UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 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, INC.
(Exact name of small business issuer as specified in its charter)

CALIFORNIA *(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 May 6th, 2011, there were 100,096,928 shares of the Company’s common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

	March 31, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,167,266	$ 2,245,697
Restricted cash	192,677	190,312
Accounts receivable, net of an allowance for doubtful accounts of $135,652 and $119,044 at March 31, 2011 and December 31, 2010 respectively	6,515,512	5,600,562
Prepaid expenses and other current assets	3,014,249	2,337,914
Total Current Assets	13,889,704	10,374,485
LONG TERM DEPOSITS	648,031	610,486
PROPERTY AND EQUIPMENT, NET	10,804,800	8,452,588
INTANGIBLE ASSETS, NET	16,498,694	16,253,587
GOODWILL	3,442,057	3,230,786
TOTAL ASSETS	$ 45,283,286	$ 38,921,932
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Overdraft	$ 356,657	$ 356,738
Accounts payable and customer deposits	5,098,658	4,703,875
Accrued expenses and other payables	3,818,517	3,843,938
Loans payable	876,748	877,357
Total Current Liabilities	10,150,580	9,781,908
LONG TERM LIABILITIES		
Loan from related party	483,507	468,756
Total Long term Liabilities	483,507	468,756
Total Liabilities	10,634,087	10,250,664
STOCKHOLDERS' EQUITY		
Common stock, no par value, 250,000,000 shares authorized, 96,092,679 issued and outstanding as of March 31, 2011 compared to 88,660,848 shares issued and outstanding as of December 31, 2010	192,188,235	183,825,665
Accumulated other comprehensive income (loss)	1,800,544	(519,020)
Accumulated deficit	(159,531,660)	(154,818,436)
Elephant Talk Comunications, Inc. Stockholders' Equity	34,457,119	28,488,209
NON-CONTROLLING INTEREST	192,080	183,059
Total Stockholders' Equity	34,649,199	28,671,268
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 45,283,286	$ 38,921,932

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

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

	for the three months period ended, March 31, 2011	March 31, 2010
REVENUES	$ 8,508,014	$ 9,943,765
COST AND OPERATING EXPENSES		
Cost of service	7,557,485	9,373,888
Selling, general and administrative expenses	3,416,357	1,905,350
Non cash compensation to officers, directors and employees	1,130,063	540,913
Depreciation and amortization of intangibles assets	1,302,675	844,694
Total cost and operating expenses	13,406,580	12,664,845
LOSS FROM OPERATIONS	(4,898,566)	(2,721,080)
OTHER INCOME (EXPENSE)		
Interest income	22,986	32,599
Interest expense	(66,764)	(446,540)
Other income	230,000	—
Interest expense related to amortization of debt discount on promissory notes	—	(1,326,919)
Change in fair value of warrant liabilities	—	(7,347,911)
Amoritization of deferred financing costs	—	(527,846)
Total other income (expense)	186,222	(9,616,617)
LOSS BEFORE PROVISION FOR INCOME TAXES	(4,712,344)	(12,337,697)
Provision for income taxes	(800)	(800)
NET LOSS BEFORE NONCONTROLLING INTEREST	(4,713,144)	(12,338,497)
Net (loss) income attributable to noncontrolling interest	(80)	(498)
NET LOSS	(4,713,224)	(12,338,995)
OTHER COMPREHENSIVE (LOSS) INCOME		
Foreign currency translation gain (loss)	2,319,564	(521,786)
	2,319,564	(521,786)
COMPREHENSIVE LOSS	$ (2,393,660)	$ (12,860,781)
Net loss per common share and equivalents - basic and diluted	$ (0.05)	$ (0.22)
Weighted average shares outstanding during the period - basic and diluted	96,282,943	55,667,424

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

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

	for the three months period ended, March 31, 2011	March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,713,224)	$ (12,338,995)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,302,675	844,694
Provision for doubtful accounts	8,726	(67,556)
Stock based compensation	993,256	500,287
Noncontrolling interest	80	498
Amortization of Shares issued for Consultancy	136,807	40,626
Issuance of stock	—	53,126
Excercise of warrants (cash less)	—	37,069
Change in fair value of warrant liabilities	—	7,725,827
Amortization of deffered financing costs	—	527,846
Interest expense relating to debt discount and conversion feature	—	949,003
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(587,020)	(1,050,267)
Decrease (Increase) in prepaid expenses, deposits and other assets	(542,804)	(380,873)
Increase (decrease) in accounts payable, proceeds from related parties and customer deposits	130,751	535,691
Increase (decrease) in deferred revenue	—	(131,996)
Increase (decrease) in accrued expenses and other payables	(181,854)	830,188
Net cash used in operating activities	(3,452,607)	(1,924,832)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,352,854)	(396,094)
Restricted cash	11	10
Issuance of stock	242,418	—
Loan to third party	—	(594,682)
Net cash used in investing activities	(2,110,425)	(990,766)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	(4,481)	9,104
Exercise of Warrants	6,927,724	—
Finders Fee	(193,201)	—
Deferred financing costs	—	(205,326)
Loan from related party	9,543	2,489,175
Net cash provided by financing activities	6,739,585	2,292,953
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	745,016	(43,009)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,921,569	(665,653)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	2,245,697	1,457,900
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 4,167,266	$ 792,247
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 6,262	$ 384,092

