



Jammin Java Corp. (OTCBB: JAMN, Target Price: \$0.64)

We are initiating coverage on Jammin Java Corp. ("Jammin Java") with a fair value of \$0.64 per share. Jammin Java provides premium roasted coffee to the service, hospitality, office coffee service and big box store market at the wholesale level. The firm develops its coffee lines under the Marley Coffee brand under an exclusive licensing agreement with 56 Hope Road. Jammin Java offers its coffee in a variety of lines including bagged coffee in whole bean and ground form, single-serve pods and RealCups (for use in most models of Keurig's® K-Cup brewing system).

INVESTMENT HIGHLIGHTS

RealCups Opportunity

Last year, Keurig® lost some of the key patents for its K-Cup coffee packs. This has created an opportunity for smaller players without K-Cup licensing to enter the market and take share from the firms with K-Cup licensing that have been in the market longer, like Green Mountain. Jammin Java has jumped on this opportunity and is starting to see significant revenue growth from its RealCups products (which are compatible with K-Cup products). According to research from Nielsen Holdings, the single serve products segment now represents 33% of ground coffee sales as of June 8th from 23% just 14 months prior. During this same time period, Green Mountain's share of the single serve segment dropped from 52% to 43% while the share of unlicensed brands increased from 2% to 10%.

Gaining Retailer Traction

Jammin Java's primary growth channel is grocery retail, and it is gaining significant traction with new retailers. A strong brand name and an effective management team have helped bring Marley Coffee into some of the top grocery stores after only two years, while it took decades for other well-known coffee providers to do the same. At the start of this year, Marley Coffee products were in approximately 1,000 retail locations and are currently in over 6,000 locations, with a goal of 8,000 by year end. Management recently announced the addition of Safeway to its distribution network, which means they now have distribution to the two largest grocery retail chains in America – Krogers (#1) and Safeway (#2).

Ironridge Transaction

With the number of retail locations quickly growing, Jammin Java needed access to additional capital and inventory. At the end of July, management announced an additional round of financing from Ironridge Global IV ("Ironridge"). Ironridge specializes in direct equity investments in consumer product companies. The financing agreement will settle \$2.5mn in trade payables in exchange for shares of common stock. This is the third financing agreement with Ironridge this year, which speaks to Ironridge's confidence in management's execution of the firm's strategy.

Initiating coverage with a fair value of \$0.64

We are initiating coverage of Jammin Java with a fair value estimate of \$0.64 per share utilizing a combination of DCF and peer group valuation methodology (detailed on pages 6 and 7). This fair value estimate implies an upside of 36.2% over the recent price of \$0.47 as of August 6, 2013.

Stock Details (8/6/2013)

OTCBB:	JAMN
Sector / Industry	Consumer Staples / Beverages
Price target	\$0.64
Recent share price	\$0.47
Shares o/s (mn)	83.9
Market cap (in \$mn)	39.4
52-week high/low	\$0.61 / \$0.08

Source: Thomson Reuters, SeeThruEquity Research

Key Financials (\$mn unless specified)

	FY13	FY14E	FY15E
Revenues	1.8	6.5	12.0
EBITDA	(3.7)	(0.8)	0.8
EBIT	(3.8)	(0.9)	0.8
Net income	(4.0)	(1.4)	0.2
EPS (\$)	(0.05)	(0.02)	0.00

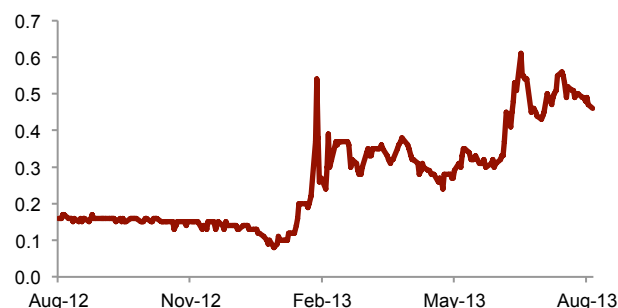
Source: SeeThruEquity Research

Key Ratios

	FY13	FY14E	FY15E
Gross margin (%)	21.0	29.5	33.0
Operating margin (%)	NM	NM	6.6
EBITDA margin (%)	NM	NM	7.0
Net margin (%)	NM	NM	1.3
P/Revenue (x)	21.7	6.1	3.3
EV/EBITDA (x)	NM	NM	47.1
EV/Revenue (x)	21.7	6.1	3.3

