Zacks Small-Cap Research

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# Elephant Talk Communications Corp. (ETAK-NYSE)

## ETAK: Desperately Seeking…Cash

Using 2017 estimates, and assuming no dilution, we believe the stock could be worth $0.45 by then using a blend of industry averages EV to Sales and EV to EBITDA.

| | |
|---|---|
| Current Price (08/17/16) | $0.14 |
| **Valuation** | **$0.45** |

## 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. Its new Chairman, a telecom turnaround specialist, is in the process of restructuring of the business to reach cash breakeven and reposition the company. We expect the sale of the ValidSoft division could fund operations and pay off debt if completed but short-term the company also needs additional funds to maintain operations.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$0.63** |
| **52-Week Low** | **$0.12** |
| **One-Year Return (%)** | **-58.2** |
| **Beta** | **0.27** |
| **Average Daily Volume (sh)** | **215,453** |
| **Shares Outstanding (mil)** | **164** |
| **Market Capitalization ($mil)** | **$23** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **3** |
| **Insider Ownership (%)** | **43** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **-2.1** |
| **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** | **N/A** |

| | |
|---|---|
| **Risk Level** | **High** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Comm Network Sol** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2014 | 5.4 A | 5.1 A | 4.4 A | 5.4 A | 20.4 A |
| 2015 | 5.0 A | 19.2 A | 3.5 A | 3.3 A | 31.0 A |
| 2016 | 3.3 A | 3.3 A | 3.3 E | 3.4 E | 13.2 E |
| 2017 | | | | | 17.2 E |

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

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2014 | -$0.04 A | -$0.04 A | -$0.04 A | -$0.01 A | -$0.15 A |
| 2015 | -$0.04 A | $0.07 A | -$0.02 A | -$0.02 A | -$0.01 A |
| 2016 | -$0.02 A | -$0.01 A | -$0.01 E | -$0.00 E | -$0.04 E |
| 2017 | | | | | $0.00 E |

Zacks Projected EPS Growth Rate - Next 5 Years 20%

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## Desperately Seeking…Cash

Elephant Talk management is continuing steps to rescue the company from the brink. The company put out a filing on August 5, 2016, revealing it was so cash strapped it could not meet payroll. Since then, it successfully renegotiated its main bank loan after showing extreme cost cutting to reflect its new revenue levels and strategic plan. On August 15, 2016 the Company entered into the second amendment to the credit agreement with Corbin Mezzanine Fund I, L.P. and Atalaya Administrative LLC. The lender increased the loan facility by $1,200,000, waived the Company's existing defaults under the financial covenants, and reset the maturity date to December 31, 2016. This additional cash is intended as short-term bridge financing to help the company complete an issuance of equity and/or divest assets. On August 16th, shareholders voted to increase authorized shares to allow the company to issue equity since its debt capacity is beyond used up. With the change in authorization we image the bankers will have more options to get cash into the business to give the company the ability to function on a day to day basis, as well as to ultimately add headcount to the sales force. The company also is changing its name to *Pareteum,* and has authorized a reverse split, although there is no timing on that event.

**Q2 Report Shows Flat Revenues but Significant Expense Reduction**

Elephant Talk reported Q2 revenues of $3.3 million versus $17.8 million last year. Last year's quarter was the unusual quarter in which AT&T paid out the rest of the contract and is not representative of ongoing revenues. Revenues were again sequentially flat. We had hoped for some small growth this quarter but that seems to be pushed further off.

Gross margins increased sequentially to 70% from 65.6% with further cost cutting.

Taking out restructuring charges G&A in the quarter was reduced to $2.0 compared with $2.9 in Q1 2016. Both G&A and Product development also came down significantly. Operating expenses without restructuring were $4.1 million versus $7.2 million in 2015 and $5.8 in Q1 2016.

On a non-GAAP basis, the company lost only $1.3 million, less that the $2.2 million we expected. However with the 164 million shares outstanding, it still equates to a loss of $0.01 per share.

The company has reduced the workforce from 265 in November 2015, to 154 at the end of Q2 2016. Management is using sales per employee as its metric to judge progress, as well as cash flow. At the end of Q2, revenue per employee was $87,000, just short of its Q2 goal of $90,000. The ultimate goal is $200,000 per employee.

