Citron Goes Deeper in Exposing the Dirty Dealings of TXTR CEO Patrick Allin. There is NOTHING an analyst can say here except Mea Culpa.

- Textura CEO Patrick Allin’s bio is **Highly Material** to All Potential and Actual Textura Investors
- IPO Investment Bank Analysts are Pro-Actively Complicit
- Company Expenses are Beyond Analysts Worst Nightmare, Profitability is Mission Impossible
- Citron Reaffirms Generous $4 Target

The US stock market is a market based on trust. Companies make financial projections for the future and raise guidance and issue equity all based on trust. Investors are supposed to be able to trust research firms that all analysis is based on a wall between banking and research and the analysis are done with best possible intentions. When a company with a history of losses of 10 years goes public and the CEO sells as much stock in the secondary as the cumulative salary of every President of the United States back to Reagan and does it based on his “promise” of future earnings, than this CEO’s background and integrity should be of paramount importance to Wall St. And when the research firms involved have undisclosed ownership of said companies, that negligence turns to collusion. PLEASE SUE US SO WE CAN SEE IN COURT WHAT YOU REALLY KNEW ABOUT TEXTURA.

**Patrick Allin’s Grants Stock to the REAL Wolf of Wall Street**

In a recent well-distributed article from the Huffington Post, as originally posted in LA WEEKLY, we read a truly sad tale of collateral damage at the hands of one of the real principal conspirators of Jordan Belfort’s “The Wolf of Wall Street” operation. His name is Thomas Prousalis, and he was the **chief legal architect** of all the fraudulent reverse merger deals sold by Stratton Oakmont. Apparently unhesitant to trash even his own family in the process, here’s how the Washington Post covered his works — in mid 2004. Needless to say he has also found himself in “federal housing“. (Note: He was not discussed in our initial report.)

**Sure enough, during the time of Mr. Allin’s tenure at Patron Systems, he issued 1.5 million shares to Mr. Prousalis for “Legal Services”**.
So adding Prousalis, that brings to **three** the number of named market participants in Patron Systems from Allin’s tenure that have gone to prison for stock fraud activities.

<table>
<thead>
<tr>
<th>Patron Stockholders</th>
<th>Shares of Patron Common Stock</th>
<th>Shares of Company Common Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick J. Allin</td>
<td>6,250,000</td>
<td>6,250,000</td>
</tr>
<tr>
<td>The Allin Dynastic Trust</td>
<td>1,250,000</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Thomas T. Drousalis, Jr. TRTE</td>
<td>1,500,000</td>
<td>1,500,000</td>
</tr>
</tbody>
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(Excerpted from filing link below.)
http://www.sec.gov/Archives/edgar/data/1075043/000095014402010260/g78626exv10.txt

**Patrick Allin’s Long History of Overpromising and Underdelivering: In Wall Street Language, that is Called “Lying”**

Analysts defended Textura as if we could trust Pat Allin and he had no knowledge of misdoings at Patron. Meanwhile, let’s look at the communications from Mr. Allin during his tenure at Patron Systems, immediately prior to his co-founding Textura, according to SEC filings. Patron had years of Press Releases and 8-K events claiming future revenue, funding, and profitability that cost shareholders millions in broken promises. First, here are two examples of Patrick Allin bullshit, separated by over an 8 month span during his 16 month tenure at Patron Systems.

"The management team of Patron is committed to open communication with its shareholders and are pleased to confirm that the transactions with TrustWave and Entelagent are proceeding according to our strategy," ... "With our committed group of private investors contributing up to $40 million in funding, we are in a position to not only close these transactions this quarter, but to pursue worldwide acquisitions and growth opportunities such as the wireless security agreement announced yesterday."

--- Patrick J. Allin, CEO of Patron Holdings, Inc.  
--- January 24, 2003

http://www.sec.gov/Archives/edgar/data/1075043/000095013703000386/c74246exv99w2.txt
None of this Ever Consummated!

Don’t believe Citron -- Believe Patrick Allin’s Former Auditor About His Trustworthiness.

Allin spent a solid 16 months as Patron’s puppet master, proclaiming false promise after false promise, before it “hits the fan”. Finally, on Jan 26, 2004, Patron filed an 8-K containing a resignation letter from Patrick Allin, effective immediately.

Grant Thornton’s resignation letter certainly suggests that Patrick Allin had systematically lied to them about numerous items. In reality, during that timespan, Mr. Allin was the company.

Where is the track record of presenting truthful and accurate information to investors, regulators, auditors and the public? Read Grant Thornton’s Resignation Statement:
Oh No! Not the old “Bogus Address” trick…

Note: one thing that really caught our attention was the official address of Patron Systems in a whole string of SEC filings. (Note: this can only have been done before the days of real estate Google searches.)

