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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

☐ **TRANSITION REPORT PURSUANT TO 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	**95-4557538**
(State or other jurisdiction of incorporation or organization)	*(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)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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, or a non-accelerated filer or a smaller reporting company. See definition 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 ☐ (Do not check if a smaller reporting company)	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 ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $38 million based on the closing sale price of the Company's common stock on such date of U.S. $1.82 per share, as reported by the OTC BB.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of March 29, 2011 there were 98,820,013 shares of common stock outstanding.

Documents incorporated by reference: None.

Elephant Talk Communications Inc.

Form 10-K
For the fiscal year ended December 31, 2010

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NOTE ON FORWARD LOOKING STATEMENTS

This Report, including the documents incorporated by reference in this Report, includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Our actual results may differ materially from those discussed herein, or implied by, these forward-looking statements. Forward-looking statements are generally identified by words such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “plan,” “project” and other similar expressions. In addition, any statements that refer to expectations or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements included in this Report or our other filings with the SEC include, but are not necessarily limited to, those relating to:

- risks and uncertainties associated with the integration of the assets and operations we have acquired and may acquire in the future;
- our possible inability to raise or generate additional funds that will be necessary to continue and expand our operations;
- our potential lack of revenue growth;
- our potential inability to add new products and services that will be necessary to generate increased sales;
- our potential lack of cash flows;
- our potential loss of key personnel;
- the availability of qualified personnel;
- international, national regional and local economic political changes;
- general economic and market conditions;
- increases in operating expenses associated with the growth of our operations;
- the possibility of telecommunications rate changes and technological changes;
- the potential for increased competition; and
- other unanticipated factors.

The foregoing does not represent an exhaustive list of risks. Please see “Risk Factors” for additional risks which could adversely impact our business and financial performance. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this Report are based on information available to us on the date of this Report. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Our Company

Elephant Talk Communications, Inc. also referred to as “we”, “us”, “Elephant Talk” and “the Company” is an international provider of business software and services to the telecommunications and financial services industries. Elephant Talk provides global telecommunication companies, mobile network operators, banks, supermarkets, consumer product companies, media firms, and other businesses a full suite of products and services that enables them to fully provide telecom services as part of their business offerings. The company offers various dynamic products that include remote health care, credit card fraud prevention, mobile internet ID security, multi-country discounted phone services, loyalty management services, and a whole range of other emerging customized mobile services.

Converged telecommunication services – full MVNE solutions.

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

ValidSoft – electronic fraud prevention

Our acquisition of ValidSoft Ltd. (“ValidSoft”) gives us a position in providing solutions to counter electronic fraud through card, internet and telephone channels. ValidSoft is a leader in this market. ValidSoft's solutions are telecommunications based and are at the cutting edge of the market, utilizing their access to the most sophisticated global telecommunications networks and expertise. The solutions are used to combat card-present and card-not-present fraud as well as electronic fraud on all channels, including the most advanced fraudulent attacks such as Man-in-the-Browser on the internet. The solutions are designed for mass markets, in a highly cost effective and secure manner, yet are easy to use, intuitive and leverage the most ubiquitous devices available. VALid-POS® was awarded the European Privacy Seal in March 2010, certifying its compliance with European Data Protection and Data Privacy legislation. ValidSoft is the only security software company in the world to be certified to European standards.

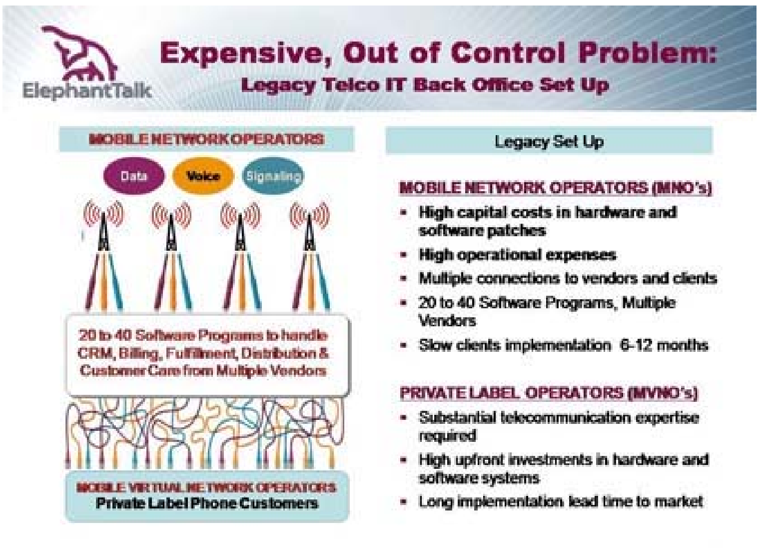
Landline network outsourcing services

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

Overview

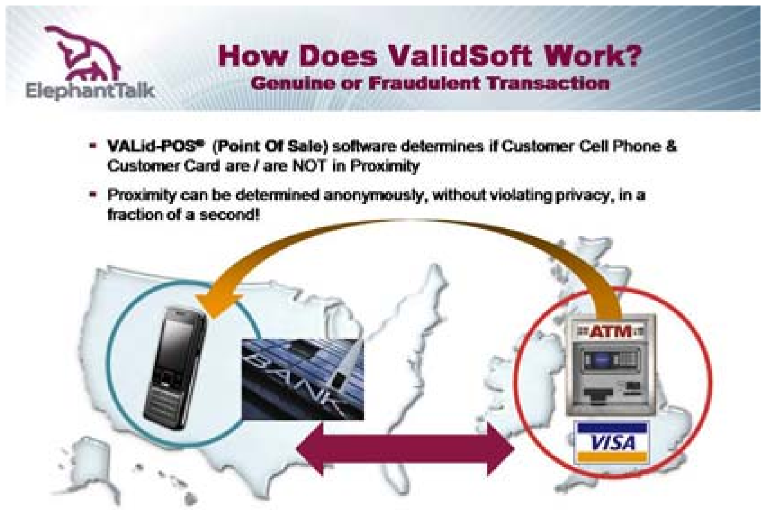
We are an international provider of business software and services to the telecommunications and financial services industry. Elephant Talk installs its operating software at the network operating centers of mobile carrier and receives a monthly fee per cell phone subscriber on the network. Currently the subscribers are wholesale customers of Vizzavi (a subsidiary of the Vodafone group) in Spain and T-Mobile in the Netherlands. Furthermore we signed a framework hosting agreement with KPN Group Belgium NV to make use of their radio network for us to connect MVNO customers in Belgium. Just recently, the company closed a contract in the Middle East to install its mobile platform which is planned to be operational in the course of 2011. Elephant Talk typically signs a five- year exclusive with one carrier per country. Negotiations with mobile carriers are currently under way in a number of other countries. We also operate landline telephony services in nine European countries and Bahrain. Our network components, hardware, software systems, telecom switches and interconnections with other telecom operators are located in secured data-centers in eight countries.

Our ET Boss software enables mobile carriers to outsource their entire back office to Elephant Talk. By outsourcing operations the mobile carriers can reduce the number of vendor software, employees, and consultants. ET Boss reduces the number of software modules / vendors from over twenty to one. Additionally, ET Boss enables mobile virtual network operators (MVNOs) to control their pricing and product offerings with the touch of a keypad from a Windows interface. This compares with the current situation often experienced by virtual operators whereby it can take up to six month to effect a change in their product offerings.



Due to the large operational expenditures required to operate and maintain switches and network infrastructure, due mostly to the very high levels of complexity, mobile network operations such as Sprint have already been outsourced (to Ericsson) in an effort to reduce costs. Now Elephant Talk offers a comparable possibility of fully outsourcing the complete IT back office of any mobile operator. We believe that our software platform offers thereby not only a substantial reduction in cost, but also provides much higher service levels and flexibility. We are currently providing these services to Vodafone's subsidiary in Spain and T-Mobile in the Netherlands, and will start to connect MVNOs in Belgium this year to the network of KPN Group in Belgium. We simply take three pipes from the mobile network operator (MNO) – voice, data, and signaling (see above) – and plug them into our ET Boss platform (see below).

We are developing and acquiring application software to enable our virtual clients to offer various dynamic products that include remote health care monitoring on a watch or pendant, 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. In line with our strategy to develop and market customized mobile solutions, we acquired ValidSoft, Ltd. 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 tell a bank in real-time if the transaction is likely genuine or fraudulent (see diagram below). We anticipate generating revenues on a per transaction verification fee from banks. This acquisition combines ValidSoft's best in class proprietary software with our superior telecommunication platform to create what we believe is the best electronic fraud prevention total solution available.



In 2010 we generated almost $40 million in revenues and employed 88 employees and retained 42 independent contractors on a long-term basis. Our principal offices are located in The Netherlands, Spain, China and London. Mobile services are currently provided in Spain and The Netherlands, whereas landline telephony services are provided in nine European countries and Bahrain. Our network components, hardware, software systems, telecom switches and interconnections with other telecom operators are located in secured data-centers in eight countries.

Background of Elephant Talk Communications, Inc.

