

[Begin NBT - VELATEL - 1]

Toby Smith: Toby Smith, Next Big Thing Investing. I'm here with George Alvarez from Fele – did I say FeleTel? I meant VelaTel. We are talking about sorta the next big thing in wireless. He's obviously wireless broadband, 4G LTE. Well VelaTel is in the business acquiring the spectrum to be able to build this into networks, do it as a mobile – excuse me. A mobile virtual network operator, MVNO.

But first, you're gonna break a little news because George and I have been down the path for the last three years and as this company has built, he's sort of focused the business. So part of the focus is saying sometimes you make a move and it's time to get out of it. So Peru? You guys are gonna be selling your Peru operation, I understand.

George Alvarez: Yes, that's being announced today. We're looking at terminating that particular market and moving forward focusing on our Asia market and our European market.

Toby Smith: Well, as investors, we like to hear that. We like you and your company 'cause you got so many hot things going. We want you to the hottest things up front, and then when you have a competitive issue, as down in Peru, time to go. So congratulations. That's a great move.

Let's talk about some of the new stuff. You just closed on a transformative acquisition here with China Motion. Tell me about, first **how** MVNO – explain to the audience what an MVNO is.

George Alvarez: That's, like you said, a mobile virtual network operator. In essence, what you're doing is you're partnering with local incumbents and you're selling –

Toby Smith: Wireless carriers.

George Alvarez: Wireless carriers, and you're purchasing wholesale minutes of voice and data, and you're reselling those under your private brand.

Toby Smith: So you're buying wholesale. You're selling it at a retail price, and the difference is – or the difference between the price you buy is your profit. But marketing is a big part of that, right? In other words –

- George Alvarez:* Yeah, no, it's your brand. You create your own distribution network. You create your own brand name. You, in essence, it's running a mobile virtual network without having the expense of creating a greenfield environment the way we did in Peru.
- Tobin Smith:* Where you had to build everything from scratch.
- George Alvarez:* Build everything from scratch.
- Tobin Smith:* So but China Motion is a special type of MVNO because they – tell us about the license.
- George Alvarez:* Well, most MVNOs are network operators via licensing agreement with the carrier, or an incumbent.
- Tobin Smith:* So like Sprint. Here in the United States, where they had clear wires. In other words, where they –
- George Alvarez:* Well, you have Virgin Mobile here.
- Tobin Smith:* Virgin Mobile.
- George Alvarez:* You have Boost Mobile here. They're all aligned with one carrier or another, or multiple carriers, but they basically contract with the local incumbent.
- Tobin Smith:* And they buy a certain amount of minutes. They agree to buy a certain amount of minutes at a certain price, and then that contract rolls over. So the existing carrier could go to you, Virgin Mobile, and say, "You know what? Three dollars a minute was okay, but we'd really like \$4.00 a minute," and you guys say –
- George Alvarez:* Yeah, you're stuck.
- Tobin Smith:* You're stick.
- George Alvarez:* Yeah, you're stuck.
- Tobin Smith:* So China Motion has a different type.
- George Alvarez:* Yeah, China Motion, the license is granted by the government. They have the rights issued them by the government to acquire these wholesale minutes. Actually, it's under wholesale, frankly.
- Tobin Smith:* Yeah, 'cause you're buying it at way, way bulk.

