Zacks Small-Cap Research

August 31, 2015

Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Elephant Talk Communications Corp. (ETAK-NYSE)

ETAK: Zacks Company Report – Initiating Coverage-Company Rightsizes After Customer Loss

Current Recommendation	**HOLD**
Prior Recommendation	N/A
Date of Last Change	08/28/2015
Current Price (08/28/15)	$0.28
Target Price	**$0.32**

OUTLOOK

Elephant Talk Communications Corp., a provider of virtualized mobile platforms (ET Software DNA 2.0) for MNOs and MVNO operators worldwide is recovering from the loss of its 2nd largest customer. It has right-sized and seeks to potentially sell off its successful voice biometric division to increase shareholder value. While the company may struggle through the next few quarters as it seeks to replace lost revenues, its long-term prospects are based on the potential of its leading-edge software defined cloud service.

SUMMARY DATA

52-Week High	**$1.22**
52-Week Low	**$0.28**
One-Year Return (%)	**-70.3**
Beta	**0.98**
Average Daily Volume (sh)	**89,283**
Shares Outstanding (mil)	**160**
Market Capitalization ($mil)	**$46**
Short Interest Ratio (days)	**8.00**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-7.8**
Earnings Per Share (%)	**N/M**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2015 Estimate	**N/M**
P/E using 2016 Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Wireless Nation**
Zacks Rank in Industry	**7 of 17**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	6.2 A	3.7 A	4.1 A	5.5 A	19.5 A
2014	5.4 A	5.1 A	4.4 A	5.4 A	20.4 A
2015	5.0 A	19.2 A	4.0 E	4.7 E	33.0 E
2016					22.4 E

Earnings per Share
(GAAP EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.05 A	-$0.08 A	-$0.03 A	-$0.05 A	-$0.20 A
2014	-$0.04 A	-$0.04 A	-$0.04 A	-$0.01 A	-$0.15 A
2015	-$0.01 A	$0.06 A	-$0.02 E	-$0.02 E	$0.00 E
2016					-$0.05 E

Zacks Projected EPS Growth Rate - Next 5 Years 10%

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

INVESTMENT THESIS

- Elephant Talk provides software-defined network (SDN) platforms (ET Software DNA 2.0) that enable mobile phone service providers to increase the value of their network legacy, outsource back office operations and reduce their total cost of operations.

- This past quarter, Elephant Talk negotiated the end of a contract with its second largest customer, Iusacell, who provided $5 million in sales (or 25%) in 2014 due to the company's acquisition by AT&T. In Q2 ETAK collected all outstanding receivables, received an additional cash payment for AT&T breaking its five-year contract, and recognized all the deferred revenues on the balance sheet for this customer. This quarter is not representative of its ongoing business, which is now at approximately a $16 million run rate.

- The company has a few near term prospects, the first which maybe a new startup MVNO in Brazil and another in the Netherlands. We expect to hear about a contract signing here in the next few weeks.

- The SDN market is enjoying rapid growth as operators transition away from cumbersome and expensive hardware and appliance based systems. According to SDxCentral, this market is expected to grow from $15 billion today to $105 billion by 2020 for a CAGR of 44%.

- Over the past few years, the company has transformed from a landline operator to a SDN MVNE and as a result, reassessed its accounting practices. Earlier this year it was deemed that previous methodology did not conform to industry practice and US GAAP accounting and the company restated all financials for 2013 and 2014 resulting in lower recognized revenue and higher deferred revenues.

- The company owns ValidSoft, a provider of voice biometric technology. It has initiated a process to explore strategic alternatives for this division up to and including an outright sale. The division has begun to gain traction and recently launched its Device Trust service at two top banks in the UK, as well its User Authentication platform with Voice Biometric technology at a large commercial customer in the US.

- There is risk as the company right sizes itself after the loss of Iusacell while adding new customers. The company, that had recently become EBITDA positive, will again be at best cash neutral. The company expects to have down GAAP revenues at least until 2016.

- We believe there is risk in the stock until the company reports its first quarter without Iusacell as investors are maybe uncertain as to what the company's future revenues and expenses will now look like. Additionally, the onset of significant revenues from Brazil depends on the granting of a license from the government and whose timing is unpredictable. Should this license take more time than expected, revenues will be pushed out. Third, the future of ValidSoft is unknown. It may be sold or kept or anything in between and this will affect the valuation of the company. While we believe in the long-term prospects of the company short term there are many questions. As a result we are initiating coverage with a hold until some of this risk is mitigated.

OVERVIEW

Elephant Talk, based in New York City, is service provider for telephone carriers, Mobile Network Operators (MNOs) and Mobile Virtual Network Operators (MVNOs) worldwide. A MNO is a cell service provider that actually owns a network— such as AT&T, while a MVNO is someone like Virgin Mobile, who provides a service but rents the use of a cell network from a carrier such as AT&T. Elephant Talk provides a technology platform for these providers to create, manage and operate a mobile phone

service by outsourcing all or part of its back-office operations. The company's competitive advantage is that it provides functions via software compared with many legacy systems that rely heavily on hardware and appliances. This software-based system is called software-defined networking or SDN. It can be offered to customers as software, or sold as a SaaS service with operations in the cloud. Pricing to the customer is typically a certain dollar amount per user per month. Since Elephant Talk's product has been written from the ground up, it far surpasses patchwork legacy systems that are difficult and costly to maintain and require massive efforts to modify making customer-facing products slow to adapt to market needs. Elephant Talk software is developed in house; the company partners with Hewlett Packard and Affirmed Networks. An independent report by Ovum assessed Elephant Talk with its SDN/NFV platform 'as one of the frontrunners in the industry'.

Why Were Financials Restated?

Historically Elephant Talk provided services to land line providers, but that service declined and is now finally zero leaving a growing mobile phone customer base. As it exited that business, it discovered that its accounting practices for that land line business was not the same as those used for the mobile business and the company was forced to restate all of 2013 and three quarters of 2014 in accordance with US GAAP accounting for this industry. Revenues that had been booked up front were shifted to be recognized ratably, and balance sheets and income statements were adjusted primarily by increasing deferred revenue and increasing losses. None of this adjustment however affected the cash accounts. In addition to this adjustment the company took the opportunity to break out a single line item of SG&A and break it into Product Development, Sales and Marketing and General and Administration. Some expenses from this former line item were also shifted up into cost of service.

The specific revenues that we restated were for "managed service" for Iusacell, Vodafone and Zain. Previously the company would recognize revenue for this service once an installation was completed and invoiced. However, US GAAP multiple element accounting requires that these revenues be included in monthly hosting fees which are required to be recognized ratably over the life of the contract. Typically these contracts are five years long.

First the bad news: the Company Just Lost its Second largest Customer…

Iusacell is Mexico's third largest wireless carrier; AT&T acquired it on January 16, 2015. It has more than 5.4 million subscribers of which 68.6% are prepaid. Elephant Talk had been in the process of on-boarding subscribers and had reached $2.2 million in quarterly revenues from this customer in Q3 2014. For all of 2014, it had booked $5.1 million in revenue from Iusacell. AT&T has started to use its own systems at Iusacell and canceled the contract with Elephant Talk. On June 16, the company settled with AT&T for the money its owes on past services as well as paying a settlement to dissolve the contract. The agreed upon amount was $13.5 million. In Q2, Elephant Talk also recognized all the deferred revenues related to Iusacell, which were $11.6 million.

