

LIG ASSETS, INC.

LIGA Has Home Run Written All Over It

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LIG ASSETS, INC. (OTC:PK - LIGA - \$0.06)

Price Target: \$0.50

Rating: Speculative Buy

COMPANY SNAPSHOT

LIG Assets, Inc. is a provider of funding and financing for early-stage, high-growth businesses and real estate projects. The Company focuses primarily on income-producing properties in commercial and residential real estate whose cash flow and operating leverage contribute to the overall value of the entire LIG Assets enterprise. Properties currently generating cash flow for LIG Assets include nearly 300 residential properties throughout Texas, a storage center, and SuiteMagic (SM), a technology entertainment services company. Projects under construction include a garden-style apartment complex and an assisted living center.

KEY STATISTICS

Price as of 4/26/12	\$0.06
52 Wk High – Low	\$0.21 – 0.02
Est. Shares Outstanding	71.5M
Market Capitalization	\$3.6M
3 Mo Avg Vol	132,000
Exchange	OTC:PK

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

LIG Assets, Inc. is the classic example of a passive financial services and investment company that routinely converts limited risk capital into substantial cash flow and income. The Company's straightforward strategy is to buy assets below market value and inexpensively finance its investments and projects in order to maximize returns while limiting risk exposure.

Although LIG's residential properties provide \$3.2 million in annualized income, these properties should be considered hidden assets. Most of the properties were procured for two-thirds their market value, and if liquidated, would likely generate a profit substantially greater than the current carrying value of the properties.

LIG's diversified portfolio should provide huge returns for investors in future years. LIG owns 50% of an income-producing storage facility and management expects to acquire interests in additional units this year. Plus, over the next 18 months, the Company's 80+ unit apartment complex will be completed, along with its senior living project in which it owns a 50% stake.

Investors will get added value from the SuiteMagic (SM) holding, but early investors also get a gift! SM is an innovative technology entertainment services company targeting the hospitality industry. The Company should generate \$7M in revenue in 2012 and \$14M in 2013. LIG announced a share distribution of SM whereby each holder of 3 LIGA shares will also own 1 share of SM as of April 30th. SM is likely to go public, providing investors with a huge bonus as LIG will retain a 45% stake.

We forecast \$5.0M in income in 2012, up from \$1.3M in 2011, and could approach \$10M if some portfolio properties are sold. Our estimate reflects the 45% net interest in SM and flattish contributions from the other properties. At a multiple of just 7x 2012 EPS we derive a price target of \$0.50. The stock is incredibly cheap and is likely to see a big move ahead of the record date for the SM stock distribution, especially with only 5.7M shares in the public float. We rate these shares Speculative Buy.

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COMPANY OVERVIEW

Tracing its roots to the real estate and energy markets, LIG Assets shifted its approach in 2010, when it began acquiring below-market value residential properties. Management elected to take advantage of an environment that offered high cash-generating properties at bargain basement prices, along with low interest rates. While a meaningful percentage of income was generated via relatively quick property purchase and sale transactions, management decided to hold properties for longer periods, as the intermediate timeframes appeared to offer even higher asset value increases.

At the same time, management realized that its wildly successful business model could be replicated in other industries outside of real estate. As a result, LIG began providing financing and entering into financial transactions in the storage and entertainment sectors, along with new multi-family, and senior residential construction. Today, the Company is poised to generate significant cash flow and net income from current and future properties and transactions, thus substantially increasing shareholder value from current levels.

THE CORE BUSINESSES

At its core, LIG has expertise in residential and commercial real estate, including both existing properties and new construction. As of the end of 2011, the Company owned nearly 300 residential properties, many of which are single family dwellings, throughout Texas. In the majority of properties, LIG purchased these homes for two-thirds of their market value. Based on preliminary due diligence we estimate that these properties, if sold, would carry a price tag of around \$150,000, or an increase of 30% from the average purchase price, thus making the gross value of these homes \$45 million, before accounting for the debt associated with them. Collectively, they generate over \$265,000 in monthly income and we believe that management would acquire additional properties if favorable pricing and financing opportunities present themselves.