- George Alvarez:* Yeah. And they could pick and choose any one of the local carriers and whoever gives 'em the best rate, that's who they buy them bulk minutes from for that period of time, for that year. Typically, the way it's done is they'll do it – they'll buy it for multiple incumbents at the same time so that you get the best possible rates.
- Tobin Smith:* Right. So in China Motion, we're gonna get back to sorta why the sale. But in essence, you bought this company for about \$60.00 a subscriber, and MVNOs, the last one I looked at, was \$700.00 a subscriber. So you got a great deal. The company you bought, you have 100-percent ownership of.
- George Alvarez:* Correct.
- Tobin Smith:* They had cash in the bank when you took them over.
- George Alvarez:* Correct.
- Tobin Smith:* All right. So this is a platform for you to not only expand their business, but when we get back, we're gonna talk about how you're gonna take that MVNO model and bring that into China.
- George Alvarez:* Correct.
- Tobin Smith:* All right. So, VelaTel is a company that has been down the road making strategic decisions, investments, et cetera, and now they're to the point where they made the – I think they made the acquisition that allows them to take their whole strategy of building these 4G, LTE, broadband wireless – wireless broadband into markets where they could make a profit margin, where they have a competitive advantage, and we'll come back. But the next thing in 4G LTE s right here, VelaTel Global.

[End NBT - VELATEL - 1]

[Begin NBT - VELATEL - 2]

- Tobin Smith:* Toby Smith, the Next Big Thing Investor, here with George Alvarez from VelaTel Telecommunications. All right, we're talking about absolute here. You guys have had the lessons – pretty expensive lessons, by the way, and yet you've learned them. So let's talk about China. You originally went into China with the idea that you were gonna be a 49-percent minority owner of an incumbent telecommunications company. It didn't work out. So instead of going "boo hoo," running home, you came from with a

new strategy. So tell me what the new strategy is and why it's so much better.

George Alvarez: Well, obviously, the company was created with the idea of becoming a telecom carrier in China. That was our goal. That was the Holy Grail, so to speak. With regard to being a telecom operator, that's really where you wanted to be. Regulatory restrictions were cumbersome, obviously. You remember that back then.

Tobin Smith: Yeah, a little bit.

George Alvarez: And it created an environment where it was impossible for us to conduct business –

Tobin Smith: Your partners stole money from you, all that stuff like that. Right, okay.

George Alvarez: It was bad. It was a bad situation.

Tobin Smith: Fast forward today. What's the new strategy?

George Alvarez: Well, first of all, it's 100-percent control –

Tobin Smith: You own 100-percent control. Very good.

George Alvarez: 100-percent control. There's no –

Tobin Smith: There's \$100 million lesson right there.

George Alvarez: \$300 million.

Tobin Smith: \$300 million, okay.

George Alvarez: \$300 million lesson. So that's really it. We never lost our focus in that we knew we wanted to be in China. We knew that that was the place –

Tobin Smith: You tell them.

George Alvarez: That's what we wanted. So it took us a little bit, but we came back around full circle. Now we control our destiny in China. We're 100-percent owned. We have what we think is a solid company with a very nice subscriber foundation.

Tobin Smith: Well, China Motion revenue-wise for 2013, what's your forecast? What's your –?

George Alvarez: I think the whole company – I'll do the whole company as a whole. China Motion will probably be close to \$20 million. It spits out some pretty good EBITDA, probably close to \$3 million or \$3 million EBITDA. Zapna is gonna do \$4 million or \$5 million.

Tobin Smith: And Zapna is your –

George Alvarez: We'll talk about that when – in a little bit.

Tobin Smith: All right. Keep going. Keep going.

George Alvarez: Stay with China Motion. So we think conservatively, we'll be at about \$25 million for 2013, and then growing exponentially from thereafter. But China Motion gives us 100-percent ownership of what they have this MVNO. It's MVNO in Hong Kong. They have the right to distribute telephone numbers and SIMS in Hong Kong, and in China, in Hong Kong and Taiwan, for instance.

So I don't know if you know this, but China just recently announced t it's gonna be issuing six MVNO licenses.

Tobin Smith: I feel like Johnny Carson. I did not know that. So this would be a nationwide MVNO license.

George Alvarez: MVNO license.

Tobin Smith: And why are they doing that, George?

George Alvarez: Increased competition, which was the original intent four years ago.

Tobin Smith: Yes, right. It all comes around. If you just wait and spend enough money, stuff comes around, right?

George Alvarez: Right. Well, the MVNO, one of the virtues of the MVNO is you don't have to spend the greenfield money. You, in essence, put in a couple of racks in existing network operation centers. You control your own SIM.