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Thomson Reuters

SUMMARY TABLE

Figure 1. Summary Table (As of August 6, 2013)

Share data		B/S data (As on 1Q14)		Key personnel	
Recent price:	\$0.47	Total assets:	1.8mn	Chairman:	Rohan Marley
Price target:	\$0.64	Total debt:	0.1mn	CEO:	Brent Toevs
52-week range:	0.61 / 0.08	Equity:	1.0mn	President:	Anh Tran
Average volume:*	537,916	W/C:	0.3mn		
Market cap:	\$39.4mn	ROE '13:	NM		
Book value/share:	\$0.01	ROA '13:	NM		
Cash/share	\$0.00	Current ratio:	1.4		
Dividend yield:	0.00%	Asset turnover:	1.8		
Risk profile:	High / Speculative	Debt/Cap:	0.1		

* three month average volume (number of shares)

Estimates					Valuation	
FY January	Rev (\$mn)	EBITDA (\$mn)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2012A	0.4	(2.4)	(0.03)	24.5x	24.4x	NM
2013A	1.8	(3.7)	(0.05)	5.4x	5.4x	NM
1Q14A	0.8	(0.3)	(0.00)	12.1x	12.0x	NM
2Q14E	1.3	(0.3)	(0.00)	7.6x	7.6x	NM
3Q14E	1.8	(0.2)	(0.00)	5.4x	5.4x	NM
4Q14E	2.5	(0.0)	(0.00)	3.9x	3.9x	NM
2014E	6.5	(0.8)	(0.02)	6.1x	6.1x	NM
2015E	12.0	0.8	0.00	3.3x	3.3x	283.4x
2016E	21.0	3.0	0.02	1.9x	1.9x	24.3x

Source: SeeThruEquity Research

INVESTMENT THESIS

Jammin Java is a US-based beverages company. The firm provides premium roasted coffee at the wholesale level to the service, hospitality, office coffee service and big box store market. It offers its product in multiple forms: whole bean or ground bagged coffee, single-serve pods and RealCups which are compatible with most Keurig® brewing systems.

Marley Coffee Brand

Jammin Java provides coffee solely through the Marley Coffee brand, which resonates across generations and demographics. Before launching their product, management was very careful in making sure they had the right taste to uphold the Marley name. The result was a premium product that has received favorable media attention and high ratings. The Marley Coffee brand also seeks to send a consistent message about the organic, sustainable nature of its products, which can be clearly seen on its packaging. Management's goal is to make Marley Coffee a lifestyle brand.

The firm has entered into a 15 year agreement (beginning August 7, 2012) with 56 Hope Road for the worldwide, exclusive license of the "Marley Coffee" trademarks. The firm also has a non-exclusive license to create cold ready to make coffee drinks, teas and merchandise.

Growth Strategy

The primary way we see Jammin Java growing in the near term is through increasing its distribution network. The biggest portion of growth should come through the grocery retail channel, followed by the break room channel. A smaller amount of growth should be expected from the remaining channels: food service, universities, boutique hotels, high-end restaurants and hospitality. We have seen significant expansion in the number of retail locations so far this year (currently over 6,000 compared to about 1,000 at the beginning of the year), and we see continued growth as management hires additional regional salespeople and gains traction with larger retailers.

RealCups provide a significant opportunity for growth. The single serve products market is the fastest grower in the industry. In the past, K-Cup licensed products have led this growth, but after Keurig's® key patents expiration, unlicensed products that are compatible with K-Cup are quickly taking market share. Marley Coffee RealCups are capitalizing on this opportunity and have become the fastest growing line of the firm's products.

