



**SEMOTUS SOLUTIONS
(AMEX: DLK)**

Research Update

**Gary Vassalotti
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Symbol (AMEX):	DLK					
Recent Price:	\$0.71	Year	EPS	PER	REVS	PSR
Avg. Daily Vol. (90 day):	106,500	2002 03/31	(0.87)	NM	2.3	7.5X
Industry	Computer Software	3 rd Qtr (09/03)	(0.06)	NM		
12 Month Target Valuation:	\$3.50	2004E	(0.07)	NM	1.7	7.3x
Market Capitalization (\$mil):	14.9	2005E	0.02	35x	3.5	3.5x
Capitalization: 09/30/03		Estimated 2002- 2005 Annualized				
Shares O/S ¹ :	20,100,000	Growth Rate:	NM			
Cash & Equiv: (09/30/03)	\$1,731,507	Dividend:	Nil			
Net Working Capital:	\$1,252,341	Yield:	Nil			
Long-term Debt:	Nil	Insider Ownership:	1,005,000	5.0%		
Shareholders Equity (06/30/03)	\$2,917,705					

Rating: SPECULATIVE / 2

2nd Quarter, Fiscal Year 2004 Roundup

Semotus Solutions reported second (9/30/03) quarter earnings (loss) of (\$0.06) per share, vs. reported earnings of (\$0.07) in 2002. This improvement of 14.29% is a combined result of cost cutting and improved sales. These reported earnings include a large non-cash charge related to option expenses. If these non-cash charges are added back, an operational earnings figure of (\$0.01) can be derived.

Sales improved to \$373,172 vs. \$295,188 from the second quarter of 2002 attributable to a moderate increase in sales of the Global Market Pro and the HipLink family of products. Semotus has also noticed a recovery in corporate (i.e., customer) spending in 2003.

The sales increase has positively impacted gross margins, (83% vs. 63% 2nd qtr 2002) due to the low variable cost portion of the wireless and mobile enterprise products. In addition, overall operating expenses were lower due to the full amortization of the GMP assets and the implementation of the centralized cost consolidation plan.

PRODUCT OVERVIEW

Semotus Markets a range of software products that allow a transfer of information from one system to a client device. For example, it allows a company to send data from a central location to a users pager, PDA, or phone. The company's software translates and formats the data for the end users device protocols.

These software products include:

- Global Market Pro (GMP) – for the wireless transmission of financial data, such as stock quotes, price alerts and news. GMP is designed for institutional money managers and traders who deal in high-level financial transactions and is targeted specifically for professionals in the global capital, derivative and foreign exchange markets.
- Equity Market Pro (EMP) – EMP is targeted at the same corporations as GMP, but intended for the equity traders and sales professionals who have a real-time need for equity market information.
- HipLinkXS - a software system that wirelessly transmits alerts and disaster recovery notifications and critical information to any mobile device. Highly customizable, the enterprise level software can be configured to allow users can send messages and request a response back from the receiver with the ability to trigger server processes based on the response from the two-way device. The system can be designed to send messages based on the end users department or function through the use of an rules that can be written in the software.
- IqlinkXS – This is an extension of the HipLinkXS software and allows the corporation to monitor the infrastructure condition. Working in conjunction with NetIQ the software can monitor a server or cluster of servers and alert employees about any network slowdown or problems.

CASH FLOW STATEMENT

For the six months ended September 2003, cash flow from operations was negative (\$585,847), again much lower than (\$1,214,882) for the comparable year ago period.

Cash used in investing was nothing, versus (\$16,358) in the comparable year ago period.

Cash from financing was \$84,003, versus cash used in financing of (\$20,378) in the prior 6-month comparable period.

This leaves Semotus with a cash and cash equivalents balance of \$1,545,638, a decrease \$424,272 in cash from the beginning of the 2nd quarter, indicating another drop in the cash burn rate from the first quarter of \$231,000 to \$193,272. This represents the lowest burn rate for DLK since it became listed on the American Exchange four years ago.

INCOME STATEMENT

Sales for the quarter were \$373,172 vs. \$295,188 YoY, or an increase of 26.41%, while the percentage increase for the 6-month period ending 9/30/03 increased 10.93%. The increase in sales momentum is attributed to the previously mentioned Global Market Pro and the HipLink family of products.

The overall lower operating expenses from full amortization of the GMP assets and the implementation of the centralized cost consolidation plan has specifically decreased overhead to \$1,478,315 from \$1,742,112, or 15.14%. Most of this decrease was from the lower depreciation and amortization expense of \$53,308 vs. \$331,754 (three months ended 9/30/03 vs. 9/30/02). Centralized cost consolidation contributed by reducing Sales, Marketing and Administration expenses from \$1,252,582 to \$359,325, an improvement of 71.31%.