Tobin Smith: You have your own SIM card.

George Alvarez: You have your own SIM. You have – you control your own numbers, your own marketing, but you use the infrastructure of incumbents.

Tobin Smith: But if I'm one of the 1.1 billion people who have a cell phone in China, I can take your SIM, on an Android phone or, et cetera, unlocked phone, put it in –

George Alvarez: Right.

Tobin Smith: – and now –

George Alvarez: They're my subscriber.

Tobin Smith: – they're your subscriber. All right. When we come back, we're gonna talk about so how they plays out in China, then it applies to your business-to-business networks there with the large-state operated, and then we'll wind up with Zapna after that. How 'bout that?

George Alvarez: Okay. Sounds good.

Tobin Smith: All right. George Alvarez from VelaTel. 4G LTE is the next big thing, and these guys are right in the middle.

[End NBT - VELATEL - 2]

[Begin NBT - VELATEL - 3]

Tobin Smith: Hey, Toby Smith with the Next Big Thing Investor, here with George Alvarez from VelaTel. These guys are building 4G LTE networks in a couple part sort of the world. One is in the Balkan area, which you guys, again, another one, own 100-percent of, right? But in China, you have two huge opportunity that have sorta been hard for us to figure out.

One is what's called NGS. Then you'll talk about one is with China Aerospace. These are multi-billion dollar companies. Why would they want do business with you in building their own networks? Why don't they deal with China mobile or China telecom?

George Alvarez: Well, a couple reasons. Typically, state-owned companies like that like to not be so dependent on other state –

Tobin Smith: – owned companies. Okay.

- George Alvarez:* -- owned companies. So they tend to create their own environment. They each have very specific needs. So those needs are what created the opportunity for us, and hiring our company and partnering with our company to create solutions for their not only internal communications, but also different projects that got presented to these state-owned companies throughout the regions, throughout the provinces --
- Tobin Smith:* And you guys would essentially be the systems integrators, the guy on the street --
- George Alvarez:* Well, we -- again, you say for the last four years we're architects and engineers. We were engineer stuff.
- Tobin Smith:* Yes, I understand that.
- George Alvarez:* And then we would deploy it, but under a joint venture model. Under what we expect to happen, obviously, we're gonna be applying very aggressively for one of the China MVNO licenses. We think we have a pretty good position there because --
- Tobin Smith:* Sure, 'cause you already have --
- George Alvarez:* -- we have a Hong Kong that's granted -- Hong Kong license that's granted by the government, and we think that we'll have a pretty good play at it. We're gonna make a run at it. Let's put it that way.
- Tobin Smith:* All right. Love it. All right, so --
- George Alvarez:* We're gonna make a run at it.
- Tobin Smith:* -- but of the \$25 million of revenue here, I call these your business-to-business networks. Are there revenues this year from that, or is that something that's really next year that --
- George Alvarez:* No, no. It's I'm in the positive now.
- Tobin Smith:* Is it not? Okay.
- George Alvarez:* No. It's not build it and they will come. It not *The Field of Dreams* anymore. That was the old George. *The Field of Dreams* George --

Tobin Smith: This is now Missouri George. He's the Show Me George. Show me the money, show me the 100-percent control, and we're good to go. All right.

George Alvarez: So *The Field of Dreams* plan doesn't work. So now we buy existing subscribers –

Tobin Smith: Now Kevin Costner. He's now moved to Kevin Costner, yeah.

George Alvarez: That doesn't work.

Tobin Smith: All right. Good.

George Alvarez: So we bought subscribers. We bought EBITDA, and then we synergized – I don't know if that's a word, but we synergized –

Tobin Smith: Synergized. I know English is your second language, so I understand.

George Alvarez: Yeah.

Tobin Smith: All right. But so the big idea here is that you can take this MVNO skill. You can provide it to NGS. And these are \$10 billion-\$12 billion companies in China, by the way.