Elephant Talk Communications Inc. was formed in 2001 as a result of a merger between Staruni Corporation (USA, 1962) and Elephant Talk Limited (Hong Kong, 1994). Staruni Corporation - named Altius Corporation, Inc., until 1997 - was a web developer and Internet Service Provider since 1997 following its acquisition of Starnet Universe Internet Inc. Elephant Talk Limited (Hong Kong) began operating in 1994 as an international long distance services provider, specializing in international call termination into China. In 2006 Elephant Talk Communications, Inc., decided to abandon its strategy of focusing on international calls into China.

In 2000 Staruni Corporation became a reporting company on the OTC Bulletin Board under the symbol "SRUN", replaced by "ETLK" following the merger with Elephant Talk Limited (Hong Kong), and in turn changed to "ETAK" pursuant to a 2008 stock-split.

In January 2007, through our acquisition of Benoit Telecom (Switzerland), we established a foothold in the European telecommunications market, particularly within the market for Service Numbers (Premium Rate Services and Toll Free Services) and to a smaller extent Carrier (Pre) Select Services. Furthermore, through the human capital, IT resources and software acquired, we obtained the experience and expertise of individuals and software deeply connected to telecom and multi-media systems, telecom regulations and European markets.

In March 2010, we acquired ValidSoft. This acquisition is in line with our strategy to develop and market customized mobile solutions. ValidSoft provides strong authentication and transaction verification capabilities that allow organizations to quickly implement solutions which protect against the latest forms of credit and debit card fraud, on-line transaction and identity theft. This acquisition combines ValidSoft's best in class proprietary software with our superior telecommunication platform to create the best electronic fraud prevention total solution available on the market today. Further details on the above acquisitions, other (smaller) acquisitions and incorporations can be found under "legal structure of the company".

Product – Service Strategy

Our corporate strategy results in the following three main types of value propositions offered to the market, each building upon our converged network and access capabilities in combination with "ET Boss", our proprietary telecommunications Operating Support System (OSS) and Business Support System (BSS):

- **Customized mobile services**, such as our ValidSoft credit card fraud solution
- **Mobile Enabling Platform (ET BOSS)**, including our MVNE/MVNO services
- **Landline network outsourcing services**

Industry Developments

A number of relevant factors in the converging telecommunications industry, combined with consumers and businesses increasing adoption of mobile and wireless based applications, drive our investments and services, are as follow:

The mobile phone will become the channel of choice for consumers

We believe that the mobile phone will ultimately be the (handheld) device chosen by consumers and businesses to best bring personalized, contextual and time-wise relevant services such as:

- mobile banking
- telemedicine
- location based services
- use of near field communications for cashless payments, couponing, cashless tickets, vending machine payments, grocery store payments
- credit card applications
- communities; social, entertainment and loyalty
- customer profiling and data mining to support one-on-one marketing
- security and trust sensitive applications; the mobile phone as authenticator.

Mobile operators need to reduce total cost of ownership (TCO) and increase utilization of their assets

Mobile Network Operators typically have twenty or more vendors for their software to handle Network Management, Customer Relationship Management (CRM), billing, fulfillment, distribution and customer care. This has resulted in legacy systems that are expensive to maintain and difficult to adapt to changing market conditions. In addition, MNOs are looking for new ways to attract traffic over their networks, since the traditional mass marketing of voice and messaging focused on end-users ("retail") shows little or no growth. MNOs are required to shift their organization from a mass marketing oriented retail focus to a wholesale focus; thereby allowing other organizations such as MVNOs to serve smaller and specifically targeted end-user groups with specialized and converged solutions in order to increase traffic (e.g. voice, text, data or media) over the operators networks.

Trust and security aspects are increasingly important in a networked and digitalized environment

The open nature of the Internet as well as exponential digitalization and globalization of society has resulted in increased (international) fraud, attention for privacy intrusions and national security concerns.

MVNO telecommunication markets

By Informa[1]

Western Europe and North America, both expected to grow in terms of MVNO subscription numbers, are not expected to see a radical shift in terms of market structure. The global MVNO market will reach 186 million subscriptions by the end of 2015 with North America and Western Europe still accounting for the vast majority. These two regions will remain the largest MVNO markets in terms of the number of subscriptions and players and will also continue to top the ranks in terms of MVNO penetration.

By Ovum[2]

Global mobile virtual network operator (MVNO) connections are forecast to reach 85.6 million by 2015, and revenues are expected to be $9.5 billion. Over the next five years, new MVNO markets are expected to open up in South and Central America, Asia-Pacific, and in the Middle East. However, there are still regulatory and market challenges to overcome before these markets can offer an environment that can sustain MVNO activity. Therefore, we expect the bulk of MVNO connections and revenue growth from 2010–15 will come from established MVNO markets in Western Europe, Asia-Pacific, and North America.

Established MVNO markets will drive growth

Global MVNO connections are forecast to reach 85.6 million by 2015, and revenues are expected to be $9.5 billion. The bulk of global MVNO connections growth will come from established MVNO markets in Western Europe, Asia-Pacific, and North America.

In Western Europe, the fastest-growing MVNO markets are Germany, France, Italy, Spain, and the Netherlands. Germany and the Netherlands have been the largest MVNO markets (in terms of the number of MVNOs) for many years, and this will not change over the forecast period, especially as both markets are regarded as good testing grounds for MVNOs looking to trial new business models.

Emerging markets warming to MVNOs

While currently there are very few MVNOs in emerging markets, more markets are expected to introduce MVNOs over the forecast period. MVNOs are expected to move into markets in Brazil and Chile in South and Central America; Turkey in the Middle East; and India, Pakistan, and Vietnam in Asia-Pacific. Markets such as Brazil and India present an attractive opportunity for MVNOs, but there are still a number of obstacles impacting MVNO development in these markets including a lack of cooperation from mobile network operators (MNOs) and a lack of regulation to facilitate new MVNO entrants. Therefore, we expect the majority of new MVNO markets to remain relatively small and have minimal impact on global MVNO connections and revenues.

MVNO revenues to remain steady

Global revenues are forecast to remain steady over the next five years. Currently, Western Europe and the US account for over 84% of global MVNO revenues, and by 2015 we forecast that this figure will fall marginally to 80%. MVNO markets in South and Central America and the Middle East are expected to make up a greater share of global MVNO revenues over the forecast period. In 2009, South and Central America and the Middle East contributed approximately 1% to global MVNO revenues, and we forecast that this will increase to 6% by 2015.

MVNOs have explored numerous segments

MVNOs have been in operation for over a decade, and in this time it has become clear which business models have been successful and which have been failures. “Tried and tested” MVNO business models include targeting low-spending customers by offering no-frills domestic and international mobile services, and targeting businesses and households by offering mobile and fixed service bundles. MVNOs have also had success in other niche segments, such as focusing on the wealthy, charities, or offering gender-specific services. All of these models have proven lucrative for MVNOs and have presented them with good opportunities in most markets. However, while targeting the right segment is extremely important for MVNOs, their success is also dependent on market conditions, competition, and execution.

[1] Extract Global MVNO Forecast to 2015, © 2011 Informa Telecom & Media, Publication Date 22 March 2011

[2] Reference Code: OVUM052659, Publication Date: 31 August 2010

Electronic and card fraud markets

The solutions from Validsoft are targeted to combat electronic fraud across card, internet and the telephone channels. Card fraud in the US is estimated to be $100 billion p.a. and $330 billion p.a. globally with the other channels accounting for additional fraud of $50billion p.a and $150 billion p.a. respectively. The total addressable market is $450 billion p.a whereby a recent report from the U.K. government on National Security Strategy even estimates cybercrime numbers of $1,000 billion. Through the ValidSoft technology the extent of this endemic problem can be reduced through reducing the direct impact of fraud, reducing operating costs and improving the customer experience. These solutions also provide an environment which allows banks and other institutions to automate manual process safely and securely.

Summary Services and Solutions

ValidSoft: customized mobile solution for credit card fraud prevention

ValidSoft provides strong authentication and transaction verification capabilities, which allow organizations to quickly implement solutions that protect against the latest forms of credit and debit card fraud, on-line transaction and identity theft. ValidSoft's advanced proprietary software combined with what we believe is a superior telecommunication platform to create a leading electronic fraud prevention total solution.

We believe the ValidSoft solution can have large cost reduction potential for financial institutions around the world that have losses associated with fraud losses, false positives and administration in connection with credit and debit card fraud. ValidSoft has successfully completed trials with four major commercial banks, has entered into an agreement with Visa Europe and is in advanced discussions with other leading global payment processors, international banks and credit card providers. ValidSoft was recently awarded the European Privacy Seal from EuroPrise[3], underscoring the prudent set-up of its systems as to privacy matters.

MVNE/MVNO

Since 2006, significant investments have been made in mobile enabling services and platforms. We invest and operate as a full Mobile Virtual Network Enabler (MVNE), offering MNOs various parts of the back office network including core network, messaging platforms, data platforms and billing solutions. As a result, we are positioning ourselves as the MVNE partner of choice for the larger, global MNOs, and a one-stop convergent solutions provider for specialized MVNO customers.