The balance sheet is even more decayed with a working capital deficit of $13.5 million, debt of $7.4 million. This quarter the company paid $234,000 in cash for interest. Management claimed it was EBITDA breakeven in Q2 and achieved a positive $60,000, if ValidSoft is excluded from the calculation. Including ValidSoft, we calculate an EBITDA loss of $848,000 for the quarter.

**2016 Forecast**

We have reduced 2016 revenues gain, this time to $13.2 million as we have seen no movement in revenues at all and believe new initiatives may be delayed due to the cash crunch. Even if sales were to score big wins this year, revenues will be slow to build as the company needs a number of months to onboard new customers and even then is paid monthly thereafter. Near term, we think any growth might be caused by whatever efforts Vodafone is doing internally. We are keeping our EPS estimates the same, as it is very hard to move the needle with 164 million shares outstanding. Investors should keep in mind the all in share count is 204 million shares which includes 21 million warrants at an weighted average exercise price of $0.43, and 19.6 million options, as of June 30, 2016.

## 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.

- 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%.

- 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 company had an offer to buy the company for $12.5 million, but that deal has not occurred according to plan and may never. The company is continuing to pursue its sale.

- There is risk as the company continues to right size itself after the loss of Iusacell while adding new customers. It is currently significantly free cash flow negative but hope to reach breakeven in the next two quarters, restructure its debt, and raise more capital.

- We believe there is **considerable risk in the stock** until the company finds financing to sustain operations as well as to support current and new customers. This may be achieved by the sale of ValidSoft, issuing new stock, or both. While we believe in the long-term prospects of the company, short-term there are many questions. With an all in market cap of $29 million, a market cap of $23 million using primary shares, and revenue run rate of $13.1 million and a meaningful cash burn, we believe the company is fully valued due to short-term financing risks. There is risk in not knowing how much capital will cost, and what dilution might occur. There is risk ValidSoft may not be sold in a timely fashion, or for a favorable price, or at all. Also company has authorized a reverse split the stock, an action that usually causes a stock to go down (unless it is done in conjunction with an uplisting.) When these risks are mitigated we will adjust our valuation.

### CURRENT CUSTOMERS

Vodafone Spain is the company's largest customer. In addition to Vodafone's own 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, BT Movil, Eroski Movil, NEO SKY (bought by MasMovil), HITS Mobile, and Orbitel. Vodafone has said that it is interested in expanding this business 50% including through geographic expansion and we hope this will benefit Elephant Talk. The grand majority of the rest of revenues come from **Zain Saudi Arabia** and **Netherlands ETAK** who operates as an MVNE for T-Mobile, and some from Valid Soft.

### 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. The company is trying to sell ValidSoft to raise cash. The company was bought in 2010 for approximately $15 million in stock. ValidSoft is now on the balance sheet as an asset held for sale. The company does not break out revenues for this entity but we know it to be cash flow negative. The division is located in London.

## RISKS

- Steven Van der Velden, who was Chairman, CEO, and President, and is the majority shareholder of the company, resigned as of November 16, 2015. Hal Turner replaced him as Chairman and he in turn brought on Gary Brandt as Chief Restructuring Officer. They are implementing a complete revamp of the company.
- The majority of the revenues are from one customer Vodafone Spain; 87.4% of revenues in Q2 were from the top two customers both based in Europe.
- 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 of it negative cash flow since it lost its contract with Iusacell. The company needs to raise considerably more cash to maintain operations and pay off current debt.

## VALUATION

While there are many MVNEs worldwide, many are private. Those that are public are all small expect for Amdocs (DOX) a $7.6 billion company. On average they trade at 1.8 times enterprise value to sales. They also trade at an average of 17.7x enterprise value to EBITDA. Looking to our 2017 estimated revenues and EBITDA for ETAK, and using all in shares to determine market caps and an industry average multiples we get a stock price of $0.10 per share. 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 $0.80 on an enterprise value to sales basis. Taking an average of the two, we get a price of $0.45 by 2017.

However more importantly, as the company moves completely to a cloud-based SaaS provider, its should present much higher margins and thus will be compared to an entirely different list of SaaS vendors which trade at an average multiple more than twice this group.

