

# FORM 10-Q

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **September 30, 2011**

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**000-30061**

(Commission file No.)

**ELEPHANT TALK COMMUNICATIONS, CORP.**

(Exact name of small business issuer as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**95-4557538**

(I.R.S. employer identification no.)

**19103 Centre Rose Boulevard**

**Lutz, FL 33558**

**United States**

(Address of principal executive offices)

**+ 1 813 926 8920**

(Issuer's telephone number, including area code)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ( § 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer  Accelerated filer  Non-Accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 9, 2011, there were 112,882,980 shares of the Company's common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

**ELEPHANT TALK COMMUNICATIONS, CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(UNAUDITED)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,845,983	\$ 2,245,697
Restricted cash	192,028	190,312
Accounts receivable, net of an allowance for doubtful accounts of \$264,696 and \$119,044 at September 30, 2011 and December 31, 2010 respectively	6,714,739	5,600,562
Prepaid expenses and other current assets	1,436,478	2,337,914
<b>Total Current Assets</b>	<u>19,189,328</u>	<u>10,374,485</u>
<b>LONG TERM DEPOSITS</b>	675,757	610,486
<b>PROPERTY AND EQUIPMENT, NET</b>	13,134,544	8,452,588
<b>INTANGIBLE ASSETS, NET</b>	14,544,434	16,253,587
<b>GOODWILL</b>	<u>3,316,692</u>	<u>3,230,786</u>
<b>TOTAL ASSETS</b>	<u>\$ 50,860,755</u>	<u>\$ 38,921,932</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Overdraft	\$ 302,605	\$ 356,738
Accounts payable and customer deposits	3,686,149	4,703,875
Deferred Revenue	417,544	—
Accrued expenses and other payables	3,278,146	3,843,938
Loans payable	957,730	877,357
<b>Total Current Liabilities</b>	<u>8,642,174</u>	<u>9,781,908</u>
<b>LONG TERM LIABILITIES</b>		
Trade note payable	392,590	—
Loan from related party	503,173	468,756
<b>Total Long term Liabilities</b>	<u>895,763</u>	<u>468,756</u>
<b>Total Liabilities</b>	<u>9,537,937</u>	<u>10,250,664</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, no par value, 250,000,000 shares authorized, 109,853,289 issued and outstanding as of September 30, 2011 compared to 88,660,848 shares issued and outstanding as of December 31, 2010	214,247,496	183,825,665
Accumulated other comprehensive income (loss)	412,941	(519,020)
Accumulated deficit	(173,524,190)	(154,818,436)
Elephant Talk Communications, Corp. Stockholders' Equity	<u>41,136,247</u>	<u>28,488,209</u>
<b>NON-CONTROLLING INTEREST</b>		
<b>Total Stockholders' Equity</b>	<u>186,571</u>	<u>183,059</u>
<b>Total Stockholders' Equity</b>	<u>41,322,818</u>	<u>28,671,268</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 50,860,755</u>	<u>\$ 38,921,932</u>

The accompanying notes are an integral part of the unaudited consolidated financial statement

**ELEPHANT TALK COMMUNICATIONS, CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS**  
(UNAUDITED)

	<b>For the Three Months</b>		<b>For the Nine Months</b>	
	<b>Period ended September,</b>		<b>Period ended September,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>	\$ 7,796,936	\$ 9,040,397	\$ 24,095,926	\$ 28,657,987
<b>COST AND OPERATING EXPENSES</b>				
Cost of service	6,996,525	8,638,506	22,048,689	27,017,788
Selling, general and administrative expenses	4,325,272	2,795,572	11,566,385	6,780,281
Non cash compensation to officers, directors and employees	2,432,317	779,539	5,600,283	4,033,208
Depreciation and amortization of intangible assets	1,353,450	1,481,451	3,993,900	3,841,573
Total cost and operating expenses	15,107,564	13,695,068	43,209,257	41,672,850
<b>LOSS FROM OPERATIONS</b>	(7,310,628)	(4,654,671)	(19,113,331)	(13,014,863)
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	74,988	40,566	122,119	105,685
Interest expense	(35,467)	(538,214)	(173,742)	(1,520,641)
Other income	—	—	460,000	—
Interest expense related to amortization of debt discount on promissory notes	—	(1,796,203)	—	(9,342,026)
Change in fair value of warrant liabilities	—	(18,330,773)	—	(27,079,551)
Amortization of deferred financing costs	—	(566,478)	—	(1,688,013)
Total other income (expense)	39,521	(21,191,102)	408,377	(39,524,546)
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	(7,271,107)	(25,845,773)	(18,704,954)	(52,539,409)
Provision for income taxes	-	-	(800)	(800)
<b>NET LOSS BEFORE NONCONTROLLING INTEREST</b>	(7,271,107)	(25,845,773)	(18,705,754)	(52,540,209)
Net (loss) income attributable to non-controlling interest	-	(452)	-	(2,735)
<b>NET LOSS</b>	(7,271,107)	(25,846,225)	(18,705,754)	(52,542,944)
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>				
Foreign currency translation gain (loss)	(2,325,642)	2,937,463	931,961	(753,283)
	(2,325,642)	2,937,463	931,961	(753,283)
<b>COMPREHENSIVE LOSS</b>	\$ (9,596,749)	(22,908,762)	\$ (17,773,793)	\$ (53,296,227)
Net loss per common share and equivalents - basic and diluted	\$ (0.07)	\$ (0.36)	\$ (0.18)	\$ (0.83)
Weighted average shares outstanding during the period - basic and diluted	107,842,911	72,141,821	101,492,507	63,212,715

The accompanying notes are an integral part of the unaudited consolidated financial statements

**ELEPHANT TALK COMMUNICATIONS, CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

	<b>For the Nine Months Period Ended, September 30, 2011</b>	<b>September 30, 2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (18,705,754)	\$ (52,542,944)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	3,993,900	3,841,573
Provision for doubtful accounts	141,298	(670,561)
Stock based compensation	5,185,493	3,566,225
Noncontrolling interest	--	2,735
Amortization of Shares issued for Consultancy	414,790	466,983
Issuance of stock	--	397,542
Change in fair value of warrant liabilities	--	27,079,551
Amortization of deferred financing costs	--	1,688,013
Interest expense relating to debt discount and conversion feature	--	9,342,026
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in accounts receivable	(1,156,321)	(1,140,166)
Decrease (Increase) in prepaid expenses, deposits and other assets	1,007,688	(1,172,496)
Increase (decrease) in accounts payable, proceeds from related parties and customer deposits	(1,123,577)	(1,663,837)
Increase (decrease) in deferred revenue	431,794	(131,831)
Increase (decrease) in accrued expenses and other payables	(1,488,451)	1,159,963
<b>Net cash used in operating activities</b>	<b>(11,299,140)</b>	<b>(9,777,224)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(6,438,506)	(2,448,278)
Restricted cash	37	30
Cash received from acquisition of subsidiary	--	48,577
Loan to third party	(111,236)	--
<b>Net cash used in investing activities</b>	<b>(6,549,705)</b>	<b>(2,399,671)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Trade note payable	392,590	--
Bank overdraft	--	17,926
Deferred financing costs	--	(205,326)
Loan from related party QAT Bridge Loan	--	2,518,220
Loan from related party Bridge SPA	--	2,885,000
Proceeds from Private Placement Offering	--	8,387,550
Exercise of warrants & options	25,601,365	25,000
Placement & Solicitation fees	(1,027,522)	(1,420,720)
<b>Net cash provided by financing activities</b>	<b>24,966,433</b>	<b>12,207,650</b>
<b>EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<b>1,482,698</b>	<b>144,093</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>8,600,286</b>	<b>174,848</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>2,245,697</b>	<b>1,457,900</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>\$ 10,845,983</b>	<b>\$ 1,632,748</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ --	\$ 669,523

The accompanying notes are an integral part of the unaudited consolidated financial statements

<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING &amp; FINANCING ACTIVITIES:</b>	<b>September 30, 2011</b>	<b>September 30, 2010</b>
Increase in Share Capital due to Acquisitions and Non-cash Compensation	--	14,710,361
Increase of Share Capital due to Exercise of Warrants and Conversion of Notes	--	673,429
Decrease of Net Debt due to Conversion of Notes	--	3,744
Changes in warrants liabilities	--	497,536
Changes in convertible note	--	187,443
Increase of Warrants due to fundraising of Convertible Notes	--	7,539,585

The accompanying notes are an integral part of the unaudited consolidated financial statements

**ELEPHANT TALK COMMUNICATIONS, CORP. AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Nature of Operations**

**Reincorporation of the Company into a Delaware Company (now: Elephant Talk Communications Corp.)**

On September 30, 2011, Elephant Talk Communications, Inc. (the “Company”) received notification that its certificate of merger (the “Certificate of Merger”) of Elephant Talk Communications, Inc. a California corporation, into Elephant Talk Communications Corp. (“ETAK Delaware”), a Delaware corporation, was accepted by the Delaware Secretary of State on September 26, 2011. The Certificate of Merger was filed with the California Secretary of State on September 26, 2011. Pursuant to the Certificate of Merger, the Company was merged with and into ETAK Delaware such that the Company is now a Delaware corporation (the “Reincorporation”).

The mechanism of the Reincorporation, reasons for the Reincorporation and comparison of the certificate of incorporations and bylaws of the Company and ETAK (Delaware), the surviving company, were outlined in the Company’s definitive proxy statement filed with the Securities and Exchange Commission on July 26, 2011.

**The Company**

Elephant Talk Communications, Corp. (“Elephant Talk,” “we,” “us” or the “Company”), is an international provider of business software and services to the telecommunications and financial services industries. The company enables both mobile network operators (“MNOs”) and virtual operators (“MVNOs”) to offer a full suite of products, delivery platforms, support services, superior industry expertise and high quality customer service without substantial upfront investments from clients. Elephant Talk provides global telecommunication companies, MNOs, banks, supermarkets, consumer product companies, media firms, and other businesses a full suite of products and services that enables them to fully provide telecom services as part of their business offerings. The company offers various dynamic products that include remote health care, credit card fraud prevention, mobile internet ID security, multi-country discounted phone services, loyalty management services, and a whole range of other emerging customized mobile services.