The first revenues from these mobile services began during the fourth quarter of 2008 with T-Mobile in the Netherlands and with Vizzavi (a subsidiary of Vodafone group) in Spain during 2009. Currently we have 8 MVNOs running on our platforms in The Netherlands and Spain, and are expanding our geographic service areas. Following a recent closing of a contract in the Middle East we will be operational in the Middle East in the course of 2011 and we have planned an operational start in Belgium this year.

Currently we are negotiating agreements with various MNOs and MVNOs in numerous countries in order to realize our strong growth objectives, both in revenues and margin improvement.

Landline Outsourced solutions

At the base of our advanced mobile services, and currently still the largest revenue contributor[4], is our landline services, which we offer in nine European countries and Bahrain. These services are provided by operating a switch-based telecom network with national licenses and direct land line interconnects with the Incumbents/National Telecom Operators. Together with our centrally operated and managed IN-CRM platform, we offer geographical, premium rate, toll free, personal, nomadic and Voice over Internet Protocol ("VoIP") services to our primarily business customers. We position our customers as if they are a fully networked telecommunications company themselves by providing them with the tools and resources necessary to manage their businesses, particularly the telecommunications segment, as an integrated component of their overall offering.

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[3] EuroPriSe is an initiative led by the Unabhaengiges Landeszentrum fuer Datenschutz ("ULD", Independent Centre for Privacy Protection), Germany. EuroPriSe was funded with 1.3 million Euro by the European Commission's eTEN program. The EuroPriSe project consortium led by ULD included partners from eight European countries: the data protection authorities from Madrid (Agencia deProteccion de Datos de la Communidad de Madrid, APDCM), and France (Commission Nationale de l'Informatique et de Libertes, CNIL), the Austrian Academy of Science, London Metropolitan University from the UK, Borking Consultancy from the Netherlands, Ernst and Young AB from Sweden, TUeV Informationstechnik GmbH from Germany, and VaF s.r.o. from Slovakia. http://www.european-privacy-seal.eu/

[4] but not the largest margin contributor as a result of the low margins of landline services.

Network

Landline and Mobile Network

Our network is based on landline and MVNO telecommunications licenses, mobile access agreements and network interconnections. Our geographical cross-border footprint, established through existing relationships with national telecom incumbents, is well positioned for international traffic because we have established our own facilities-based infrastructure on two continents. Currently, as a fully licensed carrier, we are interconnected with incumbents in the Netherlands (KPN), Spain (Telefonica), Austria (Telekom Austria), Belgium (Belgacom), Switzerland (Swisscom), Italy (Telecom Italia), the United Kingdom (BT) and Bahrain (Batelco). Through partners, we have access to interconnections in France, Germany, Poland, Finland, Sweden, Norway and Ireland. For our premium rate services we added to our national interconnect with KPN a direct connection in the Netherlands with the mobile operators Vodafone and T-Mobile.

For our mobile services we need, in addition to the landline interconnections and switch facilities, mobile access coverage. In 2008 we entered into our first MVNE agreement with T-Mobile/Orange in the Netherlands where in 2010 we were servicing six of our own MVNOs. In 2009 we were awarded an MVNE agreement with Vizzavi (a subsidiary of the Vodafone group) of Spain, and provide managed services for their MVNO portfolio, to be followed by the hosting of our own MVNOs. In 2010 we signed an MVNE framework hosting agreement with KPN Group Belgium NV with a planned start of service this year.

In order to reduce the investments required for our MVNOs, as well as increase our flexibility and depth of mobile service offerings to MVNOs and MNOs, we operate as a full MVNE; meaning that we procure, integrate and operate the relevant mobile components, including core network, application platform, subscriber management and MVNO billing and CRM.

Network Operations Center (NOC)

Our global 24/7 Network Operations Center is located in Guangzhou, China and remotely monitors the quality of all landline, data and mobile services throughout our global clear bandwidth and IP network. Our datacenters, network and network nodes are primarily located in Europe.

Proprietary Software Technology

ET's Business Operating Support System ("ET BOSS")

- To maintain flexibility and allow for growth, we have chosen to develop our own proprietary software and systems including: 1) a fully integrated rating, mediation, and provisioning CRM and billing system for multi-country and multimedia use, and applications, and 2) an advanced Infitel IN platform.

- Our internally developed customer provisioning, rating and billing system, also known as "ET BOSS", ensures proper support for all of our services. We believe our network and system platforms are able to handle the high demands of national incumbents and other telecom operators on our globally interconnected network. The key component of our business strategy is the fully automated capturing and recording of any event on our global network through a standard Call Data Record, or CDR. CDRs are globally recognized and accepted by all of our suppliers and customers because of their high quality, reliability and consistency. As a result, on a real time/on-line basis, we believe our billing engine provides reliable inter-company payment overviews, and will continue to do so as we develop and implement our global network.

- The core modules have been designed to address all of our major business processes, and those of our partners in such a manner that the state of the art flexibility, level of integration and dynamic feature set ensures rapid and low-cost deployments. The core modules and their sub-modules include amongst others:

  - Billing; (dynamic) rating management, bill mediation, invoicing and automatic payment script generation

- Payment; credit card, direct debit, Paypal etc. enabled functionalities
- Provisioning; switches, HLR, porting
- Self Care; mobile, carrier(pre)select, premium rate & toll free services
- CRM ; trouble ticketing, customer management, provisioning
- Sales & Marketing; prospect management, sales management, analysis tools
- Revenue Collection Assurance; end-user credit management, credit control, fraud management, routing analysis
- Control; dashboard overview, reporting, quality analysis, quality control

The sub-modules are unique and tailored to local situations.

Infitel Suite - IN Platform

In order to achieve real time session control, rating and charging, telecom value added applications as well as improved enrichment of data generated in and passing through our networks, we have acquired the carrier grade next generation IN (Intelligent Network) platform “Infitel”, including the source code and trademark. We own and develop this platform, thereby ensuring the flexibility and integration we strive for in and between all our software and network components.

Inficore is the core of the IN platform, defines the framework, administrative modules and SLP (Service Logic Processor) that runs the scripts (call flows) created with Infiscript.

Infiscript is the SCE (Service Creation Environment) this is a graphical suite with which the call flows and business logic can be developed and compiled to be distributed to running Inficore environments.

Infitel Suite comprises the applications and call-flows that are running on top of Inficore and that have been created with Infiscript, customized SIBs (C++ core code) and stored procedures.

The Infitel Suite comprises amongst others the following value added services:

Intelligent Call Routing, Service Numbers

- Universal Prepaid (Residential, Phoneshop, Reseller)
- Flexible Number Portability
- EasyVote (Televoting)
- VPN/CUG
- Advanced Call Completion
- NJoy-Dial
- Personal Call Manager
- Advanced Business Communication
- Zonal Call Manager

ValidSoft - Fraud Prevention and Security Software Solutions

In 2009, we began investing and developing the integration of our systems into those of (at that time still) joint venture partner ValidSoft, in order to be able to offer a full fledged security solution over mobile networks. These investments in development were part of our overall strategy to becoming a leading player in the area of “Customized Mobile Solutions”.

ValidSoft, as a software engineering company, has made significant investments in intellectual property in processes and software pertaining to Intelligent Identity & Transaction Verification, and is considered to have developed thought leadership in countering electronic fraud. The essence of the ValidSoft product suite is in providing Card-(not) Present fraud prevention, on-line Banking fraud prevention, Strong Mutual Authentication (multi-channel), Transaction Verification (Out of Band – OOB), Identity Verification and Non-Repudiation.

The main components of the VALid® product suite are:

- **VALid-IVR** is the Real-Time Interactive Voice Response (IVR) Internet, Phone Banking and Call Center mutual authentication and transaction verification solution providing a holistic multi-channel approach to fraud prevention. VALid-IVR provides outbound and inbound telephony all with configurable Transaction Verification. VALid-IVR integrates with Text-To-Speech (TTS), Speech Recognition and Voice Biometrics functionality, providing a seamless and intuitive customer experience while delivering the most secure and functionally rich authentication capability available.

- **VALid-SMS** is the Store-and-Forward based protocol that provides Standard, Premium and Flash based messages, all with configurable Transaction Verification. Though SMS does not provide the multi-channel capability and real-time conversational functionality of voice services, it is a simple delivery mechanism for alerts, OTP's (One Time Passcodes) and lower priority messages, and provides a migration path strategy for organizations wishing to extend their existing SMS based solutions.

- **VALid-SVP** stands for Speaker Verification Platform and is the biometric voice verification capability of the VALid® platform. The VALid-SVP solution is based on a completely modular, plug-in based architecture that allows organizations to integrate their existing or preferred biometric engines into the VALid® framework. VALid-SVP supports text-dependent, text-independent and conversational voice verification models, all deliverable over multiple electronic channels. ValidSoft's own biometric voice verification engine is based on Alize, a state-of-the-art speaker verification platform developed in the European Union.

- **VALid-TDS** is the Transaction Data Signing capability of VALid®, crucial in the provision of Non-Repudiation for Internet based financial transactions. VALid-TDS cryptographically ties the One Time Passcode (OTP) to the underlying transaction, as distinct to a randomly generated OTP. This enables the underlying transaction detail to be determined through the code, critical in proving or disproving transaction repudiation. VALid-TDS also interoperates with external tamper evident stores, storing the encrypted transaction data, authentication details and real-time call recording for further use in Non-Repudiation.

