

Asure Software, Inc.

(NasdaqCM: ASUR)

July 13, 2012
 Rating: Strong Buy
 Target Price: \$19.15
 Recent Price: \$7.45

Analyst

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Market Data

Fiscal Year	December
Industry	Software
Market Cap	\$39.0M
Price/Earnings (ttm)	N/A
Price/Book (mrq)	10.6x
Price/Sales (ttm)	2.7x
Price/FCF (ttm)	9.8x
Free Cash Flow Yield (ttm)	10.2%
Shares Outstanding	5.2M
Float	3.9M
Avg. Daily Vol. (3 mos.)	22,278

As of July 12, 2012

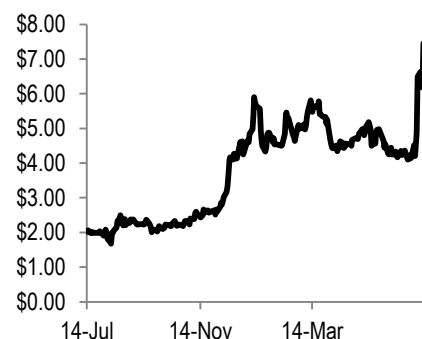
Revenue Estimates

2Q11A	\$2.4	2Q12E	\$4.2
3Q11A	\$2.5	3Q12E	\$7.1
4Q11A	\$3.6	4Q12E	\$8.1
1Q12A	\$4.2	1Q13E	\$8.1

FCF Estimates

2Q11A	\$0.14	2Q12E	\$0.11
3Q11A	\$0.17	3Q12E	\$0.13
4Q11A	\$0.32	4Q12E	\$0.35
1Q12A	\$0.12	1Q13E	\$0.30

Price Performance



PeopleCube Acquisition Increases Revenue Over \$2.5M Per Q and More Than Triples Client Base; Raising Price Target to \$19.15 on Increase in Free Cash Flow

On July 5, 2012, Asure Software, Inc. (“ASUR”, “Asure”, or the “Company”), announced the acquisition of PeopleCube, a company that specializes in minimizing the financial impact across a clients’ real estate utilization, meeting services, travel, and energy costs based on actual workspace usage. ASUR acquired PeopleCube for \$9.8 million in cash, a \$3 million, two-year seller’s note, and 255,000 shares of common stock. This deal has further enhanced the AsureSpace solution set, along with more than tripling the Company’s client base. The integration of Asure and PeopleCube will begin shortly and take approximately four months to complete according to management, at which point both cost and product synergies should be apparent. The AsureSpace business line will now be headed by John Anderson, who was the former President and Chief Executive Officer of PeopleCube. Management’s guidance (and our estimates), have increased as follows:

Management Guidance

3Q12E revenue of \$6.9M - \$7.1M; EBITDA of \$1.1M - \$1.3M vs. previous guidance of revenue of \$4.5M - \$4.6M; EBITDA of \$0.9M - \$1.0M

4Q12E revenue of \$7.8M - \$8.1M; EBITDA of \$1.9M - \$2.2M vs. previous guidance of revenue of \$5.1 - \$5.3M; EBITDA of \$1.4M - \$1.6M

FY13E revenue of \$31M; EBITDA of \$9M; free cash flow (FCF) of \$7M (or \$1.30 per share)

RedChip Estimates

3Q12E revenue of \$7.1M; EBITDA of \$1.3M; FCF of \$0.7M vs. previous guidance of revenue of \$4.5M; EBITDA of \$0.8M; FCF of \$0.6M

4Q12E revenue of \$8.1M; EBITDA of \$2.1M; FCF of \$1.8M vs. previous guidance of revenue of \$5.2M; EBITDA of \$1.3M; FCF of \$1.5M

FY13E revenue of \$34.3M; EBITDA of \$10.1M; FCF of \$8.6M (or \$1.64 per share) vs. previous guidance of revenue of \$22.3M; EBITDA of \$5.8M; FCF of \$6.1M (or \$1.22 per share)

Our estimates for FY13E are higher than management’s estimates as we believe that management’s FY13E figures are conservative; as management’s FY13E revenue guidance of \$31 million implies flat QoQ growth throughout FY13E (assuming revenue at the low end of management guidance of \$7.8 million in 4Q12E), we believe that current management guidance for FY13E is not taking into account potential growth stemming from cross-selling opportunities, organic growth from the addition of new clients, and that more companies are likely to adopt cloud-based software.