*Converged telecommunication services – full MVNE solutions*

The Company is a niche player in the converged telecommunications market, providing traffic and network services as a licensed operator, and specializing in carrier grade mobile enabling platforms to provide outsourced solutions to the various players in the telecommunications’ value chain, including MNOs, MVNOs and non-operator companies in need of both mobile as well as specialized land-line telecommunication services. In this chain we position ourselves as a Full Mobile Virtual Network Enabler, including also customized mobile services such as our network integrated ValidSoft security and fraud prevention solutions.

*ValidSoft – electronic fraud prevention*

Our acquisition of ValidSoft Ltd. (“ValidSoft”) gives us a position in providing solutions to counter electronic fraud relating to card, the internet, and telephone channels. ValidSoft’s solutions are used to verify the authenticity of both consumers and institutions (mutual authentication), and the integrity of transactions (transaction verification) for the mass market, in a highly cost effective and secure manner, yet easy to use and intuitive. ValidSoft solutions are marketed under VALid-POS® and VALid®. For its biometrics based product it trades under VALid-SVP™.

**Principles of Consolidation**

The accompanying consolidated financial statements for September 30, 2011 and December 31, 2010 include the accounts of Elephant Talk Communications Corp., including:

- its wholly-owned subsidiary Elephant Talk Europe Holding B.V., its wholly-owned subsidiary Elephant Talk Communication Holding AG, its wholly-owned subsidiaries Elephant Talk Communications S.L.U., Elephant Talk Mobile Services B.V., Elephant Talk Communication Austria GmbH, Elephant Talk Telekom GmbH (formerly Vocalis Austria GmbH), Elephant Talk Communications Italy S.R.L., ET-Stream GmbH, Elephant Talk Communication Carrier Services GmbH, Elephant Talk Communication (Europe) GmbH, Elephant Talk Communication Schweiz GmbH, Moba Consulting Partners B.V., Elephant Talk Communications France S.A.S., its majority owned (51%) subsidiary Elephant Talk Communications Premium Rate Services Netherlands B.V., its majority owned (51%) subsidiary Elephant Talk Communications PRS U.K. Limited, its wholly-owned subsidiary Elephant Talk Communications Luxembourg SA;
- its wholly-owned subsidiary Elephant Talk Global Holding B.V., its wholly-owned subsidiary Elephant Talk Business Services W.L.L., its wholly-owned subsidiary Guangzhou Elephant Talk Information Technology Limited., its wholly-owned Elephant Talk Caribbean B.V., its majority owned (51%) subsidiary ET-UTS N.V.;
- its wholly-owned subsidiary Elephant Talk Limited, its majority owned (60%) subsidiary Elephant Talk Middle East & Africa (Holding) W.L.L., its majority owned (51%) subsidiary Elephant Talk Middle East & Africa (Holding) Jordan L.L.C., its majority owned (99%) subsidiary Elephant Talk Middle East & Africa Bahrain W.L.L and its majority owned (50.54%) subsidiary Elephant Talk Middle East & Africa FZ-LLC; and
- its wholly-owned subsidiary ValidSoft Ltd and its wholly-owned subsidiaries ValidSoft (UK) Ltd & ValidSoft (Australia) Pty Ltd.

**Interim Financial Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and related notes as included in our 2010 Form 10-K. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements in our Form 10-K. In the opinion of management, the accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and contain all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation of our financial position, results of operations and cash flows as of and for the periods presented.

The results of operations for the nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire year.

### **Going Concern**

The financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception resulting in an accumulated deficit of \$173,524,190 as of September 30, 2011 and further losses are anticipated in the development of its business. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management plans to finance operating costs over the next twelve months with existing cash on hand and additional revenues from contracts and therefore management believes they have sufficient cash to meet their needs for the next 12 months.

In the event the anticipated revenues are delayed or are less than anticipated and additional cash is required, the Company expects to seek additional financing, call outstanding warrants and/or reduce costs expended on its research and development efforts.

### **Note 2. Significant Accounting Policies**

#### **Foreign Currency Translation**

The functional currency is Euros for the Company's wholly-owned subsidiary Elephant Talk Europe Holding B.V. and its subsidiaries, and Euros for its wholly-owned subsidiary Elephant Talk Global Holding B.V., and the Hong Kong Dollar for its wholly-owned subsidiary Elephant Talk Limited and the British Pound Sterling for its wholly-owned subsidiary ValidSoft (UK) Ltd. The financial statements of the Company were translated to USD using period-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses, and capital accounts were translated at their historical exchange rates when the capital transaction occurred. In accordance with Accounting Standard Codification ("ASC") 830, Foreign Currency Matters, net gains and losses resulting from translation of foreign currency financial statements are included in the statements of shareholder's equity as other comprehensive income (loss). Foreign currency transaction gains and losses are included in consolidated income/(loss). The accumulated other comprehensive income/(loss) as of September 30, 2011 and December 31, 2010 was \$412,941 and (\$519,020), respectively. The foreign currency translation gain/(loss) for the three months ended September 30, 2011 and 2010 was (\$2,325,642) and \$2,937,463, respectively. The foreign currency translation gain/(loss) for the nine months ended September 30, 2011 and 2010 was \$931,961 and (\$753,283), respectively.

#### **Use of Estimates**

The preparation of the accompanying financial statements conforms with accounting principles generally accepted in the United States of America and requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates and assumptions.

#### **Cash and Cash Equivalents**

For purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

#### **Restricted Cash**

Restricted cash represents cash deposited as bank guarantee for national interconnection agreements with telecom operators.

#### **Accounts Receivables, net**

The Company's customer base consists of a geographically dispersed customer base. The Company maintains an allowance for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these allowances. Allowances are recorded primarily on a specific identification basis. As of September 30, 2011 and December 31, 2010, the allowance for doubtful accounts was \$264,696 and \$119,044, respectively.



## **Revenue Recognition and Deferred Revenue**

The Company's revenue recognition policies are in compliance with ASC 605, Revenue Recognition ("ASC 605"), (formerly, Staff Accounting Bulletin ("SAB104")). Revenue is recognized only when the price is fixed or determinable, persuasive evidence of arrangement exists, the service is performed and the collectability of the resulting receivable is reasonably assured. The Company derives revenue from activities as a landline and mobile services provider with its network and its own switching technology. Revenue represents amounts earned for telecommunication services provided to customers (net of value added tax and inter-company revenue). For its security solutions under the ValidSoft brand name and technologies revenue represents amounts earned for consultancy services, outsourcing, maintenance and licenses (net of value added tax and inter-company revenue).

## **Cost of Service**

Cost of service includes origination, termination, network and billing charges from telecommunications operators, out payment costs to content and information providers, network costs, data center costs, facility costs of hosting network and equipment, and costs of providing resale arrangements with long distance service providers, costs of leasing transmission facilities and international gateway switches for voice and data transmission services.

## **Reporting Segments**

ASC 820, Segment Reporting, defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performances. The Company allocates its resources and assesses the performance of its sales activities based upon geographic locations of its subsidiaries.

## **Stock-based Compensation**

Effective January 1, 2006, we adopted the provisions of ASC 718 "Compensation-Stock Compensation", ("ASC 718"), using the prospective approach. As a result, we recognize stock-based compensation expense for only those awards that are granted subsequent to December 31, 2005 and any previously existing awards that are subject to variable accounting, including certain stock options that were exercised with notes in 2003, until the awards are exercised, forfeited, or contractually expire in accordance with the prospective method and the transition rules of ASC 718. Under ASC 718, stock-based awards granted after December 31, 2005, are recorded at fair value as of the grant date and recognized as expense over the employee's requisite service period (the vesting period, generally three years), which we have elected to amortize on a straight-line basis.

## **Income Taxes**

The Company accounts for income taxes under ASC 740, "Accounting for Income Taxes" ("ASC 740"). This statement requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and the tax bases of the Company's assets and liabilities result in a deferred tax asset, ASC 740 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or the entire deferred tax asset will not be realized. As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense in each of the jurisdictions in which we operate. In the ordinary course of a global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of revenue sharing and reimbursement arrangements among related entities, the process of identifying items of revenue and expenses that qualify for preferential tax treatment and segregation of foreign and domestic income and expense to avoid double taxation. We also assess temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting differences. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We may record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome and in assessing the need for the valuation allowance, there is no assurance that the final tax outcome and the valuation allowance will not be different than those that are reflected in our historical income tax provisions and accruals.

ASC 740 prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. The evaluation of a tax position is based on a two-step approach. The first step requires an entity to evaluate whether the tax position would "more likely than not" be sustained upon examination by the appropriate taxing authority. The second step requires the tax position be measured at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement. In addition, previously recognized benefits from tax positions that no longer meet the new criteria would be derecognized.

The Company has filed or is in the process of filing tax returns that are subject to audit by the respective tax authorities. Although the ultimate outcome is unknown, we believe that any adjustments that may result from tax return audits are not likely to have a material, adverse effect on our consolidated results of operations, financial condition or cash flows.

### **Comprehensive Income/(Loss)**

Comprehensive income/(loss) includes all changes in equity during a period from non-owner sources. Other comprehensive income refers to gains and losses that under accounting principles generally accepted in the United States are recorded as an element of shareholders' equity but are excluded from net income. For the first nine months of 2011 and 2010 the Company's comprehensive income/(loss) consisted of its net loss and foreign currency translation adjustments.

### **Intangible Assets**

In accordance with ASC 350, intangible assets are carried at cost less accumulated amortization and impairment charges. Intangible assets are amortized on a straight-line basis over the expected useful lives of the assets, between three and ten years. Other intangible assets are reviewed for impairment in accordance with ASC 360, Property, Plant, and Equipment, annually, or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of any impairment loss for long-lived assets and identifiable intangible assets that management expects to hold and use is based on the amount of the carrying value that exceeds the fair value of the asset.

### **Property and Equipment, Internally Developed and Third Party Software**

Property and equipment are initially recorded at cost. Additions and improvements are capitalized, while expenditures that do not enhance the assets or extend the useful life are charged to operating expenses as incurred. Included in property and equipment are certain costs related to the development of the Company's internally developed software technology platform. The Company has adopted the provisions of ASC 985, Software (formerly the AICPA Statement of Position No. 98-1).

The Company has capitalized certain computer software development costs upon the establishment of technological feasibility. Technological feasibility is considered to have occurred upon completion of a detailed program design that has been confirmed by documenting the product specifications, or to the extent that a detailed program design is not pursued, upon completion of a working model that has been confirmed by testing to be consistent with the product design. Depreciation applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service. Once a new functionality or improvement is released for operational use, the asset is moved from the property and equipment category "projects under construction" to a property and equipment asset subject to depreciation in accordance with the principle described in the previous sentence.