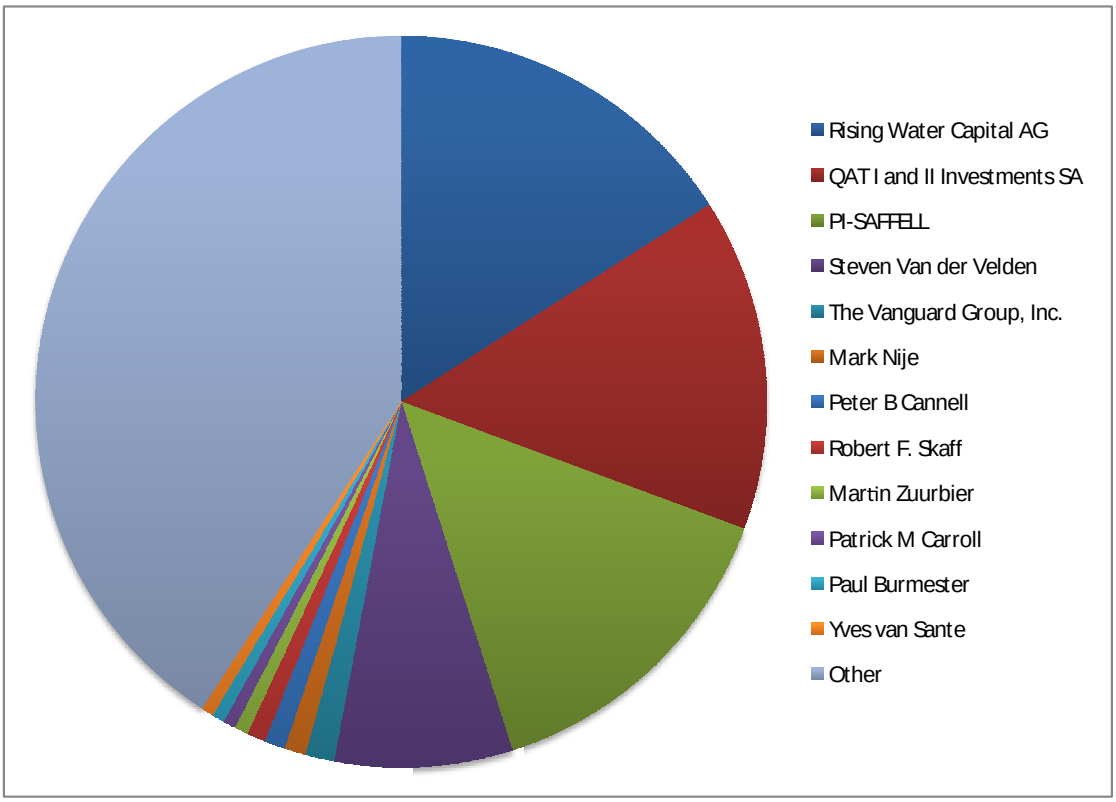
| | Ticker | Revenue | | EBITDA | | Enterprise Value / Sales | | Included | Enterprise |
|---|---|---|---|---|---|---|---|---|---|
| Company | | 2016E | LTM | Margin | EV/TTM EBIDTA | 2016E | LTM | in Average? | Value |
| Amdocs | DOX | $3,747 | $3,700 | 20% | 10.5x | 2.0x | 2.0x | y | 7,550 |
| Redknee Solutions | RKN.TO | $172 | $190 | 6% | 33.3x | 1.5x | 1.4x | y | 259 |
| CSG Systems | CSGS | $754 | $761 | 22% | 9.3x | 1.8x | 1.8x | y | 1,380 |
| MER Telemanagement Sol | MTSL | NA | $15 | -2% | -3.2x | NA | 0.5x | n | 7 |
| Ericsson | ERIC | $26,800 | $28,260 | 15% | 4.6x | 0.8x | 0.8x | n | 21,560 |
| **Average** | | | | **16%** | 17.7x | **1.8x** | **1.7x** | | **$3,063** |

| | Revenue | | EBITDA | | Enterprise Value / Sales | | Valuation Range | |
|---|---|---|---|---|---|---|---|---|
| | 2017E | 2016E | Margin | | 2017E | 2016E | Low | High |
| | **$17** | **$13** | **16%** | | **1.8x** | **1.7x** | **$23** | **$31** |

| | | | |
|---|---|---|---|
| Conclusion of Enterprise Value | **$26,868,110** | **$162,840,000** | |
| Market Value** | **$19,796,410** | **$155,768,300** | |
| All In Shares | 204,622,861 | 204,622,861 | |
| Price per Share | **$0.10** | **$0.80** | **$0.45** |

## OWNERSHIP

There are 164 million shares outstanding as of August 1, 2016. Steven van der Velden, former Chairman and CEO, owns approximately 31.5% of QAT, which owns 51.3% of the outstanding capital stock of Rising Water Capital. These three combined own 38% of the total outstanding.