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING & FINANCING ACTIVITIES:	March 31, 2011	March 31, 2010
Warrants issued to placement agents for services, treated as deferred financing costs	—	2,513,195

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

Note 1. Organization and Nature of Operations

The Company

Elephant Talk Communications, Inc. (“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 o ffers 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 March 31, 2011 and December 31, 2010 include the accounts of Elephant Talk Communications Inc., 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 three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire year.

Note 2. Financial Condition and Going Concern

The Company has an accumulated deficit of $(159,531,660) as of March 31, 2011. Historically, the Company has relied on a combination of debt and equity financings to fund our ongoing cash requirements. In the 2010 we received a total of $19,905,841 in gross proceeds from the sale of shares which resulted (after deduction of placement fees and related cost) in net proceeds of $17,885,749 In the three months ending March 31, 2011 we received $6,927,724 in gross proceeds from the exercise of warrants which resulted (after deduction of finders fees) in net proceeds $6,734,523.

We believe that our cash balance at March 31, 2011, in combination with the additional gross funding received thereafter from warrants exercised until May 6, 2011 ($1,890,312), lesser working capital requirement, continued investment in capital expenditures, reduction of certain accounts payable and expected additional revenues will lead us to operational cash flow break-even in the fourth quarter 2011.

At the same time, considering our share price development and upcoming achievements we expect warrants to purchase stock in our company continue to be continued to be exercised, which altogether would provide sufficient funds to continue to execute our plans.

In the event warrants are not exercised to the extent expected and/or expected revenues are delayed or less than expected, the Company plans to seek additional financing.

However, if estimated revenues do not materialize and the Company is unable to secure additional capital, it may not be able to continue operations.

As of March 31, 2011, these conditions raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 3. 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, (formerly known as Statement of Financial Accounting Standards ("SFAS&# 8221;) No. 52), 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 March 31, 2011 and December 31, 2010 was $1,800,544 and ($519,020), respectively. The foreign currency translation gain/(loss) for the three months ended March 31, 2011 and 2010 was $2,319,564 and ($521,786), 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 March 31, 2011 and December 31, 2010, the allowance for doubtful accounts was $135,652 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, maintenance and licences (ne t 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, (Formerly SFAS No.131), 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”) (formerly SFAS No. 123(R)), 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”) (formerly SFAS No. 109). 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 f uture 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 quarter 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 (formerly SFAS No. 142), 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," (formerly SFAS No. 144), 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 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 fin ancial 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 re tained 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 provision 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.

There have been no new accounting pronouncements issued during the three months ending March 31, 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 4. 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 $648,031 as of March 31, 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 5. Prepaid Expenses and other Current Assets

Prepaid expenses and other current assets recorded at $3,014,249 as of March 31, 2011, compared with $2,337,914 as of December 31, 2010. The amount consists primarily of prepaid Value Added Tax ("VAT").

Note 6. 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 March 31, 2011 and December 31, 2010 consist of:

	Average Estimated Useful Lives	March 31, 2011	December 31, 2010
Furniture and fixtures	5	257,144	215,905
Computer, communication and network equipment	3 - 10	12,198,276	9,724,189
Software	5	4,397,596	4,187,523
Automobiles	5	133,239	125,241
Construction in progress		2,538,843	1,984,674
		19,536,848	16,237,531
Less: accumulated depreciation		(8,732,048)	(7,784,943)
		$ 10,804,800	$ 8,452,588

Total depreciation expense for the three months ended March 31, 2011 totaled $530,188 compared to $653,724 for the same period of 2010.