Research and Development costs are an extremely important part of any technology company. Too little R&D and the firm is relegated to the obscurity bin and assured liquidation, however, too much R&D can have the same end result, liquidation. DLK's R&D expense for the quarter ending 9/30 were \$150,955, vs. the year ago period expense of \$155,909. These figures are down significantly from prior years due to the downsizing of the company's product line and not from a conscious decision by DLK to mask results by reducing vital research expenses. Current R&D as a percentage of sales is 40.45% vs. 52.82%, 9/30/03 and 9/30/02 respectively. As a percentage of sales, this is a very high expense. However, as sales continue to grow and the most extensive of the R&D requirements behind the company, this figure should trend down to a more reasonable 10% of sales.

BALANCE SHEET

The balance sheet for the 2nd quarter shows a cash and cash equivalents balance of \$1,791,819 (9/30/03). This decrease from the quarter ending in March, which showed a balance of \$2,467,069, (3/30/03) or a difference of (27.37%). This drop is more than offset, however, by the large improvement in current liabilities, which went from \$1,002,424 (3/30/03) to \$519,478 (9/30/03), a difference of 48.18%. One contributor of this improvement is the large 42% drop in Account Payables to \$221,000 from over \$387,000 at the beginning of the quarter.

The large cash balance should help to give some stability to the stock price as it represents \$0.17 per share, or almost 23% of the share price of \$0.73.

As of 9/30/03, Accounts Receivable (A/R) were \$185,869, relatively unchanged from the prior quarters \$186,000. Current assets remained relatively stable at \$1.7 million, bringing the current ratio to 3.3-to-1. Working capital is \$1.25 million.

Semotus's largest asset is \$1.4 million in goodwill and intangible assets from the HipLink acquisition. This product line is currently prospering and the company expects this to continue.

Semotus has no long-term debt.

In January 2003, Semotus repurchased all of its \$5.7 million in convertible preferred stock for \$100,000 and warrants to purchase 846,000 shares, exercisable at \$0.01. In addition, Semotus lowered the exercise price on 1.2 million existing warrants from \$8.75 to \$0.01 per share. All of the 1.2 million warrants have been exercised and the underlying stock sold. The remaining

846,000 warrants were exercised and the underlining stock is restricted under SEC Regulation 144.

GUIDANCE

CEO Tony LaPine expects Semotus to become cash flow positive in fiscal 2004 (ending March). Revenue is projected to grow 100% in 2005. The data feed and airtime costs will also increase 25% each year. Personnel costs should increase 5% - 10% per year, indicating Semotus will become profitable in the first half of 2005. The Company reaches breakeven at a quarterly revenue run rate of about \$600,000.

Within three years, LaPine forecasts that the two product families can generate revenue of \$750,000 per month, up from the current run rate of \$100,000 - \$150,000 per month. Thus in fiscal 2006, Semotus should have quarterly revenues in excess \$2.0 million, owing mainly to additional sales from Reuters re-selling its Global Market Pro.

INSTITUTIONAL AND INSIDER OWNERSHIP

Current institutional ownership is light, with only four institutions owning less than 1% of the outstanding stock. If Semotus becomes profitable in 2005 as forecast, it should start to draw the interest of institutional investors. This attention may improve both the liquidity and company valuation.

CEO Tony LaPine is the largest shareholder with 5% of the stock. Mr. Lapine's confidence in the company is demonstrated in his dedication to his holdings. He has never sold a single share of company stock in the past 8 years.

Positives

- Semotus has added major Fortune 500 list companies to its client list. Companies such as Ebay, JP Morgan Chase, ATT, Lucent, and Bank of America. These companies should add a level of stability to DLK's sales.
- The HipLinkxs product has a good market potential. The product's ability to interface with a wide variety of wireless data products and its customability should make it a strong competitor.
- DLK is strong in the wireless financial data transmission market. This market is has hard barriers to entry, including the cost of compliance with market regulators. This provides some insulation to the company's product.
- Major R&D expenses have already been incurred, and on going R&D costs should decrease as a percentage of sales.
- Competitors have exited or neglected the financial data transmission market.

Negatives

- Wireless Financial data transmission market is small, and offers some growth prospects up to a point. DKL will have to find larger growth opportunities elsewhere.

- The market for the HipLinkxs product is larger than the wireless financial market, but it may also attract larger and more numerous competitors.
- Although DLK has ample cash on hand to sustain further negative cash flow, negative cash flow is never a good thing. DLK must become cash flow positive at some point to improve its rating above SPECULATIVE / 2.
- Two customers represent a significant percentage of sales, 17% and 6% in fiscal 2003, losing any one of these customers would have a negative impact on cash flow and earnings.

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