- **VALid-POS®** is the Card-Present fraud prevention solution from ValidSoft. VALid-POS® targets one of the fastest growing fraud threats; card skimming. VALid-POS® combines the functionality of VALid's real-time Out-of-Band transaction verification capability with proximity based mathematical models that assists banks in determining whether the genuine customer is conducting the card-based transaction. Where in doubt, VALid® can contact the customer and resolve the potential threat in real-time, providing massive advantages to bank and their customers alike.

- **VALid-ARM** stands for Advanced Risk Management and provides organizations with a suite of tools to enhance their fraud prevention capability and increase the effectiveness of their risk management function. Included within VALid-ARM is the Risk Adjusted Rules Engine (RARE), real-time alerting, Panic-PIN, advanced voice analysis techniques such as voice pattern analysis and VALid's proximity correlation tool VALid-POS.

- **VALid-TTS** - The pluggable Text-to-Speech option that can run in parallel with a WAV based voice service or replace it completely. VALid-TTS enables organizations to apply Transaction Integrity Verification (TIV) to totally dynamic data such as individual or company names and address information. A classic example of a manual transaction that could be enabled for the web is an Address Change, where VALid-TTS would be used to perform the TIV function on the actual address detail.

- **VALid-VPN** - The Virtual Private Network client that allows users to gain secure remote access to an organization's protected network. Remote network access is becoming a greater issue for many organizations through the growth of home working, remote workers, extended enterprise and disaster recovery and business disruption planning. VALid-VPN supports most of the major remote access solution providers, including Citrix, Juniper, Checkpoint and Cisco. The VALid-VPN solution has been designing as a generic solution enabling simple, low-cost integration into additional remote access technologies and providers, should this be necessary.

- **VALid-ISA - VALid**’s ISA integration provides secure access to applications accessed through ISA, e.g. Microsoft OWA. Currently many companies disallow remote access to ISA hosted applications (e.g. OWA) due to security concerns. VALid-ISA solves this problem and, through its zero client-footprint model, enables instant wide scale distribution. VALid-ISA also enables one secure point of access to any number of web based application sitting behind ISA.

Products

Full MVNE

We are positioning ourselves as a complete MVNE with our own integrated platforms, switches and network capabilities for back-office and customer interaction solutions. The back-office services range from provisioning and administration to Operations Support Systems (“OSS”) and Business Support Systems (“BSS”) running on our global IN/CRM/Billing platform “ET BOSS”. Our “ET BOSS” platform is designed to provide an all-in-one solution for both the traditional MNOs: (i) the operators of large antenna networks and (ii) managers of wireless spectrum granted through licenses by national governments, as well as for MVNOs. MVNOs are generally fast-moving sales and marketing companies reselling refocused, re-priced, re-bundled and repackaged mobile telecom services. We partner with MNOs to bypass their legacy systems to profitably accommodate these wholesale MVNO customers with service levels and applications that satisfy the instant service flexibility, and pricing capability that MVNOs require to specifically address their niche markets. At the same time, we can offer additional market share to MNOs by marketing and contracting our own range of MVNOs that look for the very specific capabilities that our mobile service delivery platforms may offer. Bundled together with attractively priced wholesale airtime packages provided by our MNO partners, our MVNOs are positioned to run their operations effortlessly without the technical and financial burden associated with the development, maintenance and ownership of their own mobile network, while at the same time focusing on sales, marketing and distribution and the application of all elements required to be successful in these rapidly evolving consumer markets.

These in-depth MVNE platform services are now fully operational in The Netherlands as of the end of 2008 and since June 2009 in Spain with a planned operational start in Belgium this year. Following a recent closing of a contract in the Middle East we will be operational in the Middle East in the course of 2011.

For companies that aspire to enter the mobile telephone market, the MVNO business model is attractive because it eliminates the expenses associated with establishing and managing a mobile network of their own. The initial capital expenditures required to enter the field are very low, as are the corresponding operational costs. Traditionally MNO and MVNO propositions required substantial capital and operational expenditures and attention to multiple technical components. Our business model offers a solution for MVNOs, which allows them to concentrate on sales and marketing, and which allows MNOs to cater to often smaller, niche market MVNOs without the cumbersome burden of their legacy systems and other resources, which are not designed to efficiently service such wholesale customers.

In addition to the more traditional voice and SMS services, we are focusing our MVNE platform on wireless data services, content, applications and E-commerce. The traditional voice services of MVNOs are likely to be marginalized over time and will follow a similar price erosion pattern as landline telecom services. Therefore, it is unlikely MVNOs will be able to effectively compete over time without value-added services. Moreover, the emerging market of 3G/3.5/4G mobile services, including WIFI, WIMAX and LTE, create great opportunities to attract new subscribers with new and improved business models. Mobile devices are an effective medium to communicate commercial messages to subscribers, especially if supported by legitimate customer profiling tools in combination with our IN/CRM/Billing platform “ET BOSS”. Mobile messages can be personalized per subscriber becoming contextually relevant, and thereby migrate from being perceived as intruding advertising to meaningful information, segmented within the client base or just to be used as a mass communication means. A mobile device is one of the most personal communication tools to connect with and stimulate customers, thus an MVNO channel might offer excellent opportunities to a variety of companies with a non-telecommunication core business, such as fast moving consumer goods companies (“FMCGs”) looking to expand and broaden their markets, while at the same time creating focused marketing communication channels with their existing customer bases, providing these contextual services that, we believe, will be perceived as adding value to communications. We are well positioned to provide such market entrants with a one stop, full service and instantly available platform to effectively cater to these markets, and thereby support any application that might help our customers to quickly offer a truly differentiating service into the marketplace. We believe that many new business models, especially within security, logistics, heath care and banking, will become viable through a networked environment, thereby helping such businesses to enter such models without having to go through yearlong learning cycles to understand, master and manage all the relevant technologies. We are positioning ourselves as the enabling technology partner for these new entrants, covering all technology elements and deliver all the tools these future business partners require to drive these new business models successfully.

Through an integrated platform built around our network we offer our customers a turnkey solution for both pre-paid and post-paid mobile services, as well as more traditional landline telecommunication services like toll free, shared cost and premium rate services, supported by content & payment provisioning systems.

Our global network enables our customers to distribute all their information in a fully managed environment that we believe is more secure than the Internet. Together with a fully integrated back office system, we are opening up these networked platforms to our B2B customers, providing them with an efficient and effective tool designed to substantially improve their productivity. Additionally, through a customer friendly, web-based interface, our customers may run these networked delivery platforms as if they were their own. This feature will allow our B2B customers to see mobile, landline, Internet, WiFi, WiMax and local, regional or multi-country, as just one integrated network, with all of the advantages of one single network interface, centralized customer recognition and financial controls.

With the support of our back office system combined with our integrated "ET BOSS" system, we believe our B2B customers have all the necessary tools to create their own virtual telecom business environment; thereby enabling our customers to recognize and serve their own clients, employees, partners or affiliates through any device, at any place and at any time. Our vision is that access to our global network will revolve around our central data and information base, which will allow our customers to provide their clients with worldwide access authorization to our services through a familiar interface and/or workplace, preferred format and language.

Customized Mobile Solutions – ValidSoft Fraud prevention and security solutions

The essence of the ValidSoft product suite is in providing:

- **Card-Present fraud prevention and resolution** – Card Skimming is one of the fastest growing fraud threats. In the US alone, this type of fraud in 2008 was reported as costing the Financial Services Industry over fifty billion $US, and a leading research company is predicting that the cost of plastic card fraud will rise three-fold over the next 3 to 5 years. VALid-POS combines the functionality of VALid's real-time Out-of-Band transaction verification capability with proximity based mathematical models that assists Issuing Banks in determining whether the genuine customer is conducting the card-based transaction. Where in doubt, VALid® can contact the customer and resolve the potential threat in real-time.

- **Card-not-Present fraud prevention and resolution** – Card-not-Present fraud, i.e. fraud associated with online retailing, is a significant problem worldwide. The vast majority of this type of fraud involves the use of card details that have been fraudulently obtained through methods such as skimming, data hacking or through unsolicited emails or telephone calls. The card details are then used to make fraudulent card-not-present transactions, most commonly via the Internet. As the number of Internet retailers has grown, fraudsters have increasingly targeted the online shopping environment. In the US alone, this type of fraud in 2008 was reported as costing the Financial Services Industry over fifty five billion $US, and a leading research company is predicting that the cost of card-not-present fraud will rise three-fold over the next 3 to 5 years. VALid-POS combines the functionality of VALid's real-time Out-of-Band transaction verification capability with proximity based mathematical models that assists retail providers in determining whether the genuine customer is conducting the online transaction. Where in doubt, VALid® can contact the customer and resolve the potential threat in real-time.

- **Online Banking fraud prevention** – Online banking fraud is a significant threat to the take-up of online banking worldwide. Fears concerning the safety of this type of banking transactions prevent banks from realizing the massive cost savings provided by self-service online banking. Globally less than 50% of internet users bank online and security fears remain the primary inhibitor of take-up. VALid's real-time Out-of-Band strong mutual authentication and real-time transaction verification enables the bank to apply a real-time dynamic rules engine to identify anomalies and to contact the customer and verify the transaction in real-time.