## INCOME STATEMENT

| Elephant Talk Communications, Inc. | Q1 2015 31-Mar | Q2 2015 30-Jun | Q3 2015 30-Sep | Q4 2015 31-Dec | Q1 2016 31-Mar | Q2 2016 30-Jun | Q3 2016E 30-Sep | Q4 2016E 31-Dec | 2015 | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total GAAP revenue** | **5.0** | **19.2** | **3.5** | **3.3** | **3.3** | **3.3** | **3.3** | **3.4** | **31.0** | **13.2** | **17.2** |
| Yr-to-yr Growth | -7% | 279% | -22% | -40% | -35% | -83% | -5% | 4% | 52.4% | -57.3% | 30.0% |
| Cost of services | 1.9 | 1.4 | 1.4 | 1.3 | 1.1 | 1.0 | 1.4 | 1.0 | 5.9 | 4.5 | 3.4 |
| Gross profit | 3.1 | 17.8 | 2.1 | 2.0 | 2.1 | 2.3 | 2.3 | 2.4 | 25.1 | 8.8 | 13.8 |
| Gross Margin | 62.7% | 92.5% | 60.9% | 61.6% | 65.6% | 70.0% | 70.5% | 71.0% | 80.9% | 66.1% | 80.0% |
| **Operating expenses:** | | | | | | | | | | | |
| Product Development | 1.0 | 1.5 | 1.0 | 1.0 | 1.3 | 0.81 | 0.8 | 0.8 | 4.5 | 3.7 | 3.0 |
| Sales and Marketing | 0.7 | 0.3 | 0.6 | 1.0 | 0.5 | 0.3 | 0.3 | 0.4 | 2.6 | 1.6 | 1.8 |
| G&A | 3.0 | 2.7 | 2.5 | 2.3 | 2.9 | 2.0 | 2.0 | 2.0 | 11.7 | 8.8 | 8.0 |
| Depreciation and Amortization | 1.7 | 1.7 | 1.8 | 1.4 | 1.1 | 1.1 | 1.1 | 1.1 | 6.6 | 4.4 | 2.0 |
| **Restructuring charge** | 0.0 | 0.0 | 0.0 | 1.3 | 0.6 | 0.2 | 0.0 | 0.0 | 1.3 | 0.0 | 0.0 |
| **Impairment for assets held and used** | 0.0 | 0.9 | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 | 0.0 | 0.0 |
| Total operating expenses | 6.4 | 7.2 | 5.9 | 8.6 | 6.4 | 4.5 | 4.3 | 4.3 | 29.4 | 18.6 | 14.8 |
| Operating income: | (3.3) | 10.6 | (3.8) | (6.6) | (4.3) | (2.2) | (1.9) | (1.9) | (4.3) | (9.9) | (1.1) |
| Operating margin | -65.1% | 55.2% | -109.4% | -201.6% | -130.6% | -66.3% | -58.9% | -55.9% | -13.9% | -74.5% | -6.2% |
| **Other income:** | | | | | | | | | | | |
| Interest income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - | - | 0.1 | 0.1 | - |
| Interest expense | (0.4) | (0.6) | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) | (1.5) | (1.2) | (0.2) |
| Int exp. For debt discount & converstion feature | (0.1) | (0.4) | (0.1) | (0.1) | (0.4) | (0.3) | (0.3) | (0.3) | (0.7) | (1.1) | - |
| Change in fair value of conversion feature | - | - | - | 0.3 | 0.5 | | - | - | 0.3 | 0.5 | - |
| Change in fair value of warrant liabilities | 0.2 | 0.1 | - | (0.4) | - | 0.1 | - | - | - | 0.1 | - |
| Loss on extinquishment of debt | 2.5 | - | - | - | - | - | - | - | 2.5 | - | - |