311 Belle Forest Drive, Suite 150
Lake Bluff, Illinois 60044

The Patron Systems address was nothing other than Mr. Allin’s home. By use of a “Suite 150” he was trying to deceive investors into thinking this was a real business address. Citron has decided “Suite 150” must have been his bathroom because the deal has nothing but shit all over it.
Even more Fraudulent Disclosures with the SEC on Behalf of Allin

The Textura filings not only fail to disclose Allin’s leadership role with Patron Systems, they also fail to mention his work at Encore Development. In Patron Systems Proxy Statement we read:


Patrick J. Allin - Class III Director, Chief Executive Officer, Age 51

Until December of 2001, Mr. Allin was Co-Chairman and CEO of Encore Development, a high end technology consultancy, **where in a period of eighteen months he profitably grew the company over three hundred percent from $8 to $30 million.**

--- Bio of Patrick Allin

Now let’s compare Mr. Allin’s purported “accomplishment” while at Encore to his quote below. See if you can spot a familiar pattern:

--- Surfing for a Niche”, Florida Trend by John Finotti, January 1, 2001

Not only has Patrick Allin lied to the SEC about the profitability of Encore in his bio, but more importantly he makes bold claims to the media about the potential financials of his own then-current company. Consider the last line: “plans to go public”. As we stated in our first report, it seems like **Mr. Allin likes the business of being public** – this has been his goal all along -- and he seems disinclined to let the truth stand in his way.
Needless to say nothing of the sort became of Encore; Citron cannot even validate that it is even still in business. **And the cherry on top of this Wolf is this ridiculous claim that is consistently placed in Patron System filings on Allin (claims that are omitted from Textura filings):**

Patrick J. Allin, CEO

- Senior Partner at PricewaterhouseCoopers and COO of the $6 Billion Global Consulting Practice
- Co-Chairman and CEO of Encore Development
- President of **various Billion dollar companies** in Canada and the US
- Audit Partner at Price Waterhouse

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http://www.sec.gov/Archives/edgar/data/1075043/000095013102003963/dex992.txt

**Really? Too many to name them or even count them? Where are they?** Is he Meg Whitman in disguise? He signed off on this nonsense all before the word “Google” was a part of our vernacular. **This demonstrates the absence of integrity at Textura’s helm.**

It is abundantly clear that Allin was an active perpetrator in the Patron Systems promo, and just as clear that after it blew up, he did nothing to make himself accountable to investors or the public.

🌟 **Analyst Defense #1: William Blair “Believes” we should trust them**

In response to our first piece, William Blair published a defense piece of Mr. Allin that is factually incorrect and nothing short of fraudulent. Don’t forget the context of their comments: William Blair principals have incestuously conflicted and improperly disclosed relationships with Textura. Consider the defense of William Blair, who states that Mr. Allin was nothing more than an honest CEO of a startup company, who was nothing but forthright with investors.

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Over the course of a year, during which the stock (PTRN) continued to decline, the company announced several potential mergers, partnerships, and acquisitions (including Entelagent Software, Trustwave, and Telesecure) and the entry to a potential term sheet with investors. The funding did not come together and Mr. Allin resigned effective January 21, 2004. **We do not believe** that Mr. Allin knew of the history of the CPFS before the merger with Patron.

---

-- William Blair analyst defense of Textura
So if we are to take William Blair’s words as guidance, this was not a fraud but instead just one big oops, which Mr. Allin tried valiantly to clean up before he left. Yet, it is important to note that there is no excuse even given for CEO Allin’s complete omission to disclose Patron Systems in Textura’s registration filings, which is clearly **intent to deceive**. It is missing from his bio, and his actions in the two years immediately prior to his co-founding Textura remain officially unaccounted for.

Note that this omission occurs in the very filings by which Mr. Allin personally sells $8.75 million in Textura stock.

**Analyst Defense II: Credit Suisse: Ethically and Intellectually Bankrupt**

“We base our opinion on our own research, performed over the last few days, as much of the innuendo that suggests impropriety is based on publicly available information that anyone can find using Google,” Nemeoff writes.

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**CSFB analyst Michael Nemeoff**

--- Commentary on why the information published by Citron Research on Textura should be discredited

--- Dec 30, 2013


Citron strongly recommends that every investor, whether or not in agreement with the opinions of Citron, regarding Textura or any other stock, **consider this statement carefully**. It asserts that information derived from public sources available to anyone especially using Google or any other search tool, is irrelevant to investment decisions and should be disregarded.

So what does that leave? Getting insider information from management? What exactly is wrong with information that’s available on the internet? What publicly available information about a company on which to base investment decisions isn’t on the internet? Should we now disregard SEC filings because they are on the internet—you friggin’ moron.