- **Strong Mutual Authentication (multi-channel)** – the need for the customer to know that the bank is genuine is just as important as the need for the bank to know that it is transacting with the genuine customer - this is essential in terms of fostering consumer confidence, the lack of which is the single most significant deterrent in terms of the adoption of online commerce. This is termed "Mutual Authentication" and VALid® has one of the most intuitive and strongest forms of Mutual Authentication available;

- **Transaction Verification (Out-of-Band – OOB)** – even if both parties to a transaction are genuine there is no guarantee that the transaction will not be corrupted. A "Man-in-the-Middle" or "Man-in-the-Browser" attack will succeed no matter how strong the authentication process. Therefore banks need Transaction Verification. Most banks monitor transactions to identify anomalies. When an exception is detected, banks for the most part rely on a manual process of contacting the customer by phone to verify the legitimacy of the transaction – this is expensive and also prone to security risk itself as the customer is forced to reveal security credentials to unknown third parties. VALid® addresses this issue since it has the ability to verify the integrity of transactions in real-time and in a totally automated manner over a separate telecommunications channel. Real-time OOB Transaction Verification is regarded by Gartner as the only effective way to protect the integrity of a transaction carried out on the Internet.

- **Identity Verification** – In mass market and extranet situations, service providers are struggling to find a solution that does not require the distribution of hardware devices yet provides strong authentication and transaction verification in a cost effective and convenient manner. It is likely that going forward service providers will be expected to comply with increasing regulation in this area. ValidSoft, through its telephony based architecture enables service providers to implement the strongest form of mutual authentication and transaction verification available. Designed specifically for mass markets and extranet situations, VALid® combines ease-of-use, cost effectiveness and strong security, from challenge response up to and including conversational voice biometrics, to ensure that service providers can verify to non-repudiation level if required, the verification of identity of both internal employees, external contractors and customers who may have access to sensitive material and also conduct transactions electronically.

- **Non-Repudiation – PKI** (Digital Certificates), long regarded as a form of Non-Repudiation is now vulnerable to Man-in-the-Browser attacks. This means that PKI can no longer guarantee the integrity of transactions and therefore can be challenged in a Court of Law where PKI is presented as a case for Non-Repudiation. VALid® has been designed to address the issue of Non-Repudiation through its multi-layered approach, which includes elements such as: Transaction Verification; Transaction Data Signing (cryptographically linking a One Time Passcode to the underlying transaction); Voice Biometrics (or OOB challenge/response); Customer Authorization (Voice Recording) and Geometric Transaction Analysis, to achieve the highest level of non-repudiation capability, presented to the customer in an intuitive and easy-to-use manner.

- **Business Enabling** – financial institutions cannot leverage the full power and cost effectiveness of the Internet as a Business Enabling/Self-Service medium because of security concerns. Certain transactions requiring branch or telephone banking, or the completion of paper-based forms with signatures (e.g. Address change), are considered too high risk for Internet deployment, and as a consequence these transactions continue to be processed manually resulting in high cost, inefficiencies, poor quality data and customer inconvenience. VALid®, through the combination of OOB Strong Mutual Authentication and Transaction Verification, provides the capability to securely automate today's manual processes resulting in: dramatic cost savings; customer empowerment; increasing the consistency, accuracy, timeliness and security of transactions; and creating competitive advantage through market differentiation.

Landline network outsourcing services

Even though the majority of our investments in the past years have been in (mobile) software development, mobile related acquisitions and implementing MNOs and MVNOs, our largest revenue stream is currently still generated by our traditional telecom services like Carrier Select and Carrier Pre-Select Services, and Toll Free and Premium Rate Services. These services formed the basis and gave us decade-long experience as an outsourcing partner in the field of telecommunications services managed by our propriety Intelligent Network/Customer Provisioning Management/Billing platform. This platform has always been designed to put our customers, who purposely chose to outsource their telecommunication requirements to a specialized company like us, in control: our customers can work with our technology and our delivery platforms as if these are their own. We empower and likewise facilitate our customers to harness, to manage and to fully apply the power of some of the most powerful mobile/landline delivery systems in the world through a web-based self care user friendly interface, without the need to initiate, install, fund, operate and support those global systems on a 24/7 basis.

Growth Strategy

Elephant Talk is actively seeking additional MNO partners that understand the symbioses between a mobile network operator and an applications-focused enabler that brings the right services in the right format through a secure delivery platform within reach of all business customers that may require such services as part of their overall market and product strategy. We believe that over the next couple of years MNOs will proactively seek partners like our company, as it will be the preferred way to successfully expand from retail focused markets to wholesale markets, thereby more effectively using the capacity of their core antenna networks and spectrum capabilities.

Especially in markets where direct retail customer penetration reaches 80% plus levels, MVNOs can enhance bring market penetration and network usage levels. However, only if these MVNOs are capable of bringing significantly differentiated service bundles into the market place - reflecting the specific requirements of individualized communities - will they be less vulnerable to what has been undermining the MNOs basic business models: churn. Most important to an operator's success is to understand that a uniquely serviced community far outweighs the pricing alone of any basic underlying service.

The growing importance of converging services is an area where we see excellent possibilities to combine our decade long in-depth experience in landline services with our sophisticated mobile delivery platform. This will support both our MNO as well as our MVNO customers to bring newly bundled services into the marketplace through a single device that is capable of using landline, IP, mobile, and wireless connectivity for any voice, data and multi-media application. All this will be provisioned and managed through one single customer account and one integrated bill that is supported by any relevant payment mechanism.

We see opportunities in customized mobile service, combining the individual profile of a mobile customer and his or her exact location, with the "always-on" secured connectivity of a mobile network, supported by our powerful mobile delivery platforms. We believe these elements will create completely new business models for MNOs and MVNOs alike, bringing personalized, contextual and time-wise relevant services to billions of customers worldwide. One can easily think of new applications in the areas of security, protection and logistics of people, goods and services, remotely monitoring and escalating medical care, individualized and contextual marketing communications for broad ranges of goods and services, and supporting secure financial transactions.

Most of these new business models, driven by customized mobile services, will be created and operated by independent third party application providers that may be directly or indirectly connected to mobile service delivery platforms like our MVNE platform. In areas we see attractive opportunities to create, operate and market such services ourselves, we may actively invest in such developments or may acquire other companies that already have developed such applications. A good example of such a service is the fraud prevention application that ValidSoft offers, the company recently acquired by us.

Growth in Partnerships

As a result of the convergence of information technology and telecommunications solutions, our involvement with various partners has increased. On the supply side, we work with dozens of other carriers and content providers to either originate or terminate our traffic around the globe. On the customer side, resellers have evolved from indirect channels to true partners bringing specialized market knowledge, customer focus and a geographical reach to its activities.

As a key element of our low-cost and fast deployment strategy, we make use of partners in all layers of our distribution platform. Our partners typically come from the following disciplines:

Landline Network Interconnect Partners

As a fully licensed telecommunications carrier, we are entitled to be interconnected with a variety of incumbent operators and cable companies as well as more recently established telecom providers in over a dozen countries that provide both network origination and termination, mostly at regulated costs.

Mobile Network Partners

As a provider of full Mobile Virtual Network Enabling platforms, we partner with Mobile Network Operators to strongly support them in better addressing the specific needs of Mobile Virtual Network Operators, the sales, marketing and distribution organizations that (re)package, (re)bundle and (re) position mobile telecommunications as part of their overall service offering. Likewise, we help our partner MNOs to improve the usage of their networks by also directly contracting additional MVNOs for which we attractively bundle our systems capabilities with the partner MNOs airtime.

Content & Customized Mobile Services Partners

These partners can have a dual purpose whereby they are both a supplier as well as a marketing client. Essentially Content and Customized Mobile Services Partners provide a broad array of content and services available for distribution through our mobile and landline networks which are then promoted and sold by a variety of our marketing partners. However, at the same time we may also generate revenue from such Content and Customized Mobile Services Partners by providing them with all of the tools required to exploit and promote their content and services through our delivery platforms.

Roaming & LCR Wholesale Origination/Termination Partners

Our network is connected to over a dozen wholesale partners that work together on a commercial basis to provide each other with “Least Cost Routing” and roaming capabilities to globally originate and terminate landline and mobile calls at the best possible cost/quality levels.

Competition

We experience fierce competition in each of the market segments in which we operate.

Traditional Telecom Services

In all segments where we offer traditional telecom services like carrier (pre) select/dial around/2-stage dialing services, premium rate and toll free services, we encounter heavy competition. Our stiffest competition comes from each of the incumbent telecom operators such as BT, France Telecom, KPN, Telefonica, Telecom Italia and Telekom Austria. The strongest price competition usually comes from smaller, locally established and/or regional players, although newer Pan-European carriers like Colt Telecom position themselves as aggressively priced competition.

