

**SRER Reports 3Q14 Results; Maintaining Spec Buy & 30 Cent PT**

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Key Metrics

Price:	\$0.10
Price Target:	\$0.30
52-Week Range:	\$0.04-\$0.16
Cash (M):	\$0.1
Debt (M):	\$2.3
Net Cash/Share:	\$0.00
Book Value/Share:	\$0.01

Market Data

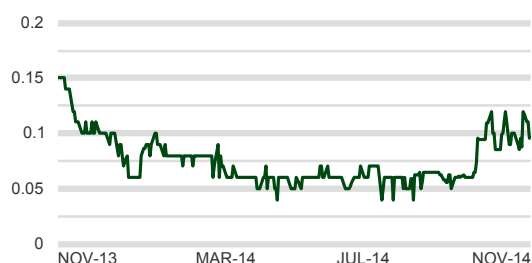
Market Cap (M):	\$5.0
Enterprise Value (M):	\$7.2
Shares Out (M):	50.1
Float (M):	21.1
30-Day Avg. Vol:	51,548.0

Merriman Estimates

	FY14E	FY15E
Sales (M)		
1Q	\$0.0A	\$1.0
2Q	\$0.1A	\$1.5
3Q	\$0.4A	\$1.7
4Q	\$0.6	\$2.0
FY (Dec)	\$1.0	\$6.2
EV/S	7.2x	1.2x
EPS		
1Q	\$(0.01)A	\$(0.01)
2Q	\$0.01A	\$(0.01)
3Q	\$(0.01)A	\$(0.00)
4Q	\$(0.01)	\$(0.00)
FY (Dec)	\$(0.02)	\$(0.01)
P/E	NM	NM

Company Description

Headquartered in Tyler, Texas, SearchCore owns and operates Wisdom Homes Of America, through which the company runs various manufactured home retail centers.

Stock Performance**Investment Conclusion**

SearchCore has exited the finder site industry and is transitioning into a pure play retail provider within the manufactured homes industry. The company is directing all its efforts on building out Wisdom Homes Of America, a subsidiary focused on opening/acquiring manufactured home retail sales centers. We view this play favorably and expect it could be accretive to the company's business model, substantially increase sales and potentially result in profitability. However, there are still risks inherent within this new business model. **Therefore, we are maintaining our Speculative Buy rating along with our 30 cent PT.**

Investment Summary

- **SRER's 3Q14 results were largely in line with our expectations.** SRER's top line of \$352,000 was in line with our \$360,000 estimate. Revenues also approximated the range the company pre-reported last month. Meanwhile, opex was slightly higher than our projection (\$941,000 vs. \$670,000), but the difference was primarily due to stock based compensation coming in \$255,000 above our expectations. Taken together, SRER posted a pre-tax loss of \$660,000. The company also recognized \$97,000 in income tax benefits which resulted in a net loss of \$563,000 or a loss per share of 1 cent, which missed our projection for a net loss of \$361,000 and a 1 cent loss per share. The company's 3Q14 adjusted EBITDA loss of \$331,000 was largely in line with our \$307,000 estimate.
- **Balance sheet remains weak.** SRER's 3Q14 balance sheet only harbored \$117,000 in cash. Meanwhile, the company ended the quarter with a relatively weak current ratio of 0.6:1.0 and exited the quarter with \$2.3 million in debt. The company is continuing to receive \$100,000 a month from a \$3 million note it received from the sale of WeedMaps. The \$100,000 payment is scheduled to continue until June 2015. We believe SRER will continue to access the capital markets for small loans to meet its working capital needs until it is able to reach cash flow breakeven.
- **Update on operations.** SRER seems to have resolved the majority of its near term inventory issues at this time and has a \$1.2 million credit facility open with its manufactured home supplier. We view this as a crucial development for the company which provides them with the funding to keep model homes on their lots so potential buyers are able to have tours prior to purchasing a unit. We believe having adequate inventory levels is a pivotal part of the industry's sales process and is likely the reason for the company increasing its pending home transactions to 22 at the end of 3Q14 from just 8 at the end of 2Q14. We continue to believe SRER will look to open/acquire 3-4 manufactured home retail centers annually and expect each location to sell ~2-4 homes per month once sales initiatives fully ramp up. Management has also begun a strategic initiative to expedite the sales process and is now purchasing plots of land (1/2-3/4 acre) so potential home buyers will be able to immediately place their manufactured homes instead of spending 30-90 days looking for viable locations. While management hasn't finalized its revenue recognition policy for home sales with corresponding plots of land, we believe this strategy could be accretive if the company's plots of land are in desirable locations with reasonable terms.