Some other takeaways following the acquisition:

- The Company's client base has more than tripled from over 3,500 to more than 11,000 (PeopleCube has 7,500 clients, including companies such as Royal Bank of Canada (RBC), and ChevronTexaco).
- PeopleCube, with established business relationships throughout Europe will further assist Asure's global expansion. In addition to offering a more powerful solution to its current workplace management clients, we believe that a substantial opportunity exists to cross-sell its AsureForce solution to the new clients, which could offer additional upside from management guidance.
- The Company's ability to serve new verticals in workplace management solutions should make ASUR more attractive to their partners/resellers.
- This is the 3rd accretive acquisition for ASUR in the past 9 months, with each acquisition increasing revenue, total clients, EBITDA, and FCF. Management's ability to identify these opportunities provides upside not present in our estimates.
- Industry consolidation has been occurring in the SaaS industry, with investment bank Software Equity Group, L.L.C. reporting that 64 SaaS company acquisitions occurred in 1Q12, including large acquisitions in the HR management market, with Oracle acquiring Taleo at 5.7x revenue (ttm) (SAP also acquired SuccessFactors in 4Q11 at 12x ttm revenue). Additionally, the same report by Software Equity Group states that over the last two years, an analysis of M&A transactions shows that EV/Revenue (ttm) multiples have rose as revenue increased (2.5x (<\$10M), 3.5x (\$10M-\$20M), 4.2x (\$21M-\$49M), 5.6x (>\$50M)), and that acquisition multiples across all SaaS transactions have been rising, with median acquisition multiples rising from 3.4x EV/Revenue (ttm) in 1Q11 to 3.9x EV/Revenue (ttm) in 1Q12. If acquisition multiples continue to appreciate, we believe that multiple appreciation could occur among cloud-based software providers, with companies that exhibit higher revenue and more impressive forward revenue growth commanding higher multiples.
- The Company entered into an agreement with Deerpath Funding, LP, for a senior secured term loan totaling \$14.5 million, with a floating annual rate equal to LIBOR + 8% (with a LIBOR floor of 2%). Part of this loan was used to pay off the Company's \$1.7 million 15% subordinated promissory notes due September 2014. Overall, while the Company's interest expenses will rise due to the increase in total debt, ASUR retired its highest interest rate loan in the process.

Valuation

We continue to use our previous valuation methodology, which entails taking a weighted average of forward P/FCF (75%) and P/S multiples (25%). Given that we believe that ASUR exhibits superior growth prospects relative to its peer group, we have opted to assign a 10% premium to both the median P/FCF and P/S multiples. Applying a 24.2x P/FCF multiple to our forward 12-month FCF estimate of \$0.88 and a 2.4x P/S multiple to our forward 12-month revenue per share estimate of \$5.25, we derive a new price target of \$19.15. Our price target has been increased due to the PeopleCube acquisition, which we expect will increase the Company's free cash flow and revenue going forward, and the fact that the acquisition was completed with minimal share dilution (255,000 additional shares issued).

