

AppTech Payments Corp.

(NASDAQ: APCX)

A Brand New Payment/Banking Platform for Businesses – Initiating Coverage

BUY

Current Price: US\$0.80

Fair Value: US\$1.79

Risk*: 4

Sector/Industry: Financial Services

[Click here for more research on the company and to share your views](#)

Highlights

- AppTech is a **financial technology (fintech) company that just launched a platform (Commerce™)** offering digital payment processing solutions, and certain banking capabilities (such as cross border transactions, currency solutions, and installment payment options) to merchants/businesses/retailers.
- The global Payments as a Service (PaaS) and Banking as a Service (BaaS) markets are **expected to grow from \$85B in 2022, to \$384B by 2030, reflecting a CAGR of 21%** (Sources: Grandview Research and Allied Market Research).
- Since 2013, the company has been generating revenue (\$350k in 2021) by offering payment processing solutions (legacy business) so businesses can process credit/debit card transactions. The company **supports over 100 small to large merchants**, and has partnerships with various payment processing companies to meet their clients' requirements.
- Through the recently launched Commerce™ platform, **the company has significantly expanded its offerings**, by adding features such as text-to-pay, buy-now-pay-later (installment payments), and crypto payment options. Commerce™ also allows businesses to accept payments through credit cards, digital wallets, cryptos, and point-of-sale (POS) machines across a wide range of sales channels, including physical stores, online, mobile, and social media platforms.
- AppTech's initial goal is to upgrade and onboard its existing clients to Commerce™, while targeting new clients. AppTech will receive a percentage of their clients' transaction volume as processing fees.
- We believe a key strength of AppTech is its IP, including 17 patents.** According to management, their patents have been quoted in 500+ other patents. We have verified a few, and have confirmed that several large companies (such as Microsoft/NASDAQ:MSFT, AT&T/NYSE:T, and JP Morgan/NYSE:JPM) have cited AppTech's technology in their patents. We believe there is a possibility for AppTech to generate licensing revenue from these companies.
- Upcoming catalysts** include onboarding initial clients to Commerce™, and/or potential for licensing agreements.

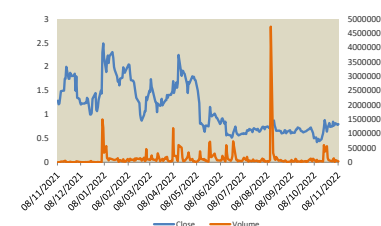
Risks

- No guarantee that Commerce™ will attract clients
- Yet to generate meaningful revenue; **not yet profitable**
- Dependence on third-party processing/technology partners
- Need to raise capital in 2023 and 2024 to fund operations, implying potential for share dilution

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Share Price



	YTD	12M
APCX	-47%	-38%
NASDAQ	-32%	-33%

Company Data

52-Week Range	US\$0.40-US\$3.15
Shares O/S	17M
Market Cap.	US\$13M
Current Yield	N/A
P/E (forward)	N/A
P/B	1.2x

Key Financial Data (US\$)

YE December 31

	2021	2022E	2023E
Cash	\$8,026	\$4,697,003	\$1,593,143
Working Capital	-\$6,659,815	-\$79,497	-\$2,072,607
Total Assets	\$7,556,966	\$13,096,003	\$10,119,643
Total Debt	\$1,183,817	\$3,784,000	\$2,000,000
Revenue	\$353,824	\$454,000	\$794,500
Net Income/(Loss)	-\$10,289,620	-\$12,845,500	-\$4,503,110
EPS (basic)	-\$0.90	-\$0.77	-\$0.27

*See last page for important disclosures, rating, and risk definitions. All figures in US\$ unless otherwise specified.

Company Overview

Formed in 2013

IP developed in-house and through acquisitions

18 employees, with offices in California and Texas

As shown in the flowchart, payment gateways and processors are intermediaries validating/facilitating a transaction

AppTech is a payment gateway; it provides technology/front-end infrastructure to accept online payments, and verifies the legitimacy of a transaction; this a highly competitive / fragmented space filled with both small and large players