Note 7. 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 March 31, 2011 and December 31, 2010 consist of:

	Average Estimated Useful Lives	March 31, 2011	December 31, 2010
Customer Contracts, Licenses , Interconnect & Technology	5 - 10	$ 12,176,588	$ 11,615,700
ValidSoft IP & Technology	1 - 10	16,637,961	15,639,154
		28,814,549	27,254,854
Less: Accumulated Amortization and impairment charges		(9,249,328)	(8,684,964)
Less: Accumulated Amortization ValidSoft IP & Technology		(3,066,527)	(2,316,303)
		$ 16,498,694	$ 16,253,587

Total amortization expense for the three months ended March 31, 2011 totaled $772,487 compared to $190,970 for the same period of 2010.

Goodwill	March 31, 2010	December 31, 2010
Goodwill at acquisition of ValidSoft Ltd	$ 3,433,833	$ 3,433,833
End of period exchange rate translation	8,224	(203,047)
	$ 3,442,057	$ 3,230,786

Estimated future amortization expense related to our intangible assets is:

	2011	2012	2013	2014	2015	2016	2017 thereafter
Interconnect licenses and contracts	740,737	738,301	706,317	629,623	204,610	90,254	1,862
ValidSoft IP & Technology	2,213,001	2,213,001	2,213,001	2,213,001	2,065,266	2,016,021	831,871
	2,953,739	2,951,303	2,919,318	2,842,625	2,269,876	2,106,275	833,733

Note 8. 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 9. Overdraft

In 2004, Elephant Talk Ltd. executed a credit facility with a bank in Hong Kong pursuant to which Elephant Talk Ltd. borrowed funds. As of March 31, 2011, the overdraft balance, including accrued interest totaled, $286,239 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. As of March 31, 2011, Moba Consulting Partners B.V., a subsidiary of the Company, had an overdraft of $70,418 compared to $78,101 as of December 31, 2010 on one of the company's bank accounts.

Note 10. Accrued Expenses

	March 31, 2011	December 31, 2010
Accrued Selling, General & Administrative expenses	$ 1,444,922	$ 1,494,218
Accrued cost of sales and network	99,408	380,236
Accrued taxes	1,275,491	791,128
Accrued interest payable	688,854	653,146
Other	309,841	525,210
Total accrued expenses	$ 3,818,517	$ 3,843,938

Note 11. Loans Payable

Loans payable at March 31, 2011 and December 31, 2010 are summarized as follows:

	March 31, 2011	**December 31, 2010**
Installment loan payable due December 24, 2006, secured by personal guarantees of two shareholders, a former director, and a third party	$ 318,961	$ 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	190,584	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	84,740	84,799
Term loan payable, bank, monthly payments of interest at bank's prime rate, 7.0% at December 31, 2007	282,463	282,660
Total	$ 876,748	$ 877,357

Elephant Talk Ltd has executed a credit facility with a bank in Hong Kong 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 $684,119 as of March 31, 2011. As a result of the default, the entire loan balance outstanding at March 31, 2011, totaling $876,748, is due and payable to the bank. Furthermore, Elephant Talk Ltd is obligated to pay a default interest rate at the rate of 4.25% per annum in addition to the prescribed interest rate of the installment loans and term loan. Elephant Talk Ltd has recorded $7,796 and $29,876 in interest expense and default interest expense, respectively, on loans payable as of March 31, 2011 and $3,067 and $11,655 in interest expense as of March 31, 2010. The Company has not guaranteed the credit facility or is otherwise obligated to pay funds drawn upon it on behalf of Elephant Talk Ltd.

Note 12. Loan from related parties

The Company's 51% owned subsidiary ET-UTS N.V. has received $483,507 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 96,092,679 shares of common shares issued and outstanding as of March 31, 2011, an increase of 7,431,829 shares since December 31, 2010, due to the shares issued in connection with warrant exercises (5,558,496), delivery of shares in relation to the automatic note conversion in 2010 (1,701,807), Employee Option exercises (12,044) and Other issues (purchase of assets and consultancy services) (159,482).

Reconciliation with stock transfer agent records:

The number of 96,092,679 excludes the 245,900 unreturned and the 2,558,934 escrowed contingent shares (see below). The shares issued and outstanding as per March 31, 2011 according to the stock transfer agent's records are therefore 98,897,513 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. Finally, there is a rounding difference of two shares between the Company's shares issued and the stock transfer agent's records.

(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 St ock 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 or first quarter 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, (formerly SFAS No.128). 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 March 31, 2011, 307,742 stock options outstanding. There are remaining 600,000 shares and 92,258 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 March 31, 2011:

	Number of shares	Exercise Price	Initial Fair Market Value
Options:			
Outstanding as of December 31, 2010	307,742	$ 2.25	$ 398,608
Granted in 2011	—	—	—
Exercised	—	—	—
Cancelled/Forfeited/Returned to reserve	—	2.25	—
Outstanding as of March 31, 2011	307,742	$ 2.25	$ 398,608

The options were granted with an exercise price of $2.25, the share closing price as of September 26, 2007. The options will generally vest on December 31, 2009, or if there is a change of control in the Company.