…But New Customers Should Ramp Later this Year

The company's market is comprised of the 800 operators with fewer than 20 million customers around the world. Its biggest competition is in-house operations of the MVNOs and the MNOs. Its biggest advantage is the flexibility of its integrated and up to date capabilities versus often aged and cobbled together in-house systems. It can offer speedy time-to-market for new offerings and ease of altering the service to accommodate changes in prices and features for the end users. It has shown recent success with Vodafone and Zain and has just been approved as a MVNE on the US-based Verizon network. We expect to see new business emanating from Brazil and the Netherlands near term. In addition, ValidSoft has been winning new business with banks and corporate clients.

CURRENT CUSTOMERS

Fifty percent of Elephant Talk's revenues in 2014 came from Vodafone Spain. With the loss of Iusacell, this percentage will be even higher in the short term (after the settlement).

Vodafone Spain - 50% of Revenue

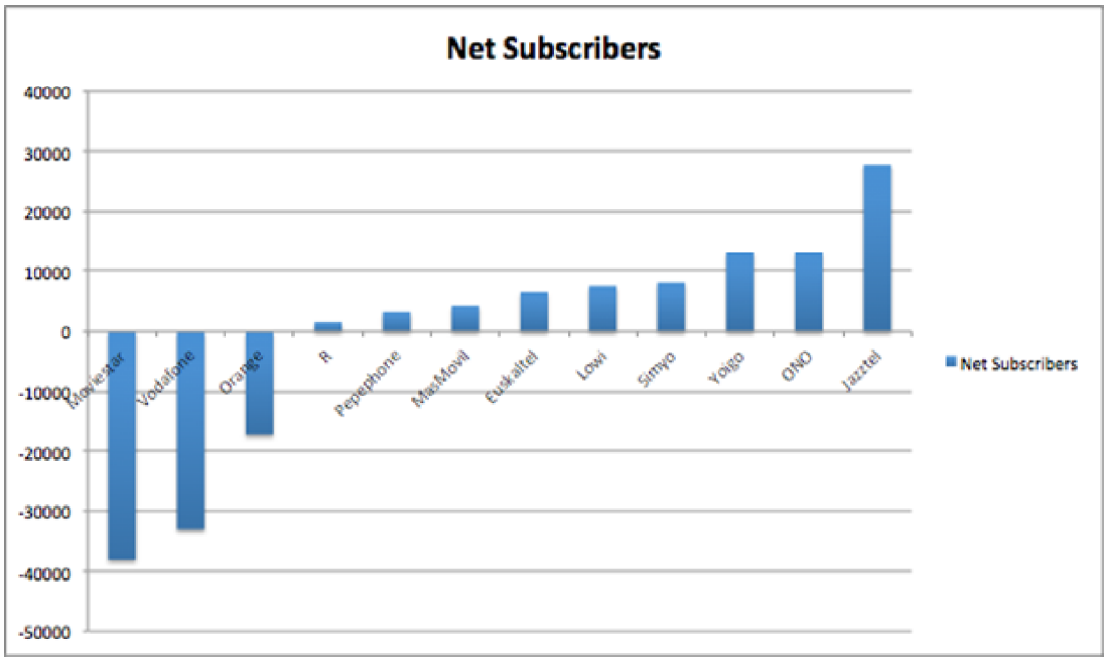
In addition to Vodafone's new low priced service Lowi, Elephant Talk provides the platform for six different MVNO operators on the Vodafone España network. These six operators are:

- Lebara Mobile ES, the largest of the MVNO customers, is one of Europe's fastest growing mobile companies with five million active customers, 1,000 employees worldwide and operations in eight countries.
- BT Movil
- Eroski Movil
- NEO SKY (bought by MasMovil)
- HITS Mobile.
- Orbitel

These MVNOs resulted in revenue from Vodafone España of $10 million in 2014. Elephant Talk renewed its five-year contract with Vodafone España in 2013 at a price increase of 13%.

New Lowi Service Was Launched by Vodafone to Stop the Bleeding.

Vodafone has been losing subscribers to low-cost MVNOs. First it bought ONO in March of 2014. Then it decided to launch its own low-cost service, but it found that the cost of launching, running and maintaining the service was prohibitive versus the solution its own MVNO customers use—Elephant Talk. Vodafone's new start up service—named "Lowi", is a 3G service that was launched December 18, 2015, to provide a low-cost, postpaid mobile data with data rollover— a feature not available from competitors. According to telecompaper, Lowi, attracted around 11,000 new customers in February, and another 9,400 in March, 6,000 in May and 7,500 in June. Lowi offers just one post-pay tariff, called "Tu mismo," which includes 1GB of data and unlimited calls to all Spanish mobile phones (EURO 0.19 call set up fee payable) for EUR 6 per month. Data bundles of 200MB for EUR 1 are also available. Customers can order SIM cards ordered via a website within 24 hours or buy them in MediaMarkt stores. This product competes with Orange's "Amena" service and Movistar. In the month of June 2015, Vodafone lost another 33,000 customers according to the monthly survey of ported lines published by Economiza.



A company strategy is to try to penetrate other Vodafone entities in other countries. To aid this effort the company recently added new management.

Other Revenues

Zain Saudi Arabia

The company signed its first contract with Zain in June 2011. Zain is now operating in three brands on Elephant Talk's network:



- Sky brand, a machine-to-machine (M2M) brand
- Matrix, an international roaming brand servicing Indians traveling to Saudi Arabia.
- Simpati, a cross-border brand of Telecom Indonesia.

Other brands powered by Elephant Talk are expected to be operating in this geography soon.

Operations in the Netherlands

In the Netherlands ETAK operates as an MVNE for T-Mobile. It services four MVNOs. One is focused on the B2B market and three sell to consumers. One of the brands in the market is called Choozze owned by SpeakUp Mobile; it is a newly launched freemium concept in the mobile space, which is growing quite rapidly. The other three are: Mobile88, ClubMobile and Benemen. A new MVNO customer, a start up called OpenMobile, is expected to launch in the Netherlands shortly.

New Business Opportunity in the US

ETNA has reached an agreement with Verizon to provide a platform for its MVNOs. In this relationship, Elephant Talk would be to be fully referenced when a virtual operator requires Enablement Services. A small team in the US supports this relationship. It has passed the Verizon laboratory testing and may soon be installed in at test customer; it has yet to generate revenues. Verizon already has 100s of MNVOs operating off its network powered by its own in-house system, but Elephant Talk plans to target new ones being brought on board that are current Verizon customers but do not as of yet offer a mobile product.

VALIDSOFT

ValidSoft is a software and services provider of User Authentication, Voice Biometric and Device Trust technology and solutions to financial services governments and enterprise customers. Elephant Talk recently announced that it was exploring strategic options for ValidSoft up to and including its sale. The company was bought in 2010 for approximately $15 million in stock. The company does not break out revenues for this entity. The division is located in London and employs 20 people. The company has recently launched its Device Trust solution with a second major UK bank enhancing security for payment transactions and is currently in trial with two more.

ValidSoft has channel partnership agreement with FICO, an international analysts software company and several UK banks are executing plans for new a FICO Service using ValidSoft's Device Trust products.

