Zacks Small-Cap Research

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Elephant Talk Communications Corp. (ETAK-NYSE)

ETAK: New Management Seeks Complete Overhaul to Right Size the Business

Current Recommendation	**HOLD**
Prior Recommendation	N/A
Date of Last Change	08/28/2015
Current Price (11/17/15)	$0.33
Target Price	**$0.36**

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 brand new Executive Chairman, who is a telecom turnaround specialist, vows a complete rethink and restructuring of the business that is hemorrhaging cash to be completed in the next few months. We expect a capital raise to fund operations in addition to the sale of the ValidSoft division.

SUMMARY DATA

52-Week High	**$0.97**
52-Week Low	**$0.28**
One-Year Return (%)	**-64.5**
Beta	**-.20**
Average Daily Volume (sh)	**128,672**
Shares Outstanding (mil)	**162**
Market Capitalization ($mil)	**$53**
Short Interest Ratio (days)	**4.7**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**16**
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	**N/A**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Wireless Nation**
Zacks Rank in Industry	**N/A**

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	3.5 A	4.7 E	32.2 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	-$0.03 A	-$0.02 E	-$0.01 E
2016					-$0.05 E

Zacks Projected EPS Growth Rate - Next 5 Years 10%

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WHAT'S NEW

Seasoned telecom executive and turnaround specialist, Robert H. (Hal) Turner, has flown into action to revamp Elephant Talk. Appointed Executive Chairman only 23 hours before yesterday earnings call, and given complete control, he has vowed a total overhaul of the company to right-size it based on zero-based budgeting and staffed with experienced professionals, and using proven sales strategies and organization.

In September, the company originally announced that it would split the role of Chairman of the Board and CEO and that Mr. van der Velden would remain Chairman, but step down as CEO when a replacement had been found. Subsequently he has resigned as Chairman, and Mr. Turner has been given total authority to fix the business, which is in dire straights. Tim Payne, President of Elephant Talk North America, has been appointed interim CEO.

The company is not in compliance with the loan covenants of its lenders, and at its current burn rate, it is unable to maintain operations without even more cash. In the third quarter just reported, the company had an EBITDA loss of $1.2 million and negative free cash flow of $3.8 million, higher than revenues itself. It showed net cash of $900,000 and debt of $6.1 million on its September 30, 2015 balance sheet. Clearly drastic measures need to be taken and we believe Mr. Turner with his extensive experience in running telecom businesses, business relationships and position in the venture community should be capable of extracting a functioning business model while raising cash to fund it going forward. The question is, at what price?

With 162.8 million fully diluted shares and a stock price of $0.36, it has a market cap of $58.6 and an enterprise value of $63.9 million. With Q3 sales of $3.5 million and thus a run rate of $14 million, the company is valued at times 4.6 enterprise value to sales. Will new investors fund the company at this valuation? What might future sales look like? How much cash will the company burn between now and cash flow break even? Will ValidSoft be able to be sold? If so, at what price? Looking to our former estimate of $22 million in sales in 2016, this is times 2.9 sales, but given new management and a new strategy who knows how 2016 will now play out.

Mr. Turner vowed quick action in weeks not months and we expect announcements of cost cutting and staff replacement and paring even before the fourth quarter is reported. Elephant Talk should be looked at as a startup that needs funding, with a small revenue stream and a solid, fully developed product that needs to be marketed. While continuing on the same course with the same management seemed difficult, if not impossible, we are optimistic with this new leadership.

To take the company to free cash flow breakeven at this revenue level, he needs to cut $3.8 million in expenses per quarter out of the business, which is higher than revenues. Certainly costs can be lowered with senior management changes. Capital expenditures, which have been running between $1.8 and $2.6 million per quarter, seem excessive at lower revenues. Could cash be reserved by using a sale/leaseback rather than purchase? And rationalizing operations will yield savings. But clearly revenues also need to ramp.

Q3 Results

GAAP revenues for the company came in at $3.5 million versus $4.4 million in Q3 2014 (down 22%) and our estimate of $4 million. Revenue was lowered by $550,000 due to currency as well as the loss of Iusacell as a customer due to its acquisition by AT&T (T). We believe in last year's quarter Iusacell contributed $1.4 million in revenue. Apples to apples therefore, revenues were up about a million in constant currency, ex-Iusacell.