The options will expire on December 31, 2011 or later depending on granting date.

The 'cancelled/forfeited/returned to reserve' options during 2011 have been zero.

Following is a summary of the status of options outstanding at March 31, 2011:

	Options outstanding			Options exercisable	
Range of Exercise Prices	Total Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 2.25	307,742	1.03 years	$ 2.25	232,742	$ 2.25

At March 31, 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, but not yet recognized was approximately $7,297.

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.
As of March 31, 2011, a total of 4,133,100 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 the beginning 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.

Increase of shares issuable under the plan

On January 24th, 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. The Company shall present this amendment to the 2008 Incentive Plan for approval by its shareholders at its next annual meeting.

Common stock purchase options and warrants consisted of the following as of March 31, 2011:

	Number of shares	Average Exercise Price	Initial Fair Market Value
Options:			
Outstanding as of December 31, 2010	4,083,100	$ 1.35	$ 5,002,238
Granted in 2011	75,000	$ 2.80	$ 154,256
Exercised	3,567	1.35	$ 4,538
Cancelled/Forfeited/Returned unused	21,433	$ 1.35	$ 27,266
Outstanding as of March 31, 2011	4,133,100	$ 1.37	$ 5,124,690

The options granted in 2011 were granted with an average exercise price of $2.80. The initial fair market value of the options granted using the Black-Sholes options model for these options has been valued at $154,256 at their initial grant-date.

Following is a summary of the status of options outstanding at March 31, 2011:

	Options outstanding			**Options exercisable**	
Range of Exercise Price	**Total Options Outstanding**	**Weighted Average Remaining Life (Years)**	**Weighted Average Exercise Price**	**Options Exercisable**	**Weighted Average Exercise Price**
$ 0.60-2.80	4,133,100	7.65 years	$ 1.37	1,273,213	$ 1.33

The weighted average assumptions used so far for the options granted in 2011 using the Black-Scholes options model are: volatility of 70%, term of 9.69 years and a Risk Free Interest Rate assumption of 3.35%. The expected dividend yield is zero.

At March 31, 2011 the unexpended portion of stock-based awards granted to employees under the provisions of ASC 718 and the Company's 2008 stock award plan, was approximately $1,777,777. 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 three months ended March 31, 2011, $1,130,063 in stock-based compensation expense forthe 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 expensing was $540,913. The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock-based compensation granted after the adoption of SFAS 123(R).

Note 16. Commitments

Commitments of the Company relating to leases, co-location and office rents, regulatory and interconnection fees are as follows:

Years ending December 31,	
2011	3,221,105
2012	2,872,738
2013	2,485,268
2014	610,648
2015	610,648
Total	$ 9,800,407

As of March 31, 2011 the commitments of the Company relating to purchase orders are valued at cost of $ 2,027,553.

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 March 31, 2011 and December 31, 2010 were as follows

Subsidiary	Noncontrolling Interest %	Noncontrolling interest Balance at March 31, 2011	Noncontrolling interest Balance at December 31, 2010
ETC PRS UK	49%	$ 10,344	$ 9,723
ETC PRS Netherlands	49%	138,164	129,870
ET ME&A Holding WLL	40%	—	—
ET Bahrain WLL	1%	6,482	6,385
ET ME&A FZ LLC	49.46%	37,090	37,081
ET UTS Curacao	49%	—	—
Total		$ 192,080	$ 183,059

Note 18. Litigation

(a) Manu Ohri Litigation

In March 2009 Manu Ohri ("Ohri"), the Company's 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, Inc., 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 $446,359 under the alleged employment contract, $56,951 under the alleged oral consulting agreement, stock options that he valued at $96,960 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 cos ts 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.

A trial is set to start on June 24, 2011.

(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, Inc., 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 Hong Kong subsidiary of the Company. 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 $1,536,792.28 plus continuing interest is due. The Bank alleges that the Company is directly liable t o repay the loans and overdraft account as a successor in interest to ETL. The Company denies the Bank's allegations and asserts several affirmative defenses. The Company contends that that it has no direct, successor liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors. A trial is set to start on May 23, 2011.