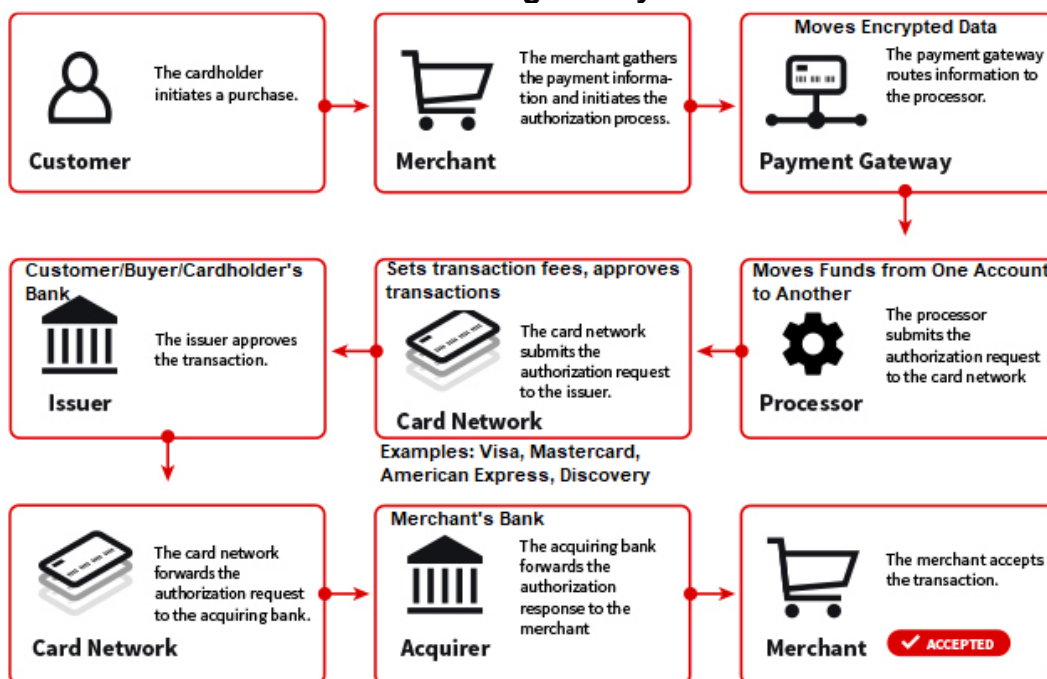
On the other hand, payment processors facilitate transactions; they are intermediaries between merchants and customers' financial institutions; Square (NYSE:SQ) and Paypal (NASDAQ:PYPL) are examples of large payment processors

AppTech has been in the business of offering payment processing solutions for businesses to accept cashless/contactless payments. AppTech's clients include car dealerships, restaurants, medical offices, veterinary clinics, e-commerce retailers, and home service companies. The company **supports over 100 small to large merchants**, and has various processing partners.

Partnership with Large Players

1. Total Systems Services/Global Payments (NYSE: GPN/MCAP of \$32B)
2. JetPay (NASDAQ: JTPY/MCAP of \$79M)
3. Harbortouch Payments, a subsidiary of Shift4 Payments Inc. (NYSE: FOUR/MCAP of \$2.6B)
4. Cynergy Data/Priority Payments Systems Group
5. Fidelity National Information Services Inc. (NYSE: FIS/MACAP of \$48B)
6. Cardconnect/Fiserv Inc. (NASDAQ: FISV/MCAP of \$63B).
7. Worldpay from Fidelity National Information Services Inc.

Generic Process Flow of Digital Payments/Transactions



Source homebusinessmag.com / FRC

In a typical transaction, merchants are typically charged 1.5%-3.5% in processing fees, split as follows: payment gateways/processors (20%), and card networks/issuers (80%).



Through the recently launched Commerse platform, **the company has significantly expanded its offerings**. Commerse allows businesses to accept payments through credit cards, digital wallets, cryptos, and POS machines, across a wide range of sales channels including physical stores, online, mobile, and social media platforms. The platform also offers additional features such as text-to-pay, buy-now-pay-later (installment payments), crypto payment options, and certain banking capabilities. Currently, businesses have to avail of individual services from various third parties to attain these capabilities. **We are not aware of a single platform offering all of these services.**

Launched in October 2022

Integrates all sales channels (physical stores, online, mobile, and social media platforms) and payment processing options (credit/debit cards, mobile wallets, and cryptos)

Commerse™ offers a combination of PaaS and BaaS

PaaS offers payment processing solutions, while BaaS allows clients to offer loans, installment payment options, currency solutions, and credit cards to its customers

Capable of processing transactions in the U.S. and Canada

We estimate that most of AppTech's revenue should come from transaction / processing fees (0.2% to 0.5%)