### **Recently Issued Accounting Pronouncements**

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 increases the prominence of other comprehensive income in financial statements. Under ASU 2011-05, companies will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and is applied retrospectively. For public companies, ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance on disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

On September 15, 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other, which simplifies how an entity is required to test goodwill for impairment. This ASU would allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of factors to consider in conducting the qualitative assessment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company's reported results of operations or financial position.

There have been no new accounting pronouncements issued during the nine months ended September 30, 2011 that are of significance, or potential significance, to the Company. Any recent accounting pronouncement that are of significance, or potential significance, to the company are set forth in the Company's Annual report on Form 10K for the year ended December 31, 2010, filed with the SEC on March 31, 2011.

### **Note 3. Long Term Deposit**

Long-term deposits to various telecom carriers during the course of its operations and a deposit towards the French Tax Authorities for the total amount of \$675,757 as of September 30, 2011 compared with \$610,486 as of December 31, 2010. The carrier deposits are refundable at the termination of the business relationship with the carriers.

### **Note 4. Prepaid Expenses and other Current Assets**

Prepaid expenses and other current assets recorded at \$1,436,478 as of September 30, 2011, compared with \$2,337,914 as of December 31, 2010. The amount consists primarily of prepaid Value Added Tax ("VAT").

### **Note 5. Property & Equipment**

The Company's Property & Equipment also include the capitalization of its systems engineering and software programming activities. Typically, these investments pertain to the Company's:

- Intelligent Network (IN) platform
- CRM provisioning Software
- Mediation, Rating & Pricing engine
- ValidSoft security software applications
- Operations and business support software
- Network management tools

Property and equipment at September 30, 2011 and December 31, 2010 consist of:

	<b>Average Estimated Useful Lives</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Furniture and fixtures	5	290,236	215,905
Computer, communication and network equipment	3 - 10	14,680,915	9,724,189
Software	5	4,302,323	4,187,523
Automobiles	5	128,493	125,241
Construction in progress		3,309,259	1,984,674
Total property and equipment		<u>22,711,226</u>	<u>16,237,531</u>
Less: accumulated depreciation		(9,576,682)	(7,784,943)
Total property and equipment, Net		<u>\$ 13,134,544</u>	<u>\$ 8,452,588</u>

Total depreciation expense for the three months ended in September 30, 2011 and 2010 was \$583,789 and \$494,031 respectively. Total depreciation for the nine months ended in September 30, 2011 and 2010 was \$769,661 and \$1,653,327 respectively.

### **Note 6. Intangible Assets - Customer Contracts, Licenses and Interconnects**

Intangible assets include customer contracts, telecommunication licenses and integrated, multi-country, centrally managed switch-based interconnects as well as ValidSoft Intellectual Property, including but not limited to software source codes, applications, customer list & pipeline, registration & licenses, patents and trademark/brands.

Intangible assets at September 30, 2011 and December 31, 2010 consist of:

	<b>Average Estimated Useful Lives</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Customer Contracts, Licenses , Interconnect & Technology	5-10	\$ 11,878,339	\$ 11,615,700
ValidSoft IP & Technology	1-10	16,126,615	15,639,154
Total intangible assets		28,004,954	27,254,854
Less: Accumulated Amortization and impairment charges		(9,401,983)	(8,684,964)
Less: Accumulated Amortization ValidSoft IP & Technology		(4,058,537)	(2,316,303)
Total intangible assets, Net		<u>\$ 14,544,434</u>	<u>\$ 16,253,587</u>

Total amortization expense for the three months ended September 30, 2011 totaled \$769,661 compared to \$987,420 for the same period of 2010. Amortization for the nine months ended September 30, 2011 and 2010 totaled \$2,321,876 and \$2,206,246 respectively.

<b>Goodwill</b>	<b>September 30, December 31,</b>	
	<b>2011</b>	<b>2010</b>
Goodwill at acquisition of ValidSoft Ltd	\$ 3,433,833	\$ 3,433,833
End of period exchange rate translation	(117,141)	(203,047)
<b>Total</b>	<b>\$ 3,316,692</b>	<b>\$ 3,230,786</b>

Estimated future amortization expense related to our intangible assets is:

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 thereafter</b>
Interconnect licenses and contracts	771,675	753,594	648,348	353,282	18,457	442	0
ValidSoft IP & Technology	2,277,648	2,277,648	2,277,648	2,176,281	2,074,914	1,061,683	281,204
	<b>3,049,324</b>	<b>3,031,243</b>	<b>2,925,997</b>	<b>2,529,562</b>	<b>2,093,371</b>	<b>1,062,125</b>	<b>281,204</b>

**Note 7. Acquisition of ValidSoft Ltd**

Following the acquisition of ValidSoft in 2010, the operating results of ValidSoft have been consolidated with those of the Company starting April 1, 2010.

**Note 8. Overdraft**

In 2004, Elephant Talk Ltd, a subsidiary of the Company executed a credit facility with a bank in Hong Kong pursuant to which Elephant Talk Ltd. borrowed funds. As of September 30, 2011, the overdraft balance, including accrued interest totaled, \$302,605 compared to \$278,637 as of December 31, 2010. The interest rate and default payment interest rate were charged at 2% and 6% per annum above the Lender's Hong Kong Dollar Prime Rate quoted by the Lender from time to time. The Company has not guaranteed the credit facility or is otherwise obligated to pay funds drawn upon it on behalf of Elephant Talk Ltd. Further detail can be found in Note 18, Litigation. As of September 30, 2011, Moba Consulting Partners B.V., a subsidiary of the Company, had an overdraft of \$0 compared to \$78,101 as of December 31, 2010 on one of the company's bank accounts.

**Note 9. Accrued Expenses**

As of September 30, 2011 and December 31, 2010, the accrued expenses comprised of the following:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Accrued Selling, General & Administrative expenses	\$ 1,202,139	\$ 1,494,218
Accrued cost of service	531,670	380,236
Accrued taxes	880,086	791,128
Accrued interest payable	664,251	653,146
Other	0	525,210
<b>Total accrued expenses</b>	<b>\$ 3,278,146</b>	<b>\$ 3,843,938</b>

**Note 10. Loans Payable**

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Installment loan payable due December 24, 2006, secured by personal guarantees of two shareholders, a former director, and a third party	\$ 318,772	\$ 319,182
Installment loan payable, bank, monthly principal and interest payments of \$2,798 including interest at bank's prime rate plus 1.5% per annum, 8.25% at November 30, 2008, due December 24, 2011, secured by personal guarantees of three shareholders and a former director	253,279	190,716
Installment loan payable, bank, monthly principal and interest payments of \$1,729 including interest at bank's prime rate plus 1.5% per annum, 8.25% at November 24, 2008, due June 28, 2009, secured by personal guarantees of three shareholders and a former director	103,382	84,799
Term loan payable, bank, monthly payments of interest at bank's prime rate, 7.0% at December 31, 2007	282,297	282,660
<b>Total</b>	<b>\$ 957,730</b>	<b>\$ 877,357</b>

Elephant Talk Ltd has executed a credit facility with Chong Hing Bank Limited, fka Liu Chong Hing Bank Limited, a foreign banking services company based in Hong Kong (the "Bank"), since June 29, 2004, under which Elephant Talk Ltd has borrowed funds from the bank under three installment loans and a term loan arrangement. Elephant Talk Ltd is in default of making loan payments on all the loans and has recorded an accrued interest amounting to \$664,251 as of September 30, 2011.

In December 2009 the Bank commenced a lawsuit in the California Orange County Superior Court called Chong Hing Bank Limited v. Elephant Talk Communications, Corp., Case No. 30-2009-00328467. The Bank alleges that it entered into various installment and term loan agreements and an overdraft account with Elephant Talk Limited ("ETL"), a wholly-owned Hong Kong subsidiary of Elephant Talk Communications Corp. ("ETC") Various former officers and directors of ETL personally guaranteed the loans and overdraft account.

The Bank is suing Elephant Talk Inc. (ETC) for breach of contract and an open book account. ETC denies the Bank's allegations and asserts several affirmative defenses. ETC contends that it has no direct liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors. The Bank and ETC stipulated to try the case in the court without a jury. The trial started on October 5, 2011, and concluded on October 12, 2011.

The court issued its statement of decision in favor of ETC from the bench on October 12, 2011, determining, among other things, that

- ETC is not liable as a successor in interest or otherwise on the Bank loans and overdraft account to ETL;
- ETC is not liable on the Bank's claims because the Bank filed its action after the applicable California 4-year statute of limitations had expired; and
- ETC is not liable to the Bank under the alternative theories of negligent or intentional misrepresentation.

The court directed ETC to submit a proposed judgment in its favor on the statement of decision. Once the final judgment is entered in favor of ETC, the Bank may exercise a right to appeal the decision within 60 days.

**Note 11. Trade note payable**

The company entered into an arrangement with a vendor for the supply of telecommunication equipment whereby extended credit terms were agreed over and above normal credit terms. The extended credit terms stipulate a repayment of the outstanding purchase price consideration over a period of 24 months starting October 2011. The trade note payable amount relates to the portion of this outstanding price consideration due after one year.

**Note 12. Loan from related parties**

The Company's 51% owned subsidiary ET-UTS N.V. has received \$503,173 in interest bearing (8% per annum) unsecured loans from United Telecommunication Services N.V., the 49% shareholder in the subsidiary. The amount is inclusive of accumulated accrued interest. No maturity date has been fixed.

**Note 13. Stockholders' Equity****(A) Common Stock**

The Company is presently authorized to issue 250,000,000 shares common stock. The Company had 109,853,289 shares of common shares issued and outstanding as of September 30, 2011, an increase of 21,192,441 shares since December 31, 2010, due to the shares issued in connection with warrant exercises (17,703,551), delivery of shares in relation to the automatic conversion of the 2009 Promissory Notes in 2010 (2,210,367), non-cash compensation of Management and Board members (377,430), Employee Option exercises (597,585) and Other issues (purchase of assets, back pay settlement with employee and consultancy services (303,508).