(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

Quarter ended March 31, 2011

	EUROPE								
	Netherlands	**Spain**	**Switzerland**	**Others**	**Total**	**Far East Hong Kong / China**	**Middle East**	**The Americas**	**TOTAL**
Revenues from unaffiliated customers:	$ 5,879,867	341,997	1,846,637	395,340	$ 8,463,841	$ -	$ 20,505	$ 23,667	$ 8,508,014
Operating income (loss)	$ (818,050)	$ 84,418	$ (1,085,954)	$ (945,405)	$ (2,764,992)	$ (213,505)	$ (73,014)	$ (1,847,056)	$ (4,898,566)
Net income (loss):	$ (806,873)	$ 84,418	$ (1,079,939)	$ (983,725)	$ (2,786,118)	$ (449,041)	$ (73,014)	$ (1,405,051)	$ (4,713,224)
Identifiable assets	$ 8,892,073	$ 1,650,506	$ 13,832,737	$ 19,637,165	$ 44,012,480	$ 161,293	568,495	541,018	$ 45,283,286
Depreciation and amortization	$ (29,288)	$ (54,557)	$ (538,697)	$ (593,691)	$ (1,216,233)	$ (15,956)	$ (4,982)	$ (65,505)	$ (1,302,675)
Capital expenditure	$ -	$ -	$ 2,279,379	$ 69,560	$ 2,348,939	$ -	$ -	$ 3,915	$ 2,352,854

Quarter ended March 31, 2010

	EUROPE								
	Netherlands	**Spain**	**Switzerland**	**Others**	**Total**	**Far East Hong Kong / China**	**Middle East**	**The Americas**	**TOTAL**
Revenues from unaffiliated customers:	$ 7,536,044	$ 462,271	$ 1,653,982	$ 15,752	$ 9,668,049	$ -	$ 264,786	$ 10,930	$ 9,943,765
Operating income (loss)	$ (375,684)	$ (83,949)	$ (1,162,041)	$ (78,827)	$ (1,700,501)	$ 44,914	$ 102,019	$ (1,167,512)	$ (2,721,080)
Net income (loss):	$ (366,543)	$ (83,949)	$ (1,159,911)	$ (78,347)	$ (1,688,750)	$ (175,938)	$ 102,019	$ (10,576,326)	$ (12,338,995)
Identifiable assets	$ 5,017,168	$ 1,294,420	$ 9,175,604	$ 488,093	$ 15,975,284	$ 549,442	$ 503,743	$ 28,382,260	$ 45,410,729
Depreciation and amortization	$ (26,006)	$ (56,423)	$ (552,366)	$ (11,337)	$ (646,133)	$ (13,807)	$ (10,379)	$ (174,376)	$ (844,694)
Capital expenditure	$ 673	$ -	$ 489,896	$ -	$ 490,569	$ (105,604)	$ -	$ 11,130	$ 396,094

Note 20. Related Party Transactions

None.

Note 21. Subsequent Events

The Company's management evaluated subsequent events through May 6, 2011, the working day before the date the financial statements were issued and filed with the Securities and Exchange Commission.

On April 1, 2011, the Board of Directors appointed Rijkman Groenink to the Board. Mr. Groenink was also appointed as a member of the Audit and Finance Committee, the Compensation Committee, the Nominating and the Corporate Governance Committee of the Board.

Between April 1, 2011 and May 6, 2011 we received a total of $1,890,312 in gross proceeds from exercised warrants. For these proceeds we will issue a total of 1,241,289 shares of common stock. Portions of these share issuances have already taken place.

Actual issuances of shares in accordance with our stock transfer agents records between April 1, 2011 and May 6, 2011were in total 1,199,415 shares as per below details:

- 230,557 shares relating to the automatic conversion of the 2009 Promissory Note at a conversion price of $1.35 per share. No additional proceeds have been received for this conversion.
- 50,000 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 were received in March 2011 and included in the financials of the three months ended March 31, 2011.
- 225,000 shares were issued relating to the cash exercise of warrants which had been issued as part of the sale of shares under the “Bridge SPA”. Proceeds were received in April 2011.
- 411,001 shares were issued relating to the cash exercise of warrants which had been issued as part of the placement of shares under the Private Placement (PIPE) in 2010. Proceeds were received in April and May 2011.
- 40,000 shares were issued relating to the cash exercise of warrants which had been issued as part of the consideration for services provided by the placement agent for their 2010 placement activities. Proceeds were received in April 2011.
- 5,188 shares were issued as consideration for services provided following the terms of the agreement. No proceeds were received.
- 225,169 shares were issued as regular agreed non-cash compensation and as bonus for directors and executive officers. No proceeds were received.
- 12,500 shares were issued pursuant the cashless exercise of a former employee of the company. 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 June 2009 we signed a hosting agreement with Vizzavi Spain (part of Vodafone Group). Elephant Talk to be the exclusive provider to Vizzavi for MVNE services in Spain.
- 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 are currently in the process of implementing this platform in Belgium.
- 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. By the end of the September 2010 quarter we successfully implemented and brought live for T-Mobile one of their best known brands in The Netherlands.
- Recently, the company a closed a contract in the Middle East to provide its mobile platform which is planned to be operational in the course of 2011.