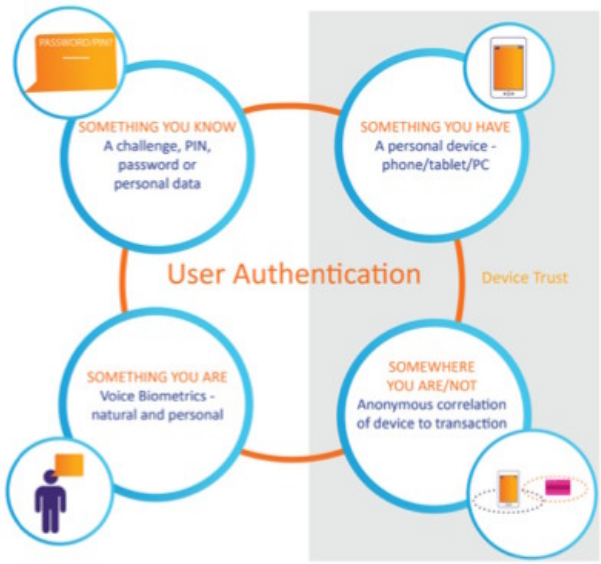
To explain, FICO supplies risk engines to banks and communication platforms to enable a bank to communicate automatically with their customer if the risk engine deems a transaction to be risky. In some circumstances this will result in a "one time password" being sent via text message to their customer to complete the transaction, or they may contact the customer with an automated IVR system. Unfortunately, the fraudsters are aware of this and so before processing a fraudulent transactions, they take over the customer's mobile number by getting a new SIM card issued and become the recipients of the text message or IVR call.

The solution is to use ValidSoft's Device Trust service. Prior to communicating with the customer, FICO & the bank will be able to identify if a SIM card has been recently swapped, and thus help them ascertain if the telephony channel is secure or has been compromised.

In addition, the Device Trust service offers International Roaming Correlation. Currently if a customer tries to use their bank/credit card in a foreign country without telling their card issuer beforehand then there's a high probability that the transaction will be declined, which is a bad end user experience and costly for the card issuer. ValidSoft's service will check to see if the customer's mobile phone is uncompromised and active in the same country as the transaction in question, and help the banks risk engine to make a more informed decision.

The company also recently signed a contract with a large US based international company that will use ValidSoft's User Authentication platform and Voice Biometric technology to authenticate its employee's access to corporate data and applications.

The company promotes multi-factor authentication for transaction security as seen in the chart below. It advocates using "Something you know", like a password or PIN, "Something you have" such as a specific phone or device, "Something you are" utilizing voice biometrics or a thumbprint, and finally "Somewhere you are", correlating your device location with the location of the transaction. Taken all together, and with the addition of contextual data, this multi-factor approach to authentication gives far greater security, combined with a simple user experience for any transaction and access authentication.



How Elephant Talk Charges

Managed services are running a network and back office for a telephone network operators that sells its capacity to a branded reseller.

Managed services and airtime is a complete offering to an end user. Elephant Talk has an offering in the Netherlands called that sells directly to consumers.

Pricing

Solution	Segment	Revenue Model	Average Pricing	Gross Margin
Managed Services	ElephantTalk	• Subscription-based	• $1.00 / month / subscriber	90+%
Managed Services + Airtime (Bundled Offering)	ElephantTalk	• Subscription-based	• $10.00 - $20.00 / month / subscriber	20+%
User Authentication	ValidSoft	• Subscription-based	• fees/month $0.05-$0.30 Per user	90+%
Device Trust	ValidSoft	• Transaction-based	• Fee per transaction $0.02-$0.10	65%

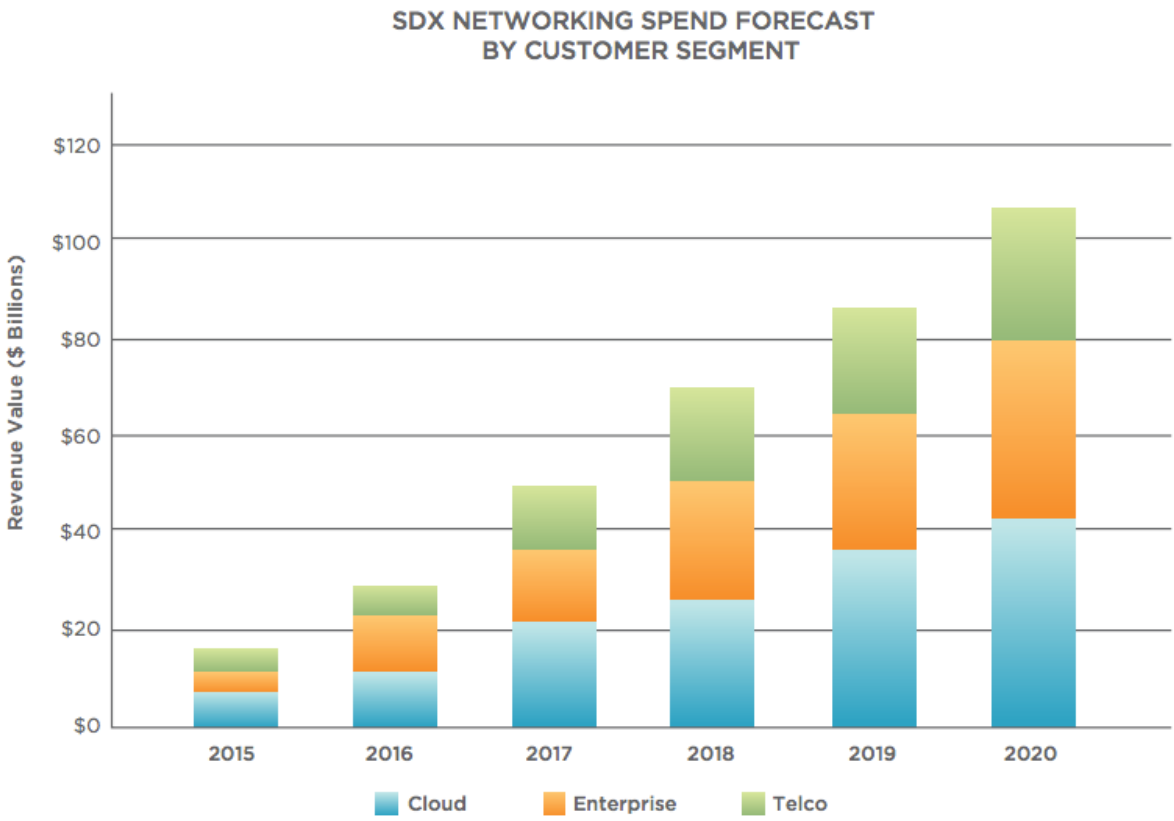
THE INDUSTRY

Software Defined Networks for MNVOs and MNOs

Elephant Talk serves the MNO and MVNO markets worldwide. Grand View Research believes the global Mobile Virtual Network Operator (MVNO) market was $36 billion in 2013, and could reach $73 billion by 2020, a CAGR of 9.4%. Geographically, Asia Pacific and Latin America should have the highest growth while Europe has the largest market share at 40%. MVNO subscribers are expected to exceed 300 million by 2020, a CAGR of 10.7%.

