BEHIND THE NUMBERS
EARNINGS QUALITY & DIVIDEND SUSTAINABILITY RESEARCH

BTN Research

September 25, 2020 | www.btnresearch.com

Jeff Middleswart
jmiddleswart@btnresearch.com

Bill Whiteside, CFA
bwhiteside@btnresearch.com

Paycom Software (PAYC) EQ Review

Current EQ Rating*	Previous EQ Rating
4-	na

6- "Exceptionally Strong"
5- "Strong"
4- "Acceptable"
3- "Minor Concern"
2- "Weak"
1- "Strong Concerns"

Note that a "+" sign indicates the earnings quality improved in the most recent quarter while a "–" sign indicates deterioration

*For an explanation of the EQ Review Rating scale, please refer to the end of this report

We initiate earnings quality coverage with a 4- (Acceptable) rating

We do not see hard evidence that PAYC's earnings are of suspect quality. However, we do note an unusual increase in capitalized costs to fulfill contracts in the 3/20 quarter that continued into the 6/20 quarter. Management's lack of disclosure regarding new bookings makes it very difficult to tell if the increase in capitalized expenses was warranted. Also, the company's profits are very sensitive to the amortization period used to amortize these deferred contract costs.

- PAYC capitalizes both the cost to obtain contracts such as sales commissions as well as the cost to fulfill contracts such as teaching new clients' employees to utilize its HR solutions. These costs are all amortized over an estimated benefit period of 10 years. The amount of costs to obtain contracts that were capitalized in the 6/20 quarter fell significantly. However, capitalized contract fulfillment costs spiked in the 3/20 quarter and remained elevated in the 6/20 quarter. While the company's revenue has been under pressure from lower headcount at existing clients, it has reported that new account additions were very strong in the second quarter. Unfortunately, the company is very vague about the drivers of its revenue and does

not report a new bookings number. This makes it very difficult to assess if the company became more aggressive in capitalizing expenses in the last two quarters.

- PAYC amortizes its deferred contract costs over ten years, the estimated time a new client is expected to stay. The company's current retention rate is over 90% and management contends that is understated as it is reduced by mergers and acquisitions. This would seem to justify a 10-year amortization period. We have not researched the state of competitive solutions on the market, but we do observe that the company's HR solution is one of the first of its kind and that one of its key selling points is the ease of adoption versus competitive alternatives. With companies like ADP and Paychex on the market, it seems very likely that directly competitive solutions from well-heeled competitors could hit the market in years ahead which could result in the retention rate declining. Given the size of the deferred contract cost balances, if the amortization period was just reduced to 8 years from 10 years, we estimate it could reduce profits by almost 20%. Investors should realize there is a great deal of the company's valuation tied up in that one assumption.

- PAYC's contracts are very short-term in nature with both parties having the right to terminate the agreement with 30 days' notice. This means that the company does not carry a huge deferred revenue balance as most SaaS software companies do. Clients do pay a one-time upfront implementation fee which is recognized over 10 years. However, even with this, deferred revenue days of sales typically runs under 40 days and the fixed recognition period limits management's ability to play with revenue recognition patterns.

- Capitalized computer software costs rose at the fastest rate in several quarters in the 6/20 period. This seems unusual given that most companies were cutting everything they could in the second quarter. However, PAYC increased its marketing spending in the period and management noted in the call that it continued to push forward with product innovations, releasing over 1,000 new improvements in the quarter. We are therefore not overly concerned with the increase in capitalized software.

- Like most software companies, PAYC adds back stock-based compensation to its non-GAAP results. Stock-based compensation amounted to about 15% of the adjusted operating profit in the quarter. Readers will know that we object to ignoring stock-based compensation as even though it may be non-cash, the company would have to pay employees cash if it took away the options and it must spend cash to

avoid dilution of shares. However, we do note that unlike many software companies, PAYC does not have an acquired intangibles balance and goodwill is less than 3% of assets. Therefore there is no add-back of amortization which most of its peers feature in their non-GAAP results.