| Other income | (1.2) | 0.2 | 0.1 | 0.0 | 0.2 | (0.1) | - | - | (0.9) | 0.1 | - |
| Amortization of deferred financing costs | (0.1) | (0.4) | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | (0.1) | (0.5) | (0.6) | - |
| Total other income | 1.1 | (1.0) | (0.3) | (0.5) | (0.0) | (0.6) | (0.3) | (0.3) | (0.7) | (2.1) | (0.2) |
| Income before income taxes | (2.2) | 9.6 | (4.1) | (7.1) | (4.3) | (2.8) | (2.2) | (2.2) | (5.0) | (12.0) | (1.2) |
| Provision for income tax | (0.1) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | - |
| Tax rate | 3% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0.0% | 0.0% | 0.0% |
| Net income | (2.1) | 9.5 | (4.2) | (7.0) | (4.3) | (2.8) | (2.2) | (2.2) | (5.0) | (12.0) | (1.2) |
| Currency translation | (1.7) | 0.5 | - | (1.5) | 0.3 | (0.3) | - | - | (2.7) | - | - |
| Comprehensive loss | (3.8) | 10.0 | (4.2) | (8.5) | (4.0) | (3.2) | (2.2) | (2.2) | (7.7) | (12.0) | (1.2) |
| Stk based compensation | 0.8 | 0.8 | 0.9 | 1.0 | 0.9 | 1.3 | 1.3 | 1.3 | 3.5 | 2.7 | 2.7 |
| One-time expenses | (2.5) | (15.3) | (0.2) | 3.0 | 0.6 | 0.2 | - | - | 3.9 | - | - |
| Non-GAAP Income | (5.5) | 10.3 | (3.2) | (3.1) | (2.7) | (1.5) | (0.9) | (0.9) | (1.6) | (6.1) | 1.5 |
| Yr-over-Yr | | | | -701% | | | | | -92.5% | NM | NM |
| **Net income per share:** | | | | | | | | | | | |
| **Basic** | **(0.01)** | **0.06** | **(0.03)** | **(0.04)** | **(0.03)** | **(0.02)** | **(0.01)** | **(0.01)** | **(0.03)** | **(0.07)** | **(0.01)** |
| Diluted | (0.01) | 0.04 | (0.02) | (0.03) | (0.02) | (0.01) | (0.01) | (0.01) | (0.02) | (0.06) | (0.01) |
| **Non-GAAP Primary** | **(0.04)** | **0.07** | **(0.02)** | **(0.02)** | **(0.02)** | **(0.01)** | **(0.01)** | **(0.01)** | **(0.01)** | **(0.04)** | **0.01** |
| | | | | 90% | -47% | -116% | -69% | -69% | | | |
| **Shares** | | | | | | | | | | | |
| Primary Shares Outstanding | 154.9 | 156.4 | 160.2 | 161.6 | 162.9 | 163.6 | 164.0 | 164.3 | 158.2 | 163.7 | 164.3 |
| Yr-over-Yr | 9.2% | 6.8% | 7.2% | 6.6% | 5.2% | 4.6% | 2.4% | 1.7% | 7.1% | 3.5% | 0.4% |
| All In Shares | 226.8 | 226.9 | 216.1 | 214.7 | 212.5 | 204.3 | 204.6 | 204.9 | 221.1 | 206.6 | 204.9 |
| Yr-over-Yr | | | | -4.4% | -6.3% | -10.0% | -5.3% | -4.5% | 48.2% | -6.6% | -0.8% |
| Adjusted EBITDA | 2.30 | 2.19 | (1.21) | (1.29) | (2.37) | (0.85) | (0.83) | 0.52 | 1.99 | (3.53) | 3.63 |
| Cap EX | 1.51 | 2.60 | 2.61 | 0.98 | 0.77 | 0.56 | 0.60 | 0.70 | 7.71 | 2.63 | 1.86 |