Another avenue of potential growth is international expansion. Management has targeted four countries as most likely near-term targets: Japan, Korea, United Kingdom and Chile, but they are also reviewing additional opportunities. They are currently in talks with both existing and new distributors to find the best fit for each new market. The global recognition of the Marley name should ease the entry into new markets.

Finally, we see potential growth through product innovation. Management has said they are in talks to introduce several new lines of products including cold beverages, coffee-flavored liquors and protein meal replacement drinks. The firm also looks to innovate by adding new flavors to its existing product lines. RealCups would be the most likely candidate for new flavors given its fast growing market.

COMPETITIVE LANDSCAPE

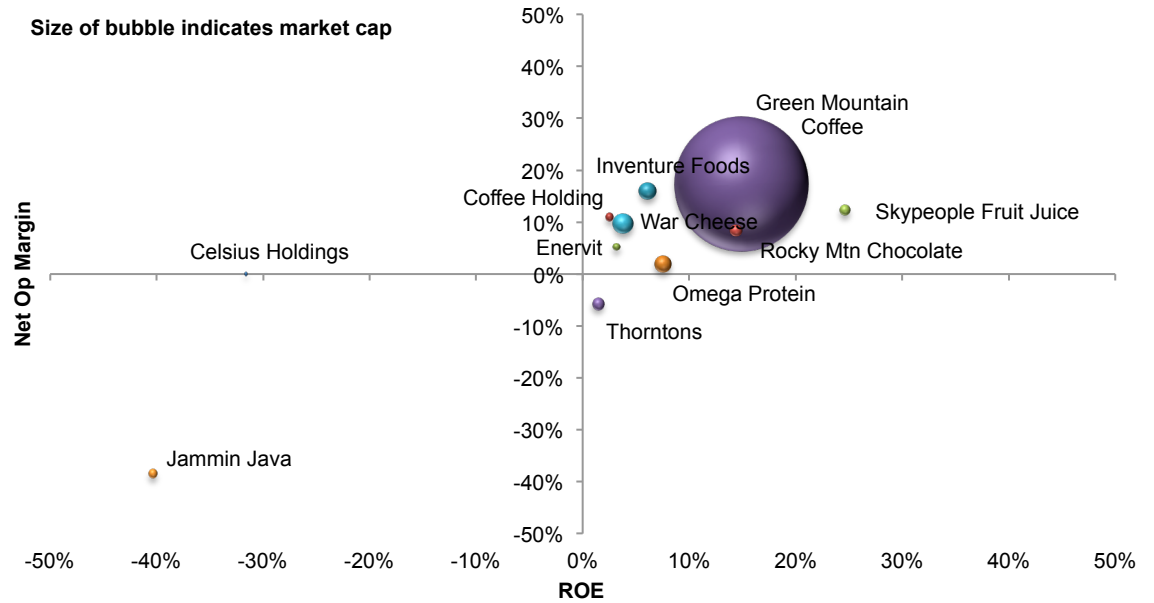
Competition in the coffee industry is intense and growing. Low barriers to entry allow new competitors to easily enter the market. In order to be successful, firms must differentiate their brand. Jammin Java differentiates itself in two ways. First, it offers a sustainable, organic product with a high quality taste as demonstrated by high ratings in the media. This resonates with consumers who are increasingly concerned about where their food comes from. The firm delivers its message of sustainability in a consistent manner, including through its product labeling. Secondly, the firm differentiates itself through the Marley brand. The Marley brand reaches a broad audience across multiple generations, as evidenced in its 46mn Facebook likes compared to Starbucks' 35mn likes.

Marley Coffee competes in the premium and super premium pricing segments where its biggest competitors include Green Mountain Coffee, Starbucks, Tully's, Seattle's Best and Peet's Coffee. Management believes they are competitively priced against their peers but that their main value driver is the quality of their coffee.

The loss of key patents for Keurig's® K-Cup coffee packs last year provides a significant opportunity for Jammin Java. Single serve products are the biggest grower in the industry, and Jammin Java is well positioned to take advantage of the opening in the segment.