ASUR PEER COMPARISON

Name	Ticker	Price	Market Cap (M)	Rev. (ttm)	Rev. Per Share (ttm)	P/S (ttm)	Fwd. P/S	Fwd. Revs	EV/ EBITDA (ttm)	P/FCF (ttm)	Fwd. P/FCF	FCF Yield (ttm)	P/E (ttm)	Fwd. P/E	Fwd. Net Income	Fwd. Rev. Growth
Bridgeline Digital Inc	BLIN	1.50	18.92	26.3	2.14	0.7x	0.6x	35.9	19.7x	N/A	N/A	N/A	N/A	N/A	1.3	N/A
Callidus Software Inc	CALD	4.35	150.75	86.0	2.60	1.7x	1.5x	102.7	N/A	N/A	N/A	N/A	N/A	1242.9x	1.8	18.5%
ClickSoftware Tech	CKSW	7.40	226.69	89.6	2.87	2.6x	2.2x	108.7	N/A	22.0x	N/A	4.5%	20.0x	22.1x	14.0	12.8%
Cornerstone OnDemand	CSOD	22.35	1,112.45	81.3	1.67	13.3x	8.8x	139.7	N/A	N/A	N/A	N/A	N/A	N/A	-8.1	63.5%
Datawatch Corp	DWCH	12.70	80.21	22.1	3.58	3.5x	N/A	N/A	44.7x	41.3x	N/A	2.4%	45.4x	N/A	N/A	N/A
Pervasive Software Inc	PVSW	7.31	119.35	50.0	3.26	2.2x	2.3x	52.2	17.9x	17.7x	N/A	5.6%	52.2x	36.5x	3.8	N/A
TRX Inc	TRXI	1.25	23.15	48.8	2.64	0.5x	N/A	N/A	5.6x	N/A	N/A	N/A	62.5x	N/A	N/A	N/A
Median						2.2x	2.2x		18.8x	22.0x		4.5%	48.8x	36.5x		18.5%
Asure Software Inc	ASUR	7.45	39.02	12.7	2.74	2.7x	1.4x	27.5	19.1x	9.8x	8.5x	10.2%	N/A	14.3x	2.7	115.7%

As of July 12, 2012

Source: Bloomberg, RedChip Estimates

ASUR NI adj. for non-cash derivative and OID

Income Statement

All Figures in US\$ 000

FY Ending December 31,	3Q10	4Q10	FY10	1Q11	2Q11	3Q11	4Q11	FY11	1Q12
Revenues	2,542	2,406	10,033	2,357	2,434	2,502	3,648	10,941	4,153
Cost of Sales	(601)	(518)	(2,259)	(440)	(437)	(486)	(926)	(2,289)	(1,046)
Gross Margin	1,941	1,888	7,774	1,917	1,997	2,016	2,722	8,652	3,107
Operating Expenses:									
Selling, general and administrative	1,507	1,302	5,693	1,401	1,413	1,526	1,863	6,203	2,135
Research and development	394	345	1,445	391	393	366	528	1,678	591
Amortization of intangible assets	150	150	598	149	150	150	231	680	292
Total Operating Expenses	2,051	1,797	8,939	1,941	1,956	2,042	2,622	8,561	3,018
Operating Income (Loss)	(110)	91	(1,165)	(24)	41	(26)	100	91	89
Other Income (Expenses):									
Interest income	0	3	5	2	4	2	2	10	1
Foreign currency translation gain (loss)	(24)	(13)	(54)	(21)	1	67	27	74	(28)
Loss (gain) on sale of assets	(18)	0	5	0	0	0	0	0	(10)
(Loss) on Debt Conversion	0	0	0	0	0	0	0	0	(199)
Interest expense and other	(20)	(9)	(66)	(8)	(7)	(5)	(128)	(148)	(120)
Interest expense - amortization of OID and derivative mark-to-market	0	0	0	0	0	0	(604)	(604)	(535)
Gain on sale of investment	130	0	130	0	0	0	0	0	0
Total Other Income (Expense)	68	(19)	20	(27)	(2)	64	(703)	(668)	(891)
Income (Loss) Before Income Taxes	(42)	72	(1,145)	(51)	39	38	(603)	(577)	(802)
(Provision) Benefit For Income Taxes	42	(6)	8	(9)	(12)	(9)	(42)	(72)	(45)
Net Income (Loss)	0	66	(1,137)	(60)	27	29	(645)	(649)	(847)
Net income (adj. for derivative and OID)	0	66	(1,137)	(60)	27	29	(41)	(45)	(312)
Basic Income (Loss) Per Share	0.00	0.01	(0.25)	(0.01)	0.01	0.01	(0.14)	(0.14)	(0.18)
Diluted Income (Loss) Per Share	0.00	0.01	(0.25)	(0.01)	0.01	0.01	(0.14)	(0.14)	(0.18)
Income Per Share (adj. for derivative and OID)	0.00	0.01	(0.25)	(0.01)	0.01	0.01	(0.01)	(0.01)	(0.07)
Shares Used In Computing Basic									
Income (Loss) Per Share	4,628	5,210	4,631	4,628	4,628	4,628	4,628	4,628	4,699
Shares Used In Computing Diluted									
Income (Loss) Per Share	4,628	5,210	4,631	4,628	4,632	4,641	4,628	4,628	4,699
Gross Margin	76.36%	78.47%	77.48%	81.33%	82.05%	80.58%	74.62%	79.08%	74.81%
Operating Margin	-4.33%	3.78%	-11.61%	-1.02%	1.68%	-1.04%	2.74%	0.83%	2.14%
Net Margin	0.00%	2.74%	-11.33%	-2.55%	1.11%	1.16%	-17.68%	-5.93%	-20.39%
S,G&A as % of rev	59.28%	54.11%	56.74%	59.44%	58.05%	60.99%	51.07%	56.70%	51.41%
R&D as % of rev	15.50%	14.34%	14.40%	16.59%	16.15%	14.63%	14.47%	15.34%	14.23%
Effective Tax Rate		-8.33%	-0.70%	17.65%	-30.77%	-23.68%	6.97%	12.48%	5.61%