A prime example in the shift of the Company's approach from short-term profit generation to a longer-term income-producing model is exemplified with the construction plans for an 80+ unit garden apartment complex in Royce City, Texas. LIG is presently developing and building this \$7 million property and the current completion date is expected to be sometime in the fall of 2013. Once occupied, this property will throw off a great deal of cash flow.

A new, but even more profitable venture is the development and construction of a senior (assisted) living project in Burleson, Texas. Management, demonstrating prudence and foresight, is providing solution to a market that has considerable demand for these facilities but a dearth of options, as illustrated in the image below. Texas, despite its large and dense population in its major cities, appears to have fewer facilities per capita than most states on the East Coast.

LIG is a 50% partner in this exciting project, with the other partner's duties primary entailing facility operations for the property, which will have several dozen beds. It is estimated that the project will be completed in the fall of 2013 with an estimated investment in the project of \$14.5 million.

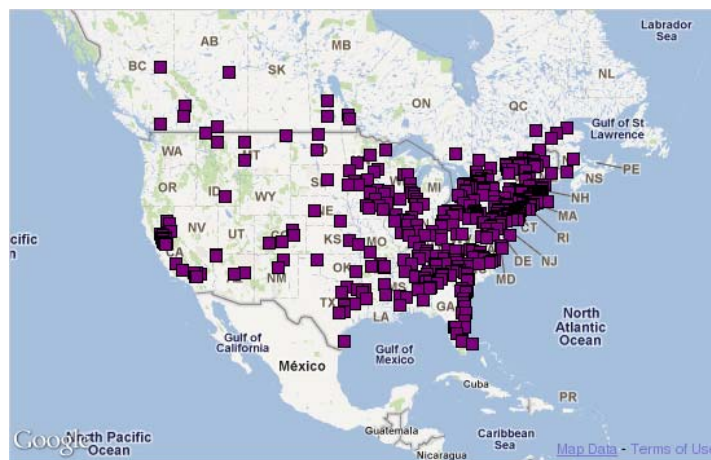


Image I. Sample Concentration of Assisted Living Centers in the U.S.
Source: Google

Company Report

Finally, LIG has 50% ownership in a storage unit company that has a few hundred storage units in the Dallas metropolitan area. This storage complex was purchased recently, and considering the extremely low overhead and low debt financing associated with the property, it is extremely profitable and provides significant operating leverage to the owners. Furthermore, we believe that the value of the property, while not appraised, is likely worth a premium to the original purchase price. Considering the success of this arrangement, we expect to see the acquisition of additional storage complexes this year.

THE CHERRY ON TOP

The cherry on top of the sundae that represents the LIG Assets enterprise may ultimately be SuiteMagic (SM). SM is a technology entertainment services company that provides unique revenue enhancing opportunities to the hotel and hospitality industries. The Company provides internet-based television and cable programming, interactive game content, as well as a host of other goods and services through patent-pending software. Most competition offers products and services in one of these areas, while SuiteMagic covers the gamut.



Image II. SuiteMagic Logo
Source: SuiteMagic

Although a new entrant in this industries' space, management believes it has significant advantages over other players, including one of the incumbent leaders, LodgeNet Interactive (NASDAQ – LNET). We should note that LNET, which provides services to 1.6 million hotel rooms, endured a very poor 1Q12 and is now seeking alternative revenue opportunities. The stock got crushed as a result. We believe that part of this phenomenon is related to outdated and outmoded technology offerings, which are likely inferior to the higher-end SuiteMagic offering and high debt load from questionable recent acquisitions prevents it from reacting nimbly to new competitors.

SuiteMagic also believes it will succeed due to its ability to finance the equipment purchase price on behalf of hotels at very favorable rates thus making implementation and adoption on a large scale that much faster. Usage should be higher than LNET due to the SM ability to stream the internet through its system and offer a differentiated and more popular content menu as well as a higher quality one. LNET does not have the advantage of SM's innovation combined with LIG's financing capabilities. Thus, SM aims to become the dominant technology entertainment company to the hotel industry in the next several years, as both SM and hotel chains monetize the exploding trend toward a fully integrated Internet/TV experience.

LIG Assets also made forays into the entertainment industry through its investments in the Aquadora restaurant in Dallas and SuiteMagic (SM). Following issues with its former partners in the venture, LIGA took over the restaurant, and later sold it. For now, LIGA is remaining on the sideline of restaurant space.