The chart below shows Jammin Java's net operating margin and ROE versus its peers. Its peers have a median net operating margin in the high single digits and a median ROE in the low single digits, while Jammin Java does not currently have a positive number in either category. However, we expect the firm will be more in line with its peers by FY2015 when we estimate its net operating margin at 6.6% and its ROE at 5.8%.

Figure 2. ROE vs. Net Operating Margin – Jammin Java Peers



Source: Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue/Drivers

Jammin Java has just started to generate meaningful revenues, and we see revenues quickly ramping up from this point on. Its grocery retail channel should be a significant driver of growth, with distribution agreements in place for the two largest grocery retail chains in America. The opportunity to penetrate the K-Cup market with RealCups should also help to drive revenue growth. We anticipate that the RealCups segment will generate more revenues than bagged coffee for FY2014 and continue become a larger portion of the revenue mix going forward.

These revenue drivers should produce a CAGR of 89.1% over the next six years. Revenues are expected to grow to \$6.5mn in FY2014 from \$1.8mn in FY2013. By FY2019 we model revenues reaching \$83.1mn.

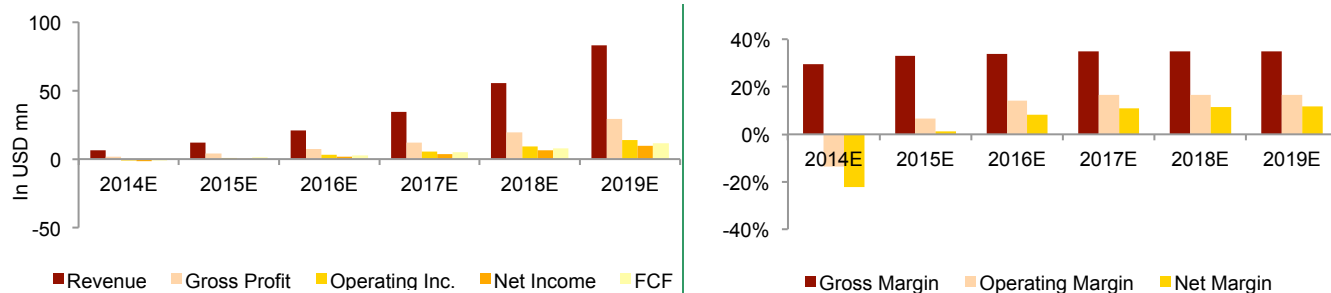
Margins/Expenses

As sales are just starting to ramp up, we expect that Jammin Java will benefit from economies of scale through our model period. Additionally, the firm should see margin improvement from the higher-margin RealCups segment growing as a percentage of revenue. By the end of our six year explicit forecast, we expect Jammin Java should have enough scale to produce margins that are in line with its industry's leaders. We see gross margins expanding to 29.5% in FY2014 from 21.0% in FY 2013, and ultimately reaching 35% by FY2019. Net income is expected to turn positive in FY2015, generating a net margin of 1.3%, which should grow to 11.7% in FY2019.

Balance Sheet & Financial Liquidity

Last week, management announced a third round of financing from Ironridge via a settlement of account payables totaling \$2.5mn in exchange for shares of common stock. We were happy to see that over 97% of the financing was used to pay for the firm's cost of goods. This deal should help create a stronger balance sheet, and management does not expect to need additional financing for a while.

Figure 3. Key Performance Indicators of JAMN, FY14E–19E



Source: Company filings, SeeThruEquity Research

VALUATION

We have estimated Jammin Java's fair value using two methods: discounted cash flow (DCF) and peer group valuation. The DCF approach was given a heavier weighting because the firm has just started to generate revenues, and we see the bulk of its value coming from its long-term revenue generation. Our fair value of \$0.64 per share represents an upside of 36.2% from the recent price of \$0.47 as of August 6, 2013.

DCF Valuation

Our DCF analysis resulted in a fair value of \$0.84 per share. We expect that negative cash flow of -\$0.93mn in FY2014 will increase to a positive \$1.2mn in FY2015 and ultimately reach \$11.8mn by FY2019. We expect the firm to still have sufficient opportunity for growth at the end of our six year forecast period and have used a terminal growth rate of 5% to account for that. To discount the cash flows, we used a weighted average cost of capital of 15.2%. These assumptions led to an enterprise value estimate of \$70.5mn. After subtracting minimal debt, adding in cash and dividing by the number of shares outstanding, we reached our fair value estimate of \$0.84 per share.