Gross margins were 61% versus last year's 65% and expenses were $5.9 million versus $7.4 last year and $7.2 million in Q2. Product development dropped $700,000, Sales and Marketing was flat and G&A was also reduced by $700,000. This resulted in an operating loss of $3.8 million versus a loss of $4.5 million. This is an improvement, but clearly not enough given the limited cash resources of the company. The net loss for the company was $4.2 million versus a loss of $5.2 million last year.

The company has been historically run on a cash basis and had been adjusted EBITDA positive throughout 2014 and up until this quarter in 2015. Of concern however was free cash flow that hasn't been positive for years. We believe new management will focus its financial goals more conventionally and align more with shareholders than management now that the majority holder is no longer running the company but has a large ownership stake.

Forecasts

With new leadership that has yet to articulate any guidance or plans, it is impossible to come up with any accuracy in forecasts at this point. Since we were off in Q3, mostly due to currency, we are taking our Q4 number down slightly to $4.5 million from $4.7 million, which still reflects a loss of $0.02. We are expecting management to be taking a large write off as it clears the deck for 2016 and creates a reserve for future actions. Without including the possibility of a write-off, this will result in GAAP revenues of $32.2 million and a loss of $0.01 for this year, versus $20.4 million and a loss of $0.15 last year. Without Iusacell for all of 2015, revenues would have been $15 million and that is the baseline with which 2016 should be compared.

We are maintaining our 2016 forecasts until we have a better idea of what might change with new leadership, and believe the year may play out quite differently than originally thought.

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 company signed a new startup MVNO in Brazil, Surf Telecom, which just received its license on September 15, 2015. Brazil is one of the largest markets for mobile subscribers with over 280 million users. The company may also shortly sign another customer in the Netherlands.

- 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. It is currently significantly free cash flow negative. The company expects to have down GAAP revenues at least until 2016.

- We believe there is risk in the stock until the company finds financing to sustain operations as it ramps current and potential new customers. This may be achieved by the sale of ValidSoft, issuing new stock or debt or any combination thereof. While we believe in the long-term prospects of the company, short-term there are many

questions. As a result we are maintaining a hold until more of this risk is mitigated and we have more confidence in how to value the business.

CURRENT CUSTOMERS

Fifty percent of Elephant Talk's revenues in 2014, or $10.2 million came from Vodafone Spain. And in Q3, 88% of sales of the $3.5 million in revenues were from two customers.

Vodafone Spain

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%.

Vodafone's 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. 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.

EUTV Brazil (Surf Telecom)

Surf Telecom is a new startup offering in Brazil. It just was granted a Tier1 license on September 15, 2015 to provide mobile services in the entire country for 4G, 3G, 2G and IoT technologies. Its brand Surf Telecom will provide services to end users, corporates, government segment and other MVNOs using its MNVE license. It is unknown when it will launch.

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, and Simpati, a cross-border brand of Telecom Indonesia.

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 Opportunities

ETNA has an agreement with Verizon to provide a platform for its MVNOs. In this relationship, Elephant Talk is fully referenced when a virtual operator requires Enablement Services. A small team in the US supports this relationship. 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. The company has been marketing jointly with Verizon.

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.

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. He was replaced as Chairman by (Hal) Turner and Tim Payne, the President of Elephant Talk North America, is filling the CEO position temporarily. Mr. Turner plans a complete revamp of the company.
- The majority of the revenues are from one customer; 88% of revenues in Q3 were from 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 it is cash flow negative based on current operations since it lost its contract with Iusacell. The company stated it needs to raise between more money to maintain operations.
- The company recently restated all its financials since 2013 until the third quarter of 2014 to comply with US GAAP accounting.

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 1.8 times enterprise value to sales. They also trade at an average of 11.7x enterprise value to EBITDA. Using fully diluted market caps and using an average valuation we get a stock price of $0.26 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 $0.46 on an enterprise value to sales basis. Taking an average of the two, we get a current price of $0.36.