Multichannel



Omnichannel



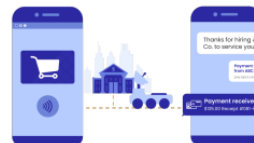
Source: catchpr.co.uk

Main and Sub-Services



Payments-as-a-Service

- SMS Technology
- Digital Wallet
- Hosted Commerce Checkout
- Flexible Payment Gateway
- Text Payment Technology
- Merchant Services



Banking-as-a-Service

- Currency Solutions
- Savings Accounts
- Next Gen Cards
- Buy Now/Pay Later
- Compliance



Commerce-as-a-Service

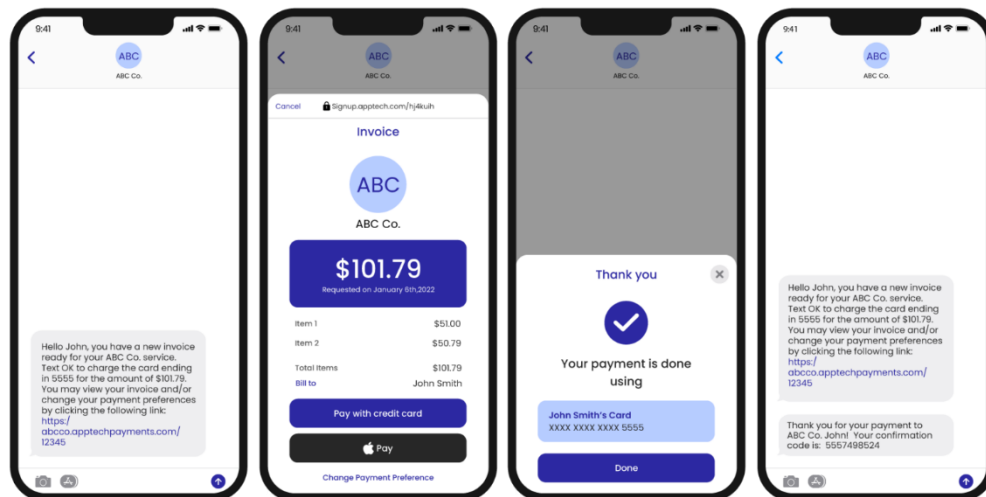
- (Off-the-Shelf, omni channel experiences)
- Experiences are a combination of PaaS, BaaS & other complimentary tech
 - Pre-selected APIs
 - Commerce experience low code/no code
 - "Drag and Drop" builder

Source: Company

The following images present examples of some of the platform's key offerings:

Text to Pay

Text to pay; this service is quickly becoming a popular off-site payment option for merchants

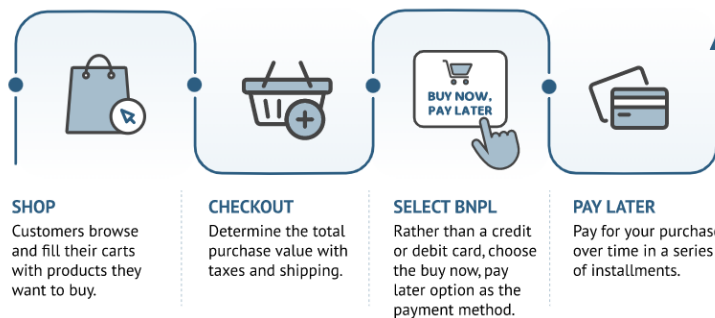


Source: Company

Buy Now Pay Later (BNPL)

The Buy Now, Pay Later Process

Clients can offer BNPL (payments are divided into installments) to their customers