**Reconciliation with stock transfer agent records:**

The number of 109,853,289 excludes the 245,900 unreturned and the 2,558,934 escrowed contingent shares (see below). The shares issued and outstanding as per September 30, 2011 according to the stock transfer agent's records are therefore 112,658,123 and include 2,558,934 contingent shares for the ValidSoft acquisition and include 245,900 shares which were cancelled by the Company prior to 2006. However, the 245,900 shares were not returned to the stock transfer agent and never cancelled on the Company's records. These shares have been blocked for trading by the Stock Transfer Agent.

**(B) Class B Preferred Stock**

The Company's Articles of Incorporation ("Articles") authorize the issuance of 50,000,000 shares of no par value Class B Preferred Stock. No shares of Preferred Stock are currently issued and outstanding. Under the Company's Articles, the Board of Directors has the power, without further action by the holders of the Common Stock, to designate the relative rights and preferences of the preferred stock, and issue the preferred stock in such one or more series as designated by the Board of Directors. The designation of rights and preferences could include preferences as to liquidation, redemption and conversion rights, voting rights, dividends or other preferences, any of which may be dilutive of the interest of the holders of the Common Stock or the Preferred Stock of any other series. The issuance of Preferred Stock may have the effect of delaying or preventing a change in control of the Company without further shareholder action and may adversely affect the rights and powers, including voting rights, of the holders of Common Stock. In certain circumstances, the issuance of preferred stock could depress the market price of the Common Stock.

During 2010 and in the first nine months 2011 the Company did not issue any shares of Preferred Stock.

**Note 14. Basic and Diluted Net Loss per Share**

Net loss per share is calculated in accordance with ASC 260, Earnings per Share. Basic net loss per share is based upon the weighted average number of common shares outstanding. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

**Note 15. Employee Benefit Plan and Non-Qualified Stock Option and Compensation Plan****2006 Non-Qualified Stock and Option Compensation Plan**

Under this plan there are, as of September 30, 2011, 163,200 stock options outstanding. There are 600,000 remaining shares and 95,912 stock options available for grant.

Options granted generally vest over a 3 year period. Options generally expire 2 years from the date of vesting.

Common stock purchase options and warrants consisted of the following as of September 30, 2011:

	<u>Number of options</u>	<u>Exercise Price</u>	<u>Initial Fair Market Value</u>
<b>Options:</b>			
Outstanding as of December 31, 2010	307,742	\$ 2.25	\$ 398,608
Granted in 2011	—	—	—
Exercised	131,478	\$ 2.25	\$ 197,763
Cancelled/Forfeited/Returned to reserve	13,064	\$ 2.25	\$ 11,147
Outstanding as of September 30, 2011	<u>163,200</u>	<u>\$ 2.25</u>	<u>\$ 189,698</u>

The options were granted with an exercise price of \$2.25, the share closing price as of September 26, 2007. All granted options are vested.

118,200 options will expire on December 31, 2011 the remainder will expire in 2013 at the latest.

Following is a summary of the status of options outstanding at September 30, 2011:

Range of Exercise Prices	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>Total Options Outstanding</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$ 2.25	163,200	1.05 years	\$ 2.25	133,200	\$ 2.25

At September 30, 2011, the total compensation cost related to unvested stock-based awards granted to employees under the provisions of ASC 718 and the Company's 2006 stock award plan had been recognized in the company's profit and loss account over the previous years.

### 2008 Long-Term Incentive Plan

The 2008 plan was adopted on January 15, 2008, and approved by our shareholders on the same date at our annual meeting. This incentive plan authorizes awards of up to 5,000,000 shares of common stock, in the form of incentive and non-qualified stock options, stock appreciation rights, performance units, restricted stock awards and performance bonuses. The amount of common stock underlying the awards to be granted remained the same after the 25 to one reverse stock-split that was effectuated on June 11, 2008.

#### *Increase in 2011 of shares issuable under the plan*

On January 24, 2011 the board of directors of the Company passed a resolution to amend the 2008 Incentive Plan to increase the number of shares of common stock, no par value per share issuable under the 2008 Incentive Plan from 5,000,000 to 23,000,000. This amendment to the 2008 Incentive Plan was approved by its shareholders at its annual meeting held at September 14, 2011.

As of September 30, 2011, a total of 7,921,508 stock options, 325,000 restricted common stock and 507,300 shares of common stock had been granted under this plan. Options granted generally begin vesting over a three-year period after grant date although options have been granted with a shorter period than three years. Options granted in 2008 and 2009 expire two years from the date of vesting but the latest in 2010 issued options remain exercisable for nine years from the first date of vesting. It is expected that future options will be awarded with the nine-year exercise period after first vesting.

#### Common stock purchase options and warrants consisted of the following as of September 30, 2011:

	Number of shares	Average Exercise Price	Initial Fair Market Value
<b>Options:</b>			
Outstanding as of December 31, 2010	4,083,100	\$ 1.35	\$ 5,002,238
Granted in 2011	4,474,253	\$ 2.52	\$ 7,894,700
Exercised	457,630	\$ 1.39	\$ 595,533
Cancelled/Forfeited/Returned unused	178,215	\$ 1.67	\$ 281,436
Outstanding as of September 30, 2011	<u>7,921,508</u>	<u>\$ 1.81</u>	<u>\$ 12,019,969</u>

The options granted in 2011 were granted with an average exercise price of \$2.52. The initial fair market value of the options granted using the Black-Sholes options model for these options has been valued at \$7,894,700 at their initial grant-date.

Following is a summary of the status of options outstanding at September 30, 2011:

Range of Exercise Price	Options outstanding			Options exercisable	
	Total Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.60 - \$3.39	7,921,508	8.24 years	\$ 1.813	954,208	\$ 1.31

The weighted average assumptions used so far for the options granted in 2011 using the Black-Scholes options model are: volatility of 64%, term of 9.67 years and a Risk Free Interest Rate assumption of 3.268%. The expected dividend yield is zero.

At September 30, 2011 the not yet expensed portion of stock-based awards granted to employees under the provisions of ASC 718 and the Company's 2008 stock award plan, was approximately \$5,876,795. The future expensing takes place proportionally to the vesting associated with each stock-award, adjusted for cancellations, forfeitures and returns.

#### *Stock-Based Compensation Expense*

Under the provisions of ASC 718, the Company recorded for the nine months ended September 30, 2011, \$3,863,305 in stock-based compensation expense for the Non-Qualified Stock and Option Compensation Plan, director and executive officers compensation in stock and stock-based compensation for consultancy services. For the comparable period in 2010 the expense was \$1,922,369. The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock-based compensation.

**Note 16. Commitments**

As of September 30, 2011, commitments of the Company relating to leases, co-location and office rents, regulatory and interconnection fees are as follows:

2011	2,294,445
2012	3,560,623
2013	2,509,516
2014	845,850
2015	467,628
Total	<u>\$ 9,678,062</u>

As of September 30, 2011 the commitments of the Company relating to purchase orders are valued at cost of \$793,441.

**Note 17. Non-controlling Interest**

The Company had non-controlling interests in several of its subsidiaries. The balance of the non-controlling interests as of September 30, 2011 and December 31, 2010 were as follows:

Subsidiary	Noncontrolling Interest %	As of September 30, As of December 31,	
		2011	2010
ETC PRS UK	49%	\$ 9,976	\$ 9,723
ETC PRS Netherlands	49%	133,243	129,870
ET ME&A Holding WLL	40%	—	—
ET Bahrain WLL	1%	6,261	6,385
ET ME&A FZ LLC	49.46%	37,091	37,081
ET UTS Curacao	49%	—	—
Total non-controlling interest		<u>\$ 186,571</u>	<u>\$ 183,059</u>

**Note 18. Litigation****(a) Manu Ohri Litigation**

In March 2009 Manu Ohri (“Ohri”), our former Chief Financial Officer from 2002 to 2006, commenced a lawsuit against the Company in the California Orange County Superior Court called Manu Ohri v. Elephant Talk Communications, Corp., Case No. 30-20009-00120609. Ohri alleges that the Company breached a 2006 written employment contract, a 2007 oral consulting contract, and otherwise owes him the reasonable value of consulting services rendered. Ohri seeks damages of \$442,216 under the alleged employment contract, \$56,951 under the alleged oral consulting agreement, stock options that he valued at \$45,200 under the alleged oral consulting agreement, \$14,316 for medical and dental insurance premiums, \$4,226.40 for life and long term disability insurance premiums, pre-judgment interest, and costs of the litigation. The Company denies Ohri’s allegations and asserts several affirmative defenses.

The Company commenced a cross-complaint against Ohri to, among other things, invalidate his alleged 2006 employment contract and stock bonus, and to recover the stock bonus or its fair market value.

Phase 1 of the trial took place without a jury between June 27, 2011, and July 13, 2011. On September 22, 2011, the court issued its tentative statement of decision, explaining the legal and factual basis for its decision. The court determined, among other things, that

- Ohri’s 2006 employment agreement and stock bonus were void;
- Ohri breached his fiduciary duties to ETC;
- Ohri unjustly enriched himself at ETC’s expense;
- ETC is entitled to rescind the 2006 employment agreement and stock bonus;
- ETC is entitled to a constructive trust on 322,517 shares of ETC common stock—if still owned by Ohri—or their fair market value fixed at \$1,290,165.96;
- Ohri must return 322,517 shares of ETC common stock to ETC or their fair market value fixed at \$1,290,165.96; and
- subject to an offset in favor of ETC, Ohri is entitled to \$12,773.45 plus 10% simple annual interest from January 1, 2008, to the date judgment is entered for unpaid consulting fees in 2007.



Ohri timely filed a response to the court's tentative statement of decision, and a hearing has been set on his response for November 17, 2011. After the hearing the court will issue a final statement of decision. The court will also set a date for Phase 2 of the trial, which may include ETC's claims against Ohri for fraud, conversion, and violation of Corp. Code § 1507.

Once a final judgment is entered in the case, either party may exercise a right to appeal within 60 days.

**(b) Chong Hing Bank Litigation**

In December 2009 Chong Hing Bank Limited, fka Liu Chong Hing Bank Limited, a foreign banking services company based in Hong Kong (the "Bank"), commenced a lawsuit in the California Orange County Superior Court called Chong Hing Bank Limited v. Elephant Talk Communications, Corp., Case No. 30-2009-00328467. The Bank alleges that it entered into various installment and term loan agreements and an overdraft account with Elephant Talk Limited ("ETL"), a wholly-owned Hong Kong subsidiary of Elephant Talk Communications Corp. ("ETC"). Various former officers and directors of ETL personally guaranteed the loans and overdraft account.