Mobile Services

We face competition from other MVNE’s, as well as from the traditional MNOs. An average MNO may have a few dozen technology suppliers; each may deliver a part of the overall network, switching, control and administrative systems comprising a mobile carrier’s infrastructure to service millions of retail customers. Likewise, many companies are aiming to become a vendor/partner of a MNO in order to assist the MNO to better service their wholesale business towards MVNOs. Some companies try to achieve this by selling various core components as a more traditional vendor: stand alone switching systems, billing systems, CRM systems, Intelligent Network systems, etc. Examples of our competition in this market are companies like Highdeal, Comverse, Geneva, Amdocs and Artilium. In such cases the MNO often contracts with a system integrator like Cap Gemini or Atos Origin to help them to integrate all these components into effectively working systems. Recently, more and more of these system integrators not only position themselves anymore as onetime integrators, but they are also looking to assume the role as an on-going service providers, keeping (part of) the system up and running on behalf of the MNO; examples are Cap Gemini, Atos Origin, EDS, Accenture, and IBM. Likewise, various vendors themselves assumed such roles of managing and operating the systems they supplied. As such, we also face competition from traditional telecom infrastructure companies like Nokia-Siemens, Ericsson and Alcatel.

As a consequence of these purchasing and outsourcing policies, many MNOs have over the years assembled large teams, sometimes as large as a dozen or more vendors/integrators/service providers, whereby each of them delivers a crucial part of the overall required capabilities. Not only have such larger teams, usually involving hundreds of full time consultants, been requiring very intense vendor management attention from the MNO to coordinate them, the result was often a very complex operational structure and work environment for both the MNO as well as the MVNO to work with. Instead of bringing superior, flexible services at affordable cost levels that were supposed to better position the MNO to easily go after MVNO business, the MNO is often struck with a whole range of hard to manage, inflexible and expensive (and sometimes even incompatible) platforms, that actually undermine the capability of the MNO to successfully and profitably compete for MVNO business. Existing MVNOs threaten to migrate to another network provider, while new prospect are lost to other MNOs that do provide more flexible and affordable service.

Being positioned for many years as an outsourcing partner for other businesses that require telecoms as a part of their overall service offering, we believe we can assist MNOs to simplify and streamline these outsourced system requirements. One of the key elements in our offering in landline telecommunications has always been that all network, switching, control and administrative elements would function within one system, and that our B2B customer would be able to self-manage such system through an easy to use web based interface. In designing its MVNE platform, our company has kept the same philosophy in place. As a result, a MNO would only require one managed service provider to fully offer any possible service requirement any type of MVNO may have. We therefore believe that we not only eliminate an intense and costly vendor management role, but at the same time offer flexible, superior service levels at a much lower operational cost.

Other companies that have positioned themselves as a MVNE platform provider, aiming to assume the same role of a one stop solution provider to MNOs, and as such are direct competitors of us, include Aspider, primarily active in the Netherlands, Vistream/Materna, primarily active in Germany, Effortel, primarily active in Belgium and Italy, Transatel, primarily active in France, Telcordia, primarily active in North America, Virtel, primarily active in Australia and the combination Artilium/Atos Origin, active throughout Europe. However, none of them cover the same depth and width of platform capabilities as Elephant Talk provides. On top of that, on the supplier/vendor side we believe we compete favorably with all the earlier mentioned telecom system vendors and integrators. Even though we believe our company has a very good offering at a competitive pricing level, many of our competitors may develop a comparable, fully integrated MVNE platform in the near future. As many of these competitors are much larger companies than ours, with much higher profiles, it may very well be that these competitors will successfully sell their higher priced, less capable solutions than comparable Elephant Talk systems.

Although we believe we will continue to create excellent opportunities for MNOs to increase the addressable market they can service profitably, many MNOs may still prefer to compete directly with us, not only for the business of larger MVNOs, but also in servicing the many smaller MVNOs. This situation may become more likely if new technologies make it easier for the MNOs to service both larger and smaller non-retail customers directly on a lower cost basis. Also, other MVNEs may create strong competition, especially if such new MVNEs will be created by competing MNOs as a consequence of our success in profitably cooperating with other MNOs that already have a successful MVNE relationship with us.

Fraud Prediction & Prevention Services

Our current (ValidSoft) Fraud Prediction & Prevention Services face competition from Authentify, Strikeforce, Finsphere, Tricipher for Out-of-Band (OBB), RSA, VASCO and others for Tokens, and Verisign and others for Digital Certificates.

ValidSoft's products combined with the Elephant Talk's advanced telecommunications platform we believe combine the complementary strengths which results in a state of the art and currently one of a kind in terms of being a total solution for payment card (debit and credit) fraud prevention.

More in particular for the ValidSoft part, VALid® combines strong authentication and transaction verification to counter not only the more traditional attacks, but also the latest in session hijacking (Man-in-the-Middle, Man-in-the-Browser) through its Transaction Integrity Verification (TIV) model. Alternative two factor authentication solutions such as hardware tokens are vulnerable to these types of threats. These vulnerabilities exist due to a number of issues and weaknesses. VALid® provides flexibility in allowing banks to authenticate at both the session and transaction level, with the device, protocol and even authentication behavior completely configurable. Use of the customers' existing telephony devices, ensures complete interoperability between multiple banks, while providing the necessary branding through the use of the individual bank's voice scripts. As VALid® supports remote access in a number of ways it operates in exactly the same manner for internal enterprise access. Managing conventional Two Factor authentication systems that use physical tokens carry significant overheads, such as the end user token distribution process (including retrieval and replacement), synchronization issues and time sequencing problems. Managing these tokens is also cumbersome as in some cases a master token must be used before an administrator can de-activate a token. VALid® does not have these issues and provides banks with the added benefit of a significant lower Total Cost of Ownership whilst dramatically improving security levels. A user can be added to the system using an intuitive web based system resulting in near real time for activation or deactivation

Intellectual Property

We have a significant investment in our intellectual property, including:

- VALid® Patent Protected – ValidSoft own the UK Patent for authenticating a user access request to a secured service utilizing both a primary and secondary channel
- VALid-POS® - Patent Pending (CFPP System) – ValidSoft are in a Patent Pending process for a Patent concerning a method where mathematically derived probability data determined from transaction feeds and telemetry services is used to identify a false positive transaction
- VALid-POS® - Patent Pending (ACS System) – ValidSoft are in a Patent Pending process for a Patent concerning a method where data determined from transaction feeds and telemetry services is used to anonymously identify a fraudulent or false positive transaction
- Two additional Patent submissions underway leading to Patents Pending relating to Card-Not-Present transactions, i.e. transactions carried out over the web - awaiting Patent Filing references
- Significant investment in our own software, including: VALid-IVR; VALid-SMS; VALid-SVP; VALid-TDS; VALid-POS; VALid-ARM; VALid-TTS; VALid-VPN; VALid-ISA; VALid-FOB
- Registered Trademarks VALid® and Trademarks VALid-POS®

Government Regulation

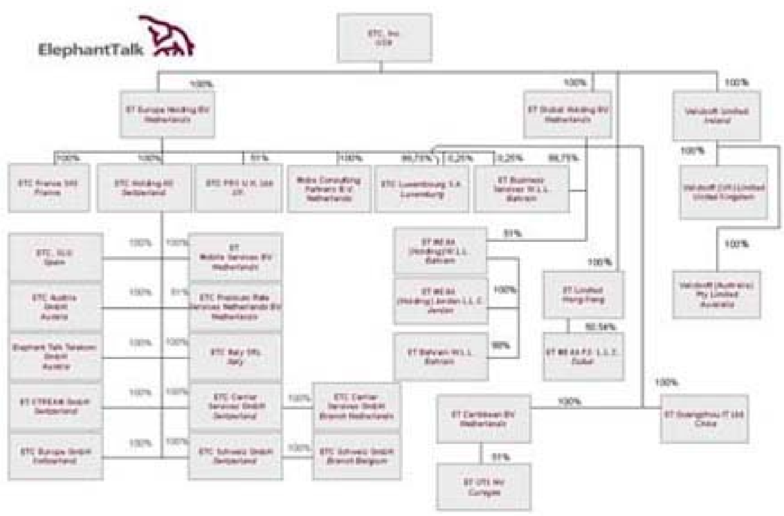
We operate in a heavily regulated industry. As a multinational telecommunications company or provider of services to carriers and operators, we are directly and indirectly subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Certain European, foreign, federal, and state regulations and local franchise requirements have been, are currently, and may in the future be, the subject of judicial proceedings, legislative hearings and administrative proposals. Such proceedings may relate to, among other things, the rates we may charge for our local, network access and other services, the manner in which we offer and bundle our services, the terms and conditions of interconnection, unbundled network elements and resale rates, and could change the manner in which telecommunications companies operate. We cannot predict the outcome of these proceedings or the impact they will have on our business, revenue and cash flow.

Employees

As of December 31, 2010 we employed 88 people and retained on a long term basis, the services of 42 independent contractors. We consider relations with our employees and contractors to be good. Each of our current employees and contractors has entered into confidentiality and non-competition agreements with us. There are no collective bargaining contracts covering any of our employees.

Legal structure of the company

The following chart illustrates our company’s corporate structure as of December 31, 2010.