These customers are increasingly turning to Software Defined Network (SDN) like that Elephant Talk provides as telecos finally embrace this architecture versus patching together legacy systems which cost so much more to maintain. They have been hesitant as any disruption of mission-critical systems would greatly impact customers. But this approach, which also reduces capital expenditure and increases the ROI of the carriers, is now being rapidly adopted.

SDN is $15 billion of the $100 billion networking market. According to SDxCentral, this piece of the market is expected to grow $105 billion by 2020 for a CAGR of 44%. For telcos in particular, this market research group believes spending will go from $4 billion this year to $26 billion in 2020 a CAGR of 46%.



Competition

The MVNE market is highly fragmented and the majority of telecom network operators use their own in-house solutions to support themselves and third party MNVOs. The major independent providers of SDN for MNOs and MVNOs are Ericsson AM (ERIC), Huawei, and Amdocs (DOX), who is in the process of buying a division of Comverse. Verizon is working with Ericsson and a consortium to virtualize its own network while it works with Elephant Talk to provide a solution for its MVNOs.

Other MVNEs providing services throughout a variety of locations include:

- Hutchinson Whampoa
- Plintron - World's largest multi-country MVNE Provider, India
- GlobeTouch, Santa Clara
- Effortel, Brussels
- Redknee Solutions, Inc. (RKN.TO) Largest independent provider of next-generation, real-time converged billing, customer care & analytics software for service providers. It has 200+ customers across 90 countries and 1400 employees.
- Sisteer
- Comsys
- Comfone
- Ready Wireless
- Xius, India
- Artillium (LON:ARTA)
- Simplexity (Reston, VA)
- NetCracker
- Orga Systems, Paderborn, Germany

The Voice Biometric Market

ValidSoft competes in a completely different market from Elephant Talk as it sells its products to entities that wish to strengthen their security and improve their user experience by using multi-factor authentication combined with **voice biometric** technology. Voice biometrics determines who you are, not what you say, as opposed to the more common voice recognition technology that is used to determine what is being said, but cannot identify or verify the speaker. Market research firm Tractica predicts that the entire global biometrics market will increase from $2.0 billion in 2015 to $14.9 billion by 2024, a CAGR of 25.3%. The main segments driving this growth are expected to be finance, consumer devices, health care and government.

Biometrics Research Group, believes the voice biometric market will be $2.5 billion globally in 2015, driven by the banking and financial sector which is estimated to spend at least $750 million this year. In this market banks have been the primary adopters, and have been testing and rolling out new voice biometric technologies for mobile devices. Early adopters have been USAA and US Bank in North America, BBVA, Barclays and Tetra Bank in Europe, and ANZ Bank in the Asia-Pacific region.

The Players

In the voice biometric market the biggest player is Nuance, an early pioneer in speech recognition. For its biometric product, the number of users at Nuance has grown from 10 million to 32 million in the past two years; more than 300 organizations use it. The other competitors are much smaller and we believe they are as follows:

AGNITiO headquartered in Madrid, was founded in 2004 and has received $7.9 million in funding. Its Voice ID is used by Government organizations to prevent crime, identify criminals and provide evidence in court. AGNITiO has an extensive customer base including leading police, intelligence, military and other government organizations in over 35 countries. Outside investors in the firm are Elaia Partners, 123Venture, Nauta Capital and Neotec Capital Riesgo. The company has approximately 40 employees.

Speechpro is the US subsidiary of the 200-employee Speech Technology Center based in Russia. Its expertise is in speech recording, processing, analysis and voice biometrics for law enforcement and commercial customers. SpeechPro global distribution includes 200 resellers and partners to over 74 countries. In 2010, SpeechPro implemented the world's first nationwide voice-based Identification system for the government of Mexico.

SesTek, founded in 2000 is based in Istanbul. It is a speech technology company offering voice biometrics, natural dialog ASR, TTS, call Recording and speech analytics solutions. It employees approximately 50 people. It claims over 10 customers for voice biometrics using 4 million vocal passwords.

VoiceVault is based in El Segundo, California with R&D in the UK. It focuses exclusively on voice biometric solutions in the financial and healthcare sectors. It employs 15 people.

RISKS

- The majority of the revenues are from one customer.
- There is currency risk as most of the company's operations are in Euros.
- The company was given a going concern opinion by its auditors because it is cash flow negative based on current operations since it lost its contract with Iusacell. Should the company sign and start servicing new customers we believe this opinion could be reversed.
- The company lost its second largest customer Iusacell, but it has yet to report a quarter with just the remaining business. The company has undergone significant restructuring to reflect closing this operation.
- The company recently restated all its financials since 2013 until the third quarter of 2014 to comply with US GAAP accounting.
- The company is planning on signing a couple of new customers near term that depend on getting licenses from various governments. These licenses may or may not be received in the time frame originally planned and onset of revenues cannot be predicted reliably.

FINANCIALS

The company's financials are complex and further confused by the restated numbers that are now reported in accordance with GAAP financials. The non-GAAP numbers the company now refers to are financials calculated as it did previously so that investors can compare apples to apples historically. They are not however non-GAAP in the sense that US investors might expect them to be, but they are rather cash accounting methodology. For example, when a new customer is brought on board, the company will charge them installation and training fees that they will bill for and collect. The company would include them in non-GAAP numbers. US GAAP would require them to be booked ratably and that would be the difference. Typically non-GAAP revenues would take out one-time events, such as the reversal of prepaid expenses as happened in Q2. And accordingly, non-GAAP income would also take out these one-time expenses, and would report revenues and expenses as discontinued operations. Elephant Talk however did not account for the contract ending this way. Investors must therefore be aware that non-GAAP here means cash-based revenues and expenses.

2014

The company's income statement, restated for US GAAP accounting shows revenues of $20.4 million in 2014 versus $19.5 million a year ago and a loss of $25.4 million versus a loss of $24.7 million in 2013. Gross margin increased fro 51.7% in 2013 to 67.1% in 2014 as $3.4 million in revenues from the legacy landline business was replaced by high margin mobile revenues. Landline went from 19% of revenues to 1%. Vodafone revenues grew 5.2% going from $9.7 million to $10.2 million. Iusacell revenues grew 183% from $1.8 million to $5.1 million.

With the restatement the company broke down expenses for the first time. While total operating expenses were fairly flat at $30.4 versus $30.9 in 2013, we see Product Development was up $1.1 while S&M and G&A declined at total of $3.2 million. Depreciation made up the difference increasing $1.6

million. Surely the decline in stock-based compensation within the G&A line from $8.5 million in 2013 to $3.9 in 2014 was most of this.

On a cash flow basis however, the company looks much better as depreciation and amortization and stock-based compensation is added back. For the year adjusted EBITDA came in at $1.9 million. Non-GAAP net income, taking out one-time items and stock-based compensation would have been $ million or a loss of $ per share versus $ million in 2013.

Q1 2015 Results

For the quarter ending March 31, 2015, ETAK reported revenues of $5 million versus a restated $5.4 million in 2014, under its first reported quarter using its revised method of revenue recognition. Of this $5 million, $1.3 million was recorded from Iusacell versus the same amount in 2014. We believe Vodafone, the company's largest customer represented $2.1 million of that $5 million versus $3.1 million in the year ago restated quarter based on the fact the 10Q says the top two customers were 67.4% of sales in 2015 and 77.5% in 2014.

Gross margin came in at 63% versus 70% in the year ago quarter as new customers are being brought on at initially lower margins.

