491	\$607,746	583,764	563,786	705,000	780,000		1,710,934	\$2,632,550	4,972,019
Research and development	52,532	52,438	81,226	\$48,385	77,111	101,387	127,000	152,000		234,581	\$457,498	936,432
Total operating expenses	721,592	566,436	678,722	796,736	809,547	893,186	1,110,013	1,260,013		2,763,486	4,072,759	7,926,585
Operating income:	373,288	575,515	478,848	513,467	392,137	236,431	114,987	64,987		1,941,118	808,542	2,123,415
	27.3%	41.3%	32.6%	33.8%	26.3%	16.0%	6.9%	3.5%		33.7%	12.4%	16.3%
Other income:												
Interest income	0	0	0	0	0	144	100	100		0	100	0
Total other income	0	0	0	0	0	144	100	100		0	100	0
Income before income taxes	373,288	575,515	478,848	513,467	392,137	236,575	115,087	65,087		1,941,118	808,642	2,123,415
Provision for income tax	147,718	190,079	159,261	\$171,097	168,765	85,367	46,035	26,035		668,155	\$326,202	679,493
Tax rate	39.6%	33.0%	33.3%	33.3%	43.0%	36.1%	40.0%	40.0%		34.4%	40.3%	32.0%
Net income	\$225,570	\$385,436	\$319,587	\$342,370	\$223,372	\$151,208	\$69,052	\$39,052		\$1,272,963	\$482,440	\$1,443,922
						-60.8%	-78.4%	-88.6%		19.0%	-62.1%	199.3%
Non cash stock compensation	\$247,127	\$34,115	\$209,000	\$87,000	\$156,052	\$131,379	\$140,000	\$140,000		\$576,822	\$567,431	\$672,000
Non-GAAP Income	\$472,697	\$419,551	\$528,587	\$429,370	\$379,424	\$325,587	\$209,052	\$179,052		\$1,850,205	\$1,093,115	\$2,115,922
										38.3%	-40.9%	93.6%
Net income per share:												
Basic	\$0.08	\$0.13	\$0.11	\$0.11	\$0.05	\$0.03	\$0.01	\$0.01		\$0.42	\$0.10	\$0.27
Diluted	\$0.07	\$0.13	\$0.10	\$0.11	\$0.05	\$0.03	\$0.01	\$0.01		\$0.41	\$0.10	\$0.26
Non-GAAP Diluted	\$0.15	\$0.14	\$0.17	\$0.14	\$0.09	\$0.06	\$0.04	\$0.03		\$0.60	\$0.22	\$0.35
					-40.4%	-53.2%	-75.5%	-76.1%		31.6%	-63.6%	76.0%
Shares												
Basic	2,958,113	2,973,928	3,026,032	3,059,000	4,239,363	5,016,461	5,016,461	5,426,461		3,004,541	4,924,687	5,426,461
Diluted	3,194,072	3,056,061	3,139,993	3,140,000	4,302,443	5,063,993	5,063,993	5,473,993		3,069,274	4,976,106	5,473,993
					34.7%	65.7%	61.3%	74.3%		5.0%	62.1%	10.0%