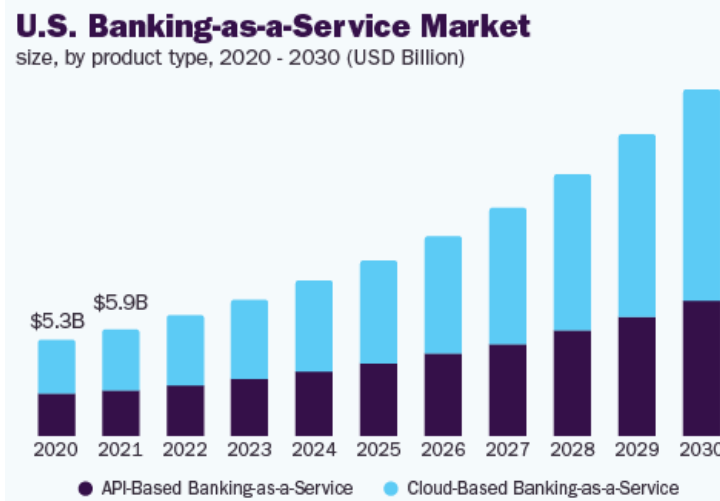
Source: Fit Small Business

AppTech has 17 patents related to payments, mobile data, and communication. According to management, their patents have been cited by 500+ other patents. We were not able to confirm if these companies are infringing on AppTech's patents, but **we believe there is a possibility for AppTech to obtain licensing revenue from these companies.**

Market

The global PaaS market is expected to grow from US\$54B in 2019, to US\$319B by 2030, reflecting a CAGR of 22% (Allied Market Research). The global BaaS market size is expected to grow from US\$19.65B in 2021, to US\$75B by 2030, reflecting a CAGR of 16.2% (Source: Grandview Research).

The U.S. accounts for approximately 30% of the global BaaS market



Source: grandviewresearch.com

Management and Board

Management and the board own approximately 13.6% of the outstanding shares

Four out of seven directors are independent

Name	Position(s)	# Shares Outstanding	% of Total
Luke D'Angelo	Chairman, CEO, CIO, Director	877,057	5.3%
Gary Wachs	CFO, Treasurer, Director	749,191	4.5%
Virgil Llapitan	President	199,736	1.2%
Christopher Williams	Independent Director	136,424	0.8%
Marc Evans	Corporate Secretary	96,208	0.6%
William Huff	Independent Director	49,254	0.3%
Mengyin H. Liang	Independent Director	44,458	0.3%
Ben Jenkins	Chief Technology Officer	44,162	0.3%
Michael O'Neil	Independent Director	39,976	0.2%
Kaylei Wright	Chief of Staff	14,733	0.1%
Chad Nelley	Chief Operating Officer	7,245	0.0%
Michael Yadgar	Director	-	0.0%
Total Shares from Board and Management		2,258,444	13.6%
Outstanding Shares		16,658,563	

Source: FRC/Company Filings/NASDAQ

Brief biographies of the senior management and board members, as provided by the company, follow:

Luke D'Angelo – Chairman, CEO, CIO, Director

Mr. D'Angelo has been the Chairman of the Board since 2013, Chief Executive Officer since December 2019. Mr. D'Angelo has over 25 years of experience in real estate, investment banking, venture capital, and commercial operations. In 2006, he founded a merchant services company, Transcendent One, Inc. In 2009, Mr. D'Angelo founded TransTech One, LLC, a subsidiary to Transcendent One, Inc., which is focused on the bill payment and technology industries.

Gary Wachs – CFO, Treasurer, Director

Mr. Wachs is a director since 2013 and Chief Financial Officer since 2013. Mr. Wachs is a Certified Public Accountant with experience in high-level accounting,

finance, and tax. Mr. Wachs served as Managing Partner of Blake and Shaffer, a Certified Public Accounting firm, and has been a Managing Member of Blake and Wachs CPA, LTD (formerly Blake and Shaffer) since 1997.

Virgil Llapitan – President

Mr. Llapitan has experience in the banking industry. In 1989, he founded his own independent insurance agency and transitioned into the merchant service industry in 2004. There, he developed and marketed the original ACH Payment Processing systems for online merchants as the Chairman, COO, and Director of HIMC Corp. Mr. Llapitan also served as a Universal Banker II for Ameris Bank and Bank of America and Director of Sales for merchant services for Transcendent One.

Ben Jenkins – Chief Technology Officer

Mr. Jenkins is a start-up Founder, Chief Executive Officer, and software innovator who has developed new business lines for large corporations and technology start-ups in the last 20 years. He played a key role in developing the payment infrastructure (PayFac) now responsible for processing billions of dollars annually in non-profit donations. Mr. Jenkins also started a near-shore cross-border software innovation and development company in Mexico while continuing to serve as a software and payment consultant for large companies and private equity firms.

Chad Nelley – Chief Operating Officer

Mr. Nelley is a business executive for start-ups to Fortune 500 companies with over 25 years of experience in sales, marketing, customer success, information technology, project management, finance, human resources, business intelligence, organizational development, procurement, legal, retail distribution, fulfillment & logistics, and real estate and facilities.