Operating expenses were $6.4 million versus $7.3 million a year ago as the company begins to right size itself after the loss of Iusacell. The reduction came primarily from product development and depreciation and amortization expense. This resulted in an operating loss of $3.3 million versus $6.6 million.

On a non-GAAP basis, excluding one-time expenses and stock-based compensation, the company lost $0.03 versus $0.04 a year ago. Adjusted EBIDTA was however $2.3 million versus just $6,000 a year ago.

Q2 2015 Results

The reported Q2 results were complicated and need some explanation, particularly when trying to figure out the base business minus the Iusacell revenues and expenses.

GAAP Revenues reported were $19.2 million. This includes $11.6 million due to booking all the deferred revenue from Iusacell at once as the contract was terminated.

The company thus considers $19.2 million minus $11.6 million or $7.4 million to be the non-GAAP revenues.

The company also provided what it calls non-GAAP revenues but it also included $3.9 million in revenue from operating Iusacell in the quarter. Stripping those out leaves us with $3.1 million in GAAP revenues from the other customers and this is the base business left.

Removing $11.6 million from revenues moves gross margin down to 80%.

Expenses were cut further from Q1 by $595,000 to $5.9 million. The company looks at total operating expenses, including cost of sales when looking for cost cutting. It indicated that the goal is to have the sum of cost of sales, product development, sales and marketing and G&A (all the cash costs) to be $5 million lower for the year 2015 versus the 2014 year and given the current cost structure, it is almost there. Interest expense was almost $1 million but most of the loans are gone as the settlement with AT&T was used to pay down the temporary loans.

GAAP EPS was a positive $0.06 versus a loss of $0.04 last year.

FORECASTS

Q3 2015

This will be the first quarter reported with out any business from Iusacell and on a GAAP and non-GAAP basis revenues will be much lower. We are looking for GAAP revenues of $4.0 million (versus $4.4 million in 2014, down 10%) and non-GAAP (or cash) revenues of $5 million versus $7.7 million in 2014. The difference between should be the startup charges Elephant Talk bills at the beginning of a contract that must be recognized ratably using GAAP accounting.

Gross margins should decline to more normal levels and below last year margin's due to lower revenues.

Operating expenses should be $1.6 million lower than last year and operating loss will again be back to negative territory. We are looking for an operating loss of $3.2 million. Interest expense will decline since the company has collected the cash from AT&T and paid off debt.

This loss should result in an EPS of -$0.02 for the quarter versus a loss of $0.04 in 2014. Given the large number of shares the net loss can range from $2.5 million to $4 million and still result in a loss per share of -$0.02.

2015

For the year we are looking for revenues of $33 million versus $20.4 million in 2014, up 62% due primarily to the reversal of deferred revenues from the loss of the Iusacell business. Without that reversal, revenue would have been $21.4 million, up 4.9% from a year ago.

Operating expenses should be down $5 million from last year resulting in a loss of only $0.5 million. This puts EPS at virtually breakeven versus a loss of $0.15 last.

The company will continue to run the company on a cash basis rather than by GAAP accounting and it should be able to return to EBITDA positive in the next few quarter despite ramping sales and marketing. Near term revenues in part will depend on the granting of a license in Brazil, an unpredictable event.

VALUATION

While there are many MVNEs worldwide, many are private those that are public are all small expect for Amdocs a $7 billion company. On average they trade at 1.6 times enterprise value to sales. They also trade at an average of 11.3x enterprise value to EBITDA. Using fully diluted market caps and using an average valuation we get a stock price of $0.17 per share for the first methodology using 2016 estimated sales. The company believes in future quarters it can get back to its past EBITDA of $2.3 million per quarter. If it can, then at that point the stock would be worth $0.45 on an enterprise value to sales basis. Taking an average of the two, we get a price of $0.32.

MVNEs						Diluted Enterprise Value / Sales			Fully Diluted Enterprise
	Ticker	Revenue		EBIDTA				Included	
Company		2015E	LTM	Margin	EV/TTM EBIDTA	2015E	LTM	in Average?	Value
Amdocs	DOX	$3,696	$3,620	15%	10.1x	2.0x	2.1x	y	7,556
Redknee Solutions	RKN.TO	$220	$224	9%	14.7x	1.8x	1.6x	y	386
Comverse	CNSI	$182	$458	1%	16.2x	1.6x	0.6x	y	296
CSG Systems	CSGS	$757	$747	19%	8.2x	1.5x	1.4x	y	1,113
MER Telemanagement Sol	MTSL	NA	$10	-22%	-6.1x	NA	0.7x	n	8
Ericsson	ERIC	$29,940	$28,130	13%	7.1x	1.0x	1.0x	n	28,640
Average				**11%**	11.3x	**1.7x**	**1.4x**		**$2,338**

	Revenue		EBITDA		Enterprise Value / Sales		Valuation Range	
	2016E	LTM	Margin		2016E	LTM	Low	High
	$22	**$34**	**-16.20%**		**1.7x**	**1.4x**	**$39**	**$48**
YoY growth								
Conclusion of Enterprise Value			**$43,467,914**	**$103,665,600**				
Market Value			**$42,665,442**	**$102,863,128**				
Diluted Shares Outstanding			232,156,000	232,156,000				
Price per Share			**$0.18**	**$0.45**		**$0.32**		

MANAGEMENT

Steven van der Velden
Chairman & CEO

Steven has been a director since October 2006 and Chairman, President and CEO since October 2006. He has extensive entrepreneurial experience in logistics, telecommunications, e-commerce and investment management. He co-founded E-commerce Park NV in Curacao, which developed a 50,000 sq-ft. data center and Internet hosting facility, the International Telemedia Association (known today as Network for Online Commerce), and InTouch Telecom SA/NV, where he served as CEO until the company was successfully sold to GTS in 1999. Currently, he is a Director of Unicom, and serves as Chairman of the board of directors of QAT Investments SA in Luxembourg NV. Steven earned his MBA from Rotterdam School of Management and his Master's Degree in Law from Leiden University.

Martin Zuurbier
Co-President and CTO and board Observer

Martin has over 12 years of direct experience in the telecommunications industry. He was the CTO of Benoit Telecom Holding AG, a telecom service provider in Europe. Martin later served as director and founder of Vocalis Telecom Group located in The Netherlands and Switzerland. He was responsible for building, maintaining and operating a telecommunications network spanning eight countries in Europe including all back-office billing and CRM capabilities. He has been instrumental in developing new switching technology for the telecoms industry.

Dr. Armin Hessler
Co-President

Admin joined the company from Vodafone Group Plc., in February 2015 where he spent fifteen years as director of IT Customer Services. Before that he was at Mannesmann AG, AT&T Unisource and Telefonica de España. He is responsible for Software Development, Business (Change) Management and Operations. He earned and MA and MES from RWTH Aachen University in 1989.

Pat Carroll
Founder and Executive Chairman of ValidSoft

Pat is a founding Director and Executive Chairman of ValidSoft where he drives R&D function and is responsible for intellectual property and new patents. ValidSoft is an innovator and a leader in the field of security having received several awards for its technology and many references in key research papers. Prior to founding ValidSoft, Pat was employed as Head of Electronic Trading Technology in Europe for Goldman Sachs. In addition, Pat co-headed European Equities Technology and was a technical advisor to the Investment Banking Division. He previously worked in a senior capacity with JP Morgan, Credit Suisse Financial Products and Bankers Trust Company.