## BALANCE SHEET

| | March 31, 2016 | Dec 31, 2015 | % Change |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | **$406,509** | **$369,250** | 10% |
| Financing receivable | **0** | **272,425** | -100% |
| Restricted cash | **249,253** | **246,151** | 1% |
| Accounts receivable | 1,125,868 | 1,112,032 | 1% |
| Prepaid expenses and other current assets | 1,877,894 | 2,016,236 | -7% |
| Total current assets | 3,659,524 | 4,016,094 | -9% |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| OTHER ASSETS | 373,644 | 473,893 | -21% |
| PROPERTY AND EQUIPMENT, NET | 12,973,465 | 13,051,375 | -1% |
| INTANGIBLE ASSETS, NET | 210,685 | 258,630 | -19% |
| ASSETS HELD FOR SALE | 4,695,132 | 4,564,972 | 3% |
| GOODWILL | 3,144,370 | 3,027,422 | 4% |
| TOTAL ASSETS | 25,056,820 | 25,392,386 | -1% |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and customer deposits | 3,177,360 | 2,639,863 | 20% |
| Obligations under capital leases (current portion) | 185,600 | 310,403 | -40% |
| Deferred Revenue | 1,307,350 | 1,259,545 | 4% |
| **Change in deferred revenues** | **47,805** | **(711,605)** | -107% |
| Accrued expenses and other payables | 4,374,097 | 5,031,712 | -13% |
| Advanced payment on "Assets held for Sale" | 700,000 | 0 | NM |
| 2014 10% + libor 3rd Party Loan | **5,629,681** | **5,580,277** | 1% |
| Total current liabilities | 15,374,088 | 14,821,800 | 4% |
| | | | |
| **LONG TERM LIABILITIES** | | | |
| Derivative Liabilities | 1,972,261 | 945,618 | 109% |
| Non-current portion of obligation under capital leases | 0 | 5,621 | -100% |
| Other long term loan | 0 | 0 | |
| Non-current portion of deferred revenue | 1,093,452 | 1,066,687 | 3% |
| Other long term liabilities | 255,552 | 260,290 | -2% |
| 9% Sub Conv Promissory Note | **968,358** | **238,829** | 305% |
| Total long term liabilities | 4,289,623 | 2,517,045 | 70% |
| Total liabilities | 19,663,711 | 17,338,845 | 13% |
| Commitments and Contingencies (See Notes) | | | |
| **STOCKHOLDERS' EQUITY** | | | |
| Common Stock | 270,784,151 | 269,470,165 | 0% |
| Accumulated other comprehensive income (loss) | (5,448,761) | (5,789,975) | -6% |
| Accumulated deficit | (259,949,321) | (255,635,531) | 2% |
| Elephant Talk Communications, Corp. stockholders' equity | 5,386,069 | 8,044,659 | -33% |
| NON-CONTROLLING INTEREST | 7,040 | 8,882 | -21% |
| Total stockholders' equity | 5,393,109 | 8,053,541 | -33% |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $25,056,820 | $25,392,386 | -1% |
| | | | |
| Current and Quick Ratio | 0.2 | 0.3 | -12% |
| Working Capital | (11,714,564) | (10,805,706) | 8% |
| Total Debt | 7,298,039 | 5,819,106 | 25% |
| TD/TA | 29% | 23% | 27% |