MVNEs

Company	Ticker	Revenue 2015E	Revenue LTM	EBITDA Margin	EV/TTM EBIDTA	Diluted Enterprise Value / Sales 2015E	Diluted Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
Amdocs	DOX	$3,667	$3,640	19%	10.6x	2.0x	2.0x	y	7,180
Redknee Solutions	RKN.TO	$220	$224	13%	15.6x	1.6x	1.5x	y	331
CSG Systems	CSGS	$749	$749	19%	9.0x	1.7x	1.6x	y	1,180
MER Telemanagement Sol	MTSL	NA	$10	-14%	-6.6x	NA	0.4x	n	4
Ericsson	ERIC	$28,550	$27,630	14%	7.2x	1.0x	1.0x	n	28,070
Average				**17%**	11.7x	**1.8x**	**1.7x**		**$2,897**

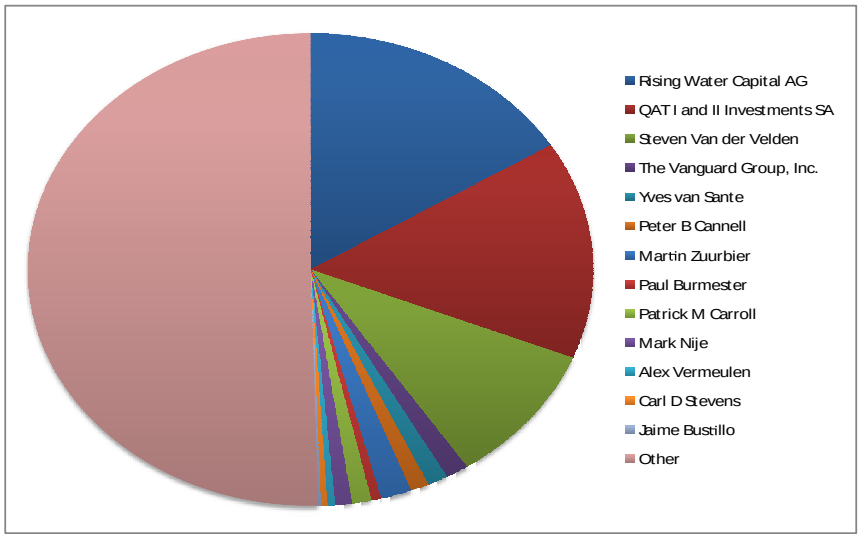
	Revenue 2016E	Revenue LTM	EBITDA Margin	Enterprise Value / Sales 2016E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
	$22	**$33**	**16%**	**1.8x**	**1.7x**	**$39**	**$56**

YoY growth

Conclusion of Enterprise Value	**$47,537,032**	**$107,854,667**		
Market Value	**$42,272,892**	**$102,590,527**		
Shares Outstanding	163,173,287	163,173,287		
Price per Share	**$0.26**	**$0.66**		**$0.46**

OWNERSHIP- As of October 19, 2015

The float on the stock is approximately 130 million shares or 50% of the 161.6 million shares outstanding as of October 19, 2015. 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 41% of the total outstanding. Insiders hold 43% of the stock.