Deferred Contract Costs

The component of PAYC's accounting where changes in assumptions could have the most material impact is its deferred contract costs. With the advent of ASC 606 and ASC 340-40, companies were required to capitalize the costs to obtain contracts such as sales commissions if the period of benefit is expected to be longer than one year.

Most software companies have such capitalized costs to obtain contracts on their balance sheets. However, in addition to costs to obtain contracts, PAYC also capitalizes almost all of its contract implementation costs. One of PAYC's main selling points for its services is that it requires very little in the way of customizing its platform for each client. However, there are still onboarding functions such as teaching managers and employees how to utilize the software's functionality. Capitalized costs to obtain contracts as well as costs to implement contracts are amortized over the benefit period which is currently assumed to be 10 years. Also, the company charges an implementation fee that the customer pays upfront which is also recognized as revenue over the ten-year period. Note that the amount of implementation revenue was only about $15 million per year while capitalized costs are closer to $70 million, indicating these fees do not cover all of the fulfillment costs.

With all this in mind, let's examine both costs to obtain and costs to fulfill contracts.

Costs to Obtain Contracts

The following table shows the development of the balance of capitalized costs to obtain contracts.

Table 1

Capitalized Costs to Obtain Contracts	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Beginning Balance	$208.960	$194.964	$183.439	$178.445
Capitalization	$7.982	$21.184	$18.156	$11.315
Amortization	-$7.480	-$7.188	-$6.631	-$6.321
Ending Balance	$209.462	$208.960	$194.964	$183.439

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Beginning Balance	$172.655	$158.989	$145.859	$140.119
Capitalization	$11.811	$19.387	$18.293	$10.595
Amortization	-$6.021	-$5.721	-$5.163	-$4.855
Ending Balance	$178.445	$172.655	$158.989	$145.859

Red flags to looks for would include an increased rate in capitalization relative to sales as well as lower amortization expense relative to the capitalized balance. These measures are shown below:

Table 2

	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Capitalization % of Quarterly Sales	4.4%	8.7%	9.4%	6.5%
Amortization % of Average Capitalized Balance	3.6%	3.6%	3.5%	3.5%

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Capitalization % of Quarterly Sales	7.0%	9.7%	12.2%	7.9%
Amortization % of Average Capitalized Balance	3.4%	3.5%	3.4%	3.4%

We can see that rather than rising, amounts capitalized fell as a percentage of quarterly revenue. We also see from table 1 that the amount of capitalized costs to obtain contracts fell by more than 30%.

Likewise, amortization expense as a percentage of the average capitalized balance has remained very consistent which is consistent with the flat ten-year amortization period given in the company's financials.

Therefore, we see no concerns with the company's capitalized costs to obtain contracts. However, capitalized costs to fulfill contracts are a little more complicated.

Costs to Fulfill Contracts

The following table shows the development of the capitalized costs to fulfill contracts balance:

Table 3

Capitalized Costs to Fulfill Contracts	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Beginning Balance	$158.321	$143.788	$132.729	$121.664
Capitalization	$19.071	$19.509	$15.689	$15.323
Amortization	-$5.451	-$4.976	-$4.630	-$4.258
Ending Balance	$171.941	$158.321	$143.788	$132.729

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Beginning Balance	$113.291	$101.756	$93.928	$87.199
Capitalization	$12.286	$15.005	$11.068	$9.731
Amortization	-$3.913	-$3.470	-$3.240	-$3.002
Ending Balance	$121.664	$113.291	$101.756	$93.928

The following table shows capitalized fulfillment costs as a percentage of revenue and the amortization of capitalized costs as a percentage of the average capitalized cost balance:

Table 4

	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Sales	$181.587	$242.368	$193.409	$175.006
Capitalized Fulfillment Costs	$19.071	$19.509	$15.689	$15.323
Capitalized Costs % of Sales	10.5%	8.0%	8.1%	8.8%
Amortization % of Average Capitalized Balance	3.3%	3.3%	3.3%	3.3%