Figure 4. Discounted Cash Flow Analysis

\$' 000	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBIT	(881)	787	2,960	5,716	9,146	13,718
Less: Tax	0	50	586	1,268	2,117	3,252
NOPLAT	(881)	736	2,374	4,448	7,029	10,467
Changes in working capital	(131)	424	395	523	958	1,280
Depreciation & Amortization	94	49	50	51	52	52
Capex	(14)	(15)	(16)	(16)	(17)	(18)
FCFF	(933)	1,195	2,804	5,005	8,021	11,781
Discount factor	0.93	0.81	0.70	0.61	0.53	0.46
PV of FCFE	(870)	968	1,971	3,055	4,249	5,418
Sum of PV of FCFE						14,790
Terminal cash flow						121,300
PV of terminal cash flow						55,783
Enterprise value						70,573
Less: Debt						9
Add: Cash						64
Equity value						70,646
Outstanding shares (mn)						83.9
Fair value per share (\$)						0.84
Summary conclusions		Key assumptions				
DCF FV (\$ per share)		0.84	Beta			1.7
Recent price (\$ per share)		0.47	Cost of equity			15.2%
Upside (downside)		79.2%	Cost of debt (post tax)			7.2%
WACC		15.2%	Terminal Growth Rate			5.0%

Source: SeeThruEquity Research

Figure 5. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

Terminal growth rate (%)		WACC (%)				
		14.2%	14.7%	15.2%	15.7%	16.2%
	4.00%	0.87	0.82	0.78	0.73	0.70
	4.50%	0.91	0.86	0.81	0.76	0.72
	5.00%	0.96	0.90	0.84	0.79	0.75
	5.50%	1.01	0.94	0.88	0.83	0.78
	6.00%	1.06	0.99	0.92	0.86	0.81
	6.50%	1.12	1.04	0.97	0.90	0.85

Source: SeeThruEquity Research

Peer Group Valuation

We compared Jammin Java to its peers in the food products industry. We looked at companies with a similar market cap, expect for Green Mountain Coffee, as we see it most closely resembling the firm's future prospects. Some of the other companies in this peer group included Celsius Holdings, Coffee Holding Co, Enervit, Inventure Foods and Omega Protein Corp. Our peer group analysis produced a valuation of \$0.33 per share. We used a target multiple of 2.3x for both the enterprise value to revenue multiple and the price to revenue multiple. We did not look at multiples utilizing earnings or EBITDA because the firm's earnings and EBITDA were either negative or too low to be meaningful in our FY2015 estimates.

Figure 6. Comparable Valuation

Company	Mkt cap (\$ mn)	EV/Revenue(x)		Price/Revenue(x)	
		FY14E	FY15E	FY14E	FY15E
Celsius Holdings	7	NM	NM	NM	NM
Coffee Holding Co.	42	0.2x	NM	0.2x	NM
Enervit	35	0.7x	0.7x	0.7x	0.7x
Green Mountain Coffee	12,023	2.7x	2.4x	2.8x	2.5x
Inventure Foods	181	1.0x	0.9x	0.9x	0.8x
Omega Protein Corp.	172	0.6x	0.6x	0.7x	0.6x
Primo Water Corp.	50	0.7x	NM	0.5x	NM
Rocky Mountain Chocolate	82	2.0x	1.7x	2.1x	1.9x
Skypeople Fruit Juice	63	NM	NM	NM	NM
Thorntons Plc	87	NM	NM	NM	NM
War Cheese FPO	249	0.7x	0.5x	0.5x	0.4x
Average		1.1x	1.1x	1.1x	1.1x
Jammin Java Corp.	39	6.1x	3.3x	6.1x	3.3x
Premium (discount)		462.3%	185.8%	478.3%	188.8%

Source: SeeThruEquity Research

RISK CONSIDERATIONS

License Agreement

Jammin Java is heavily reliant on the use of the “Marley Coffee” trademarks through its agreement with 56 Hope Road. 56 Hope Road can terminate this agreement under certain circumstances. The termination of this agreement would have significant negative consequences on future revenues.