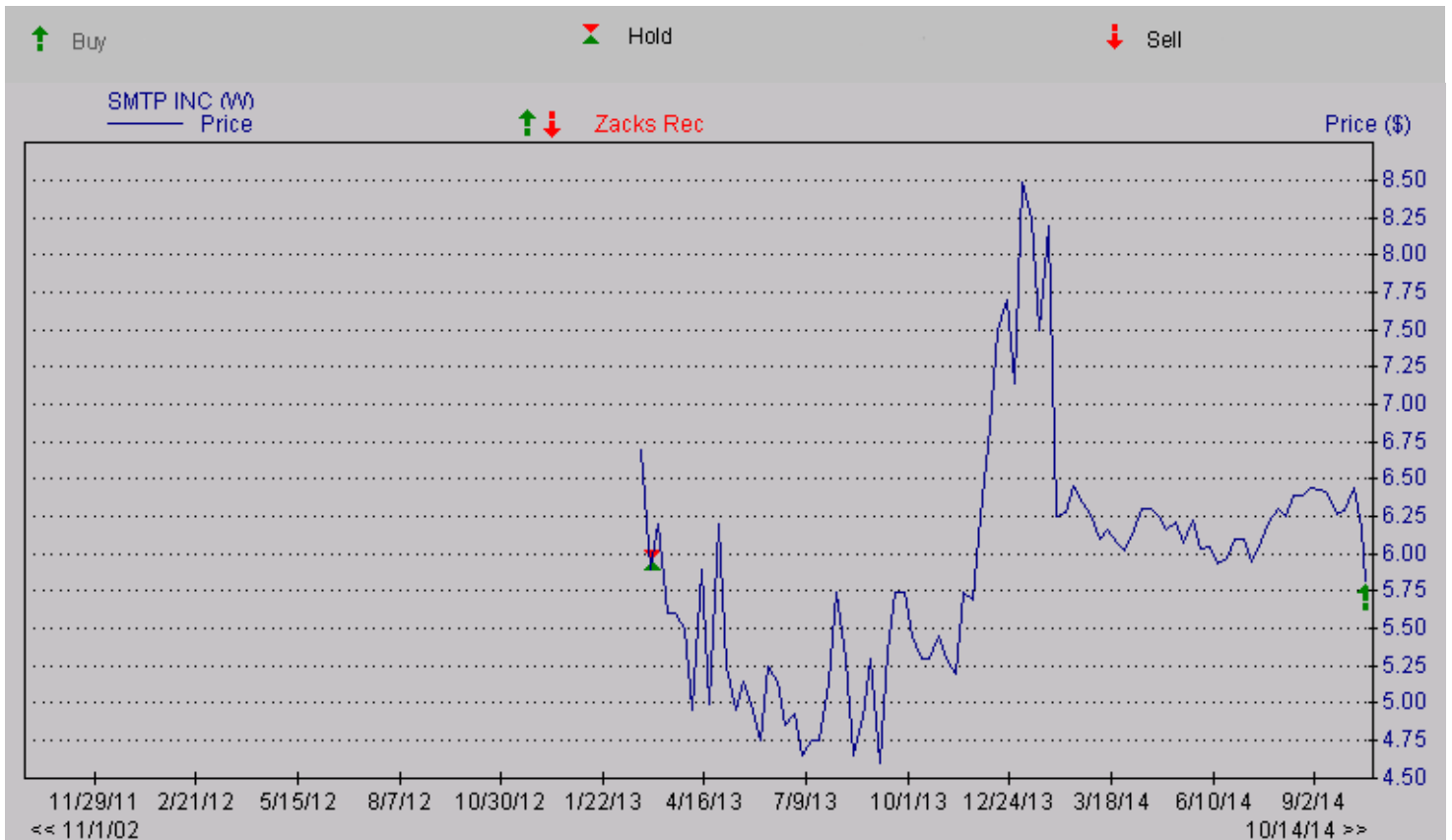
BALANCE SHEET

	Jun. 30, 2014	Dec. 31, 2013	% Change
Assets			
Cash and cash equivalents	\$11,458,404	\$1,731,249	561.6%
Accounts receivable	19,489	25,024	-22.1%
Deferred income taxes	237,226	183,435	29.3%
Income taxes receivable	219,907		
Other current assets	110,169	116,522	-5.5%
Total current assets	12,040,195	2,056,224	485.5%
Property and equipment, net of accumulated depreciation of \$205,895 and \$145,261	289,824	327,842	-17.7%
Deferred income taxes	70,432	50,099	40.0%
Deposits	29,995	29,995	0.0%
Total assets	12,409,946	2,463,660	403.7%
Liabilities and Shareholders' Equity			
Deferred revenue	373,065	334,328	11.6%
Income taxes payable		144,280	
Allowance for refunds and chargebacks	2,067	2,965	-30.3%
Accrued expenses and other current liabilities	119,935	106,748	12.4%
Total current liabilities	495,067	588,321	-15.9%
Shareholders' equity:			
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued or outstanding at June 30, 2014 and December 31, 2013			
Common stock, \$0.001 par value, 50,000,000 shares authorized, 5,017,499 and 3,127,598 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	5,017	3,126	60.5%
Additional paid in capital	11,909,862	2,241,749	431.3%
Accumulated deficit		-869,586	
Total shareholders' equity	11,914,879	1,875,339	535.3%
Total liabilities and shareholders' equity	\$12,409,946	\$2,463,660	403.7%
Current Ratio	24.3	3.5	

CASH FLOWS

	6 Months Ended		
	Jun. 30, 2014	Jun. 30, 2013	
Cash flows from operating activities:			
Net income	\$374,540	\$611,006	-39%
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	60,134	36,277	66%
Excess tax benefits from share-based payment arrangements	-84,264	-20,825	305%
Non-cash stock compensation	287,491	281,242	2%
Allowance for refunds and chargebacks	-898	3,378	-127%
Deferred income taxes	-74,124	-35,805	107%
Change in assets and liabilities:			
Accounts receivable	5,585	-25,256	-122%
Other assets	6,353	26,278	-76%
Net change income taxes payable	-279,528	28,045	-1098%
Accrued expenses and other current liabilities	13,187	12,379	7%
Deferred revenue	38,787	-30,641	-226%
Net cash provided by operating activities	346,708	886,078	-61%
Cash flows from investing activities			
Purchases of property and equipment	-2,116	-241,948	-99%
Net cash used in investing activities	-2,116	-241,948	-99%
Cash flows provided by (used in) financing activities:			
Dividends to shareholders	-1,209,589	-533,383	126%
Proceeds from issuance of common stock	10,507,801	23,624	44379%
Excess tax benefits from share-based payment arrangements	73,301	20,825	252%
Net cash provided by (used in) financing activities	9,371,503	-488,932	-2018%
Change in cash and cash equivalents	9,722,161	155,196	6164%
Cash and cash equivalents, beginning of period	1,731,243	784,001	121%
Cash and cash equivalents, end of period	11,453,404	939,197	1119%
Supplemental cash flow disclosures:			
Cash paid for income taxes	\$618,500	\$385,000	61%
EBITDA	\$350,410	\$626,458	-44%
Non-GAAP income	\$661,971	\$832,248	-26%

HISTORICAL ZACKS RECOMMENDATIONS



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