Paul Burmester
ValidSoft CEO

Paul has over 30 years experience in the technology sector and has driven 6 successful exits during a career that has focused on building up early stage privately funded technology businesses to the point of market success and profitable exit through IPO or acquisition. The most recent of these being four in the mobile industry: SpinVox, the leading developer of "Speech to Text" technology being sold to Nuance; ViAir, the first company to develop real time mobile access to Exchange & Notes, was acquired by Visto;

Paragon Software was sold to Phone.com, & Mobile Systems International, the leading designer of mobile networks, sold to Marconi.

Mark Nije
CFO

Prior to becoming CFO in 2008, Mark was general manager Europe for the Benoit Telecom Group, from 2004 and later Elephant Talk, after the acquisition of the Group. Mark has experience in project management, business development, investment management, logistics and telecommunications. Mark started as project manager and management consultant for Tebodin Consulting Engineers and for Reitsma & Wertheim. In 1990, he co-founded Logistic Management International NV (LMI), of Curacao, Netherlands Antilles. He also served as a board member and vice-chairman of the Curacao Exporters Association. From 2000-2002 he was a partner of QAT Investment SA, the Luxembourg venture capital fund, and has been active as investment manager and/or board member in various ICT related ventures of QAT. Within the Benoit Telecom Group, he was GM/CFO and specifically managed the various asset acquisitions and audits. Mark earned his MBA from the Rotterdam School of Management/Erasmus University, the Netherlands, and a BS in Building Construction Management from the University of Reading, UK.

Alex Vermeulen
General Counsel

Alex Vermeulen joined Elephant Talk as General Counsel in 2007 from a consultancy firm he founded, Before that he was with ING where he worked for twenty years. Alex studied law at the Leiden University and earned a masters in 1981.

Willem Bekkema
Global Manager Human Resources

Willem joined Elephant Talk from Atradius Collections, a global leader in business-to-business debt collections with twenty offices across the world and a presence in 220 countries. Before that, Willem served in various senior HR positions for Arcadis, PA Consulting Group, and TomTom International. He has a BA in Business Law from the Hanze University in Groningen, and a masters in Organization and Management Sociology from the University of Amsterdam.

BOARD OF DIRECTORS

Steven van der Velden
Chairman, President and CEO

Yves van Sante,

Yves has served as a director since May 2014. From July 2011 to May 2014, Mr. van Sante was a board observer for our Company, following his service on our Board of Directors from October 2006 to July 2011. Mr. van Sante founded QAT Investments SA in 2002, where he currently serves as the Chief Executive Officer. QAT Investments SA is presently a majority shareholder of the Company. Concurrently, he serves as the Chairman of the board of EuroPochette NV, and GMP, and on the boards of Sigura, the Buro Project, and IsoDomo. Prior to founding QAT Investments SA, Yves studied Marketing, Communication and Commercial Management at the High School for Business Economics and Commercial Management in Ghent, Belgium in 1980.

Carl D. Stevens

Carl has served as director since April 2014. He currently manages personal investments. From January 2006 to July 2011, Mr. Stevens was a member of the compensation committee of the board of directors of Diamondhead Casino Corporation. He was CEO and President of Cogient Corporation, a medical software and services provider. From 1999 to 2001, Mr. Stevens was Division President of Infocast Corporation Inc. From 1997 to 1999, Mr. Stevens served as President and CEO of ITC Corporation, (NYSE: ITC). Mr. Stevens spent 26 years with the IBM in various sales and management positions, including Branch Manager, Atlanta, Georgia. Mr. Stevens also served as Program Director for Public Sector Sales for the United States and was the founder and manager of IBM's National Distribution Divisions Contract Compliance Department. Carl attended Indiana University where he majored in business administration and is a veteran of the United States Air Force.

J**aime Bustillo**

Jaime became a director in 2014, He is the CEO of AIRIS mobile, a Spanish mobile virtual network operator and the Administrado of Bustillo Ramirez Solar SL, a solar power producer based in Spain. Before that he held a number of senior positions at Vodafone. From 2004 to 2012, Mr. Bustillo was a Member of the Board of Vizzavi España, a Vodafone subsidiary (renamed Vodafone Enabler España). He earned a Telecommunications Engineering degree from Universidad Politécnica de Madrid.

Francisco Ros

Francisco also joined the board in 2104. He is EVP of First International Partners SL, a consulting firm he founded in 2002, and since 2010, has been on the board of Qualcomm. From July 2003 to April 2004, Dr. Ros served as a Senior Director of Business Development at Qualcomm Europe and Managing Director of Qualcomm Spain. Dr. Ros is also non-executive chairman of Asurion Spain and is Professor ad-honorem at Universidad Politécnica de Madrid, and serves as a senior advisor to Kreab Gavin Anderson, a communication consultancy company, as well as venture capital funds Ambar Capital and Invest Gala. He was also a director of Proteccion On-Line SL. From May 2004 through July 2010, Dr. Ros was Secretary of State (Vice Minister) of the Government of Spain, responsible for Telecommunications and the Development of the Information Society. He was Chairman and CEO of Alua/Broadband Optical Access SA, and President and CEO of Unisource. Before that he was with Telefónica. Dr. Ros holds two PhDs: one in Telecommunications from the Universidad Politécnica de Madrid, and an ScD and MS in EE and Computer Science from MIT. He also holds a Telecommunications Advanced Engineering Degree from the Universidad Politécnica de Madrid. In 1990, Dr. Ros received an advanced management degree from the Instituto de Estudios Superiores de la Empresa (IESE) in Madrid.

INDUSTRY OUTLOOK

INDUSTRY OUTLOOK - POSITIVE

The outlook for the Telecom Services Industry is positive. While the weak economy, challenging competitive environment, and negative impact of pension-related obligations will all weigh on earnings in 2003, we expect to see further signs of stabilization by mid-year. What's more, the regulatory environment is poised to improve (at least for the Baby Bells) following months of debate. Finally, the stocks are no longer trading at growth stock multiples and the plump dividend yields may appeal to many investors.

It's been a miserable two years for the telecom business. The overbuilt long-distance market has been in free fall, and competition in the local phone market has intensified despite the fact that most of the

smaller, competitive carriers have gone out of business. December-quarter revenues for the Baby Bells declined by about 3%, mostly due to the loss of access lines, and the negative trend is likely to continue. It's no secret that more and more households are replacing their dialup modems with faster broadband connections (cable modems and DSL), which don't require a second line. Fixed line usage is being further eroded by wireless substitution as a growing number of customers are taking advantage of cut-rate calling plans from the six national wireless operators. And, the long-distance carriers have joined the few upstarts left standing in attacking the Baby Bells' local phone turf.

While the situation cries out for a redo of the 1996 Telecom Act, there may finally be some relief on the way. In late February, the Federal Communications Commission (FCC) is expected to push through new regulations easing the Baby Bells' obligation to provide network access to competitors. While the FCC has been divided on this issue, our belief is that almost any compromise that reduces regulatory uncertainty should be good for the stocks.