Brand

The firm must continue to develop and maintain the “Marley Coffee” brand. The competitive nature of the coffee industry drives the need for a strong brand name. An inability to develop this brand in a way that resonates with consumers could negatively impact the firm’s future growth.

Concentrated Customer Base

The firm’s revenues are dependent on a small number of customers. In its most recent fiscal year, four customers made up 74% of the firm’s revenues. Loss of one of these customers (and failure to replace them with an equal-sized customer) could have a negative impact on revenues.

Negative Net Income

Jammin Java experienced negative net income in its most recent fiscal year and has experienced a history of negative net income, which has resulted in a deficit of over \$7mn since inception. If the firm is unable to generate a positive cash flow in the future, its operations may fail.

Share Dilution

In order to finance its operations, the firm may need to issue additional shares. The Ironridge transaction requires the firm to issue an adjustable number of shares to Ironridge. This could cause dilution to existing shareholders and may have a negative impact on the trading price.

Management Team

Rohan Marley, Chairman

Rohan Marley is the co-founder of the privately owned Marley Coffee Company and son of legendary musician and visionary Bob Marley. Rohan was born in Jamaica in 1972 and moved to the United States as a young child going on to study sociology at the University of Miami and starring as a linebacker for the U of M Hurricanes. He would later go on to play professionally for the Canadian Football League's Ottawa Rough Riders, but throughout his football career, Rohan knew deep in his heart that he would one day return to his family roots like his father, whose dream was to eventually become a farmer. In 1999, Rohan's dream began taking shape when he found and bought 52 acres of land atop Jamaica's Blue Mountains, one of the world's most prized coffee-producing regions. In 2007, Rohan founded the Marley Coffee brand, finally fulfilling his ancestors' deep-rooted love for farming. Rohan is a passionate entrepreneur and visionary, like his father, combining his creativity and business acumen to create a self-sustainable and certified organic coffee farm which aims to help preserve Earth's natural balance. Rohan's role as a Chairman in Marley family businesses extends beyond Marley Coffee, including other brands such as Tuff Gong Caribbean Distributors LLC, MF Pictures LLC, Tuff Gong Records LLC, Hope Road Merchandising LLC, and Zion Roots Wear LLC and now Jammin Java Corp. His involvement allows him not only to bring his personal vision to the people, but also to continue his father's dream of spreading "One Love" to the world. Rohan currently serves as a Director of House of Marley and a Director of Marley Beverage.

Brent Toevs, CEO

Brent Toevs has served in executive positions throughout his career at some of the Industry's top coffee companies. Prior to founding National Coffee Services & Vending, Toevs was the Vice President of Sales for US Refresh and Vending and was responsible for developing their Office Coffee Service business, which ultimately generated revenues of approximately \$50 million a year. Toevs also served as President of Take A Break/ Arbuckle Coffee Company, where he started as a sales associate. At Take A Break, Toevs helped the company sign on as one of the original Keurig Authorized Distributors, and rolled out the Keurig single serve system at US Refresh. His focus on Single Serve formats continued at NCS&V, signing a deal to bring Timothy's KCups to the United States market. NCS&V has also been a pioneer of single serve pods and equipment, which is a fast growing segment in the coffee industry.

Anh Tran, President

Anh joined the Jammin Java Corp. in May 2010, Anh's experience leading start-up companies, as well as his knowledge of consumer products and international markets, are all assets at this time in the Company's growth. Anh embraces the Company's culture, passion, and entrepreneurial nature as well as its commitment to corporate social responsibility. Prior to Marely Coffee, Anh was the CEO of Greencine.com, the premier online independent movie distribution site competing against companies like Blockbuster and Netflix. There he lead the company to numerous awards and was one of the first in their field to distribute paid content online. Before that he was a technology strategy and Siebel consultant for Arthur Andersen. Anh was involved with business process reengineering for Fortune 500 technology companies and worked closely with corporate executives to strategically plan for the future. He was also a Siebel consultant working on Siebel's customer relationship management implementations. Anh received a fellowship at the prestigious Coro Fellowship Program in San Francisco and holds a B.A. from the University of California at Los Angeles.