The Bank alleges that ETL is in default on the loans and overdraft account, and that approximately \$1,933,308 including interest and default interest is due. The Bank alleges that ETC is directly liable to repay the loans and overdraft account as a successor in interest to ETL or because ETC expressly or impliedly assumed direct liability for the loans and overdraft account. The Bank is suing ETC for breach of contract and an open book account. ETC denies the Bank's allegations and asserts several affirmative defenses. ETC contends that it has no direct liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors.

The Bank and ETC stipulated to try the case to the court without a jury. The trial started on October 5, 2011, and concluded on October 12, 2011. The court issued its statement of decision in favor of ETC from the bench on October 12, 2011, determining, among other things, that

- ETC is not liable as a successor in interest or otherwise on the Bank loans and overdraft account to ETL;
- ETC is not liable on the Bank's claims because the Bank filed its action after the applicable California 4-year statute of limitations had expired; and
- ETC is not liable to the Bank under the alternative theories of negligent or intentional misrepresentation.

The court directed ETC to submit a proposed judgment in its favor on the statement of decision. Once the final judgment is entered in favor of ETC, the Bank may exercise a right to appeal the decision within 60 days.

**(c) Rescission of the Purchase Agreement of May 24, 2004 of New Times Navigation Limited.**

As previously described in our 2004 Annual Report we and New Times Navigation Limited mutually agreed to terminate this purchase agreement. We returned the received shares of New Times Navigation Limited to the concerned shareholders and received back 90,100 of our common stock out of the 204,000 issued by us for the purchase. In addition we issued 37 unsecured convertible promissory notes for a total amount of \$3,600,000. On our request 21 notes were returned with a total value of \$2,040,000.

We are presently seeking relief from the High Court of the Hong Kong Special Administrative Region against the holders of the unreturned shares to return a total of 113,900 common shares (valued at \$381,565) and also to have them return the remaining 18 unsecured convertible promissory notes representing a total amount of \$1,740,000 and rescind the purchase agreement. The case is currently pending.

**Note 19. Segment Information**

**Nine Months Ended September 30, 2011**

	EUROPE				Total	Far East Hong Kong / China	Middle East	The Americas	TOTAL
	Netherlands	Spain	Switzerland	Others					
Revenues from unaffiliated customers:	\$ 17,260,733	\$ 946,008	\$ 5,264,614	\$ 523,209	\$ 23,994,564	\$ -	\$ 20,508	\$ 80,855	\$ 24,095,926
Operating income (loss)	\$ (761,263)	\$ (571,667)	\$ (4,906,603)	\$ (4,659,528)	\$ (10,899,061)	\$ (646,857)	\$ (463,741)	\$ (7,103,671)	\$ (19,113,331)
Net income (loss):	\$ (724,513)	\$ (571,667)	\$ (4,898,646)	\$ (4,800,348)	\$ (10,995,173)	\$ (1,350,705)	\$ (463,741)	\$ (5,896,135)	\$ (18,705,754)
Identifiable assets	\$ 7,193,665	\$ 1,180,802	\$ 15,347,287	\$ 17,632,156	\$ 41,353,910	\$ 182,065	\$ 406,570	\$ 10,173,242	\$ 52,115,788
Depreciation and amortization	\$ (89,894)	\$ 168,476	\$ (1,700,064)	\$ (1,787,268)	\$ (3,745,703)	\$ (40,265)	\$ (15,122)	\$ (192,810)	\$ (3,993,900)
Capital expenditure	\$ -	\$ 34,475	\$ 6,230,988	\$ 169,127	\$ 6,434,591	\$ -	\$ -	\$ 3,915	\$ 6,438,506

## Nine Months Ended September 30, 2010

	EUROPE				Total	Far East Hong Kong / China	Middle East	The Americas	TOTAL
	Netherlands	Spain	Switzerland	Others					
Revenues from unaffiliated customers:	\$ 21,371,865	\$ 1,378,700	\$ 5,011,703	\$ 296,395	\$ 28,058,662	\$ -	\$ 561,419	\$ 37,907	\$ 28,657,987
Operating income (loss)	\$ (2,154,011)	\$ (98,152)	\$ (2,238,444)	\$ (2,781,935)	\$ (7,272,542)	\$ (173,579)	\$ 52,489	\$ (5,621,231)	\$ (13,014,863)
Net income (loss):	\$ (2,126,975)	\$ (98,152)	\$ (2,232,100)	\$ (2,821,309)	\$ (7,278,537)	\$ (871,263)	\$ 52,489	\$ (44,445,633)	\$ (52,542,944)
Identifiable assets	\$ 5,443,844	\$ 1,504,281	\$ 11,087,595	\$ 18,802,062	\$ 36,837,782	\$ 831,390	496,535	3,522,180	\$ 41,687,887
Depreciation and amortization	\$ (84,866)	\$ (158,309)	\$ (1,465,112)	\$ (1,679,073)	\$ (3,387,360)	\$ (41,778)	\$ (21,803)	\$ (390,632)	\$ (3,841,573)
Capital expenditure	\$ 1,483	\$ 2,041	\$ 2,261,991	\$ 92,461	\$ 2,414,927	\$ 15,890	\$ -	\$ 17,462	\$ 2,448,278

### **Note 20. Related Party Transactions**

None.

### **Note 21. Subsequent Events**

The Company's management evaluated subsequent events through November 11.

Effective on October 27, 2011, Mr. Roderick de Greef resigned from the Board of Directors the Company to focus on other business activities. Mr. de Greef did not resign from the Company's Board of Directors as a result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Effective on October 27, 2011, the Board appointed Charles Levine to be a member of the Board.

Shares issued in accordance with our stock transfer agent's records between October 1, 2011 and November 9, 2011 were in total 224,857 as per below details:

- 100,000 shares were issued relating to a cash exercise of warrants which had been issued as part of the placement of the 2009 Promissory Note. Proceeds of \$100,000 were received in October 2011.
- 2,000 shares were issued for the cash exercise of employee options with a gross proceed of \$2,700.
- 122,857 shares of restricted stock were issued on October 26, 2011 in lieu of cash compensation to certain directors and executive officers. No proceeds were received.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### *Forward-Looking Statements*

*Any forward looking statements made herein are based on current expectations of the Company, involve a number of risks and uncertainties and should not be considered as guarantees of future performance. The factors that could cause actual results to differ materially include: interruptions or cancellation of existing contracts, inability to integrate acquisitions, impact of competitive products and pricing, product demand and market acceptance risks, the presence of competitors with greater financial resources than the Company, product development and commercialization risks, changes in governmental regulations, and changing economic conditions in developing countries and an inability to arrange additional debt or equity financing.*

### **Overview**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and the other financial information included elsewhere in this document.

## Services and Solutions

*Full-MVNE/MVNO Mobile Services – wholesale services and managed services to Mobile Network Operators and Virtual Network Operators.*

As of 2007, we positioned ourselves as an MVNE to MNOs and MVNOs offering a wide range of mobile enabling/enhancing services through sophisticated, proprietary technology supported by multi-country operations with a focus on business to business, outsourcing /partnering strategy. Important milestones in this respect are:

- On September 17, 2008 a hosting agreement was signed between T-Mobile Netherlands BV and Elephant Talk Holding AG, a 100% affiliate of Elephant Talk Europe Holding BV. T-Mobile is one of the three MNOs in the Netherlands. Elephant Talk will, as exclusive MVNE for T-Mobile, connect MVNOs in the Netherlands to its platform, making use of the mobile network of T-Mobile.
- In Spain, we have provided since June 2009, managed services to Vodafone Enabler (previously know as Vizzavi) and migrated at the end of 2010 two additional MVNOs of Vodafone Enabler to our platform and are in the process of preparing and implementing new ones.
- In the course of 2010 we signed a framework hosting agreement with KPN Group Belgium NV. Elephant Talk will connect MVNOs in Belgium to its platform, making use of the mobile network of KPN in Belgium. We plan to finalize the implementation of this platform before year-end 2011.
- Following the start of our MVNE services in the Netherlands in the fourth quarter of 2008, we entered into heads of terms agreements with MVNOs for wholesale services in the Netherlands and started servicing these companies while currently implementing additional ones. One of the MVNO's is one the best known brands of T-Mobile in The Netherlands.
- In 2011 the company closed a contract with Zain KSA in Saudi Arabia to provide its mobile platform which is planned to be operational in the course of 2011.

*Customized Mobile Solutions – integrated fraud and security solutions (ValidSoft) to financial institutions*

In line with our strategy to develop and market customized mobile solutions, we acquired ValidSoft on March 17, 2010. ValidSoft provides strong authentication and transaction verification capabilities that allow organizations to quickly implement solutions that protect against certain of the latest forms of credit and debit card fraud and on-line transaction and identity theft. By correlating the relative location of a person's credit card with the location of their mobile phone, this service can, for example, tell a bank or card issuer in real-time if the transaction is likely genuine or fraudulent. We anticipate generating revenues on a per transaction basis (per verification). This acquisition combines what we believe to be ValidSoft's best in class proprietary software with our superior telecommunication platform to create what we believe is the best integrated electronic fraud prevention solution available. A number of milestones:

- At the end of 2010 ValidSoft entered into a contractual arrangement with Visa Europe for the provision of its fraud-prevention solutions, VALid-POS® and VALid®.
- The company forged in September 2011 a commercial and technology partnership with Adepra Ltd ([www.adepra.com](http://www.adepra.com)), the leader in auto-resolution technologies that span the consumer lifecycle with major customers in banking spanning a number of continents.
- ValidSoft has been granted the European Privacy Seal in regards to its anti-fraud technology software, VALid-POS®, which is designed to detect and prevent card related fraud, a global multibillion dollar problem for financial institutions.
- The Company launched VALid-SVP™ (Speaker Verification Platform), a voice biometric technology to improve secure authentication.
- The Company has announced in June 2011 an agreement with Sogeti BeLux ([www.sogeti.be](http://www.sogeti.be)), a prominent provider of IT services in Belgium and Luxembourg. Sogeti BeLux will be the first reseller partner in continental Europe to provide ValidSoft's suite of multi-layered security products with strong, built-in privacy protections.
- ValidSoft was successful in a joint bid for the provision of a Self Certification project to an EU Government in the area of citizen benefit payments. The solution will evaluate the use of technology and incorporate ValidSoft's Speaker Verification Platform, VALid-SVP™ to provide automation in the processing of citizen benefits with a view to achieving cost reduction and efficiencies.
- ValidSoft has filed applications for two new patents in the Card Not Present fraud prevention area.  
Agreement with Cumberland Building Society ([www.cumberland.co.uk](http://www.cumberland.co.uk)), the 15th largest building society in the UK with assets exceeding £1.5billion, to incorporate ValidSoft's VALid® solution technology into a new secure transaction service (Cumberland Building Society is a mutual organization owned by its current account holders and borrowers which follows a similar model of community banks in the US).