Projected Income Statement

All Figures in US\$ 000

FY Ending December 31,	1Q12	2Q12E	3Q12E	4Q12E	FY12E	1Q13E	2Q13E	3Q13E	4Q13E	FY13E
Revenues	4,153	4,173	7,094	8,123	23,543	8,082	8,244	8,697	9,306	34,329
Cost of Sales	(1,046)	(1,031)	(1,717)	(1,909)	(5,702)	(1,915)	(1,921)	(2,000)	(2,094)	(7,930)
Gross Margin	3,107	3,142	5,377	6,214	17,840	6,167	6,323	6,697	7,212	26,399
Operating Expenses:										
Selling, general and administrative	2,135	2,066	3,547	3,493	11,240	3,475	3,504	3,522	3,536	14,038
Research and development	591	593	709	709	2,602	709	709	709	709	2,838
Amortization of intangible assets	292	274	350	350	1,266	350	350	350	350	1,400
Total Operating Expenses	3,018	2,932	4,606	4,552	15,109	4,535	4,563	4,582	4,596	18,275
Operating Income (Loss)	89	210	771	1,662	2,732	1,632	1,760	2,115	2,616	8,123
Other Income (Expenses):										
Interest income	1	2	3	3	9	3	3	4	4	14
Foreign currency translation gain (loss)	(28)	0	0	0	(28)	0	0	0	0	0
Loss (gain) on sale of assets	(10)	0	0	0	(10)	0	0	0	0	0
(Loss) on Debt Conversion	(199)	0	0	0	(199)	0	0	0	0	0
Interest expense and other	(120)	(109)	(440)	(431)	(1,100)	(423)	(415)	(407)	(399)	(1,645)
Interest expense - amortization of OID and derivative mark-to-market	(535)	(5)	(5)	(6)	(551)	(6)	(6)	(6)	(6)	(24)
Total Other Income (Expense)	(891)	(112)	(442)	(434)	(1,879)	(426)	(418)	(409)	(401)	(1,655)
Income (Loss) Before Income Taxes	(802)	98	329	1,227	853	1,206	1,342	1,706	2,215	6,468
(Provision) Benefit For Income Taxes	(45)	(36)	(23)	(43)	(147)	(42)	(47)	(51)	(55)	(196)
Net Income (Loss)	(847)	62	306	1,184	705	1,163	1,295	1,655	2,160	6,272
Net income (adj. for derivative and OID)	(312)	67	311	1,190	1,256	1,169	1,301	1,661	2,166	6,296
Basic Income (Loss) Per Share										
Basic Income (Loss) Per Share	(0.18)	0.01	0.06	0.23	0.14	0.22	0.25	0.32	0.41	1.20
Diluted Income (Loss) Per Share										
Diluted Income (Loss) Per Share	(0.18)	0.01	0.06	0.23	0.14	0.22	0.25	0.32	0.41	1.20
Income Per Share (adj. for derivative and OID)										
Income Per Share (adj. for derivative and OID)	(0.07)	0.01	0.06	0.23	0.25	0.22	0.25	0.32	0.41	1.20
Shares Used In Computing Basic										
Income (Loss) Per Share	4,699	4,982	5,237	5,237	5,039	5,237	5,237	5,237	5,237	5,237
Shares Used In Computing Diluted										
Income (Loss) Per Share	4,699	4,982	5,237	5,237	5,039	5,237	5,237	5,237	5,237	5,237
Gross Margin	74.81%	75.30%	75.80%	76.50%	75.78%	76.30%	76.70%	77.00%	77.50%	76.90%
Operating Margin	2.14%	5.03%	10.87%	20.46%	11.60%	20.19%	21.35%	24.32%	28.12%	23.66%
Net Margin	-20.39%	1.48%	4.32%	14.58%	3.00%	14.39%	15.70%	19.02%	23.21%	18.27%
S,G&A as % of rev	51.41%	49.50%	50.00%	43.00%	47.74%	43.000%	42.500%	40.500%	38.000%	40.89%
R&D as % of rev	14.23%	14.20%	10.00%	11.40%	11.05%	8.78%	8.61%	8.16%	7.62%	8.27%
Effective Tax Rate	5.61%	-37.00%	-7.00%	-3.50%	-17.27%	-3.50%	-3.50%	-3.00%	-2.50%	-3.03%