Major Insider, 5% Institutional and 13F Filer Ownership

Shareholder	Number of Shares*	Percent
Rohan Marley	13,102,757	15.6%
Ironridge Global IV, Ltd.	3,143,033	3.7%
Anh Tran	1,348,690	1.6%
Brent Toevs	267,561	0.3%
Total	17,862,041	21.3%

*Source: company filings; percentage calculated from 83,903,387 shares outstanding as of April 31, 2013.

FINANCIAL SUMMARY

Figure 7. Income Statement

Figures in \$mn unless specified	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E
Revenue	0.4	1.8	6.5	12.0	21.0	34.6
YoY growth	NM	351.1%	257.0%	85.0%	75.0%	65.0%
Cost of sales	0.3	1.4	4.6	8.0	13.9	22.5
Gross Profit	0.1	0.4	1.9	4.0	7.1	12.1
Margin	15.5%	21.0%	29.5%	33.0%	34.0%	35.0%
Operating expenses	2.5	4.2	2.8	3.2	4.2	6.4
EBIT	(2.5)	(3.8)	(0.9)	0.8	3.0	5.7
Margin	NM	NM	NM	6.6%	14.1%	16.5%
EBITDA	(2.4)	(3.7)	(0.8)	0.8	3.0	5.8
Margin	NM	NM	NM	7.0%	14.3%	16.6%
Other income / (expense)	0.0	(0.2)	(0.6)	(0.6)	(0.6)	(0.6)
Profit before tax	(2.5)	(4.0)	(1.4)	0.2	2.3	5.1
Tax	0.0	0.0	0.0	0.1	0.6	1.3
Net income	(2.5)	(4.0)	(1.4)	0.2	1.8	3.8
Margin	NM	NM	NM	1.3%	8.4%	11.0%
EPS (per share)	(0.03)	(0.05)	(0.02)	0.00	0.02	0.04

Source: SeeThruEquity Research

Figure 8. Balance Sheet

Figures in \$mn, unless specified	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E
Current assets	1.1	0.7	4.4	5.9	10.6	18.7
Intangibles	0.8	0.7	0.7	0.6	0.6	0.5
Other assets	0.0	0.1	0.0	0.0	0.1	0.1
Total assets	1.8	1.4	5.1	6.6	11.2	19.3
Current liabilities	0.1	1.3	2.7	4.0	6.9	11.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	1.7	0.1	2.4	2.6	4.3	8.2
Total liab and shareholder equity	1.8	1.4	5.1	6.6	11.2	19.3

Source: SeeThruEquity Research

Figure 9. Cash Flow Statement

Figures in \$mn, unless specified	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E
Cash from operating activities	(1.5)	(1.0)	0.1	0.6	2.2	4.4
Cash from investing activities	(0.0)	(0.1)	0.1	(0.0)	(0.0)	(0.0)
Cash from financing activities	2.3	0.2	(0.3)	0.0	0.0	0.0
Net inc/(dec) in cash	0.9	(0.8)	(0.1)	0.6	2.2	4.4
Cash at beginning of the year	0.0	0.8	0.0	(0.1)	0.5	2.7
Cash at the end of the year	0.8	0.0	(0.1)	0.5	2.7	7.1

Source: SeeThruEquity Research



About Jammin Java Corp.

Jammin Java provides premium coffee at the wholesale level under the “Marley Coffee” brand through an exclusive licensing agreement. This licensing agreement with 56 Hope Road gives the company the worldwide, exclusive use of Marley Coffee branded coffee development. The firm also has a non-exclusive license to create cold ready to make coffee drinks, teas and merchandise. Jammin Java is based in Denver, Colorado. Its fiscal year ends on January 31.



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