*Landline network outsourcing services*

Through our fixed line telecom infrastructure and our centrally operated and managed IN-CRM-Billing platform, we also provide traditional landline services like Carrier Select and Carrier Pre-Select Services, Toll Free and Premium Rate Services to the business market.

## Support technology

*Business Support and Operational Support System (“ET BOSS”) and Intelligent Network – IN – (“Infitel”)*

Through our European and Chinese development centers, we develop in-house telecom and media related systems and software, centered around two of the companies' proprietary platforms ET BOSS and Infitel.

*Electronic fraud prevention products: VALid-POS®, VALid® and VALid-SVP™*

Our recent acquisition of ValidSoft has given us ownership of technology and intellectual property to combat fraud relating to card, the internet, and telephone channels. ValidSoft solutions are marketed under VALid-POS® and VALid®. For its biometrics based product it trades under VALid-SVP™.

#### *Telecom infrastructure & network*

We currently operate a switch-based telecom network with national licenses and direct fixed line interconnects with the Incumbents/National Telecom Operators in seven (7) European countries, one (1) in the Middle East (Bahrain), and partnerships with telecom operators in Scandinavia, Poland and Germany, and France. To this we have added mobile access coverage in order to cater for our mobile services and solutions. Our first mobile partners are T-Mobile in the Netherlands, Vizzavi (a Vodafone company) in Spain, KPN in Belgium. In Saudi Arabia we partnered with Zain KSA to provide our mobile platform services.

#### **Results of Operations**

Our results of operations for the nine months ended September 30, 2011, consisted of the operations of Elephant Talk Communications Corp., its wholly-owned subsidiaries, Elephant Talk Limited and its subsidiaries, Elephant Talk Europe Holding BV and its subsidiaries, Elephant Talk Global Holding BV and its subsidiaries and ValidSoft Ltd and its subsidiaries.

Although the vast majority of our business activities are carried out in Euros, we report our financial statements in US dollars (“USD”). The conversion of Euros and USD leads to period-to-period fluctuations in our reported USD results arising from changes in the exchange rate between the USD and the Euro. Generally, when the USD strengthens relative to the Euro, it has an unfavorable impact on our reported revenue and income and a favorable impact on our reported expenses. Conversely, when the USD weakens relative to the Euro, it produces a favorable impact on our reported revenue and income, and an unfavorable impact on our reported expenses. The above fluctuations in the USD/Euro exchange rate therefore result in currency translation effects (not to be confused with real currency exchange effects), which impact our reported USD results and may make it difficult to determine actual increases and decreases in our revenue and expenses which are attributable to our actual operating activities. In addition to reporting changes in our financial statements in USD as per the requirements of United States generally accepted accounting principles (“US GAAP”), we also highlight the impact of any material currency translation effect by providing a comparison between periods on a constant currency basis, where the most recent USD/Euro exchange rate is applied to previous periods. Management believes that this allows for greater insight into the trends and changes in our business for the reported periods. Also, since we carry out our business activities primarily in Euro’s we do not currently engage in hedging activities.

#### ***Introduction***

The business of the company is primarily related to mobile and security related solutions. By far the majority of investments and activities of the employees and long term consultants of the company are geared towards these types of business. This needs to be kept in mind when reading the financials statements of the company and the management discussion and analysis. In the first nine months of 2011 most of the revenue of the company is still generated by landline business (Premium Rate Services, Landline Calling Plans and Other Revenue), but only requires a very small amount of resources from the company both in terms of human resources, facilities as well as capital expenditures. Even though 83.9% of the revenues in the first nine months of 2011 were generated for more than by landline business, the margin contribution is largely generated by the mobile and security solutions business. Despite the large and expected decline in landline business over the past nine months, the mobile and security solutions activities were 63.6% higher (in constant currency) compared with same period last year.

Within the mobile segment we distinguish between wholesale services and managed services. Wholesale services generate a much higher revenue than the managed services revenues, since wholesale services includes the sale of airtime. Managed services on the other hand generate a much lower revenue, but have little cost of service compared to wholesale.

#### ***Adjusted EBITDA***

We employ Adjusted EBITDA, defined as earnings before income taxes, depreciation and amortization and stock-based compensation, for several purposes, including as a measure of our operating performance. We use Adjusted EBITDA because it removes the impact of items not directly resulting from our core operations, thus allowing us to better assess whether the elements of our growth strategy are yielding positive results.

A reconciliation of Adjusted EBITDA to net loss for each of the fiscal periods indicated is as follows:

	<b>For the Nine Months Ended September 30,</b>		
			<b>2010</b>
	<b>2011</b>	<b>2010</b>	<b>Constant currency</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Net loss	\$(18,705,754)	\$(52,542,944)	\$(53,069,737)
Provision for income taxes	800	800	800
Net loss attributable to noncontrolling interest	0	2,735	2,735
Depreciation and amortization	3,993,900	3,841,573	4,086,046
Stock-based compensation	5,600,283	4,033,208	4,033,208
Other income & expenses	(408,377)	39,524,546	39,524,359
<b>Adjusted EBITDA</b>	<b>\$ (9,519,148)</b>	<b>\$ (5,140,082)</b>	<b>\$ (5,422,589)</b>

(Note to Adjusted EBITDA table: 2010 figures only include six months of ValidSoft financials)

Impact in constant currency of the inclusion of ValidSoft financials for the nine months ended September 30, 2010:

	<b>For the Nine Months Ended September 30,</b>		
			<b>2010</b>
	<b>2011</b>	<b>2010</b>	<b>constant currency</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Net loss	\$(18,705,754)	\$(53,812,962)	\$(54,435,251)
Provision for income taxes	800	800	800
Net loss attributable to noncontrolling interest	0	2,735	2,735
Depreciation and amortization	3,993,900	3,847,097	4,092,047
Stock-based compensation	5,600,283	4,033,208	4,033,208
Other income & expenses	(408,377)	39,575,268	39,578,713
<b>Adjusted EBITDA</b>	<b>\$ (9,519,148)</b>	<b>\$ (6,353,855)</b>	<b>\$ (6,727,748)</b>

#### Revenue

Revenue for the three months ended September 30, 2011 was \$7,796,936, a decrease of \$1,243,461 or 13.75%, compared to \$9,040,397 for the three months ended September 30, 2010. Revenue for the nine months ended September 30, 2011 was \$24,095,926, a decrease of \$4,562,061 or 15.92%, compared to \$28,657,987 for the nine months ended September 30, 2010.

#### Revenue - Constant currency

In constant currency, the revenue for the three months ended September 30, 2011 decreased by \$2,123,010 or 21.51% compared to the same period in 2010.

In constant currency, the revenue for the nine months ended September 30, 2011 decreased by \$6,542,320 or 21.35% compared to the same period in 2010. The decrease in revenue was the result of the expected continued decrease in our low margin legacy landline business by \$8,045,677, which was partly off-set by the increase in our higher margin mobile and security solutions business of \$1,503,358 (63.6%) compared to the same period in 2010.

	<b>September 30, 2011</b>	<b>September 30, 2010</b>	<b>September 30, 2010</b>	<b>Variance</b>
				<b>2011 versus 2010 constant currency</b>
<b>Revenue</b>				
Landline Services	\$20,227,712	\$26,448,751	\$28,273,389	\$(8,045,677)
Mobile & Security Solutions	3,868,214	2,209,236	2,364,857	1,503,358
<b>Total Revenue</b>	<b>\$24,095,926</b>	<b>\$28,657,987</b>	<b>\$30,638,246</b>	<b>\$ (6,542,320)</b>

#### Cost of service

Cost of service includes origination, termination, network and billing charges from telecommunications operators, out payment costs to content and information providers, network costs, data center costs, facility cost of hosting network and equipment and cost in providing resale arrangements with long distance service providers, cost of leasing transmission facilities, international gateway switches for voice, and data transmission services.

Cost of service for the three months ended September 30, 2011 was \$6,996,525, a decrease of \$1,641,981 or 19.01%, compared to \$8,638,506 for the three months ended September 30, 2010. Cost of service for the nine months ended September 30, 2011 was \$22,048,689, a decrease of \$4,969,099 or 18.39%, compared to \$27,017,788 for the nine months ended September 30, 2010. The decrease in cost of service was mainly caused by the decrease in revenues in our low margin legacy landline business.

#### ***Cost of service – constant currency***

In constant currency, the cost of service for the three months ended September 30, 2011 decreased by \$2,481,907 or 26.32% compared to the same period in 2010, primarily as a result of lower levels of landline revenue. Cost of service, as a percentage of revenue, expressed in constant dollar terms was 89.7% and 95.6% for the three months ended September 30, 2011 and 2010, respectively.

In constant currency, the cost of service for the nine months ended September 30, 2011 decreased by \$6,845,943 or 23.69% compared to the same period in 2010, primarily as a result of lower levels of landline revenue. Cost of service, as a percent of revenue, expressed in constant dollar terms was 91.5% and 94.3% for the nine months ended September 30, 2011 and 2010, respectively.

Management expects cost of service to decline further as a percent of revenue as a greater proportion of future revenue is comprised of our mobile services and ValidSoft solutions, which have a substantially lower cost of service than our traditional PRS business.

#### ***Selling, general and administrative***

Selling, general and administrative (“SG&A”) expense for the three months ended September 30, 2011 and 2010 were \$4,325,272 and \$2,795,572, respectively. SG&A expenses increased by \$1,529,700, or 54.72%, in 2011 compared to 2010.

Selling, general and administrative (“SG&A”) expense for the nine months ended September 30, 2011 and 2010 were \$11,566,385 and \$6,780,281, respectively. SG&A expenses increased by \$4,786,104, or 70.59%, in 2011 compared to 2010.

For explanation of the variances see section “constant currency” below.