This is truly an appalling example of intellectual bankruptcy – if Citron could find this information, why did Textura’s fine underwriting firms, which clearly have legions more staff and research resources than Citron, **manage to fail to get this information into the company’s IPO or follow-on prospectuses?**
Now as a co-bookrunner for Textura’s stock sales, we would hardly expect CSFB to be objective or to admit, heaven forbid, that Textura might have some issues as an investment-grade security.

"After thoroughly reviewing the profanity-laced report, we see no merits to any of the ‘work’ and advise investors to continue to purchase shares of TXTR. We believe the report alluded to incorrect innuendo and false assumptions that suggest TXTR management misled investors, which we believe to be untrue."

-- CSFB analyst Michael Nemeoff


And the underwriters’ failure to include any reference to Patron Systems in Patrick Allin’s bio in IPO and follow-on prospectus, in which your firms are legally bound to full disclosure of all material information, is not intentionally misleading? According to CSFB, the public has no right to know this information to support making informed investment decisions?

Citron has been publishing for 13 years, covering over 50 stocks during that span that have been subject to regulatory intervention that devastated shareholder equity. Our complete track record, including the winners and the losers, is available at our website, and is a lot more transparent than Credit Suisse’s.

Credit Suisse Reiterates on Textura After Profanity report

http://www.benzinga.com/analyst-ratings/analyst-color/13/12/4184019/credit-suisse-reiterates-on-textura-after-profanity-repo

Credit Suisse attempted to discredit our research because of our use of loose language. We read last month that Credit Suisse is being sued for over $10 billion of losses to investors for undisclosed risks

http://www.reuters.com/article/2013/12/18/us-creditsuisse-lawsuit-idUSBRE9BH0VO20131218

( Wed Dec 18, 2013 )

So let’s get this straight: You object to Citron’s use of the word “bullshit”, but your firm has no problem “allegedly” fucking investors out of $10 billion... ?
Analyst Defense III: Barrington’s “Best Idea”

Completing the analyst defense trifecta, Barrington weighed in yesterday, anointing Textura as one of its “Best Ideas List” for 2014.

In their research we read "Before Textura, solutions were mostly manual paper-based, and inefficient." Either this analyst is ignorant or negligent, and we believe that latter (although he also recommended Angie’s List).

Construction services software is a multi-billion industry with a variety of players – and Textura is not even one of them. Here is a 2014 list of Construction management software solutions and look who does not even make the list.

http://www.softwareadvice.com/market_category_page.php?industry_id=1&guide_id=0&more=true&segment_id=0&size_id=

Clearly, the Barrington analyst has never even heard of Oracle.

Needless to say Barrington also had a member who was a selling shareholder on the secondary.

Someone please sue us so we can expose this collusion in court.
Meanwhile, the Analysts Reaffirm Despite a Disastrous Trajectory of Above-Plan Expenses and Losses

Citron is just amazed to see the operating results of Textura’s fiscal year 2013 posted. The analysts had already conditioned the investing public to expect marginal losses of about 50%, but the expenses ballooned far worse than even that. In fact, Textura’s fiscal year brought losses in excess of 100% of revenues. And none of these clowns has even bothered to revise their model!

Let’s make clear how bad this is. The company’s expense spending for 2013 is now at the levels the analysts expected them to spend, not in 2014, but in 2015. (2015 is the first year the analysts promise the company will break into the promised land of profitability.) So to stop losing investor money, they would have to grow their revenue to 246% of 2013 revenue levels, while not increasing any expenses. Really? Really?

They “made revenue” of $35.5 million, OK, but look what they did to expenses! The company booked 39.6 million in losses on 35.5 million in revenue:

<table>
<thead>
<tr>
<th>FY 2013</th>
<th>Blair Credit Suisse</th>
<th>Actuals</th>
<th>Beyond Blair Model</th>
<th>Beyond Credit Suisse Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>35.5</td>
<td>35.5</td>
<td>35.5</td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Revenue</td>
<td>7.8</td>
<td>8.5</td>
<td>11.8</td>
<td>51.28%</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>16.4</td>
<td>18.4</td>
<td>23.5</td>
<td>43.29%</td>
</tr>
<tr>
<td>Sales and Mktg</td>
<td>10.1</td>
<td>10.5</td>
<td>12.7</td>
<td>25.74%</td>
</tr>
<tr>
<td>Tech and Dev</td>
<td>14.0</td>
<td>14.8</td>
<td>18.1</td>
<td>29.29%</td>
</tr>
<tr>
<td>Depreciation and Amort</td>
<td>4.6</td>
<td>4.5</td>
<td>4.5</td>
<td>-2.17%</td>
</tr>
<tr>
<td>Totals</td>
<td>52.9</td>
<td>45.3</td>
<td>70.6</td>
<td>33.46%</td>
</tr>
</tbody>
</table>

Now the IPO was just in June, and these costs don’t even include the explicitly booked one-time expenses related to the company’s IPO. Meanwhile, not a single word from the analysts on the trajectory that proves that even in 2015, Textura’s spending is far too high, and generating losses far too steep, to make it to breakeven.
Why the “Client-reported construction value added” Number is Just Noise

Benchmarking against the value of “Client-reported construction value added” is highly misleading. For a real-life example, consider Textura’s announcement on December 10, 2013 that Ryder, a large construction management firm, had adopted CPM for payments, integrating it with SAGE’s Timberline (Ryder’s enterprise software solution).