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Sales	$169.313	$199.943	$150.332	$133.288
Capitalized Fulfillment Costs	$12.286	$15.005	$11.068	$9.731
Capitalized Costs % of Sales	7.3%	7.5%	7.4%	7.3%
Amortization % of Average Capitalized Balance	3.3%	3.2%	3.3%	3.3%

The first thing we notice in table 3 is that the amount of fulfillment costs capitalized jumped in the 3/20 quarter to $19.5 million from $15.6 million in the 12/19 quarter and $15 million in the year-ago quarter. We can see that strong revenue growth that persisted into the 3/20 quarter resulted in capitalized costs rising only to 8% of sales from 7.5% in the year-ago period. However, keep in mind that most of the revenue number is generated from recurring revenues from existing customers while capitalized fulfillment costs are a reflection of cash spending to set up new customers who were signed up in that quarter. This makes a direct comparison between the two less informative. It would be more informative to match capitalized fulfillment costs to new customer bookings. Unfortunately, the company's discussions of the drivers of sales growth in its press releases and 10-Qs are very vague. It does not disclose bookings and only broadly refers to it in its conference calls.

In the 3/20 quarter conference call, management stated with regards to booking activity:

> *"Even though the month of March was impacted by declining revenues from our current client base due to the effects of COVID-19, we continue to see strong addition of new clients."*

Later in the call, the company discussed the impact of COVID on booking

> *"I will say, we came into this year with strong sales momentum. We had a very strong value proposition that continues to resonate. Then we ran into the pandemic.* ***And so on Sunday, March 15, we actually closed all sales offices and moved them to the virtual work-from-home model. During the weeks of March 16 and the week beginning March 23, we rescheduled all of those sales appointments and really focused on retraining our outside sales organization on a somewhat new model.***
>
> ***During those two weeks, our booked sales business dropped about 50% for those two weeks. During the subsequent week which would have been the week I believe began March 30, our booked sales was back up to 80% of what we had been selling previously****. And then the rest of April, we're actually at the same level of booked sales numbers we were pre-COVID. So from a sales bookings perspective, we continue to sell business through this. I can tell you that it used to be a sales manager could go on six calls a week. Now they can go on six in two days. And so reps are still highly engaged with individuals as they also work from home. Some of them are actually our clients -- our prospective clients I should say actually may go into the office and then use a type of virtually -- virtual technology to actually engage with us.*
>
> *But there is still people out there buying and it's a good time to buy. I will tell you that the digital transformation has accelerated through this. I think our value proposition is stronger today not less so. And so, we're having some success with sales."*

All we can take away from these comments is that demand remained strong for the company's product and the pandemic may have increased interest in a decentralized HR solution. However, new sales were interrupted by the transition to work from home with the final weeks of the first quarter at only 50-80% of their normal activity. This makes the

sequential and YOY jump in fulfillment costs capitalized in the 3/20 quarter look out of place.

Moving to the second quarter, fulfillment costs capitalized remained roughly flat sequentially, but PAYC's customers laid off and furloughed employees which hurt the company's revenues as part of the company's fee is based on the number of employees serviced. The lower revenue drove fulfillment costs capitalized as a percentage of revenue to 10.5% in the 6/20 quarter from 7.3% in the 6/19 quarter. Still, what matters is the number of new clients signed up in the quarter. According to management's comments in the second-quarter conference call, the second quarter was very strong in terms of new bookings:

> *"I mean, we haven't disclosed that [bookings], and that's kind of a rabbit hole we go down that, we just continue to go down once we do.* ***It is a fact that our Q2 bookings of this year was the highest booking quarter we've ever had. We've had great booking quarters before. This was the highest we've ever had.*** *And then it's also a fact that July, the month we're in right now is the highest month we've ever had, which would tell you that our July month was better than any month we had in Q2, and Q2 was our largest new business quarter."*