#### ***Selling, general and administrative – constant currency***

In constant currency, SG&A for the three months ended September 30, 2011 increased by \$1,343,173, or 45.31%, compared to the same period in 2010. This was led by an increase of 25.64% in our staffing levels on September 30, 2011 compared to September 30, 2010, largely in sales and European hires, as well as by higher marketing and selling costs.

In constant currency, SG&A for the nine months ended September 30, 2011 increased by \$4,400,182, or 61.40%, compared to the same period in 2010. This increase was for 31.02% caused by the fact that the Validsoft first quarter financials were not included in the nine months ended September 30, 2010. The remainder of the increase was the result of the previously mentioned growth of the organization.

#### ***Non-cash compensation to officers, directors, consultants and employees***

Non-cash compensation for the three and nine months ended September 30, 2011 was \$2,432,317 and \$5,600,283, respectively, compared to \$779,539 and \$4,033,208 for the corresponding 2010 periods.

Non-cash compensation is comprised of:

- The expense related to shares of restricted common stock that were issued to management in lieu of cash compensation;
- The 2006 Non-Qualified Stock and Option Compensation Plan and the 2008 Long-Term Incentive Plan; and
- The expense related to shares issued to consultants for services.

Since non-cash compensation comprises United States Dollars denominated shares, options and warrants, a constant currency analysis is not applicable.

#### ***Depreciation and amortization***

Depreciation and amortization for the three and nine months ended September 30, 2011 was \$1,353,450 and \$3,993,900, respectively, compared to \$1,481,451 and \$3,841,573 in the corresponding 2010 periods. In the three month ended September 30, 2011, depreciation and amortization decreased by \$128,001 or 8.64% compared to the same period 2010. In the nine months ended September 30, 2011, depreciation and amortization increased by \$152,327 or 3.97% compared to the same period 2010.

### ***Depreciation and amortization – constant currency***

In constant currency, the depreciation and amortization expenses for the three months ended September 30, 2011 decreased by \$254,829 or 15.92% compared to the same period in 2010. In constant currency, the depreciation and amortization expenses for the nine months ended September 30, 2011 decreased by \$92,146 or 2.26% compared to the same period in 2010.

### ***Other Income and Expenses***

Interest income was \$74,988 and \$40,566 for the three months ended September 30, 2011 and 2010 respectively. Interest income was \$122,119 and \$105,685 for the nine months ended September 30, 2011 and 2010 respectively. Interest income was interest received on bank balances.

Interest expense was \$35,467 and \$538,214 for the three months ended September 30, 2011 and 2010 respectively. Interest expense was \$173,742 and \$1,520,641 for the nine months ended September 30, 2011 and 2010 respectively. High levels of interest expense in 2010 were due to higher levels of debt financing and less favorable interest rates. Interest charges decreased with the automatic conversion of the QAT 2010 bridge loan and 2009 promissory notes on November 19, 2010.

Other income was \$460,000 and \$0 for the nine months ended September 30, 2011 and 2010 respectively. Other income was the result of the release of a FIN48 provision following a successful abatement request with the IRS for the year 2007. Following this success full abatement the company also decided to release a similar provision it had made for a potential IRS fine for the year 2008.

Interest expense related to amortization of debt discount on promissory notes was \$0 and \$1,796,203 for the three months ended September 30, 2011 and 2010 respectively. In the nine months ended September 30, 2011 and 2010, interest expenses related to amortization of debt discount on promissory notes were \$0 and \$9,342,026 respectively. The decrease was the result of the conversion of the 2009 Promissory Notes into equity in the fourth quarter 2010.

### ***Non-controlling Interest***

Our majority owned subsidiaries are Elephant Talk Communications PRS U.K. Limited, Elephant Talk Communications Premium Rate Services Netherlands B.V., Elephant Talk Middle East & Africa (Holding) W.L.L., Elephant Talk Middle East & Africa (Holding) Jordan L.L.C., Elephant Talk Middle East & Africa Bahrain W.L.L., Elephant Talk Middle East & Africa FZ-LLC and ET-UTS NV.

During the three and nine months ended September 30, 2011, we incurred a non-controlling interest income/(loss) attributable to minority shareholders of \$0. During the same periods in 2010, we incurred a non-controlling income/(loss) of (\$452) and (\$2,735).

### ***Net Loss***

Net Income/(Loss) was (\$7,271,107) and (\$25,846,225) for the three months ended September 30, 2011 and 2010 respectively, and (\$18,705,754) and (\$52,542,944) for the nine months ended September 30, 2011 and 2010 respectively.

### ***Other Comprehensive Income/(Loss)***

We record foreign currency translation gains and losses as comprehensive income or loss. Comprehensive Income/(Loss) for the nine months ended September 30, 2011 and 2010 was \$931,961 and (\$753,283) respectively. This change is primarily attributable to the translation effect resulting from the substantial fluctuations in the USD/Euro exchange rates.

### ***Liquidity and Capital Resources***

We have an accumulated deficit of (\$173,524,190) as of September 30, 2011. Historically, we have relied on a combination of debt and equity financings to fund our ongoing cash requirements. In the first nine months 2011 we received a total of \$25,601,365 in gross proceeds from exercised warrants. In the period subsequent to September 30, 2011 until November 1, 2011 we received an additional \$102,700 from exercised warrants and employee options.

Management plans to finance operating costs over the next twelve months with existing cash on hand and additional revenues and therefore management believes they have sufficient cash to meet their needs for the next 12 months.

In the event the anticipated revenues are delayed or are less than anticipated and additional cash is required, the Company expects to seek additional financing and/or reduce costs expended on its research and development efforts.

### ***Operating activities***

Net cash used in operating activities for the nine months ended September 30, 2011 was \$11,299,140 compared to \$9,777,224 in the nine months ended September 30, 2010, an increase of \$1,521,916.

## **Investing activities**

Net cash used in investment activities for nine months ended September 30, 2011 was \$6,549,705, an increase of \$4,150,033 (or 156.58%) compared to \$2,399,671 in the nine months ended September 30, 2010. The increase was primarily attributable to the purchase of telecommunication equipment, systems and software for planned customer rollouts.

## **Financing activities**

Net cash received by financing activities for the nine months ended September 30, 2011 was \$24,966,433. In the first nine months 2011 we received \$25,601,365 gross proceeds from warrants and options exercises.

As a result of the above activities, the Company had the cash and cash equivalents balance of \$10,845,983 as of September 30, 2011, a net increase in cash and cash equivalents of \$9,213,235 compared to September 30, 2010.

## **Off- Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## **Application of Critical Accounting Policies and Estimates**

### *Revenue Recognition and Deferred Revenue*

The Company's revenue recognition policies are in compliance with ASC 605, Revenue Recognition ("ASC 605") (formerly, Staff Accounting Bulletin (SAB) 104). Revenue is recognized only when the price is fixed or determinable, persuasive evidence of arrangement exists, the service is performed and the collectability of the resulting receivable is reasonably assured. The Company derives revenue from activities as a fixed-line and mobile services provider with its network and its own switching technology. Revenue represents amounts earned for telecommunication services provided to customers (net of value added tax and inter-company revenue). The Company recognizes revenue from prepaid calling cards as the services are provided. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue. Deferred revenue represents amounts received from the customers against future sales of services since the Company recognizes revenue upon performing the services.

### *Stock-based Compensation*

Effective January 1, 2006, we adopted the provisions of ASC 718 "Compensation-Stock Compensation", using the prospective approach. As a result, we recognize stock-based compensation expense for only those awards that are granted subsequent to December 31, 2005 and any previously existing awards that are subject to variable accounting, including certain stock options that were exercised with notes in 2003, until the awards are exercised, forfeited, or contractually expire in accordance with the prospective method and the transition rules of ASC 718. Under ASC 718, stock-based awards granted after December 31, 2005, are recorded at fair value as of the grant date and recognized as expense over the employee's requisite service period (the vesting period, generally three years), which we have elected to amortize on a straight-line basis.

### *Business Combinations*

We use the purchase method of accounting for business combinations and the results of the acquired businesses are included in the income statement from the date of acquisition. The purchase price includes the direct costs of the acquisition. However, beginning in fiscal 2009, acquisition-related costs will be expensed as incurred, in accordance with Financial Accounting Standards Board (FASB) issued revision to Statement of Financial Accounting Standards No. 141R, "Business Combinations". Amounts allocated to intangible assets are amortized over their estimated useful lives; no amounts are allocated to in-progress research and development. Goodwill represents the excess of consideration paid over the net identifiable business assets acquired.

### *Intangible Assets and Impairment of long Lived Assets*

In accordance with ASC 350, intangible assets are carried at cost less accumulated amortization and impairment charges. Intangible assets are amortized on a straight-line basis over the expected useful lives of the assets, between three and ten years. Other intangible assets are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment", annually, or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of any impairment loss for long-lived assets and identifiable intangible assets that management expects to hold and use is based on the amount of the carrying value that exceeds the fair value of the asset.

## **Impact of Accounting Pronouncements**

In October 2009, the FASB issued amendments to ASC Topic 605, with respect to accounting and reporting guidance for revenue generating arrangements with multiple deliverables, which (a) amend the requirements entities must meet in order for elements to be considered separate units of accounting; (b) eliminate the requirement that entities have objective and reliable evidence of fair value for undelivered items in order to separate them from other elements in the arrangements; and (c) replace the residual method of allocating consideration with the relative selling price method. Under the relative selling price method for allocating consideration, entities must establish an estimated selling price for any units for which objective and reliable evidence of fair value or third party evidence of selling price is not determinable. ASC Topic 605 expands the qualitative and (if adoption impacts are significant) quantitative information required to be disclosed concerning revenue-generating arrangements with multiple deliverables.



This amended accounting guidance is effective for fiscal years beginning after June 15, 2010, with early adoption, as of the first fiscal year beginning after issuance of the amendments, permitted. It may be adopted prospectively to all new or significantly modified arrangements or retrospectively to all arrangements. We have not opted early adoption and will evaluate the impact on our operations beginning in fiscal 2011.

In January, 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. The standard amends ASC Topic 820, Fair Value Measurements and Disclosures, to require additional disclosures related to transfers in and out of Levels 1 and 2 and for activity in Level 3 and clarifies other existing disclosures requirements. The Company adopted ASU 2010-06 beginning January 1, 2010. This update had no impact on the Company's financial statements.

