Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Earnings Update: Q3-Fiscal 2017

Report Date: 11/15/17

12- 24 month Price Target: $.80

Allocation: 4

Closing Stock Price at Initiation (Close 09/08/17): $.37

Closing Stock Price (Close 11/14/17): $.46

Command Center, Inc.

COMMAND CENTER®

(OTC Stock Symbol: CCNI)

Prepared By:

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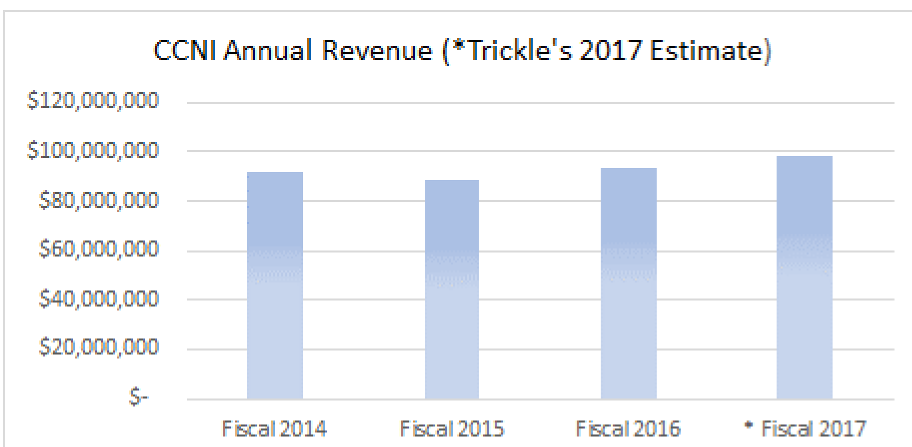
Command Center's ("CCNI") 3QF17 results were largely in line with our expectations. To summarize, revenues were $26.7 million vs. our estimate of $27.2 million. We would view that as largely in-line with estimates. Comparing the filings, they added a store somewhere between May 14, 2017 and August 14, 2017, so the timing of that add may have contributed. We don't attempt to extrapolate start dates into our assumptions about new locations, however, given that the "average" store does in the neighborhood of $400,000 per quarter, that timing can impact the quarterly numbers by a few hundred thousand one way or the other. Again, we feel pretty good about the number relative to our estimate, but they did note on the call that there was a little lull from some of their larger national accounts as projects finished in Q2.

Given the small revenue miss, operating income came in at $1.16 million, which was about $200,000 or so less than our estimate. *Adjusting for revenues*, they actually performed a little better than our model because gross margin was a bitter higher than our forecast and SG&A was a bit lower. We think that portion of the analysis drives home the point that they continue to focus on profitability. Net Income was about $300,000 below our forecast, but $100,000 was a higher tax rate than we assumed. We are trying to get some clarity on that piece. Again, all things considered, we thought the quarter was largely in line with our expectations.

Beyond the numbers, management touched on a few topical issues that we think are worth addressing.

First, in our view, one of the more problematic portions of CCNI's story, and by extension its valuation, is the difficulty it has had growing the business. We covered that in some detail in the initial coverage, especially as it concerned their operations in North Dakota, but suffice it to say, they have not grown the business in a manner that many microcap investors seek. Recognize, **we have** painted this as a bit more of a value play in the first place, but we submit, growth has been a challenge both on the face and in terms of the perception of the stock:



We won't rehash the growth issues we addressed in the initial coverage (again North Dakota being a good portion of that) but management spent some time on the call suggesting that growing the business by adding locations in existing markets where they may be able to leverage name recognition and perhaps other synergies, adding new verticals and perhaps additional acquisitions are all on the table. We would add, they noted that there are many opportunities for acquisition and they are considering some as we speak, but they couched that by adding that they are looking of accretive additions at reasonable prices. We agree with that approach. In any event, we are comfortable that growth (within reasonable constructs) is becoming a more acute priority.