George Alvarez: Right.

Tobin Smith: And they have 50,000 employees I think in –

George Alvarez: Couple hundred.

Tobin Smith: Couple hundred thousand.

George Alvarez: Yeah.

Tobin Smith: So you're building a network for the couple hundred thousand people first, right? And then you can bring it to the public?

George Alvarez: Correct. I'll explain a little bit on that. I won't take too much time. But in essence, they also get delivered special projects. For instance, a province or a city would go to them and say, "I want to design a camera monitoring traffic control systems, wirelessly for this providence or for this city." Since they're a state-owned company, they would accept that contract and, in essence, use us to provide those –

Tobin Smith: And they would go to a state-owned bank to finance it.

George Alvarez: Or they do it themselves.

Tobin Smith: Or they do it themselves, okay.

George Alvarez: Yeah. They finance it themselves.

Tobin Smith: All right. So that business is actually EBITDA positive. No, I did not realize that, okay?

George Alvarez: Yeah.

Tobin Smith: Okay. And how will that grow? Is that a contract-by-contract basis, or –

George Alvarez: Yeah. No, we pick and choose those contracts, and it's all dependent since we're designing and engineering. It's all dependent on the revenues.

Tobin Smith: All right. So here's our concept. We're making a accretive acquisitions. We're making accretive business operations. We're getting out of the ones that are sucking the cash away from us, and we're putting the cash – deploying it in areas where we have operational leverage, where you own 100 percent, and 'cause this all consolidates, you could forecast this year that you would probably at least break even. I mean you're be in cash flow positive this year?

George Alvarez: Yeah, yeah.

Tobin Smith: Okay. VelaTel cash-flow positive. Those are not works we've ever been able to use before, George, so thank you very much. We're gonna come back and we're gonna just sorta final up with Zapna, which is another sort of company that fits into this big thing. And the next big thing is 4G LTE, and around the world, right here, VelaTel's bringing it to you.

[End NBT - VELATEL - 3]

[Begin NBT - VELATEL - 4]

Tobin Smith: Hi. This is Toby Smith with the Next Big Thing Investor. We're here with George Alvarez, VelaTel, the new cash flow positive, 100-percent in control VelaTel, which I love. All right.

So you bought Zapna this – describe this technology _____.
Everybody knows what a SIM chip is. That's what you put in your iPad or that's what you put in your phone that connects you to the network. What does Zapna do /we were calling it the SIM condom. In other words it's you put something over your SIM and it allows me to get a lot cheaper telephone service and data, right?

George Alvarez: Yeah, you basically add another number to your phone either through this sticky product. It's a dual-band product where it creates opportunities –

Tobin Smith: It's a SIM over your SIM.

George Alvarez: Yeah. It basically sticks on. That's one of the solutions they have. They also have an application. For instance, you could download their application from Android or from –

Tobin Smith: Apple?

George Alvarez: – Apple, and pretty much accomplish the same thing with regard to cheaper long distance and roaming rates –

Tobin Smith: Really?

George Alvarez: – via an application.

Tobin Smith: I just got a \$900.00 bill from roaming in South Africa. Are you telling me that I was an idiot? I coulda put your product on?

George Alvarez: One phone call. Woulda been easy.

Tobin Smith: Coulda had a V-8, for crying out loud. All right.

George Alvarez: So Zapno is – by the way, just so that people know, last year we've received numerous e-mails where we didn't do much, but our company acquired four companies in 12 months. We acquired Zapna, **Creatia**, _____ –

[Crosstalk]

Tobin Smith: How many miles did you fly last year?

George Alvarez: A lotta miles. Over a million miles.

Tobin Smith: Over a million miles.

George Alvarez: And we bought China Motion, all within a year, in creating what we're discussing today.

Tobin Smith: I have never accused you of slacking off.

George Alvarez: Yeah.