In Spain, we have provided since June 2009, managed services to Vizzavi (part of the Vodafone Group) and migrated at the end of 2010 two additional MVNOs of Vizzavi to our platform and are in the process of preparing and implementing new ones.

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 cre ate 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®.
- 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.
- 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), 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 and KPN in Belgium.

Results of Operations

Our results of operations for the quarter ended March 31, 2011, consisted of the operations of Elephant Talk Communications Inc. , 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 Euro's, 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 wit h 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's 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 three months of 2011 most of the revenue of the company is still generated by landline business (Premium Rate Services, Calling Cards Middle East 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 the revenues in the first three months of 2011 were generated for more than 90% by landline business, the margin contribution la rgely comes from the mobile and security solutions business. Within the mobile segment we distinguish between wholesale services and managed services. Wholesale services carry a much higher revenue than the managed services revenues, since wholesale services includes the sale of airtime. Managed services on the other hand have a much lower revenue, but have little cost of service compared to wholesale.

Adjusted EBITDA

We employ Adjusted EBITDA, defined as earnings, 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.

The three months ended March 31, 2010 figures do not include ValidSoft Financials. ValidSoft is consolidated since April 1, 2010.

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

	Three months ended March, 31		
	2011	**2010**	**2010 in constant currency**
	(unaudited)	**(unaudited)**	**(unaudited)**
Net loss	$ (4,713,224)	$ (12,338,995)	$ (12,314,900)
Provision for income taxes	800	800	800
Net loss attributable to noncontrolling interest	80	498	498
Depreciation and amortization	1,302,675	844,694	837,078
Stock-based compensation	1,130,063	540,913	540,913
Interest income and expenses	43,778	413,941	414,206
Other income & expenses	(230,000)	-	-
Other non-cash financing charges	-	9,202,676	9,202,676
Adjusted EBITDA	$ (2,465,828)	$ (1,335,473)	$ (1,318,728)

(Note to Adjusted EBITDA table: 2010 figures do not include yet ValidSoft financials)

Impact of inclusion of ValidSoft financials for the three months ended March 31, 2010 – constant currency –:

If we include the first three months ended March 31, 2010 of ValidSoft financials, the Adjusted EBITDA of the three months ended March 31, 2010 becomes ($2,226,421). Hence, the Adjusted EBITDA for the three months ended March 31, 2011 of ($2,465,828) was a change of ($239,407) compared to the first three months ending March 31, 2010.

The impact of inclusion of ValidSoft on adjusted EBITDA for the three months ended March 31, 2010 was ($907,693) and therefore changing the first quarter adjusted EBITDA from ($1,318,728) to ($2,226,421). The impact of ($907,693) is comprised of adjustments to net loss of ($966,328), depreciation of $5,827 and interest income & expenses of 52,808.

Revenue

Revenue for the three months ended March 31, 2011 was $8,508,014, a decrease of $1,435,751 or 14.4%, compared to $9,943,765 for the three months ended March 31, 2010. $126,119 of the decrease was a result of an unfavorable impact of the currency translation effect arising from a lower USD/Euro exchange rate.

Revenue - Constant currency

In constant currency, the revenue decreased by $1,309,632 or 13.3% compared to the same period in 2010, and was attributable to a decrease of $1,947,397 of our landline business, which was partly off-set by the increase in our mobile and security solutions business of $ 637,765 compared to the same period in 2010.

Revenue	March 31, 2011	March 31, 2010	March 31, 2010 constant	Variance 2011 versus 2010 constant
Landline Services	$ 6,997,336	$ 9,059,182	$ 8,944,732	$ -1,947,397
Mobile & Security Solutions	1,510,678	884,583	872,913	637,765
Total Revenue	$ 8,508,014	$ 9,943,765	$ 9,817,646	$ -1,309,632

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 3 months ended March 31, 2011 was $7,557,485, a decrease of $1,816,403 or 19.4%, compared to $9,373,888 for the three months ended March 31, 2010. $119,828 of the decrease was a result of a favorable impact of the currency translation effect arising from a lower USD/Euro exchange rate. $1,696,575 of the decrease was the result of lower revenues, combined with lower cost of service associated with the mobile managed services and ValidSoft business.