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 2015 30-Sep	Q4 2015E 31-Dec	2014	2015E	2016E
Non-GAAP (cash) revenues	6.2	6.8	7.7	8.3	$8.0	$7.4	$3.4	$4.4	28.6	23.1	29.4
Total GAAP revenue	**5.4**	**5.1**	**4.4**	**5.5**	**5.0**	**19.2**	**3.5**	**4.5**	**20.4**	**32.2**	**22.4**
Yr-to-yr Growth	-14%	42%	8%	-1%	-7%	279%	-22%	-17%	4.7%	58.4%	-30.5%
Vodaphone	3.1	2.4	2.0	2.7	2.1	1.3	1.4	1.5	10.2	6.3	11.0
Iusacell	1.3	2.4	1.4	-0.1	1.3	15.5	0.0	0.0	5.1	16.8	0.0
Rest of Sales	0.8	0.3	1.0	2.9	1.6	2.5	2.0	2.9	5.1	9.0	11.4
Cost of services	1.6	1.8	1.6	1.6	1.9	1.4	1.4	1.7	**6.7**	8.0	5.9
Gross profit	3.7	3.2	2.9	3.8	3.1	17.8	2.1	2.8	13.7	24.2	16.5
Gross Margin	69.6%	63.6%	64.8%	70.0%	62.7%	92.5%	60.9%	62.2%	67.1%	75.2%	73.6%
Operating expenses:											
Product Development	1.7	2.3	1.7071	1.5	1.0	1.5	1.030143	1	7.2	4.6	5.5
Sales and Marketing	0.6	0.7	0.6	0.6	0.7	0.3	0.64068	0.64068	2.4	2.3	3.4
G&A	3.0	3.5	3.2	2.8	3.0	2.7	2.5	2.2	12.6	10.3	8.2
Depreciation and Amortization	2.0	1.9	1.9	2.4	1.7	1.7	1.8	1.8	8.2	7.1	7.1
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	5.9	5.6	30.4	25.1	24.1
Operating income:	(3.6)	(5.1)	(4.5)	(3.5)	(3.3)	10.6	(3.8)	(2.8)	(16.8)	(0.9)	(7.6)
Operating margin	-66.6%	-100.7%	-101.9%	-65.0%	-65.1%	55.2%	-109.4%	-62.7%	-82.4%	-2.8%	-34.1%
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
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)	(0.6)	(0.3)	(0.3)	(1.2)	(1.5)	(1.1)
Int exp. For debt discount & converstion feature	(0.9)	(1.0)	(1.3)	(0.7)	(0.1)	(0.4)	(0.1)	-	(3.9)	(0.6)	-
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	-	-	(0.1)	0.4	-
Loss on extinquishment of debt	(0.0)	-	0.6	(0.0)	2.5	-	-	-	0.6	2.5	-
Other income	0.0	0.1	0.3	(0.2)	(1.2)	0.2	0.1	-	0.2	(1.0)	-
Amortization of deferred financing costs	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.4)	(0.0)	(0.1)	(0.5)	(0.5)	-
Total other income	(1.5)	(1.3)	(0.8)	(1.3)	1.1	(1.0)	(0.3)	(0.3)	(4.9)	(0.6)	(1.0)
Income before income taxes	(5.1)	(6.4)	(5.3)	(1.9)	(2.2)	9.6	(4.1)	(3.1)	(21.6)	(1.5)	(8.6)
Provision for income tax	0.1	0.00	(0.0)	0.1	(0.1)	0.1	0.0	-	0.2	0.0	-
Tax rate	-3%	0%	1%	-6%	3%	1%	0%	0%	-1.0%	0.0%	0.0%
Net income	(5.2)	(6.4)	(5.2)	(2.0)	(2.1)	9.5	(4.2)	(3.1)	(21.9)	(1.5)	(8.6)
Currency translation	(0.0)	(0.1)	(2.3)	(1.0)	(1.7)	0.5	-	-	(3.4)	(1.2)	-
Comprehensive loss	(5.2)	(6.6)	(7.5)	(3.0)	(3.8)	10.0	(4.2)	(3.1)	(25.3)	(2.7)	(8.6)
Stk based compensation	0.8	1.9	0.9	0.4	0.8	0.8	0.9	0.9	3.9	3.5	2.6
One-time expenses	(0.0)	-	0.6	(0.0)	(2.5)	(15.3)	(0.2)				
Non-GAAP Income	(4.5)	(4.5)	(3.8)	(1.7)	(5.5)	10.3	(3.2)	(2.2)	(20.7)	1.9	(5.6)
Yr-over-Yr									20.4%	-109.3%	NM
Net income per share:											
Basic	**(0.04)**	**(0.04)**	**(0.04)**	**(0.01)**	**(0.01)**	**0.06**	**(0.03)**	**(0.02)**	**(0.15)**	**(0.01)**	**(0.05)**
Non-GAAP Primary	(0.03)	(0.03)	(0.03)	(0.01)	(0.04)	0.07	(0.02)	(0.01)	(0.14)	0.01	(0.03)
Shares											
Basic	141.8	146.5	149.5	151.6	154.9	156.4	160.2	161.6	147.7	158.3	167.0
	25.7%	23.4%	11.2%	12.3%	9.2%	6.8%	7.2%	6.6%	17.0%	7.1%	5.5%
Diluted	143.3	148.0	151.0	153.1	156.4	157.9	161.7	163.2	149.3	159.8	168.6
	25.4%	23.1%	11.1%	12.1%	9.1%	6.7%	7.1%	6.6%	-28.1%	7.1%	5.5%
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	($1.21)		1.90		
Cap EX	1.80	2.13	1.68	2.20	1.51	2.60	2.61		7.82		
Free cash flow	(1.80)	(1.69)	(0.23)	(0.15)	0.79	(0.41)	($3.83)		(5.91)		