See page 2 for Valuation and Risks.

PLEASE SEE IMPORTANT DISCLOSURES ON PAGE(S) 5 - 6 OF THIS REPORT



- **Revised estimates.** We are maintaining our FY14 and FY15 revenue estimates but are slightly increasing forward expenses to account for higher projected stock based compensation. For FY14 our top line and adjusted EBITDA loss remain largely unchanged at \$1.0 million and \$873,000, respectively, but we are now looking for a loss per share of 2 cents instead of 1 cent previously. We are also maintaining our FY15 top line and adjusted EBITDA estimates of \$6.2 million and \$240,000, respectively, but are now projecting a loss per share of 2 cents instead of 1 cent.
- **Maintaining Spec Buy and 30 cent PT.** Our 30 cent price target is based a 3.3-times sales multiple to our FY15 revenue estimate of \$6.2 million, which we then discounted by 30% to account for time value, adoption and execution risk. When we assign this figure to our FY15 diluted share count of 52.5 million, we arrive at our 30 cent PT. We are modeling geometric y-o-y growth and thus believe our 3.3x multiple is conservative as many companies that exhibit this type of top line growth trade between 5-10x sales.

Risks That May Impede The Achievement Of Our Price Target

- CEO Pakulis owns over 50% of the company's outstanding common stock; as such, he basically controls the company.
- SRER could require more capital to achieve profitability.
- The company could be subject to governmental action, through the Federal Controlled Substances Act, due to its previous medical marijuana business, Weedmaps.com, since some of the business activities of its customers were illegal under federal law.
- The company's financial statements may be subject to regulatory restatements.
- The markets the company targets are very competitive, fragmented, and obscure.
- Loss of top management could severely impact the company.
- Increased interest rates could dramatically lower consumer purchases which could have a detrimental impact to homes sales.



SearchCore, Inc. (SRER)

FYE: DECEMBER

Income Statement (\$000s except per share data)	2011A	2012A	FY13A	1Q14A	2Q14A	3Q14A	4Q14E	FY14E	1Q15E	2Q15E	3Q15E	4Q15E	FY15E
Sales	11,929	16,422	606	0	50	352	600	1,002	960	1,500	1,680	2,040	6,180
Operating Expenses													
Cost of sales	794	1,007	183	0	25	277	450	752	691	1,080	1,210	1,469	4,450
Selling, general and administrative	9,685	11,189	3,272	372	420	664	520	1,976	540	560	580	630	2,310
Total Operating Expenses	10,479	12,196	3,455	372	445	941	970	2,728	1,231	1,640	1,790	2,099	6,760
Operating income	1,450	4,226	(2,849)	(372)	(394)	(589)	(370)	(1,726)	(271)	(140)	(110)	(59)	(580)
Other Income (Expense)													
Gain (Loss) on change in fair value of earn-out liability	(205)	5,954	0	0	0	0	0	0	0	0	0	0	0
Gain on sale of business segment	0	7,796	0	0	847	0	0	847	0	0	0	0	0
Loss on write off, note receivable - discontinued operations	0	0	(188)	0	0	0	0	0	0	0	0	0	0
Interest Income	0	1	0	4	4	5	4	18	4	4	4	4	16
Interest expense	(13)	(45)	(36)	(34)	(55)	(76)	(76)	(241)	(76)	(76)	(76)	(76)	(305)
Total other income (expense)	(218)	13,706	(224)	(30)	797	(71)	(72)	624	(72)	(72)	(72)	(72)	(289)
Net Income before taxes	1,232	17,932	(3,073)	(402)	403	(660)	(442)	(1,102)	(344)	(212)	(182)	(131)	(869)
Provision for income taxes	416	2,557	(1,391)	(113)	(241)	(97)	0	(451)	0	0	0	0	0
Net Income (loss) from continuing operations	816	15,375	(1,682)	(289)	644	(563)	(442)	(651)	(344)	(212)	(182)	(131)	(869)
Loss from discontinued operations, net of tax benefits	(4,060)	(111)	(14)	(89)	(207)	(45)	0	(342)	(4)	0	0	0	(4)
Net Income (loss)	(3,244)	15,264	(1,696)	(379)	437	(608)	(442)	(993)	(348)	(212)	(182)	(131)	(873)
Diluted EPS	(0.04)	0.18	(0.04)	(0.01)	0.01	(0.01)	(0.01)	(0.02)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)
Basic and Diluted share count	83,140	84,396	42,598	41,019	45,156	45,898	50,200	45,568	51,000	52,000	53,000	54,000	52,500
Adjusted EBITDA													
Operating Income	1,450	4,226	(2,849)	(372)	(394)	(589)	(370)	(1,726)	(271)	(140)	(110)	(59)	(580)
Loss on abandonment	4,143	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	356	306	153	0	2	3	5	10	10	15	20	25	70
EBITDA	5,949	4,531	(2,696)	(372)	(392)	(586)	(365)	(1,715)	(261)	(125)	(90)	(34)	(510)
Stock based compensation	0	210	230	440	22	255	125	842	150	175	200	225	750
Adjusted EBITDA	5,949	4,741	(2,466)	68	(370)	(331)	(240)	(873)	(111)	50	110	191	240
Y-O-Y Revenue Growth										2878%	378%	240%	517%