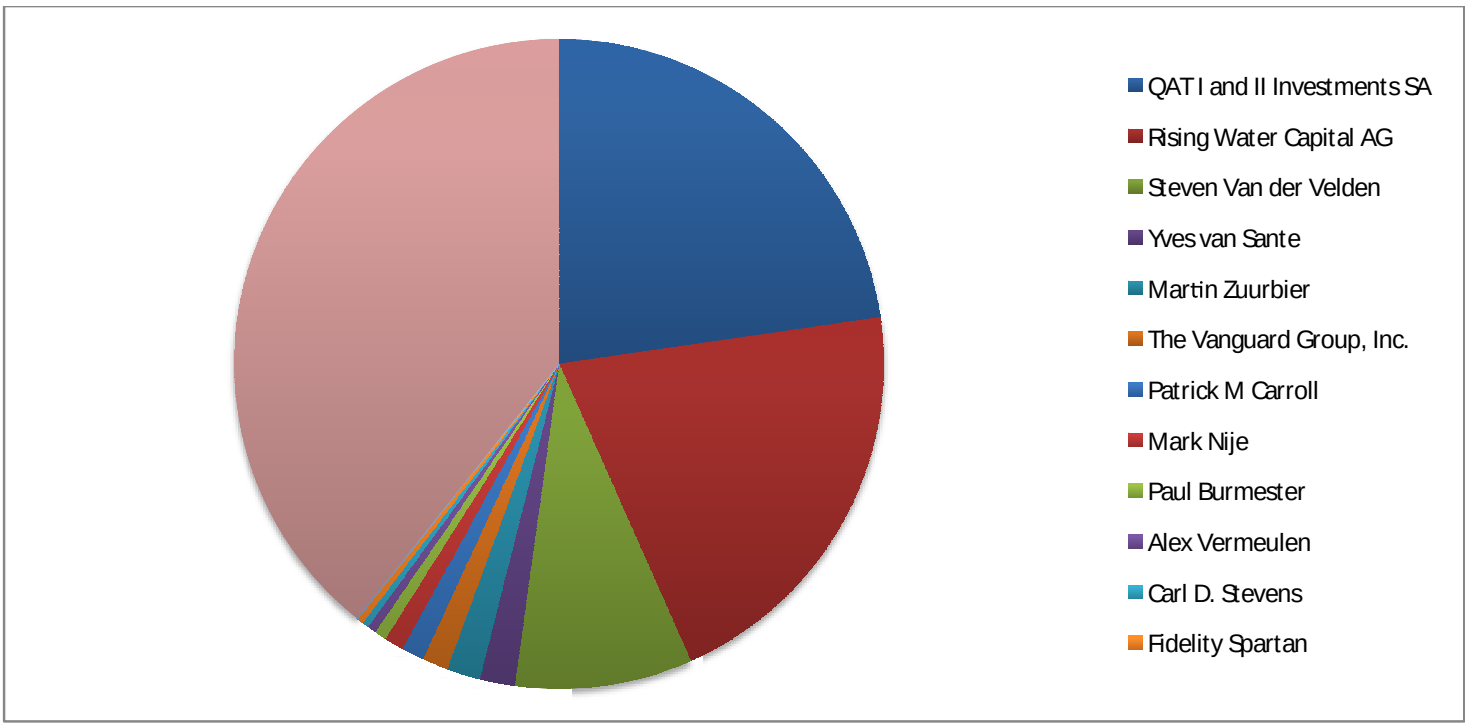
While growth remains elusive, the carriers will continue to use cutbacks in capital spending to boost free cash flow and strengthen their balance sheets. Nevertheless, the industry's long-term health hinges on the extent to which industry consolidation eliminates redundancies and results in a healthier competitive environment.

OWNERSHIP

The float on the stock is approximately 100 million shares or 65%. Mr. van der Velden owns approximately 31.5% of QAT, which owns approximately 51% of the outstanding capital stock of Rising Water Capital. These three combined own 52% of the total outstanding. Officers and directors as a group own 16%.

Ownership as of April 29, 2015

QAT I and II Investments SA	35.3	$11.6	23%
Rising Water Capital AG	32.1	$10.6	21%
Steven Van der Velden	13.8	$4.5	9%
Yves van Sante	2.7	$0.9	2%
Martin Zuurbier	2.6	$0.9	2%
The Vanguard Group, Inc.	2.0	$0.7	1%
Patrick M Carroll	1.8	$0.6	1%
Mark Nije	1.5	$0.5	1%
Paul Burmester	0.9	$0.3	1%
Alex Vermeulen	0.7	$0.2	0%
Carl D. Stevens	0.5	$0.2	0%
Fidelity Spartan	0.5	$0.2	0%
Geoffrey Leland	0.1	$0.0	0%
Other	61.1	$20.2	39%
Total	154.9	$51.1	