Cost of service– constant currency

In constant currency the cost of service decreased by $1,696,575 or 18.3% compared to the same period in 2010, primarily as a result of lower levels of revenue and the lower cost of service associated with the mobile managed services and ValidSoft business.

Cost of service, as a percent of revenue, expressed in constant dollar terms was 88.8% and 94.3% for the three months ended March 31, 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 March 31, 2011 and 2010 were $ 3,416,357 and $1,905,350, respectively. SG&A expenses increased by $1,511,007, or 79.3%, in 2011 compared to 2010.

Selling, general and administrative – constant currency

In constant currency, SG&A increased by $1,534,044, or 81.5%, compared to the same period in 2010. he increase in expenses was for 64.5% attributable to the inclusion of ValidSoft into our financials and for 17% attributable to increased staffing levels since 1 April 2010. Our Staffing levels increased with 21%.

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

Non-cash compensation for the three months ended March 31, 2011 and 2010 was $1,130,063 and $540,913, respectively. In addition to the increased staffing levels and inclusion of ValidSoft staff into our financials as of April 1, 2010, the increase is primarily attributable to the fact that non-cash compensation for directors and executive officers related to first quarter 2010 was only accounted for as of the second quarter 2010.

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 months ended March 31, 2011 and 2010, was $ 1,302,675 and $844,694 respectively. Depreciation and amortization expenses increased by $457,981 or 54.2% in 2011 compared to 2010. The increase of the amortization was primarily due to the amortization of the acquired intangible assets of ValidSoft in 2010.

Depreciation and amortization – constant currency

In constant currency the depreciation and amortization expenses increased by $465,597 or 55.1% compared to the same period in 2010. The increase of the amortization was primarily due to the amortization of the acquired intangible assets of ValidSoft in 2010.

Other Income and Expenses

Interest income was $22,986 and $32,599 for the three months ended March 31, 2011 and 2010 respectively. Interest income was interest received on bank balances.

Interest expense was $66,796 and $446,540 for the three months ended March 31, 2011 and 2010 respectively. The decrease in interest expenses of $379,776 compared to 2010 was the result of lower levels of debt.

Other income was $230,000 and $0 for the three months ended March 31, 2011 and 2010 respectively. Other income was the result of a partial release of a FIN48 provision following a successful abatement request with the IRS.

Interest expense related to amortization of debt discount on promissory notes was $0 and $1,326,919 for the three months ended March 31, 2011 and 2010 respectively. The decrease was the result of the conversion of the 2009 Promissory Notes into equity in the fourth quarter 2010.

Changes in fair value of warrant liabilities were $0 and $7,347,911 for the three months ended March 31, 2011 and 2010 respectively. The decrease was the result of the conversion of the 2009 Promissory Notes as well as the QAT II loans into equity in the fourth quarter 2010.

Amortization of deferred financing costs was $0 and $527,846 for the three months ended March 31, 2011 and 2010 respectively. The decrease was the result of the conversion of the 2009 Promissory Notes as well as the QAT II loans 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.

We incurred a non-controlling interest charge attributable to minority shareholders' interest for the three months ended March 31, 2011 and March 31, 2010 of $80 and $498 respectively.

Net Loss

Net Loss was $4,713,224 and $12,338,995 for the three months ended March 31, 2011 and 2010 respectively.
The adjusted EBITDA (for definition see earlier section in the MD&A) for the three months ended March 31, 2011 and 2010 was $ (2,465,828) and $ (1,335,473) respectively.

Comprehensive Income (Loss)

We record foreign currency translation gains and losses as comprehensive income or loss. Comprehensive Income (Loss) for the quarters ended March 31, 2011 and 2010 was $2,319,564 and ($521,786) 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 $159,531,660 as of March 31, 2011. Historically, we have relied on a combination of debt and equity financings to fund our ongoing cash requirements. In the first quarter of 2011 we received a total of $6,927,724 in gross proceeds from exercised warrants .

After deduction of finders fees the net proceeds amounted to $6,734,523.

Although we have previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, that the terms of such financing may be dilutive to existing shareholders or otherwise on terms not favorable to us or our existing shareholders. Further, the current global financial situation may offer additional challenges to raising the required capital. If we are unable to secure additional capital, we may not be able to continue operations.

Sources of capital and capital requirements.

The company currently has cash needs to cover operational losses and recurring capitalized internally developed software costs of approximately $900,000 (EUR/USD exchange rate used is 1.35) per month. This excludes the committed capital expenditures or reduction of accounts payable, but also the expected improvement of working capital requirements.