Source: Company reports and Merriman estimates



SearchCore, Inc. (SRER)

FYE: DECEMBER

Balance Sheet (\$000s except per share data)	FY13A	1Q14A	2Q14A	3Q14A
Assets				
Cash and cash equivalents	93	26	93	117
Accounts receivable	81	85	18	18
Inventory	0	0	293	1,364
Other current assets	1,237	1,263	1,197	1,214
Current assets - discontinued operations	0	0	0	0
Total Current Assets	1,412	1,373	1,601	2,712
PP&E, net	26	22	16	29
PP&E - discontinued operations	0	0	0	0
Total intangible assets	421	421	146	144
Other assets	568	232	1,300	1,178
Other assets - discontinued operations	956	956	484	442
Total Assets	3,383	3,005	3,546	4,506
Liabilities				
Accounts payable	201	168	187	160
Accrued liabilities	2,031	1,508	1,372	1,399
Notes payable	196	278	865	717
Notes payable - related party	0	90	106	122
Flooring credit line	0	0	0	1,393
Current liabilities - discontinued operations	161	167	262	246
Total Current Liabilities	2,589	2,211	2,792	4,037
Other accrued liabilities	119	119	119	119
Earn-out provisions	0	0	0	0
Notes payable	96	83	97	0
Noncurrent liabilities- discontinued operations	400	400	0	0
Notes payable - related party	161	113	0	81
LT Liabilities	776	715	216	199
Total Liabilities	3,365	2,926	3,008	4,236
Shareholders' Equity (Deficit)				
Preferred stock	0	0	0	0
Common stock	39	45	45	50
Treasury Stock	0	0	0	0
Paid-in capital	(10,717)	(10,283)	(10,261)	(9,952)
Retained Earnings	10,696	10,317	10,754	10,171
Total Shareholders' Equity (Deficit)	18	79	538	270
Total Liabilities and Shareholders' Equity	3,383	3,005	3,546	4,506

Source: Company reports

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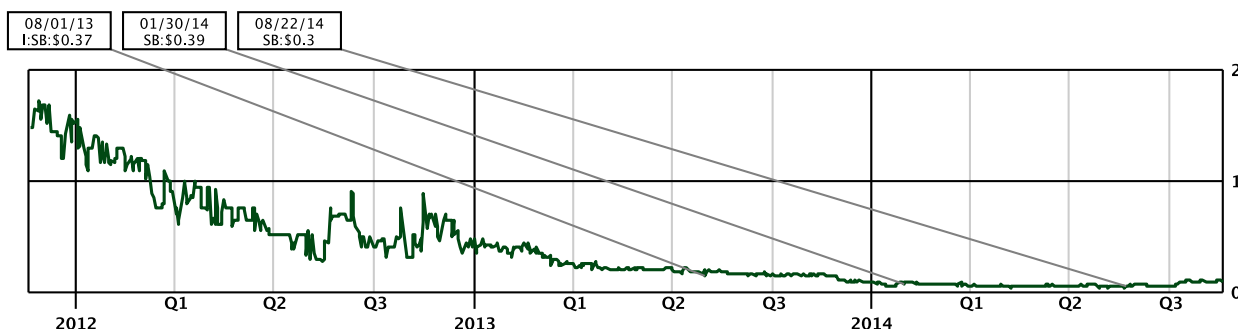
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Rating and Price Target History for: SearchCore, Inc. (SRER) as of 11-19-2014



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