INCOME STATEMENT

Elephant Talk Communications, Inc.	Q1 2014 R 31-Mar	Q2 2014 R 30-Jun	Q3 2014 R 30-Sep	Q4 2014 31-Dec	Q1 2015 31-Mar	Q2 2015 30-Jun	Q3 2015E 30-Sep	Q4 2015E 31-Dec	2013R	2014	2015E	2016E
Non-GAAP (cash) revenues	6.2	6.8	7.7	8.3	$8.0	$7.4	$5.0	$6.0	22.8	28.6	26.4	29.4
Total GAAP revenue	**5.4**	**5.1**	**4.4**	**5.5**	**5.0**	**19.2**	**4.0**	**4.7**	**19.5**	**20.4**	**33.0**	**22.4**
Yr-to-yr Growth	-14%	42%	8%	-1%	-7%	279%	-10%	-14%	-33.4%	4.7%	61.9%	-32.0%
Landline	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.6	0.2	0.0	0.0
Mobile and security	5.3	5.0	4.4	5.4	5.0	19.2	4.0	4.7	15.8	20.2	33.0	22.4
Cost of services	1.6	1.8	1.6	1.6	1.9	1.4	1.4	1.5	9.4	**6.7**	8.0	5.9
Gross profit	3.7	3.2	2.9	3.8	3.1	17.8	2.6	3.2	10.1	13.7	25.0	16.5
Gross Margin	69.6%	63.6%	64.8%	70.0%	62.7%	92.5%	64.0%	68.1%	51.7%	67.1%	75.7%	73.6%
Operating expenses:												
Product Development	1.7	2.3	1.7	1.5	1.0	1.5	1.5	1.5	6.1	7.2	5.5	6.0
Sales and Marketing	0.6	0.7	0.6	0.6	0.7	0.3	0.4	0.6	3.1	2.4	2.0	3.4
G&A	3.0	3.5	3.2	2.8	3.0	2.7	2.4	2.3	15.1	12.6	10.3	9.3
Depreciation and Amortization	2.0	1.9	1.9	2.4	1.7	1.7	1.5	1.5	6.6	8.2	6.5	6.0
Impairment for assets held and used					0.0	0.9	0.0	0.0		0.0	0.9	0.0
Total operating expenses	7.3	8.3	7.4	7.4	6.4	7.2	5.8	5.9	30.9	30.4	25.3	24.6
Operating income:	(3.6)	(5.1)	(4.5)	(3.5)	(3.3)	10.6	(3.2)	(2.7)	(20.8)	(16.8)	(0.3)	(8.1)
Operating margin	-66.6%	-100.7%	-101.9%	-65.0%	-65.1%	55.2%	-81.0%	-57.4%	-107.1%	-82.4%	-1.0%	-36.3%
Other income:												
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.6)	(0.1)	(0.1)	(1.1)	(1.2)	(1.0)	(0.2)
Int exp. For debt discount & converstion feature	(0.9)	(1.0)	(1.3)	(0.7)	(0.1)	(0.4)	-	-	(2.1)	(3.9)	(0.5)	-
Change in fair value of conversion feature	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liabilities	(0.2)	0.0	(0.1)	0.2	0.2	0.1	-	-	0.5	(0.1)	0.4	-
Loss on extinquishment of debt	(0.0)	-	0.6	(0.0)	2.5	-	-	-	(2.0)	0.6	2.5	-
Other income	0.0	0.1	0.3	(0.2)	(1.2)	0.2	-	-	(0.3)	0.2	(1.0)	-
Amortization of deferred financing costs	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.4)	(0.1)	(0.1)	(0.2)	(0.5)	(0.6)	-
Total other income	(1.5)	(1.3)	(0.8)	(1.3)	1.1	(1.0)	(0.1)	(0.1)	(5.1)	(4.9)	(0.1)	(0.1)
Income before income taxes	(5.1)	(6.4)	(5.3)	(1.9)	(2.2)	9.6	(3.3)	(2.8)	(25.9)	(21.6)	(0.4)	(8.2)
Provision for income tax	0.1	0.00	(0.0)	0.1	(0.1)	0.1	-	-	(0.2)	0.2	0.0	-
Tax rate	-3%	0%	1%	-6%	3%	1%	0%	0%	0.8%	-1.0%	0.0%	0.0%
Net income	(5.2)	(6.4)	(5.2)	(2.0)	(2.1)	9.5	(3.3)	(2.8)	(25.7)	(21.9)	(0.5)	(8.2)
Currency translation	(0.0)	(0.1)	(2.3)	(1.0)	(1.7)	0.5	-	-	1.0	(3.4)	(1.2)	-
Comprehensive loss	(5.2)	(6.6)	(7.5)	(3.0)	(3.8)	10.0	(3.3)	(2.8)	(24.7)	(25.3)	(1.7)	(8.2)
Stk based compensation	0.8	1.9	0.9	0.4	0.8	0.8	0.8	0.8	8.5	3.9	3.1	2.3
One-time expenses	(0.0)	-	0.6	(0.0)	(2.5)	(15.3)						
Non-GAAP Income	(4.5)	(4.5)	(3.8)	(1.7)	(5.5)	10.3	(2.6)	(2.0)	(17.2)	(20.7)	2.6	(5.1)
Yr-over-Yr									2.3%	20.4%	-112.6%	NM
Net income per share:												
Basic	**(0.04)**	**(0.04)**	**(0.04)**	**(0.01)**	**(0.01)**	**0.06**	**(0.02)**	**(0.02)**	**(0.20)**	**(0.15)**	**(0.00)**	**(0.05)**
Non-GAAP Primary	(0.03)	(0.03)	(0.03)	(0.01)	(0.04)	0.07	(0.02)	(0.01)	(0.14)	(0.14)	0.02	(0.03)
Shares												
Basic	141.8	146.5	149.5	151.6	154.9	156.4	160.5	162.0	126.3	147.7	151.6	162.0
	25.7%	23.4%	11.2%	12.3%	9.2%	6.8%	7.4%	6.9%	13.4%	17.0%	2.6%	6.9%
Diluted	221.5	229.4	226.4	221.2	226.5	223.9	232.2	233.7	207.6	217.4	221.2	233.7
	30.1%	26.7%	15.1%	10.6%	2.3%	-2.4%	2.5%	5.6%	17.8%	4.7%	1.8%	5.6%
Bookings	$5.3	$5.0	$4.4	$14.1	$9.1	$9.0						
Adjusted EBITDA	0.01	0.44	1.45	2.06	2.30	2.19			(2.34)	1.90		
Cap EX	1.80	2.13	1.68	2.20	1.51	2.60			5.90	7.82		
Free cash flow	(1.80)	(1.69)	(0.23)	(0.15)	0.79	(0.41)			(8.24)	(5.91)		

BALANCE SHEET

CONSOLIDATED BALANCE SHEETS - RESTATED (USD $)	June 30, 2015	March 31, 2015	% Change
CURRENT ASSETS			
Cash and cash equivalents	**$1,232,525**	**$994,693**	24%
Financing receivable	**0**	**0**	
Restricted cash	**304,676**	**416,304**	-27%
Accounts receivable	3,720,881	13,562,151	-73%
Prepaid expenses and other current assets	1,549,827	1,888,499	-18%
Total current assets	6,807,909	16,861,647	-60%
NON-CURRENT ASSETS			
OTHER ASSETS	1,105,224	1,326,090	-17%
PROPERTY AND EQUIPMENT, NET	17,528,492	17,796,754	-2%
INTANGIBLE ASSETS, NET	3,756,889	4,111,695	-9%
GOODWILL	3,076,526	3,012,954	2%
TOTAL ASSETS	32,275,040	43,109,140	-25%
CURRENT LIABILITIES			
Accounts payable and customer deposits	3,783,252	2,331,938	62%
Obligations under capital leases (current portion)	706,385	1,757,809	-60%
Deferred Revenue	2,649,051	12,891,050	-79%
Change in deferred revenues	**(10,241,999)**	**4,077,665**	
Accrued expenses and other payables	3,022,436	3,054,813	-1%
2014 10% + libor 3rd Party Loan (net of OID of $798,894 at December, 2014)	**0**	**11,266,647**	-100%
Total current liabilities	10,161,124	31,302,257	-68%
LONG TERM LIABILITIES			
10% 3rd Party Loan (net of Debt Discount of $332,304 at June 30, 15)	**1,740,365**	0	
Warrant liabilities	**0**	1,841,290	-100%
Non-current portion of obligation under capital leases	95,532	176,298	-46%
Other long term loan	**294,632**	**302,533**	-3%
Non-current portion of deferred revenue	541,577	1,873,088	-71%
Total long term liabilities	2,672,106	4,193,209	-36%
Total liabilities	12,833,230	35,495,466	-64%
Commitments and Contingencies (See Notes)			
STOCKHOLDERS' EQUITY			
Preferred Stock $0.00001 par value, 50,000,000 shares authorized, 0 issued and outstanding			
Common Stock $0.00001 par value, 250,000,000 shares authorized, 154,671,258 issued and outstanding as of December 31, 2014 and 140,466,801 shares issued and outstanding as of December 31, 2013	266,995,681	265,198,811	1%
Accumulated other comprehensive income (loss)	(4,330,752)	(4,839,570)	-11%
Accumulated deficit	(243,232,551)	(252,754,469)	-4%
Elephant Talk Communications, Corp. stockholders' equity	19,432,378	7,604,772	156%
NON-CONTROLLING INTEREST	9,432	8,902	6%
Total stockholders' equity	19,441,810	7,613,674	155%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$32,275,040	$43,109,140	-25%
Current and Quick Ratio	0.7	0.5	24%
Net cash	$1,232,525	$994,693	24%
Total Debt	2,034,997	11,569,180	-82%
TD/TA	6%	27%	-77%

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Lisa Thompson, 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. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1,165 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 25.4%, Hold/Neutral- 57.3%, Sell/Underperform – 14.4%. Data is as of midnight on the business day immediately prior to this publication.