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THE BONUS

As part of its growth plans, LIG is providing a share distribution of restricted SM shares to LIGA shareholders of record as of the April 30, 2012 record date. This distribution will enable LIGA shareholders to also have direct ownership in SuiteMagic while retaining its ownership in LIGA. LIGA shareholders will receive one share of SuiteMagic for every 3 LIGA owned by the record date. Following the distribution, LIGA will own 45% of SuiteMagic. So, even if investors buy LIGA after the record date, they will still be able to indirectly participate in SM's growth through the LIG ownership.

Management believes that revenue could reach \$7M in 2012 and should double in 2013 as it has already signed 2 hotels, hired a handful of new salespeople and are in deep discussions with a number of major hotel chains. Plus, it is expected that SM could be very profitable this year and carry no long term debt due to its business model. Therefore, management is contemplating listing its shares in the U.S. public markets. In our view, if SuiteMagic were to go public, which we deem likely, it makes an investment in LIGA even more attractive.

COMPETITIVE ADVANTAGES

LIG Assets has a number of advantages over typical passive investment and financing companies.

- Management has demonstrated success in its model, recording \$1.3 million in revenue in 2011, and savvy in its vision, as it relates to the home run potential of SuiteMagic.
- The Company has shown a willingness to penetrate existing segments in which it has had success but also diversify its revenue streams in other areas.
- The Company's model is replicable in many verticals, geographies, and in businesses of varying sizes.
- LIG has hidden assets which can be monetized down the road, thereby substantially increasing shareholder value and freeing up capital for other, highly profitable ventures.
- The Firm's model likely carries meaningfully higher margins than those enjoyed by its competitors due to its financing experience. Most firms have investment or financing backgrounds rather than both.

RISK FACTORS

In our view, LIGA's biggest risk is access to capital and financing. A secondary risk would be slowdowns in the real estate market, which we deem unlikely in the insulated Texas market. In addition, the Company has already secured important relationships in the space which should help it overcome similar issues that might be more problematic for other firms. Execution risks noted above could push timetables, meaningful revenue generation and profitability out to a later date, or result in a smaller initial ramp, thus impacting LIGA revenue and income goals. Slower sales penetration on the SuiteMagic front as a result of competition from larger firms, the time required for education or branding of this new entrant, or even competition from newer firms are all typical concerns and consistent with firms of SuiteMagic's size and standing.

VALUATION AND CONCLUSION

For 2011, LIG Assets Inc. recorded roughly \$3.2 million in revenue and \$1.3M in net income, which is an incredible profit margin. While 2012 will see higher debt service due to the new construction projects, other segments should have a strong year, especially SuiteMagic. As a result, we believe that \$5.0 million in net income, or \$0.07 in EPS, is a very achievable target for the company. In fact, net income could approach \$10M if management elects to monetize a number of the hidden assets represented by the value of its residential properties, through property sales in 2012. Nonetheless, at a multiple of just 7x 2012E EPS we derive a price target of \$0.50. The stock is likely to see a big move ahead of the record date for the SM stock distribution, especially with only 5.7M shares in the public float.

Following the distribution, LIGA will own 45% of SuiteMagic. So, even if investors buy LIGA after the record date, they will still be able to indirectly participate in SM's growth through the LIG ownership. Oftentimes, stocks demonstrating slower growth than the high-growth companies in which they own minority interests tend to move in big waves as the underlying companies achieve even the slightest milestone.

Company Report

Two examples of this phenomenon are Dryships (NASDAQ – DRYS) which owns 74% of Ocean Rig RDW (NASDAQ – ORIG) and Rentech (NYSEAMEX – RTK) that owns 61% of Rentech Nitrogen Partners (NYSEAMEX – RNF).

We note that if we were to use an asset-based approach to the Company post-IPO, we would likely derive a similar near-term value for the company when taking into account the likely value of its residential properties minus the debt, and compared to the present carrying value on the books. Clearly the stock is incredibly cheap and as milestones are reached, we may revise our target and /or our valuation methodology. We rate these shares Speculative Buy.

LIG ASSETS, INC. (OTC:PK - LIGA)

Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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