Kaylei Wright – Chief of Staff

Upon joining AppTech in 2018, Ms. Wright developed the initial branding and led efforts within the investment community to deliver a successful IPO and Nasdaq listing. She continues to work hand-in-hand with marketing and organizational leadership to curate, define, and shape messaging suited for investors and the general market.

Marc Evans – Corporate Secretary

Mr. Evans has worked with AppTech since November 11, 2013 as an Associate and a Director of Business Development. He was a partner at an independent insurance agency and was licensed in property & casualty and life & health insurance for 13 years. During that time, he sat on the agent advisory & technology committee at Mercury Insurance Group.

Christopher Williams – Independent Director

Mr. Williams is an independent director since 2016. Mr. Williams is a corporate finance attorney with a 42-year background in corporate and entertainment finance, investment property transactions, and investment banking. He served as Outside

Corporate Counsel for several publicly traded companies and financial institutions and was selected to serve as Special Advisor to the Governor of California and acted as Bond Counsel for several municipalities in California.

William Huff – Independent Director

Mr. William Huff is a Certified Public Accountant. He is an Independent Director since 2020 and is on the Board of Directors at Prilock Security, Inc., Spada Innovations, Inc. and YHWH, Inc. Mr. Huff is also the Chief Financial Officer of Underground Elephant, Inc and founder and owner of YHWH, Inc. a tax and consulting firm. He has owned and managed a tax practice since 1990.

Mengyin H. Liang – Independent Director

Ms. Liang, also known as Roz Huang, is an Independent Director since 2020. Ms. Huang is the President of Dandelion Global, LLC, Chief Executive Officer of Athena Music & Wellness Academy, and Chairwoman of International Music & Wellness Council. She is also an Advisor to the Board of Intivahealth, Inc.

Michael O’Neal – Independent Director

Mr. O’Neal is an Independent Director since 2020 and is on the board of San Diego Habitat for Humanity, Inc. In the past he held the position of Chairman for The Consumer Technology Association, President for Nortek Security & Control LLC, President & Chief Executive Officer of Gemini Industries, Inc., and President & Chief Executive Officer of Team Products International, Inc. Mr. O’Neal has several years of management experience in consumer products manufacturing and distribution, retailing, and consulting.

Michael Yadgar – Director

Mr. Yadgar is a director since April 2021. Mr. Yadgar is a corporate lawyer, an, advisor with experience in Fintech, Biotech, digital investments, and investment funds. Mr. Yadgar currently serves as a member of the Board of Directors of nDigital Holdings SPC, nDigital Ventures, Infinios Financial Services B.S.C., and APISO W.L.L.

Financials

H1-2022 revenue was down 10% due to lower transaction volume of clients

Increased R&D expenses to launch Commerce

EBITDA yet to be positive

STATEMENT OF OPERATIONS (US\$)						
	2020	2021	YoY%	H1-2021	H1-2022	YoY%
Revenue	329,500	353,824	7%	252,000	227,000	-10%
Cost of revenue	140,372	149,449	6%	70,000	113,000	61%
SG&A Expense	1,035,599	2,065,715	99%	4,041,000	3,201,000	-21%
R&D Expense	49,250	169,034	243%	-	1,236,000	
EBITDA (adjusted)	(895,721)	(2,030,374)	127%	(3,859,000)	(4,323,000)	12%
Net Profit (Loss)	(4,187,317)	(79,245,544)	1793%	(72,634,000)	(9,582,000)	-87%
EPS	(0.46)	(6.97)		(6.71)	(0.60)	

Source: Company Filings, FRC

Operating cashflows were funded through equity financings historically

Healthy balance sheet

None of the options and warrants are in-the-money

Our DCF valuation is \$2.04 per share

Our models are based on the assumption that the company should be able to charge 0.4% in processing fees, which is in line with the sector average

We are also assuming that the company should be able to capture 0.05% of the U.S PaaS/BaaS market by 2030

Margins	2020	2021	H1-2021	H1-2022	Sector
Gross	57%	58%	72%	50%	17%
EBITDA (adjusted)	-272%	-574%	-1531%	-1904%	8%
EBIT	-1095%	-2364%	-2047%	-3931%	7%
Net	-1271%	-22397%	-28823%	-4221%	4%
SG&A	314%	584%	1604%	1410%	9%
Research & Development	15%	48%	0%	544%	