As usual with Textura’s hype-laced announcements, what they don’t say is pivotal for investors to understand. Here’s why:

The big but meaningless topline number is “client-reported construction value”, but no guarantee of implementation down to the actual subs who do the work.

On big construction projects, a construction manager such as Ryder, hires master subcontractors with major chunks of supervisory responsibility for the project at hand. The master sub typically hires specialty subcontractors who perform the actual detailed work, installing light fixtures, door locks, heating ducts, etc.

So when a company like Ryder adopts CPM-Enterprise, it can impose the CPM solution on its relationships with the master subcontractors, but that doesn’t mean that it gets used for the vast number of contractor relationships down the project’s food chain.
This exact scenario lets Textura claim the entire project construction value is “on its system”, but obviously the number of revenue-generating participants is far less than implied. For this reason alone, the data point on “construction value as reported by our clients” is meaningless at best, and probably misleading. Just a handful of implementations like this, for the “top of the pyramid” high-end construction managers, skews all the “construction value” statistics into total meaninglessness.

Certainly the analysts noise and Patrick Allin’s past misconduct are disturbing, but investors could overlook all that if the real Textura was in fact a rapidly growing SaaS outfit, gobbling up substantial market share in a huge addressable market, by offering an integrated suite of software poised to rapidly that market at very low cost of sales.

**But the current company is the opposite of a real SaaS company:** It offers only one narrow solution (CPS, the lien waiver / payment solution), plus a hodgepodge of small software acquisitions that don’t integrate well, if at all.

Wall Street is all too willing to provide certain companies mountains of the public’s money to burn, in a losing strategy of **hiring telesales sales teams to drive tiny revenues to large, unsustainable percentage increases** … temporarily.

This only works while Wall Street is willing to pay insane multiples like 25x revenues for companies that aren’t real SaaS companies. Similarly, Citron had success in 2013 explaining why Angie’s List was not a social networking company.

To justify a lofty SaaS valuation, a software company should **at the very least** be able to demonstrate and document convincingly:

- Organically generated revenue growth – aside from acquisitions
- Low cost / low friction customer acquisition -- **without** dependence on telesales
- Extremely high retention rates
- Rapid integration of acquired technologies
- Rapid adoption of acquired technologies by existing installed base
- Low-friction sales cycle
- Ultra-high customer value delivery
10 Reasons why Textura is only a pretender in the SaaS space:

- Company paid for referrals with stock – non-arms-length revenue from related-party is undisclosed
- Organic growth is undisclosed and impossible to determine from financials
- False/misleading statistics on market penetration: “$55 billion in construction value on its system” (see above section) for a company with just $35 million in revenues
- Headcount rising faster than revenues
- Direct expenses rising faster than revenues
- Dependent on expanding telesales force to drive revenues
- Long and difficult sales cycle
- Contractors are a notoriously difficult market to sell technology solutions into
- Poor track record of integrating acquired software product into a seamless platform
  - (Even “partial integration” of Gradebeam took more than 2 years; even Textura’s largest CPM customer doesn’t even use Gradebeam)
- Company does not disclose real metrics on customer/subscriber retention

The game of acquiring disparate software products for 3x sales while selling stock at 25x revenues is simply not sustainable, especially in light of Textura’s poor track record of integrating the software of companies it has already acquired.

Market multiples for “gold-standard” software providers in the construction industry is 3.2 x Sales. Assuming Textura can legitimately grow its way into profitability (an assumption which would first require reversing its ten-year tsunami of red ink) still puts the stock in single digits.

**Conclusion**

Any honest analysis of the Textura results to date – both in terms of its actual technology’s impact on the construction industry, and its financial results, points to the same inescapable conclusion: Textura is unable to ever grow into even a fraction of its current valuation.

Note to Long Term Investors: You have been taken. This company will never show a profit and management will continue to deceive the public. This is “The Wolf Of Wall Street” Meets “American Hustle” Meets “The Sting”. But Pat Allin isn’t as good looking as DiCaprio, Bradley Cooper, or Paul Newman -- if he were, he might try to kiss you before he F%&$ You.

**Allin is a Wolf: Are you his sheep? $4 price target reaffirmed.**

**Cautious Investing to All.**