In 2007, our company grew as a result of the acquisition, effective January 1, 2007, of Elephant Talk Communication Holding AG (formerly known as “Benoit Telecom Holding AG”) by Elephant Talk Europe Holding B.V. In addition to the Benoit Acquisition, on June 1, 2007, we acquired a French entity: 3U Telecom SrL, from 3U Telecom AG, a German company. The name of this entity was subsequently changed to Elephant Talk Communications France S.A.S. (“ET France”). As a result of the preceding acquisitions, our corporate structure and breadth of operations significantly expanded.

In addition to the aforementioned acquisitions, we incorporated three new companies in 2007. On May 24, 2007 we established Elephant Talk Global Holding B.V (“ET Global”), a 100% Dutch subsidiary of ETCI. We created ET Global to act as the holding company for several of our worldwide subsidiaries. On October 21, 2007 we incorporated Elephant Talk Business Services W.L.L. (“ET Business Services”), a Bahrain based company, to act as an intra-group service provider outside Europe (Elephant Talk Communication Carrier Services GmbH performs this activity within Europe). On December 27, 2007 we formed Elephant Talk Communications Luxembourg S.A. (“ET Luxembourg”) to initially focus on providing payment collection services for other group companies. On March 20, 2008 Elephant Talk Caribbean BV was incorporated in the Netherlands as a 100% subsidiary of Elephant Talk Global Holding B.V. The purpose of this subsidiary is to act as the joint venture partner of United Telecommunication Services N.V. in the entity ET-UTS NV. ET-UTS NV was incorporated in Curacao, the Netherland Antilles, on April 9, 2008 as a 51% subsidiary of Elephant Talk Caribbean B.V. with the remaining 49% owned by our joint venture partner United Telecommunication Services N.V. The total issued capital amounts to one hundred thousand dollars ($100,000.00). The purpose of ET-UTS NV is to design, install, maintain and exploit WIFI and WIMAX networks in the Caribbean area and Surinam.

On August 14, 2008 we changed the name of Cardnet Clearing Services BV, a wholly-owned affiliate of Elephant Talk Europe Holding BV, to Elephant Talk Mobile Services BV. This company’s primary objective is to act as our vehicle to contract Mobile Virtual Network Operators in the Netherlands. On August 20, 2008 Elephant Talk Europe Holding BV signed an agreement for the acquisition of 100% of Moba Consulting Services BV. The effective date of the transaction was September 1, 2008 at an acquisition price of €1.00 plus 50,000 of our stock options. We acquired Moba Consulting Services BV to obtain expertise and manpower for certain aspects of the implementation of the Mobile Virtual Network Operators on our platform

ValidSoft Acquisition

On March 17, 2010, we entered into two Sale and Purchase Agreements (each an “SPA” and, collectively, the “SPAs”) with the shareholders of ValidSoft Limited (“ValidSoft”), a company organized under the laws of the Republic of Ireland. The entry into the SPAs follows the parties’ execution of a Heads of Terms on November 2, 2009. Two SPAs were entered into because one SPA, entered into with shareholder Enterprise Ireland, an Irish agency, is to be governed by Irish law. The remaining shareholders entered into the other SPA, governed by New York law.

Pursuant to the SPAs, we acquired the outstanding securities of ValidSoft for consideration consisting of 20% of our issued and outstanding common stock as of February 1, 2009 and warrants to purchase our common stock equal to the sum of: (i) 20% of our issued and outstanding warrants as of February 1, 2009; and (ii) 20% of our issued and outstanding options as of February 1, 2009. Twenty-five percent of the foregoing consideration was placed into escrow and is subject to forfeiture and cancellation in the event certain revenue milestones are not achieved.

In connection with the SPAs, the shareholders of ValidSoft entered into lock-up agreements restricting the sale, transfer and disposition of the unregistered common stock owned by such shareholders (i) for a period of 2 years from Completion (as defined in the SPAs) with respect to the shareholders who participate in the management of the Registrant and (ii) for a period of 1 year from Completion or 6 months from the completion of a rights offering by ValidSoft, whichever is earlier, with respect to the non-management shareholders.

ITEM 1A. RISK FACTORS

Risks Related to Our Company

Our substantial and continuing losses, coupled with significant ongoing operating expenses, raise doubt about our ability to continue as a going concern.

We have incurred net losses of $92,483,360 and $17,299,884 for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, we had an accumulated deficit of $154,818,436.

In 2009, through a private placement $12.3 million gross was raised, with $6.08 million from related parties.

In the first three months of 2010 the Company has received loans in the total amount of €1,850,000 (US$ 2,518,220) from QAT II Investments, SA, a related party investment fund (“QAT II”), which was converted into shares in fourth quarter 2010.

In 2010 we also raised $2,885,000 in 2010 in a bridge equity financing of units consisting of common stock, no par value, and warrants exercisable into common stock, with accredited investors (the “Bridge Financing”).
Subsequent to the Bridge Financing, we conducted a private placement (the “2010 Private Placement Offering”) of units consisting of shares of our common stock and warrants to accredited investors which resulted in gross proceeds of $6,459,800 in the second quarter 2010, $1,927,750 in the third quarter and $5,612,450 in October 2010 bringing the total gross proceeds of the Private Placement Offering to $14,000,000.

Following the closing of the 2010 Private Placement Offering, the 2009 Promissory Notes $5,332,383 and 2010 loans $2,793,188 of the Company outstanding to QAT and QAT II automatically converted in October 2010 into equity in the amount of $8,125,571 by delivery of units consisting of shares of our common stock and warrants to purchase shares of common stock.

In addition to the abovementioned QAT conversion of the 2009 Promissory Notes, throughout the year voluntary conversions took place on the 2009 Promissory Notes for an amount of $2,113,782. On 19 November 2010 the remaining debt under the Promissory Notes of $4,886,855 was automatically converted into equity meaning that as of 19 November 2010 the company had no outstanding debt under the Promissory Note 2009.

Furthermore, in 2010 an amount of $502,621 was received following the exercise of warrants by investors. This continued into 2011 resulting in additional proceeds received in 2011 of $6,708,641 from the exercise of warrants by investors.

Although the Company has previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, on reasonable terms at the moments we need it. Further, the terms of such financing may be dilutive to existing shareholders or otherwise on terms not favorable to the Company or existing shareholders. The current global financial situation may offer additional challenges to raising the required capital. If we are unable to secure additional capital, as circumstances require, or do not succeed in meeting our sales objectives we may not be able to continue operations. As of December 31, 2010, these conditions raised substantial doubt from our auditors as to our ability to continue as a going concern.

Recent economic events and, in particular, the "credit crisis" may have an adverse effect in the markets in which we operate.

Much of our business is consumer driven, and to the extent there is a decline in consumer spending, we could experience a reduction in the demand for our services and a decrease in our revenues, net income and an increase in bad debts arising from non-payment of our trade receivables. Although we have seen a slow-down in our existing revenues, it is too early to predict what effect the current "credit crisis" may have on us and we will need to carefully monitor our operating costs as the effects of the current economic issues become known.

We currently derive a large part of our revenue from the premium rate services business activity.

Although our revenue mix is changing and our new mobile services are improving operating margins, the premium rate services are currently still the largest source of revenue for the company. If significant changes occur in market conditions pertaining to this type of service it could have an adverse impact on our business, results of operations and financial condition.

We have recently shifted our business strategy, and we may not prove successful in our new focus.

In 2006 we began to expand our focus from the market of landline telecommunication services to mobile telecommunication and system services, including substantial increases of investment in software engineering, systems integration and mobile components. Even though we have build experience in serving mobile customers since 2008, we have limited large scale experience in these areas, therefore we may not be able to enter and compete in these markets, or achieve profitability.

We did not maintain effective financial reporting processes due to lack of personnel and technological resources.

We have a small number of employees dealing with general administrative and financial matters as well as with matters relating to the reporting requirements of the Securities Exchange Act of 1934. This constitutes a weakness in our internal controls over financial reporting.

At present, our ability to rectify the weaknesses relating to our internal controls over financial reporting is limited due to budgetary constraints. If we cannot rectify these material weaknesses through remedial measures and improvements to our systems and procedures, management may encounter difficulties in timely assessing business performance and identifying incipient strategic and oversight issues. Management is implementing possible improvements to internal controls, and compensating controls, and this focus will require management from time to time to devote its attention away from other planning, oversight and performance functions.

These efforts may not result in an improvement to our internal controls over financial reporting. We cannot be certain that any measures we take will ensure that we implement and maintain adequate internal controls in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

We may not be able to integrate new technologies and provide new services in a cost-efficient manner.

The telecommunications industry is subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. We cannot predict the effect of these changes on our competitive position, our profitability or the industry generally. Technological developments may reduce the competitiveness of our networks and our software solutions and require additional capital expenditures or the procurement of additional products that could be expensive and time consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological advances or fail to obtain access to new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers. In addition, delivery of new services in a cost-efficient manner depends upon many factors, and we may not generate anticipated revenue from such services.

Disruptions in our networks and infrastructure may cause us to lose customers and incur additional expenses.