Balance Sheet

All Figures in US\$ 000

FY Ending December 31,	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Assets							
Current Assets							
Cash and cash equivalents	837	1,070	1,375	2,026	6,082	1,067	1,189
Accounts receivable, net	1,346	1,239	1,031	974	979	1,483	1,491
Notes receivable	60	62	63	65	120	96	73
Inventory	85	25	23	10	6	116	113
Prepaid expenses and other current assets	266	255	257	229	227	338	285
Total Current Assets	2,594	2,651	2,749	3,304	7,414	3,100	3,151
Property and equipment, net	316	281	246	245	221	414	397
Intangible assets, net	3,039	2,844	2,649	2,454	2,258	6,307	5,950
Goodwill	0	0	0	0	0	6,264	6,259
Other	0	0	0	0	0	0	6
Total Assets	6,009	5,836	5,704	6,063	9,893	16,085	15,763
Liabilities and stockholders equity							
Current Liabilities							
Current portion of notes payable	0	0	0	0	0	349	100
Accounts payable	831	560	466	551	686	1,097	1,234
Line of credit	0	0	0	0	500	500	500
Accrued compensation and benefits	116	95	28	83	72	141	160
Other accrued liabilities	423	361	356	330	399	536	551
Deferred revenue	1,866	1,955	2,046	2,216	2,522	4,792	4,860
Total Current Liabilities	3,236	2,971	2,896	3,180	4,179	7,415	7,405
Long-term deferred revenue	96	116	103	145	150	169	166
Subordinated notes	0	0	0	0	1,450	4,323	4,350
Subordinated convertible notes	0	0	0	0	1,400	1,247	296
Other long-term obligations	37	25	14	10	4	32	30
Total Liabilities	3,369	3,112	3,013	3,335	7,183	6,606	12,247
Stockholders' Equity							
Common stock	334	334	334	334	334	334	336
Treasury stock	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)
Additional paid-in capital	270,966	270,978	270,992	271,006	271,033	271,065	273,334
Accumulated deficit	(263,607)	(263,541)	(263,601)	(263,574)	(263,545)	(264,190)	(265,037)
Accumulated other comprehensive loss	(36)	(30)	(17)	(21)	(95)	(128)	(100)
Total Stockholders' Equity	2,640	2,724	2,691	2,728	2,710	2,064	3,516
Total Liabilities and Stockholders' Equity	6,009	5,836	5,704	6,063	9,893	16,085	15,763
Working Capital	(642)	(320)	(147)	124	3,235	(4,315)	(4,254)
Debt to Equity	0.00%	0.00%	0.00%	0.00%	123.62%	311.00%	149.20%