Source: Company Filings, FRC

Summary of Cash Flows	H1-2021	H1-2022
Operating	(726,000)	(5,378,000)
Investing	(1,340,000)	(185,000)
Financing	2,362,000	13,345,000
Net	296,000	7,782,000
Free Cash Flows to Firm (FCF)	(2,066,000)	(5,563,000)

Liquidity & Capital Structure	2020	2021	Q2-2022
Cash	\$57,497	\$8,026	\$7,790,000
Working Capital	-\$8,102,699	-\$6,659,815	\$4,036,000
Current Ratio	0.01	0.09	1.85
Long-term Debt	\$67,400	\$67,400	\$67,000
Total Debt	\$1,812,207	\$1,183,817	\$1,851,000
Long-term Debt-to-Capital	-1%	61%	1%
Total Debt-to-Capital	-28%	96%	14%

Source: Company Filings, FRC

Stock Options and Warrants

	# Options	Strike Price	Value	Warrants	Strike Price	Value
Total Outstanding	1,061,132	\$7.15	\$7,587,094	4,275,721	\$2.52	\$10,774,817
In the Money	-		-	-		-

Source: Company Filings, FRC

FRC Projections

(US\$)	2022E	2023E	2024E	2029E	2030E
Revenue from Payment Processing & Other Key Offerings	454,000	794,500	1,390,375	29,197,875	36,497,344
Cost of Revenue	226,000	436,975	764,706	16,058,831	20,073,539
Gross Profit	228,000	357,525	625,669	13,139,044	16,423,805
Gross Profit Margin	50%	45%	45%	45%	45%
DCF Model	2022E	2023E	2024E	2029E	Terminal
EBIT(1-tax)	(3,167,500)	(3,170,239)	(2,300,342)	6,120,904	8,319,331
Non-Cash Expenses	(769,000)	10,000	10,000	10,000	10,000
Change in Working Capital	(1,426,023)	273,250	271,800	(528,449)	(206,137)
Cash from Operations	(5,362,523)	(2,886,989)	(2,018,542)	5,602,455	8,123,194
CAPEX	-	(100,000)	(100,000)	(100,000)	(100,000)
Free Cash Flow	(5,362,523)	(2,986,989)	(2,118,542)	5,502,455	8,023,194
Present Value	(5,206,922)	(2,578,060)	(1,625,339)	2,342,614	3,036,260
				32,919,452	
Discount Rate	12.5%				
Terminal Growth	3%				
Present Value	28,050,793				
Cash - Debt	5,939,000				
Fair Value	33,989,793				
Shares O/S	16,658,563				
Value per Share (US\$)	\$2.04				

Source: FRC

AppTech is trading at 1.4x of the present value of our 2027 revenue forecast vs the sector average of 5.5x

Our comparables valuation is \$1.55 per share

The average of our DCF and comparables valuations is \$1.79 per share

Assigning a risk rating of 4

AppTech vs Major Players		EV/Rev
AppTech (2027E)		1.40
Block Inc.		1.89
Paypal Holdings Inc.		3.32
Fidelity National Information Services Inc.		4.49
Fiserv Inc.		4.74
Global Payments Inc.		5.11
Data Processing & Outsourced Services Sector Average		5.50x
Average		3.78x
Median		4.49x
AppTech's Premium/(Discount)		-63%

Source: FRC / S&P Capital IQ

Valuation Method	Fair Value per share (\$)	Weight
DCF Valuation	\$2.04	50.0%
Fair value per share (\$) - Average EV/R Multiple	\$1.55	50.0%
Fair Value Estimate (\$)		\$1.79

Source: FRC

We are initiating coverage with a BUY rating, and a fair value estimate of \$1.79 per share. As AppTech has an established client-base (100+ companies), we believe Commerce is likely to gain traction sooner than a start-up. That said, the next year is crucial, as it will provide insights on whether the new platform is appealing for prospective clients. **Our valuation is conservative, as we are not assigning any potential licensing revenue from the companies that have cited AppTech's patents.**

We expect tech stocks to be under pressure in the near-term, amid slower GDP growth forecasts, and as the Fed is expected to continue raising rates. That said, we are expecting the Fed to turn less hawkish by year-end/early next year, which **should trigger a rally in tech stocks.**