Tobin Smith: Okay? I've accused you having a hook golf swing, but I never accused you – actually, you're more of a pusher.

George Alvarez: I'm better than you

Tobin Smith: Fine. Let's not diffuse here.

George Alvarez: That's a lie. He plays way too much golf.

Tobin Smith: Thank you very much.

George Alvarez: I know him.

Tobin Smith: Zapna is now a business where – how do you get paid? How do you make money from it?

George Alvarez: Kinda like an MVNO in that they'll purchase wholesale minutes. As a matter of fact, it's exactly like an MVNO. They'll purchase wholesale minutes –

Tobin Smith: It's a virtual mobile virtual network, right?

George Alvarez: Right, but more for the hard line. It'll also do hard lines, but now with the sticky and their application –

Tobin Smith: What's the sticky?

George Alvarez: Sticky SIM. That product –

Tobin Smith: Okay. I was afraid to ask, but, yeah.

George Alvarez: I call it a sticky SIM.

Tobin Smith: All right, good.

George Alvarez: Like it's your condom. I call it a sticky SIM.

Tobin Smith: All right. So we're moving away from the condom quickly. So the customer either downloads this or applies this. Then like my \$900.00 bill in South Africa, I woulda have –

George Alvarez: The phone would prompt you.

Tobin Smith: Would prompt me to –

George Alvarez: Do you wanna use this number or this number? If you use this number, it'll cost you a quarter.

Tobin Smith: A quarter, right.

George Alvarez: If you use this number, it'll cost you \$5.00.

Tobin Smith: I'll go a quarter.

George Alvarez: You go a quarter. So the way Zapna makes money is you subscribe to their service. You load up \$20.00 a month, for instance, and if you're in their territories, you choose that route on your phone. The phone will actually prompt you which you want to go.

Tobin Smith: Very cool. So how many countries now are you guys in?

George Alvarez: Zapna is about seven countries, and I'm gonna give you another announcement today. We've also signed a contract to distribute Zapna products in the Middle East and Northern Africa with Saudi Arabia and partner that is gonna be part of this entire global vision with regard to mobile virtual networks, which is what I consider Zapna to be. And, also, China Motion, moving into countries like China.

Tobin Smith: All right. We're gonna close up with one final segment, and we're gonna talk about what VelaTel has really, because you are 4G LTE, but really the strategy as to how do you take the MVNO concept and be able to apply it into different markets, different modalities, if you will, and that bus, by the way, Virgin Mobile just sold about \$12.5 billion, and about \$4 billion of that value was for their MVNO. So I like this I like the fact that there's someone we can point to. And MVNOs are valued on a per-subscriber basis, by the way, and I will show you why you guys are so undervalued.

So VelaTel Global Telecommunications is here. They are the next big thing in MVNOs, and that's not bad place to be.

[End NBT - VELATEL - 4]

[Begin NBT - VELATEL - 5]

Tobin Smith: All right, Toby Smith. We're talking about the next big thing, and the next big in mobile virtual network operators, MVNO, is VelaTel. Our friend, George Alvarez here. All right. So let's put it all together now. We have a strategy where you are able to take – sell subscriptions for data, for voice, for sort of the triple play here. You're able to buy the minutes at a low wholesale price or bulk price. You're able to sell those minutes in Incredibles – at much higher prices.

George Alvarez: And data.

Tobin Smith: And data. And you're able to save – I mean the money on Zapna is incredible versus roaming. The roaming charges – \$900.00 for freaking roaming charges. You're saying I could do it I \$5.00 a minute or I coulda done it at 25 cents a minute.

George Alvarez: Correct.

Tobin Smith: That's like AT&T ad. Is 25 cents better than \$5.00? Right?

George Alvarez: Right, right.

Tobin Smith: So this all wraps into now having an infrastructure to have marketing, which was always not your guys' biggest strong suit. So now you have an MVNO company that has proven they have 100,000 customers. They know how to market MVNOs. We can take that marketing capability not just in China and in Hong Kong, and in Taiwan, but we can take it anywhere, right?