Projected Balance Sheet

All Figures in US\$ 000

FY Ending December 31,	1Q12	2Q12E	3Q12E	4Q12E	1Q13E	2Q13E	3Q13E	4Q13E
Assets								
Current Assets								
Cash and cash equivalents	1,189	1,694	4,734	6,153	7,300	8,677	10,665	13,178
Accounts receivable, net	1,491	1,431	2,433	2,762	2,748	2,803	2,940	3,127
Notes receivable	73	73	73	73	73	73	73	73
Inventory	113	113	285	285	285	285	285	285
Prepaid expenses and other current assets	285	285	459	459	459	459	459	459
Total Current Assets	3,151	3,596	7,984	9,732	10,865	12,297	14,421	17,122
Property and equipment, net	397	387	619	649	679	709	739	769
Intangible assets, net	5,950	5,615	11,684	11,299	10,914	10,529	10,144	9,759
Goodwill	6,259	6,259	16,054	16,054	16,054	16,054	16,054	16,054
Other	6	6	6	6	6	6	6	6
Total Assets	15,763	15,863	36,347	37,740	38,518	39,595	41,364	43,710
Liabilities and stockholders equity								
Current Liabilities								
Current portion of notes payable	100	100	100	100	100	100	100	3,303
Accounts payable	1,234	1,237	1,841	2,004	2,011	2,017	2,100	2,199
Line of credit	500	500	500	500	500	500	500	500
Accrued compensation and benefits	160	160	247	247	247	247	247	247
Other accrued liabilities	551	499	672	620	568	516	464	412
Deferred revenue	4,860	4,882	7,815	8,204	8,163	8,285	8,654	9,073
Total Current Liabilities	7,405	7,378	11,175	11,675	11,589	11,665	12,065	15,734
Long-term deferred revenue	166	171	195	203	202	206	217	233
Subordinated notes	4,350	4,378	20,207	19,875	19,543	19,213	18,883	15,688
Subordinated convertible notes	296	301	306	312	318	324	330	0
Other long-term obligations	30	30	65	65	65	65	65	65
Total Liabilities	12,247	12,258	31,948	32,130	31,717	31,472	31,560	31,719
Stockholders' Equity								
Common stock	336	336	336	336	336	336	336	336
Treasury stock	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)	(5,017)
Additional paid-in capital	273,334	273,361	273,849	273,876	273,903	273,930	273,957	273,984
Accumulated deficit	(265,037)	(264,975)	(264,669)	(263,485)	(262,321)	(261,027)	(259,372)	(257,212)
Accumulated other comprehensive loss	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Total Stockholders' Equity	3,516	3,605	4,399	5,610	6,801	8,122	9,804	11,991
Total Liabilities and Stockholders' Equity	15,763	15,863	36,347	37,740	38,518	39,595	41,364	43,710
Working Capital	(4,254)	(3,782)	(3,191)	(1,943)	(724)	632	2,356	1,388
Debt to Equity	149.20%	146.44%	479.94%	370.50%	300.87%	247.92%	202.09%	162.55%