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- No guarantee that the platform will attract clients
- **Yet to generate meaningful revenue; not yet profitable**
- Dependence on third-party processing and referral partners
- Need to raise capital in 2023, and 2024, to fund operations, implying potential for share dilution

Appendix

STATEMENTS OF OPERATIONS (\$) YE December 31	2021	2022E	2023E
Total Revenues	353,824	454,000	794,500
Cost of Revenue	149,449	226,000	436,975
Gross Profit	204,375	228,000	357,525
SG&A	2,065,715	5,246,500	3,934,875
Research & Development	169,034	2,472,000	815,760
Share-based expenses	6,333,667	4,600,000	-
EBITDA (adjusted)	(2,030,374)	(7,490,500)	(4,393,110)
D&A	-	-	10,000
EBIT	(8,364,041)	(12,090,500)	(4,403,110)
Net financing expense	3,110,717	192,000	100,000
EBT	(11,474,758)	(12,282,500)	(4,503,110)
Income tax expense	-	-	-
Other income	1,210,719	(168,000)	-
Excess Fair Value	(68,955,924)	904,000	-
Forex loss/(gain)	-	-	-
Unusual/Non-recurring expense	(25,581)	(173,000)	-
Net Income (Net Loss)	(79,245,544)	(12,845,500)	(4,503,110)
EPS	(6.97)	(0.77)	(0.27)

BALANCE SHEET (\$) YE December 31	2021	2022E	2023E
Assets			
Cash	8,026	4,697,003	1,593,143
Accounts receivables	40,344	50,000	87,500
Prepaid expenses	94,904	945,000	945,000
Other current assets	479,375	-	-
Current Assets	622,649	5,692,003	2,625,643
PP&E	-	-	90,000
Right-of-use asset	188,643	158,000	158,000
Other long term assets	6,745,674	7,246,000	7,246,000
Total Assets	7,556,966	13,096,003	10,119,643
Liabilities & Shareholders' Equity			
Accounts payables and accrued liabilities	4,391,010	3,067,500	3,374,250
Stock repurchase liability	430,000	430,000	430,000
Current portion of borrowings	1,116,417	1,784,000	400,000
Current portion of right of use liability	61,393	64,000	64,000
Loans from related parties	684,863	-	-
Other current liabilities	598,781	426,000	430,000
Current Liabilities	7,282,464	5,771,500	4,698,250
Borrowings	67,400	2,000,000	1,600,000
Right of use liability	163,099	131,000	131,000
Other long term liabilities	-	-	-
Total Liabilities	7,512,963	7,902,500	6,429,250
Share capital	11,945	11,945	11,945
Additional paid-in capital	124,225,332	137,620,332	140,620,332
Deficit and AOCI	(124,193,274)	(132,438,774)	(136,941,884)
Total Liabilities and Shareholder's Equity	7,556,966	13,096,003	10,119,643

STATEMENTS OF CASH FLOWS (\$)	2021	2022E	2023E
YE December 31			
Operating Activities			
Net loss for the period	(79,245,544)	(12,845,500)	(4,503,110)
Items not involving cash			
Depreciation	-	-	10,000
Share-based payments	-	4,600,000	-
Issuance of stock options	4,379,729	-	-
Stock issued	70,899,482	-	-
Issuance of warrants	28,750	-	-
Excess fair market value of shares	2,705,904	-	-
Interest on notes payable	10,350	-	-
Derivative loss	-	-	-
Amortization of debt	297,130	-	-
Gain on extinguishment of accounts payable	(1,105,919)	-	-
Change in fair value of derivatives	25,581	-	-
FFO	(2,004,537)	(8,245,500)	(4,493,110)
Accounts receivables	291	(9,656)	(37,500)
Prepaid expenses and others	(997,582)	(370,721)	-
Accounts payable and accrued liabilities	1,168,257	(1,323,510)	306,750
Right of use liabilities	9,022	(29,492)	-
Others	-	(857,644)	4,000
Changes in WC	179,988	(2,591,023)	273,250
Cash from (used in) Operations	(1,824,549)	(10,836,523)	(4,219,860)
Investing activities			
PP&E	-	-	(100,000)
Others	(1,184,797)	(469,683)	-
Cash used in Investing Activities	(1,184,797)	(469,683)	(100,000)
Financing activities			
Equity	2,994,275	13,395,000	3,000,000
Debt	(34,400)	2,600,183	(1,784,000)
Cash provided by Financing Activities	2,959,875	15,995,183	1,216,000

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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