We are somewhat surprised that given the "home run" nature of new business signings in the second quarter that we did not see a sequential increase in fulfillment costs capitalized in the quarter. In addition, we are surprised that we did not see an increase in the "Implementation and Other Revenue" line on the income statement. Clients pay a one-time, upfront setup fee which is recognized over ten years. This line item is shown in the following table:

	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Fulfillment Costs Capitalized	$19.071	$19.509	$15.689	$15.323
growth	55.2%	30.0%	41.8%	57.5%
Implementation & Other Revenue	$3.637	$3.873	$3.248	$3.601
growth	9.7%	25.8%	35.3%	46.5%

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Fulfillment Costs Capitalized	$12.286	$15.005	$11.068	$9.731
growth	31.0%	35.9%		
Implementation & Other Revenue	$3.315	$3.079	$2.401	$2.458
growth	51.3%	51.6%		

Since Implementation Revenue is deferred and recognized over time, it will not grow directly proportional to new business signed. Still, we would have expected to see a sequential increase in the largest new booking quarter in the company's history although it is possible the company chose to waive or reduce fees to encourage new signups.

Finally, under normal circumstances, we would expect to see a sequential increase in capitalized costs to *obtain* contracts. The company attributed the strong bookings growth to companies that moved to working remotely looking for a decentralized solution to HR management as well as a large increase in its marketing effort which included an expansion of its inside sales teams. It is possible that this led to more "call-in" sales that resulted in lower commissions. It is also possible there was a reduction in salesforce travel expenses that might otherwise have been booked as costs to obtain contracts.

In summary, deferred contract costs are a key driver to what expenses PAYC will report in a quarter. On one hand, the 10-year amortization period for all costs reduces management's ability to manipulate earnings by increasing the average amortization period. However, the opportunity remains for the company to increase the scope of what fulfillment costs it chooses to capitalize in each period. There have been unusual movements in the company's deferred contract costs in the last two quarters. However, these are admittedly unusual times and the lack of any real disclosure regarding bookings growth makes it very difficult to determine if there has been an overall increase in the level of costs capitalized relative to new bookings. Going forward, if the company did have a record number of bookings in the second quarter which continued into July, we would expect to see a sequential jump in fulfillment costs capitalized in the upcoming third quarter.

What About Amortizing Costs over 10 Years

We want to back up and examine the company's 10-year amortization period for costs to obtain and fulfill contracts. This period is intended to be a reflection of how long the average client will be around generating revenue after they are initially signed. PAYC boasts that its client retention rate exceeds 90% and contends that the retention rate actually understates client loyalty due to clients dropping out of the count from mergers and acquisitions.

We have no doubt these figures are accurate and would justify a 10-year amortization period. However, keep in mind that the current retention figures are relatively young. The

company's solution of a centralized HR platform presented on the cloud and accessible to employees was one of the first of its kind and represented a huge step forward in HR management solutions. One of the key advantages that PAYC touts is that it requires very little customization and setup relative to other enterprise software solutions that incorporate third-party solutions. While this is a huge selling point, we also see it is also a double-edged sword. PAYC competes with the likes of ADP and Paychex. We observed in our review of salesforce.com (CRM) that it uses a 4-year period for amortizing costs to obtain contracts yet posted similar retention rates as PAYC. We emphasize that we have not researched the development of competitive options in PAYC's market. However, on the surface, CRM's salesforce management solutions seem more difficult to replace in a company's sales process and entail a higher degree of financial risk to the company in the event of a setback in productivity than PAYC's HR solutions. That, plus the resources of the company's competitors, the fact that cost is a key selling point, and by the company's own admission it is easy to switch to a platform like theirs makes us wonder if PAYC will have a difficult time maintaining its retention rates over time.

Investors should keep in mind that its retention rates simply fell to 80%, it would become much more difficult to justify a 10-year amortization period. For reference, if the amortization period only fell from 10 years to 8, we estimate it would cost the company 64 cps in EPS annually using trailing 12-month figures as a guide. This represents more than 18% of trailing 12-month non-GAAP EPS which illustrates just how much of PAYC's value is tied up in this key accounting assumption that could conceivably be tested should competition increase.