In April 2010, the FASB issued Accounting Standard Update ("ASU") No. 2010-17, Milestone Method of Revenue Recognition, which provides guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. However, the FASB clarified that, even if the requirements in this ASU are met, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. The ASU is effective for periods beginning on or after June 15, 2010. Entities can apply this guidance retrospectively as well as prospectively to milestones achieved after adoption. This update is expected to have no impact on the Company's financial statements.

ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, amends Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. It is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. Earlier application is permitted. We are currently evaluating the impact of this provision.

ASU 2010-09, Subsequent Events, amends FASB ASC 855-10 to clarify that whereas SEC filers and conduit debt obligors for publicly-traded conduit debt securities must evaluate subsequent events through the date that the financial statements are issued, SEC filers need not disclose the date through which subsequent events have been evaluated. Non-SEC filers must evaluate subsequent events through the date the financial statements are available to be issued, and continue to be required to disclose that date. The ASU also clarifies that reissuances for which a subsequent events evaluation is required are limited to "revised" financial statements (as defined in the ASU). The amendments are effective upon issuance (February 2010), except as relating to conduit debt obligors, for which the effective date is interim or annual periods ending after June 15, 2010. We adopted the provisions of ASU 2010-09 as required.

In December 2010, the FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. We will adopt this guidance on January 1, 2011 and apply it prospectively.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. ASU 2011-05 increases the prominence of other comprehensive income in financial statements. Under ASU 2011-05, companies will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity and is applied retrospectively. For public companies, ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance on disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The Company does not expect this to have a material impact on its financial statements.

On September 15, 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other, which simplifies how an entity is required to test goodwill for impairment. This ASU would allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU includes a number of factors to consider in conducting the qualitative assessment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company's reported results of operations or financial position.

There have been no new accounting pronouncements issued during the nine months ended September 30, 2011 that are of significance, or potential significance, to the Company. Any recent accounting pronouncement that are of significance, or potential significance, to the company are set forth in the Company's Annual report on Form 10K for the year ended December 31, 2010, filed with the SEC on March 31, 2011.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risks**

Not applicable.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on the foregoing, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this quarterly report due to the significant deficiencies described below.

Our management has identified a material weakness in our disclosure controls and procedures due to a lack of personnel and technological resources. This material weakness restricts our ability to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management and that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

#### *Changes in Internal Control over Financial Reporting*

There have not been any other changes in our internal control over financial reporting during the six months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

#### **(a) Manu Ohri Litigation**

In March 2009 Manu Ohri ("Ohri"), our former Chief Financial Officer from 2002 to 2006, commenced a lawsuit against the Company in the California Orange County Superior Court called Manu Ohri v. Elephant Talk Communications, Corp., Case No. 30-20009-00120609. Ohri alleges that the Company breached a 2006 written employment contract, a 2007 oral consulting contract, and otherwise owes him the reasonable value of consulting services rendered. Ohri seeks damages of \$442,216 under the alleged employment contract, \$56,951 under the alleged oral consulting agreement, stock options that he valued at \$45,200 under the alleged oral consulting agreement, \$14,316 for medical and dental insurance premiums, \$4,226.40 for life and long term disability insurance premiums, pre-judgment interest, and costs of the litigation. The Company denies Ohri's allegations and asserts several affirmative defenses.

The Company commenced a cross-complaint against Ohri to, among other things, invalidate his alleged 2006 employment contract and stock bonus, and to recover the stock bonus or its fair market value.

Phase 1 of the trial took place without a jury between June 27, 2011, and July 13, 2011. On September 22, 2011, the court issued its tentative statement of decision, explaining the legal and factual basis for its decision. The court determined, among other things, that

- Ohri's 2006 employment agreement and stock bonus were void;
- Ohri breached his fiduciary duties to ETC;
- Ohri unjustly enriched himself at ETC's expense;
- ETC is entitled to rescind the 2006 employment agreement and stock bonus;
- ETC is entitled to a constructive trust on 322,517 shares of ETC common stock—if still owned by Ohri—or their fair market value fixed at \$1,290,165.96;
- Ohri must return 322,517 shares of ETC common stock to ETC or their fair market value fixed at \$1,290,165.96; and
- subject to an offset in favor of ETC, Ohri is entitled to \$12,773.45 plus 10% simple annual interest from January 1, 2008, to the date judgment is entered for unpaid consulting fees in 2007.

Ohri timely filed a response to the court's tentative statement of decision, and a hearing has been set on his response for November 17, 2011. After the hearing the court will issue a final statement of decision. The court will also set a date for Phase 2 of the trial, which may include ETC's claims against Ohri for fraud, conversion, and violation of Corp. Code § 1507.

Once a final judgment is entered in the case, either party may exercise a right to appeal within 60 days.

#### **(b) Chong Hing Bank Litigation**

In December 2009 Chong Hing Bank Limited, fka Liu Chong Hing Bank Limited, a foreign banking services company based in Hong Kong (the "Bank"), commenced a lawsuit in the California Orange County Superior Court called Chong Hing Bank Limited v. Elephant Talk Communications, Corp., Case No. 30-2009-00328467. The Bank alleges that it entered into various installment and term loan agreements and an overdraft account with Elephant Talk Limited ("ETL"), a wholly-owned Hong Kong subsidiary of Elephant Talk Communications Corp. ("ETC") Various former officers and directors of ETL personally guaranteed the loans and overdraft account.

The Bank alleges that ETL is in default on the loans and overdraft account, and that approximately \$1,933,308 including interest and default interest is due. The Bank alleges that ETC is directly liable to repay the loans and overdraft account as a successor in interest to ETL or because ETC expressly or impliedly assumed direct liability for the loans and overdraft account. The Bank is suing ETC for breach of contract and an open book account. ETC denies the Bank's allegations and asserts several affirmative defenses. ETC contends that it has no direct liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors.

The Bank and ETC stipulated to try to the case to the court without a jury. The trial started on October 5, 2011, and concluded on October 12, 2011. The court issued its statement of decision in favor of ETC from the bench on October 12, 2011, determining, among other things, that

- ETC is not liable as a successor in interest or otherwise on the Bank loans and overdraft account to ETL;
- ETC is not liable on the Bank's claims because the Bank filed its action after the applicable California 4-year statute of limitations had expired; and
- ETC is not liable to the Bank under the alternative theories of negligent or intentional misrepresentation.

The court directed ETC to submit a proposed judgment in its favor on the statement of decision. Once the final judgment is entered in favor of ETC, the Bank may exercise a right to appeal the decision within 60 days.

**(c) Rescission of the Purchase Agreement of May 24, 2004 of New Times Navigation Limited.**

As previously described in our 2004 Annual Report we and New Times Navigation Limited mutually agreed to terminate this purchase agreement. We returned the received shares of New Times Navigation Limited to the concerned shareholders and received back 90,100 of our common stock out of the 204,000 issued by us for the purchase. In addition we issued 37 unsecured convertible promissory notes for a total amount of \$3,600,000. On our request 21 notes were returned with a total value of \$2,040,000.

We are presently seeking relief from the High Court of the Hong Kong Special Administrative Region against the holders of the unreturned shares to return a total of 113,900 common shares (valued at \$381,565) and also to have them return the remaining 18 unsecured convertible promissory notes representing a total amount of \$1,740,000 and rescind the purchase agreement. The case is currently pending.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the Risk Factors included in Part I, "Item 1A. — "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2010, and the additional, if any, Risk Factors set forth below. These Risk Factors could materially impact our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely impact our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the three months ended September 30, 2011 the company 'sold' an aggregate number of 183,597 shares as per the following breakdown:

On July 15, 2011, we issued 23,788 restricted shares as non-cash consideration for outstanding backpay to an employee of ValidSoft which was originating from the period before Elephant Talk became the owner of ValidSoft. The cost-basis at issue had been determined at \$52,333 .

On July 18, 2011, we issued 7,548 restricted shares as non-cash consideration for consultancy services provided. The cost-basis at issue had been determined at \$20,000 following the value of the services mentioned in the agreement. The number of shares issued was derived at by dividing de service value by the share-price at closing as per the date of the agreement.

On August 5, 2011 we issued 152,261 shares as regular 'non-cash compensation in lieu of cash' compensation to management and board members in accordance with a pre-determined conversion formula agreed upon in the compensation committee. The profit and loss charge was calculated at \$402,161 reflecting the 'market' value as per the calculation date, the cost-basis was determined at \$302,161 reflecting the agreed 25% discount.

The above-referenced securities were offered and sold pursuant to exemptions from registration provided by the Securities Act.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

## (a) Exhibits

- 31.1 Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) on page 32.
- 31.2 Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) on page 33.
- 32.1 Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 on page 34.
- 32.2 Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 on page 35.
- 101.INS \*\* XBRL Instance Document
- 101.SCH \*\* XBRL Taxonomy Extension Schema Document
- 101.CAL \*\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF \*\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB \*\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE \*\* XBRL Taxonomy Extension Presentation Linkbase Document

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ELEPHANT TALK COMMUNICATIONS, CORP.**

November 14, 2011

By /s/ Steven van der Velden  
 Steven van der Velden  
 President and Chief Executive Officer  
 (Principal Executive Officer)

November 14, 2011

By /s/ Mark Nije  
 Mark Nije  
 Chief Financial Officer  
 (Principal Financial and Accounting Officer)

**Index to Exhibits**

<b>Number</b>	<b>Exhibit</b>	<b>Page</b>
31.1	Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	32
31.2	Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	33
32.1	Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	34
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**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Steven van der Velden, hereby certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of the period ending September 2011 of Elephant Talk Communications, Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the registrant's board of directors:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2011

/s/ Steven van der Velden  
Steven van der Velden  
President and Chief Executive Officer

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**Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark Nije, hereby certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ending September 2011 of Elephant Talk Communications, Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 14, 2011

/s/ Mark Nije  
Mark Nije, Chief Financial Officer

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**CERTIFICATION**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

**(18 U.S.C. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of (18 U.S.C. 1350), the undersigned officer of Elephant Talk Communications, Corp., a California corporation (the "Company"), does hereby certify, to the best of such officer's knowledge and belief, that:

- (1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

/s/ Steven van der Velden

Steven van der Velden, President and Chief Executive Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Securities Exchange Act.

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**CERTIFICATION**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

**(18 U.S.C. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), the undersigned officer of Elephant Talk Communications, Corp., a California corporation (the "Company"), does hereby certify, to the best of such officer's knowledge and belief, that:

(1) The Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

/s/ Mark Nije

Mark Nije, Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Securities Exchange Act.

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