Cash Flow Statement

All Figures in US\$ 000

FY Ending December 31,

	9M10	FY10	1Q11	6M11	9M11	FY11	1Q12
Cash Flows From Operating Activities							
Net loss	(1,203)	(1,137)	(60)	(33)	(4)	(649)	(847)
Adjustments to reconcile net loss to net cash used in operations:							
Depreciation and amortization	776	1,016	238	471	702	1,050	404
Amortization of original issue discount (OID)	0	0	0	0	0	46	0
Derivative mark-to-market	0	0	0	0	0	561	535
Provision for doubtful accounts	29	13	2	(32)	(29)	10	(24)
Share-based compensation	41	53	14	28	55	81	11
(Gain) loss on sale/disposal of assets	(23)	(23)	0	0	0	0	15
Loss on debt conversion	0	0	0	0	0	0	199
Notes receivable	(120)	(122)	(1)	(3)	2	0	(1)
Changes in operating assets and liabilities:							
Accounts receivable	151	274	206	297	289	192	16
Inventory	(36)	24	2	15	19	(5)	3
Prepaid expenses and other current assets	(53)	(42)	(2)	26	28	(70)	52
Accounts payable	(185)	(456)	(94)	(9)	126	377	137
Accrued expenses and other long-term obligations	(90)	(173)	(71)	(34)	30	257	44
Deferred revenue	84	193	78	290	601	1,503	65
Net cash used in operating activities	(1,188)	(939)	312	1,016	1,819	3,353	609
Cash Flows From Investing Activities							
Net purchases of property and equipment	(131)	(141)	(8)	(45)	(60)	(121)	(45)
Collection of note receivable	0	0	0	0	0	26	24
Acquisitions of ADI Time net of Cash acquired	0	0	0	0	0	(6,697)	0
Acquisitions of Legiant net of Cash acquired	0	0	0	0	0	(3,704)	0
Net cash used in investing activities	(131)	(141)	(8)	(45)	(60)	(10,496)	(21)
Cash Flows From Financing Activities							
Net proceeds from issuance of stock							
Payments on notes payable and capital leases	(36)	(48)	(12)	(24)	(36)	(58)	(286)
Payments on notes payable conversion	0	0	0	0	0	0	(222)
Net proceeds from exercise of stock options	0	0	0	0	0	6	14
Proceeds from a line of credit, subordinated notes payable and convertible notes payable to fund the ADI acquisition (\$1,600 provided by related parties)	0	0	0	0	3,350	7,283	0
Purchase of treasury stock	(110)	(110)	0	0	0	0	0
Net cash provided by (used in) financing activities	(146)	(158)	(12)	(24)	3,314	7,231	(494)
Effect of translation exchange rates	39	45	13	9	(61)	(91)	28
Net increase (decrease) in cash and equivalents	(1,426)	(1,193)	305	956	5,012	(3)	122
Cash and equivalents at beginning of period	2,263	2,263	1,070	1,070	1,070	1,070	1,067
Cash and equivalents at end of period	837	1,070	1,375	2,026	6,082	1,067	1,189