Unlike Most Software Companies, Deferred Revenue Is Not Important for PAYC

Most cloud-based computer software companies feature long-term subscriptions that span multiple years in which customers pay well in advance of the services being provided. This leads to large deferred revenue liabilities being booked when customers pay for the subscription upfront which are reduced over time as the revenue is recognized ratably over the service term. PAYC does not fit this mold. Its contracts are very short-term in nature with both parties having the right to terminate the agreements with only 30 days' notice. However, as we discussed above, clients must pay an upfront implementation fee to cover the costs of setup which are amortized over ten years. Therefore, there is a small deferred revenue component on PAYC's balance, sheet, most of which is booked as long-term. The following table shows the components of deferred revenue days of sales:

	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Deferred Revenue- Current	$12.273	$11.660	$11.105	$10.634
Deferred Revenue- Current Days of Sales	6.2	4.4	5.3	5.6
Long-Term Deferred Revenue	$68.614	$66.795	$65.139	$62.731
Long-Term Deferred Revenue Days of Sales	34.4	25.1	31.0	33.0
Total Deferred Revenue	$80.887	$78.455	$76.244	$73.365
Total Deferred Revenue Days	40.5	29.5	36.3	38.6

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Deferred Revenue- Current	$10.082	$9.672	$8.980	$8.409
Deferred Revenue- Current Days of Sales	5.4	4.4	5.5	5.8
Long-Term Deferred Revenue	$59.922	$57.839	$55.671	$52.405
Long-Term Deferred Revenue Days of Sales	32.2	26.0	34.1	36.2
Total Deferred Revenue	$70.004	$67.511	$64.651	$60.814
Total Deferred Revenue Days	37.6	30.4	39.6	42.0

Given the fixed nature of the recognition period, we do believe it is subject to much distortion. Likewise, recurring subscription revenue is so short term in nature that we would expect little wiggle room for the company to play with to speed up revenue recognition. While it is always worth keeping an eye on any deferred revenue balance, this is not a ley area of concern for PAYC in our minds.

Capitalized Computer Software Jumped

PAYC capitalizes development costs for internal-use computer software and amortizes those costs over three years. The following table shows the end of period capitalized software balance and the amount of software development expense capitalized in each of the last eight quarters:

	6/30/2020	3/31/2020	12/31/2019	9/30/2019
Ending Balance	$120.306	$109.275	$99.125	$90.606
Capitalized Computer Software Costs	$11.000	$9.700	$7.700	$7.100

% Increase	64.2%	9.0%	37.5%	36.5%

	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Ending Balance	$83.005	$76.153	$66.634	$60.619
Capitalized Computer Software Costs	$6.700	$8.900	$5.600	$5.200
% Increase	45.7%	34.8%	16.7%	13.0%

These capitalized computer software costs are employee-related expenses for the personnel working on the projects. The amortization of the deferred costs is recorded under R&D expense. It is important to note that although this is "internal use" software, most software development expenses for Cloud-based services made available to customers is considered internal-use software under ASC 350-40.

We can see in the above table that capitalized amounts rose by 64% YOY in the 6/20 quarter which is the fastest increase in the last two years. Also, the expensed portion of the company's R&D budget only rose by only 30% in the quarter. The company warns that the timing of projects can affect the rate of capitalization of costs. It seems strange to see a company increase investment during a quarter when most other companies were cutting everything they could. However, management did note in the second-quarter conference call that it was continued with product development throughout the quarter, releasing several thousand product enhancements. A sudden acceleration in the capitalization of an expense always raises a red flag, but given the circumstances, we are not overly alarmed with the increase in PAYC's rate of capitalized software development costs.