## CASH FLOW

| | 31-Mar-15 | 30-Jun-15 | 30-Jun-15 | 30-Sep-15 | 31-Dec-15 | YR 2015 | 31-Mar-16 | 30-Jun-16 |
|---|---|---|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | | | | |
| Net loss | (2,125,173) | 9,521,918 | 7,396,745 | (4,156,337) | (8,246,643) | (5,006,235) | (4,313,790) | (2,823,231) |
| **Adjustments to reconcile net loss to net cash provided by (used in) operating activities:** | | | | | | | | |
| Depreciation and amortization | 1,746,147 | 1,745,034 | 3,491,181 | 1,781,478 | 1,351,326 | 6,623,985 | 1,097,604 | 1,113,947 |
| Provision for doubtful accounts | 8,184 | 17,230 | 25,414 | (25,414) | 269,608 | 269,608 | - | (279,740) |
| Stock based compensation | 831,813 | 752,510 | 1,584,323 | 937,101 | 960,484 | 3,481,908 | 944,024 | 362,107 |
| Change in fair value of warrant liability | (246,702) | (149,203) | (395,905) | - | 95,957 | (299,948) | (518,986) | (140,950) |
| Amortization of deferred financing costs | 62,502 | 362,845 | 425,347 | 41,224 | 46,986 | 513,557 | 136,929 | 145,366 |
| Interest expense relating to debt discount and conversion feature | 63,972 | 403,679 | 467,651 | 125,086 | 89,652 | 682,389 | 351,799 | 261,345 |
| Unrealized foreign currency translation gain (loss) | 1,191,270 | (155,252) | 1,036,018 | (82,760) | (30,364) | 922,894 | (221,640) | 109,080 |
| Extinguishment of Debt | (2,475,799) | - | (2,475,799) | 4,951,598 | (4,951,598) | (2,475,799) | - | - |
| Impairments for assets held and used | - | 937,835 | 937,835 | - | 1,743,572 | 2,681,407 | - | - |
| | (943,786) | 13,436,596 | 12,492,810 | 3,571,976 | (8,671,020) | 7,393,766 | (2,524,060) | (1,252,076) |
| **Changes in operating assets and liabilities:** | | | | | | | | |
| Decrease (increase) in accounts receivable | (5,983,834) | 10,289,300 | 4,305,466 | 994,422 | 1,266,611 | 6,566,499 | 35,624 | 632,975 |
| Decrease (increase) in prepaid expenses, deposits and other assets | 489,564 | 610,503 | 1,100,067 | (112,891) | (227,901) | 759,275 | 59,993 | 617,022 |
| Increase (decrease) in accounts payable and customer deposits | 626,729 | 1,401,175 | 2,027,904 | (207,308) | 807,149 | 2,627,745 | 571,047 | 77,819 |
| Increase (decrease) in deferred revenue | 2,981,659 | (11,871,208) | (8,889,549) | 17,896,808 | (18,760,484) | (9,753,225) | (136,050) | (151,196) |
| Increase (decrease) in accrued expenses and other payables | 296,266 | (1,037,134) | (740,868) | (447,693) | 2,574,336 | 1,385,775 | 78,570 | 618,319 |
| Net cash provided by (used in) operating activities | (3,477,188) | 13,773,018 | 10,295,830 | 25,267,290 | (31,682,329) | 16,373,601 | (1,914,876) | 542,863 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | | | | |
| **Purchases of property and equipment** | **(1,511,179)** | **(2,602,129)** | (4,113,308) | **(2,612,460)** | (984,204) | **(7,709,972)** | **(765,955)** | (563,656) |
| Net cash used in investing activities | (1,511,179) | (2,602,129) | (4,113,308) | (2,612,460) | (984,204) | (7,709,972) | (765,955) | (563,656) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | | | | | |
| Financing related fees | - | (67,445) | (67,445) | (83,223) | 150,668 | - | - | (445,249) |
| Financing receivable | 2,000,000 | - | 2,000,000 | 0 | (355,000) | 1,645,000 | 355,000 | - |
| Exercise of warrants and options | 5,861 | - | 5,861 | 0 | - | 5,861 | - | - |
| Equity and debt issuance costs paid | | | | 0 | (532,558) | (532,558) | (360,249) | 360,249 |
| Principal payment on 2014 10% LIBOR 3rd Party Loan | | (9,927,333) | (9,927,333) | 4,427,333 | - | (5,500,000) | (85,000) | (330,098) |
| Proceed from 9% Unsecured Sub Convertible Note | - | - | | - | 1,275,000 | 1,275,000 | 2,273,000 | - |
| Advance subordinated short term loan | | | | | | | - | 350,000 |
| Advanced payment on "Assets held for sale" | | | | | | | 450,000 | - |
| Net cash provided by financing activities | 2,005,861 | (9,994,778) - | #REF! | 4,344,110 | 538,110 | (3,106,697) | 2,182,751 | (415,098) |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | 1,129,253 | 5,507 | 1,134,760 | (834,462) | 1,626 | 301,924 | 85,339 | (83,422) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,853,253) | 2,524,888 | 671,635 | 26,164,478 | (32,126,797) | (1,534,910) | (412,741) | (519,313) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | 1,176,650 | 994,693 | 1,904,160 | 1,232,525 | 858,911 | 1,904,160 | 369,250 | (43,491) |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | 994,693 | 1,232,525 | 1,232,525 | 858,911 | 369,250 | 369,250 | (43,491) | 237,196 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:** | | | | | | | | |
| Cash paid during the period for interest | 359,521 | 506,911 | 866,432 | 269,589 | (237,322) | 1,136,021 | 233,864 | 233,864 |
| Cash paid during the period for income taxes | 14,246 | 235 | 14,481 | 290 | 55 | 14,771 | - | - |

## HISTORICAL STOCK PRICE


ELEPHANT TALK (W)
Price ($)
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1.0
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
10/2/13
12/25/13
3/19/14
6/11/14
9/3/14
11/26/14
2/18/15
5/13/15
8/5/15
10/28/15
1/20/16
4/13/16
7/6/16
<< 9/3/04
8/17/16 >>

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