Management reiterated its ongoing commitment to its share repurchase program. We think that remains a positive catalyst. Moreover, they also announced a 1 for 12 reverse stock split, which they are doing as a precursor to an uplisting. We think both of those notions (a reverse split and an uplisting) are positive approaches. As we submitted on the call, we believe reverse stock splits are often unduly maligned, especially when they are done by companies with favorable fundamental underpinnings. Just to support the point, if CCNI finishes 2017 as we project, the prior 3 years of EPS results will look something like this (compared to the same numbers with 12X fewer shares outstanding):

	Fiscal 2015	Fiscal 2016	* Fiscal 2017
Net Income	$ 1,713,159	$ 759,326	$ 2,562,731
EPS	$ 0.03	$ 0.01	$ 0.04
EPS (Assuming 1:12)	$ 0.32	$ 0.14	$ 0.51

We think the alternative (1:12 case) EPS line above is a better representation of the EPS performance than the first. We think $.32 to $.54 (versus $.03 to $.04) for 2017 over 2015 is particularly telling to our point. Again, while we may be in the minority here, we applaud the reverse stock split (with or without the uplisting), and we view it as more transparent.

The Company also touched on another issue we covered in the initial research, which is the potential acquisition of CCNI. Of course, this is (as it was in the initiation) our own speculation, but we believe that to be the endgame here. Much like the Company's acquisition of others, their acquisition *by others* will be a function of price.

We have recast our model to accommodate a few nuances from the new data points, but for the most part we see the out quarters much as we cast them in the initial coverage. We do however what to reiterate some valuation points before we close.

First, the Company continues to earn and build cash, which, while in the face of the improving stock price, is driving down enterprise value ("EV"). A quick overview of a half dozen of the larger publicly traded temporary services players suggests that the average EV / EBITDA multiple in the space is over 10X. By that measure, CCNI is trading at *less than half of its peers (*currently about 4.5X*).* From that view, *even our current price target* of $.80 represents a 15% discount to its peers based on that same EV / EBITDA analysis. From another perspective, the current EV is around 8.5X (the effective P/E multiple based on enterprise value) our estimate for 2017 earnings, 75% of which are in the books.

We believe CCNI shares remain measurably undervalued. Our inclination is to raise our price target, but we will sit tight on that for a few more data points (news stores and or acquisition) so we don't have to do it twice.

We reiterate our allocation of 4 as well as our target of $.80 but our confidence here is growing so our finger is on the trigger of both.

Projected Operating Model

Income Statement						
Projected Operating Statement						
Command Center, Inc.						
By: Trickle Research LLC	(actual)	(actual)	(actual)	(estimate)	(estimate)	(estimate)
	3/31/17	6/30/17	9/29/17	12/29/17	Fiscal 2017	Fiscal 2018
Revenue	$ 22,348,249	$ 24,503,660	$ 26,703,266	$ 24,726,625	$ 98,281,800	$ 104,655,595
Cost of staffing services	$ 16,610,015	$ 18,010,803	$ 19,513,757	$ 18,094,141	$ 72,228,716	$ 76,369,747
Gross Profit	$ 5,738,234	$ 6,492,857	$ 7,189,509	$ 6,632,484	$ 26,053,084	$ 28,285,848
Selling, general, and administrative expenses	$ 5,343,607	$ 5,164,512	$ 5,483,857	$ 5,264,461	$ 21,256,437	$ 22,362,227
Depreciation and amortization	$ 95,550	$ 96,277	$ 96,368	$ 96,687	$ 384,882	$ 366,798
Income from operations	$ 299,077	$ 1,232,068	$ 1,609,284	$ 1,271,336	$ 4,411,766	$ 5,556,823
Interest expense and other financing expense	$ 4	$ 1,225	$ 6,263	$ 0	$ 7,492	$ 0
Impairment of goodwill			$ 0	$ 0	$ 0	$ 0
Change in fair value of derivative liability			$ 0	$ 0	$ 0	$ 0
Net income before income taxes	$ 299,073	$ 1,230,843	$ 1,603,021	$ 1,271,336	$ 4,404,274	$ 5,556,823
Provision for income taxes	$ 116,621	$ 495,947	$ 752,223	$ 476,751	$ 1,841,542	$ 2,083,809
Net Income	$ 182,452	$ 734,896	$ 850,798	$ 794,585	$ 2,562,731	$ 3,473,014
Earnings per share:						
Basic	$ 0.00	$ 0.01	$ 0.01	$ 0.01	$ 0.04	$ 0.06
Diluted	$ 0.00	$ 0.01	$ 0.01	$ 0.01	$ 0.04	$ 0.06
Weighted average shares outstanding:						
Basic	60,634,650	60,308,111	60,623,514	60,121,297	60,421,893	58,459,429
Diluted	61,365,419	60,959,626	61,297,243	60,857,990	61,120,069	59,773,988

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to perhaps add another 5 of the names from our profiles). We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.