BALANCE SHEET

CONSOLIDATED BALANCE SHEETS - RESTATED (USD $)	Sept 30, 2015	June 30, 2015	% Change
CURRENT ASSETS			
Cash and cash equivalents	**$858,911**	**$1,232,525**	-30%
Restricted cash	**383,283**	**304,676**	26%
Accounts receivable	2,812,162	3,720,881	-24%
Prepaid expenses and other current assets	1,677,013	1,549,827	8%
Total current assets	5,731,369	6,807,909	-16%
NON-CURRENT ASSETS			
OTHER ASSETS	1,096,774	1,105,224	-1%
PROPERTY AND EQUIPMENT, NET	17,445,139	17,528,492	0%
INTANGIBLE ASSETS, NET	3,275,756	3,756,889	-13%
GOODWILL	3,115,142	3,076,526	1%
TOTAL ASSETS	30,664,180	32,275,040	-5%
CURRENT LIABILITIES			
Accounts payable and customer deposits	1,923,945	3,783,252	-49%
Obligations under capital leases (current portion)	493,858	706,385	-30%
Deferred Revenue	1,971,150	2,649,051	-26%
Change in deferred revenues	**(677,901)**	**(10,241,999)**	-93%
Accrued expenses and other payables	2,630,359	3,022,436	-13%
2014 10% + libor 3rd Party Loan (net of OID of $798,894 at December, 2014)	**5,839,533**	**0**	
Total current liabilities	12,858,845	10,161,124	27%
LONG TERM LIABILITIES			
10% 3rd Party Loan (net of Debt Discount of $332,304 at June 30, 15)	**0**	**1,740,365**	-100%
Non-current portion of obligation under capital leases	37,340	95,532	-61%
Other long term loan	**283,518**	**294,632**	-4%
Non-current portion of deferred revenue	1,111,764	541,577	105%
Total long term liabilities	1,432,622	2,672,106	-46%
Total liabilities	14,291,467	12,833,230	11%
Commitments and Contingencies (See Notes)			
STOCKHOLDERS' EQUITY			
Common Stock	268,147,697	266,995,681	0%
Accumulated other comprehensive income (loss)	(4,395,196)	(4,330,752)	1%
Accumulated deficit	(247,388,888)	(243,232,551)	2%
Elephant Talk Communications, Corp. stockholders' equity	16,363,613	19,432,378	-16%
NON-CONTROLLING INTEREST	9,100	9,432	-4%
Total stockholders' equity	16,372,713	19,441,810	-16%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$30,664,180	$32,275,040	-5%
Current and Quick Ratio	0.4	0.7	-33%
Net cash	$858,911	$1,232,525	-30%
Working Capital	(7,127,476)	(3,353,215)	113%
Total Debt	6,123,051	2,034,997	201%

CASH FLOW

	31-Mar-15	30-Jun-15	30-Sep-15
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(2,125,173)	9,521,918	(4,156,337)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,746,147	1,745,034	1,781,478
Provision for doubtful accounts	8,184	17,230	(25,414)
Stock based compensation	831,813	752,510	937,101
Change in fair value of warrant liability	(246,702)	(149,203)	-
Amortization of deferred financing costs	62,502	362,845	41,224
Interest expense relating to debt discount and conversion feature	63,972	403,679	125,086
Unrealized foreign currency translation gain (loss)	1,191,270	(155,252)	(82,760)
Extinguishment of Debt	(2,475,799)	-	4,951,598
Impairments for assets held and used	-	937,835	-
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	(5,983,834)	10,289,300	994,422
Decrease (increase) in prepaid expenses, deposits and other assets	489,564	610,503	(112,891)
Increase (decrease) in accounts payable and customer deposits	626,729	1,401,175	(207,308)
Increase (decrease) in deferred revenue	2,981,659	(11,871,208)	17,896,808
Increase (decrease) in accrued expenses and other payables	296,266	(1,037,134)	(447,693)
Increase (decrease) in non-cash accrued expenses related to extinguishment of Debt	-	-	
Net cash provided by (used in) operating activities	(2,533,402)	12,829,232	21,695,314
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	**(1,511,179)**	**(2,602,129)**	**(2,612,460)**
Net cash used in investing activities	(1,511,179)	(2,602,129)	(2,612,460)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Financing related fees	-	(67,445)	(83,223)
Financing receivable	2,000,000	-	0
Exercise of warrants and options	5,861	-	0
Interest paid for property and equipment acquired under capital leases		-	0
Principal payment on 2014 10% LIBOR 3rd Party Loan		(9,927,333)	4,427,333
Net cash provided by financing activities	2,005,861	(9,994,778)	4,344,110
		-	
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	1,129,253	5,507	(834,462)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(909,467)	1,581,102	
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,176,650	994,693	1,232,525
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	994,693	1,232,525	858,911
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	359,521	506,911	269,589
Cash paid during the period for income taxes	14,246	235	290

HISTORICAL ZACKS RECOMMENDATIONS



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