We believe that our cash balance at March 31, 2011, in combination with the additional gross funding received thereafter from warrants exercised until May 6, 2011 ($1,890,312), lesser working capital requirement, continued investment in capital expenditures and expected additional revenues will lead us to operational cash flow break even in the fourth quarter 2011.

At the same time, considering our share price development and upcoming achievements we expect warrants to purchase stock in our company continue to be continued to be exercised, which altogether would provide sufficient funds to continue to execute our plans.

In the event warrants are not exercised to the extent expected and/or expected revenues are delayed or less than expected, the Company plans to seek additional financing.

However, if estimated revenues do not materialize and the Company is unable to secure additional capital, it may not be able to continue operations.

Our financial statements assume that we will continue as a going concern. If we are unable to continue as a going concern, we may be unable to realize our assets and discharge our liabilities in the normal course of business.
The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

Operating activities
Net cash used in operating activities for the three months ended March 31, 2011 was $3,452,607 compared to $1,924,832 in the first quarter of 2010, an increase of $1,527,775. This increase is primarily attributable to expenses and assumed liabilities related to the inclusion of ValidSoft as of April 1, 2010 into our financial statements.

Investment activities
Net cash used in investment activities for three months ended March 31, 2011 was $2,110,425 a increase of $1,119,659 (or 113%) compared to $990,766 in the first quarter of 2010. The increase was primarily attributable to the purchase of property and equipment.

Financing activities
Net cash received by financing activities for the three months ended March 31, 2011 was $6,739,585.

As a result of the above activities, the Company had a cash and cash equivalents balance of $4,167,266 as of March 31, 2011, a net increase in cash and cash equivalents of $1,921,569 compared to December 31, 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"," ("ASC 718") (formerly SFAS No. 123(R)), 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, generall y 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 (formerly SFAS No. 142), 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" (formerly SFAS No. 144), 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 fin ancial 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 re tained 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.

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 three months ended March 31, 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”), the Company’s 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, Inc., 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 $446,359 under the alleged employment contract, $56,951 under the alleged oral consulting agreement, stock options that he valued at $96,960 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 cos ts 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.

A trial is set to start on June 24, 2011.

(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, Inc., 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 Hong Kong subsidiary of the Company. 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 $1,536,792.28 plus continuing interest is due. The Bank alleges that the Company is directly liable t o repay the loans and overdraft account as a successor in interest to ETL. The Bank is suing the Company for breach of contract and common counts. The Company denies the Bank’s allegations and asserts several affirmative defenses. The Company contends that that it has no direct, successor liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors. A trial is set to start on May 23, 2011.

(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 first three months of 2011 the company sold an aggregate number of 230,911 shares as per the following breakdown:

On February 2, 2011, we issued 47,619 restricted shares in exchange and as a result of a cash exercise of warrants which had been issued to an accredited investor as part of the Private Placement in 2008, the exercise price was $1.26 and resulted in a cash proceed of $60,000 which was fully received in November 2010.

On February 2, 2011, we issued 23,810 restricted shares in exchange and as a result of a cash exercise of warrants which had been issued to an accredited investor as part of the Private Placement in 2008, the exercise price was $1.47 and resulted in a cash proceed of $35,001 which was fully received in November 2010.

On February 15, 2011, we issued 80,000 restricted shares as non-cash consideration for consultancy services provided. The cost-basis at issue had been determined at $150,000 following the initial cash agreements in the contract.

On February 24, 2011, we issued 79,482 restricted shares as non-cash consideration for the purchase of assets. The cost-basis at issue had been determined at $242,418 following the initial cash agreements in the contract.

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. Submission of Matters to a Vote of Security Holders

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 X-1.

31.2 Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) on page X-2.

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 X-3.

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 X-4.

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, INC.

May 9, 2011

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

May 9, 2011

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

Index to Exhibits

Number	Exhibit	Page
31.1	Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-1
31.2	Certification of the CFO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a)	X-2
32.1	Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-3
32.2	Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X-4

Exhibit 31.1

Certification Pursuant to Rule 13a-14(a)

I, Steven van der Velden, hereby certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Elephant Talk Communications, Inc.;

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: May 9, 2011

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

Exhibit 31.2

Certification Pursuant to Rule 13a-14(a)

I, Mark Nije, hereby certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Elephant Talk Communications, Inc.;

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.

May 9, 2011

/s/ Mark Nije
Mark Nije, Chief Financial Officer

Exhibit 32.1

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, Inc., 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 March 31, 2010 (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: May 9, 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.

Exhibit 32.2

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, Inc., 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 March 31, 2010 (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: May 9, 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.