Projected Cash Flow Statement

All Figures in US\$ 000

FY Ending December 31,	1Q12	2Q12E	3Q12E	4Q12E	FY12E	1Q13E	2Q13E	3Q13E	4Q13E	FY13E
Cash Flows From Operating Activities										
Net loss	(847)	62	306	1,184	705	1,163	1,295	1,655	2,160	6,272
Adjustments to reconcile net loss to net cash used in operations:										
Depreciation and amortization	404	395	455	455	1,709	455	455	455	455	1,820
Amortization of original issue discount (OID)	0	33	34	36	103	37	38	39	40	154
Derivative mark-to-market	535	0	0	0	535	0	0	0	0	0
Provision for doubtful accounts	(24)	0	0	0	(24)	0	0	0	0	0
Share-based compensation	11	27	27	27	92	27	27	27	27	108
(Gain) loss on sale/disposal of assets	15	0	0	0	15	0	0	0	0	0
Loss on debt conversion	199	0	0	0	199	0	0	0	0	0
Notes receivable	(1)	0	0	0	(1)	0	0	0	0	0
Changes in operating assets and liabilities:										
Accounts receivable	16	60	(213)	(329)	(466)	14	(55)	(137)	(187)	(365)
Inventory	3	0	0	0	3	0	0	0	0	0
Prepaid expenses and other current assets	52	0	0	0	52	0	0	0	0	0
Accounts payable	137	3	86	164	389	7	6	84	98	194
Accrued expenses and other long-term obligations	44	0	0	0	44	0	0	0	0	0
Deferred revenue	65	28	71	397	560	(42)	126	380	435	899
Net cash used in operating activities	609	607	766	1,934	3,916	1,661	1,891	2,502	3,028	9,083
Cash Flows From Investing Activities										
Net purchases of property and equipment	(45)	(50)	(100)	(100)	(295)	(100)	(100)	(100)	(100)	(400)
Collection of note receivable	24	0	0	0	24	0	0	0	0	0
Acquisitions of PeopleCube net of Cash acquired	0	0	(12,800)	0	(12,800)	0	0	0	0	0
Net cash used in investing activities	(21)	(50)	(12,900)	(100)	(13,071)	(100)	(100)	(100)	(100)	(400)
Cash Flows From Financing Activities										
Net proceeds from issuance of stock										
Payments on notes payable and capital leases	(286)	(52)	(2,326)	(52)	(2,716)	(52)	(52)	(52)	(52)	(208)
Repayment of Deerpath loan	0	0	0	(363)	(363)	(363)	(363)	(363)	(363)	(1,450)
Payments on notes payable conversion	(222)	0	0	0	(222)	0	0	0	0	0
Net proceeds from exercise of stock options	14	0	0	0	14	0	0	0	0	0
Proceeds from a line of credit, subordinated notes payable and convertible notes payable to fund the ADI acquisition (\$1,600 provided by related parties)	0	0	17,500	0	17,500	0	0	0	0	0
Net cash provided by (used in) financing activities	(494)	(52)	15,174	(415)	14,214	(415)	(415)	(415)	(415)	(1,658)
Effect of translation exchange rates	28	0	0	0	28	0	0	0	0	0
Net increase (decrease) in cash and equivalents	122	505	3,040	1,419	5,086	1,147	1,377	1,988	2,513	7,025
Cash and equivalents at beginning of period	1,067	1,189	1,694	4,734	1,067	6,153	7,300	8,677	10,665	6,153
Cash and equivalents at end of period	1,189	1,694	4,734	6,153	6,153	7,300	8,677	10,665	13,178	13,178

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RedChip Research Coverage Universe

Rating	Number of Covered Companies	Percentage of Universe
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Buy	6	40.0%
Speculative Buy	4	26.7%
Hold	1	6.7%
Sell	0	0.0%

STRONG BUY

The current price reflects a substantial discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. Future growth potential is undervalued relative to the company's stock price. The analyst believes the stock at current levels represents a compelling opportunity for capital gains over the time period to its target price.

BUY

The current price reflects a discount from the market and from its peers, and the company does not possess significant financial risk within its risk category. The analyst believes the stock at current levels will provide an opportunity for capital gains over the period of its target price. Several factors can indicate an undervaluation of the company's shares.

SPECULATIVE BUY

The current price appears to offer potential gains though risk is considerably higher given its risk category. There may be insufficient historical data or clear-cut prospects to warrant a "Buy," but the analyst believes that the long run prospects of the Company are positive. The analyst believes its risk reward ratio advocates purchase of the stock. In the short term, the stock may be subject to high volatility and continue to trade at a discount to its market.

HOLD

The analyst is unable to assign a buy rating due to a number of specified factors noted in the report. These include the stock being fairly valued relative to its peers and the market, or the company may have risks that make it potentially unsuitable for investment within its risk category. Similarly there are no currently known compelling factors that would warrant selling. The analyst will remain neutral pending developments.

SELL

The analyst believes that the Company is overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward given its risk category. An investment in the company may produce below market returns and/or deficits.

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