Non-GAAP Adjustments- Clean Other Than Stock Compensation Add Backs

Like most tech companies, PAYC adds back stock-based compensation to its non-GAAP results. For the trailing 12 months ended 6/20, stock compensation amounted to approximately 16% of non-GAAP operating income. This is a sizeable impact on adjusted profits, although not as dramatic as the 20-40% rates we documented at salesforce.com (CRM) and Autodesk (ADSK).

Managements typically argue that since stock-based compensation is non-cash, it should be excluded when examining profitability levels. Readers will know we object to this and consider stock compensation to be a very real expense. The company would very likely have to pay employees in cash to retain them if they didn't pay them with options, plus the company will have to spend cash to buy back shares to prevent the dilution of shareholders.

However, we give PAYC high marks on its non-GAAP disclosure overall. Most tech companies have sizeable add-backs of intangible amortization expense which essentially erases the cost of doing deals. The company is not dependent on acquisitions so there are essentially no intangibles to amortize and its goodwill is less than 3% of total assets.

Likewise, the only other regular adjustment to non-GAAP results the company makes is taking out the impact of the change in the value of its interest rate swap contract which a reasonable adjustment to make.

Interest on Float

PAYC collects payroll tax amounts owed by clients before the due date and it can hold these balances in its own account for anywhere from 1-120 days prior to disbursement. During that time, the company invests the proceeds in short-term liquid instruments such as money market funds, commercial paper, and CDs. The balance of funds held for clients for the last eight quarters is shown below:

	6/30/2020	3/31/2020	12/31/2019	09/30/2019
Funds Held for Clients	$1,033.535	$1,392.379	$1,662.778	$835.918

	06/30/2019	03/31/2019	12/31/2018	09/30/2018
Funds Held for Clients	$1,126.808	$1,405.465	$967.787	$902.747

Interest on the float is recorded in recurring revenue on the income statement and is essentially pure profit. PAYC does not disclose the exact amount of the interest received but 3-month commercial paper was yielding about 2.4% last year. This would have generated about $6.7 million in interest income in the 6/19 quarter, or about 3% of adjusted operating income. Since then, similar rates have fallen below 0.2%. In addition, client balances have been depressed by lower headcount at clients from layoffs and companies electing to defer Social Security deposits under the CARES Act. All of these factors are likely to reverse in the foreseeable future and become a tailwind to profit growth.

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

Disclosure

Behind the Numbers, LLC is an independent research firm structured to provide analytical research to the financial community. Behind the Numbers, LLC is not rendering investment advice based on investment portfolios and is not registered as an investment adviser in any jurisdiction. All research is based on fundamental analysis using publicly available information including SEC filed documents, company presentations, annual reports, earnings call transcripts, as well as those of competitors, customers, and suppliers. Other information sources include mass market and industry news resources. These sources are believed to be reliable, but no representation is made that they are accurate or complete, or that errors, if discovered, will be corrected. Behind the Numbers, LLC does not use company sources beyond what they have publicly written or discussed in presentations or media interviews. Behind the Numbers does not use or subscribe to expert networks. All employees are aware of this policy and adhere to it.

The authors of this report have not audited the financial statements of the companies discussed and do not represent that they are serving as independent public accountants with respect to them. They have not audited the statements and therefore do not express an opinion on them. Other CPAs, unaffiliated with Mr. Middleswart, may or may not have audited the financial statements. The authors also have not conducted a thorough "review" of the financial statements as defined by standards established by the AICPA.

This report is not intended, and shall not constitute, and nothing contained herein shall be construed as, an offer to sell or a solicitation of an offer to buy any securities referred to in this report, or a "BUY" or "SELL" recommendation. Rather, this research is intended to identify issues that investors should be aware of for them to assess their own opinion of positive or negative potential.

Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them may have a position in, and from time-to-time purchase or sell any of the securities mentioned in this report. Initial positions will not be taken by any of the aforementioned parties until after the report is distributed to clients, unless otherwise disclosed. It is possible that a position could be held by Behind the Numbers, LLC, its employees, its affiliated entities, and the accounts managed by them for stocks that are mentioned in an update, or a BTN Thursday Thoughts.