George Alvarez: Correct. They have a great management team. They've been in the Hong Kong market I think for over ten years. They –

Tobin Smith: They got a cool website, by the way.

Tobin Smith: They have more than 100,000 subscribers, but they're really a 2G network, so strictly were strictly a voice. The previous owners didn't feel like that was their business. It wasn't their forte. They're actually real estate guys, believe it or not.

Tobin Smith: Which is why they sold you the business.

George Alvarez: Yeah. They had a public company that had assets in it, and they sold off the assets and then sold off to public company.

Tobin Smith: So you're upgrading it to 4G, correct?

George Alvarez: Upgrade to 4G, as we speak, and that will create the increased revenues for our company.

George Alvarez: 'Cause you're gonna be able to raise rates to these people, right?

George Alvarez: Yep. But more importantly, I can also use those trunk lines so to speak to assist companies like Zapna in increasing their distribution because of the rates that China Motion could get, or anyone that wants to call into China or Asia, for that matter.

Tobin Smith: This almost sounds like a strategy, George.

George Alvarez: It took a while. So \$300 million **strategy**.

Tobin Smith: *[Laughs]* We laugh because we love George. We laugh, and helps eliminate some of the pain. Now, on a valuation basis, you've got 177 million shares outstanding. You've closed the China Motion deal. You've got \$5 million or \$4.8 million to refinance, right? There's a six-month window on that?

George Alvarez: Yeah.

Tobin Smith: Okay.

George Alvarez: That's a debt.

Tobin Smith: Right. So the idea on – oh, by the way, you're cash flow positive on it, so you're paying on this note, right? You're paying from the cash flow that you bought, you're paying for the note.

George Alvarez: We did a very good deal.

Tobin Smith: I love that. All right. So you're gonna refinance that or pay that off, right?

George Alvarez: We're gonna pay it off.

Tobin Smith: Okay. So you pay it off either with cash. Would assume that you would be doing an equity raise or another debt round to pay off this note?

-
- George Alvarez:* Well, one of the reasons – this is the cheapest financing I could get from the seller.
- Tobin Smith:* I understand. Yes, basically, nothing. Go ahead.
- George Alvarez:* Basically nothing. So for us, we felt that increasing the stock value would enable us to, in essence, think of it like a refinance that for a much cheaper rate, we didn't have to use any stock for acquisition.
- Tobin Smith:* Like to hear that.
- George Alvarez:* So we're trying to control that. We're trying to control the dilution of shareholders. We're trying to not to issue stock to pay the bills, and for the first time –
- Tobin Smith:* From your lips to God's ears.
- George Alvarez:* Well, for the first time, that's what's happening. We don't have to sell stock to cover the –
- Tobin Smith:* Well, Heaven forbid as a cash flow positive company, if you're – remember, MVNO subscribers are valued between \$500.00 and \$650.00 per subscriber. Those are the private company transactions. If you take all of your subscribers at the end of this year, let's say you'll have 200,000 or 150,000 subscribers on various things –
- George Alvarez:* We think 200,000.
- Tobin Smith:* All right, 200,000 – that should be \$120 million-value in the private market. You guys are currently somewhere in the \$7 million to \$8 million market cap. Seems like there's a little room to improve here. Now Heaven forbid that we have positive cash flow in the stock price is so undervalued. There may be even a reason to buy some of this stock back. I wouldn't wanna encourage that, but I'm just saying is you have a strategy now. You really the MVNO type player in multiple areas. You have positive cash flow, accretive cash flow. Now's the time to fly, son.
- George Alvarez:* I will try.
- Tobin Smith:* All right, man. Great to have you with us.
- George Alvarez:* Thank you, Tobin.

Tobin Smith: This is George Alvarez, VelaTel. The Next Big Thing and the 4G LTE MVNOs – try that, again, is right here.

[End NBT - VELATEL - 5]

[End of Audio]