To be successful, we will need to continue to provide our customers with reliable and timely service over our networks. We face the following risks to our networks, infrastructure and software applications:

- our territory can have significant weather events which physically damage access lines;

- power surges and outages, computer viruses or hacking, and software or hardware defects which are beyond our control; and

- unusual spikes in demand or capacity limitations in our or our suppliers' networks.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and/or incur expenses, and thereby adversely affect our business, revenue and cash flow.

Integration of acquisitions ultimately may not provide the benefits originally anticipated by management and may distract the attention of our personnel from the operation of our business.

We strive to broaden our solutions offerings as well as to increase the volume of voice, data and media traffic that we carry over our existing global network in order to reduce transmission costs and other operating costs as a percentage of net revenue, improve margins, improve service quality and enhance our ability to introduce new products and services. We recently acquired ValidSoft and we may pursue additional acquisitions in the future to further our strategic objectives. Acquisitions of businesses and customer lists involve operational risks, including the possibility that an acquisition may not ultimately provide the benefits originally anticipated by management. Moreover, we may not be successful in identifying attractive acquisition candidates, completing and financing additional acquisitions on favorable terms, or integrating the acquired business or assets into our own. There may be difficulty in integrating technologies and solutions, in migrating customer bases and in integrating the service offerings, distribution channels and networks gained through acquisitions with our own. Successful integration of operations and technologies requires the dedication of management and other personnel, which may distract their attention from the day-to-day business, the development or acquisition of new technologies, and the pursuit of other business acquisition opportunities. Therefore, successful integration may not occur in light of these factors.

Uncertainties and risks associated with international markets could adversely impact our international operations.

We have significant international operations in Europe and to a lesser extent in the Middle East and the Far East. There can be no assurance that we will be able to obtain the permits and operating licenses required for us to operate, obtain access to local transmission facilities on economically acceptable terms, or market services in international markets. In addition, operating in international markets generally involves additional risks, including unexpected changes in regulatory requirements, taxes, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, problems in collecting accounts receivable, political risks, fluctuations in currency exchange rates, restrictions associated with the repatriation of funds, technology export and import restrictions, and seasonal reductions in business activity. Our ability to operate and grow our international operations successfully could be adversely impacted by these risks.

Because most of our business is conducted outside the United States, fluctuations in foreign currency exchange rates versus the United States Dollar could adversely affect our (reported) results of operations.

Currently all of our net revenue is derived from sales and operations outside the United States whereas the reporting currency for our consolidated financial statements is the United States Dollar (USD). The local currency of each country is the functional currency for each of our respective entities operating in that country, where the Euro is the predominant currency Considering the fact that most income and expenses are not subject to relevant exchange rate differences, it is only at a reporting level that the translation needs to be made to the reporting unit of USD. In the future, we expect to continue to derive a significant portion of our net revenue and incur a significant portion of our operating costs outside the United States, and changes in exchange rates have had and may have a significant, and potentially distorting effect (either negative or positive) on the reported results of operations, not necessarily being the result of operations in real terms. However, our recent private placements have been in United States Dollars, increasing the risk of exchange rate differences in real terms. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the following exchange rates: USD/EUR, USD/CHF, USD/HKD, USD/CNY and USD/BHD.

We historically have not engaged in hedging transactions since we primarily operate in same currency countries, currently being the EUR. However, the operations of affiliates and subsidiaries in non-US countries have been funded with investments and other advances denominated in foreign currencies and more recently in USD. Historically, such investments and advances have been long-term in nature, and we accounted for any adjustments resulting from currency translation as a charge or credit to accumulated other comprehensive loss within the shareholders' deficit section of our consolidated balance sheets. Although we have not engaged in hedging so far we continue to assess on a regular basis the possible need for hedging.

We are substantially smaller than our major competitors, whose marketing and pricing decisions, and relative size advantage, could adversely affect our ability to attract and retain customers and are likely to continue to cause significant pricing pressures that could adversely affect our net revenues, results of operations and financial condition.

The market for telecommunications (traffic) services is significantly influenced by the marketing and pricing decisions of the larger long distance, Internet access, broadband, DSL and mobile business participants. Prices in the land-line and mobile communication industries have continued to decline in recent years, and as competition continues to increase, we believe that prices are likely to continue decreasing. Customers frequently change long distance, wireless and broadband providers, and ISPs in response to the offering of lower rates or promotional incentives, increasingly as a result of bundling of various services by competitors. Moreover, competitors' VOIP and broadband product rollouts have added further customer choice and pricing pressure. As a result, generally, customers can switch carriers and service offerings at any time. Competition in all of our traffic services markets is likely to remain intense or even increase in intensity and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is becoming similar to the intense competition in the United States. Many of our competitors are the principal or incumbent carriers of a country and are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty, long-standing relationships with our target customers, and lower debt leverage ratios. As a result, our ability to attract and retain customers in the traffic services may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. We compete on the basis of price, particularly with respect to our sales to other carriers, and also on the basis of customer service and our ability to provide a variety of telecommunications products and services. If such price pressures and bundling strategies intensify, we may not be able to compete successfully in the future, may face quarterly revenue and operating results variability, and may have heightened difficulty in estimating future revenues or results.

Our services related to communications software and information systems, outsourced solutions and value added (communication) services, including our ValidSoft fraud prevention and resolution products are highly competitive and fragmented, and we expect competition to continue to increase. We compete with telecom solution providers, independent software and service providers and the in-house IT and network departments of communications companies as well as firms that provide IT services (including consulting, systems integration and managed services), software vendors that sell products for particular aspects of a total information system, software vendors that specialize in systems for particular communications services (such as Internet, land-line and mobile services, cable, satellite and service bureaus) and companies that offer software systems in combination with the sale of network equipment. Also, in this more fragmented market, larger players exist with associated advantages described earlier which we need to compete against.

Our positioning in the marketplace as a smaller provider places a significant strain on our resources, and if not managed effectively, could result in operational inefficiencies and other difficulties.

Our positioning in the marketplace may place a significant strain on our management, operational and financial resources, and increase demand on our systems and controls. To manage this position effectively, we must continue to implement and improve our operational and financial systems and controls, invest in development & engineering, critical systems and network infrastructure to maintain or improve our service quality levels, purchase and utilize other system and solutions, and train and manage our employee base. As we proceed with our development operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, sales and marketing and administrative resources.

For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required. In addition, our operating and financial control systems and infrastructure could be inadequate to ensure timely and accurate financial reporting.

We could suffer adverse tax and other financial consequences if U.S. or foreign taxing authorities do not agree with our interpretation of applicable tax laws.

Our corporate structure is based, in part, on assumptions about the various tax laws, including withholding tax, and other relevant laws of applicable non-U.S. jurisdictions. Foreign taxing authorities may not agree with our interpretations or reach different conclusions. Our interpretations are not binding on any taxing authority and, if these foreign jurisdictions were to change or to modify the relevant laws, we could suffer adverse tax and other financial consequences or have the anticipated benefits of our corporate structure materially impaired.

We must attract and retain skilled personnel. If we are unable to hire and retain technical, technical sales and operational employees, our business could be harmed.

Our ability to manage our growth will be particularly dependent on our ability to develop and retain an effective sales force and qualified technical and managerial personnel. We intend to hire additional employees, including software engineers, communication engineers, project managers, sales consultants, employees and operational employees. The competition for qualified technical sales, technical, and managerial personnel in the communications and software industry is intense, and we may not be able to hire and retain sufficient qualified personnel. In addition, we may not be able to maintain the quality of our operations, control our costs, maintain compliance with all applicable regulations, and expand our internal management, technical, information and accounting systems in order to support our desired growth, which could have an adverse impact on our operations.

If we are not able to use and protect our intellectual property domestically and internationally, it could have a material adverse effect on our business.

Our ability to compete depends, in part, on our ability to use intellectual property internationally. We rely on a combination of patents, trade secrets, trademarks and licenses to protect our intellectual property. We are also subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. We rely upon certain technology, including hardware and software, licensed from third parties. The technology licensed by us may not continue to provide competitive features and functionality. Licenses for technology currently used by us or other technology that we may seek to license in the future may not be available to us on commercially reasonable terms or at all.

Our revenue, earnings and profitability are affected by the length of our sales cycle as well length of strategic mobile partnership cycle, and longer cycles could adversely affect our results of operations and financial condition.

Our business is directly affected by the length of our sales cycle and strategic mobile partnership cycles with mobile operators (MNOs). Both our telecommunications traffic services as well as our communications information systems, outsourced solutions and value added (communication) services, including our ValidSoft security solutions are relatively complex and their purchase generally involves a significant commitment of capital, with attendant delays frequently associated with large capital expenditures and procurement procedures within an organization. In particular, our Valid-POS fraud solution from Validsoft is highly dependent on closing MNO contracts to be able to operate this Valid-POS solution. The purchase of these types of products typically also requires coordination and agreement across many departments within a potential customer's and MNO's organization. Delays associated with such timing factors could have a material adverse effect on our results of operations and financial condition. In periods of economic slowdown in the communications industry, which may recur in the current economic climate, our typical sales cycle lengthens, which means that the average time between our initial contact with a prospective customer or MNO and the signing of a sales contract or MNO increases. The lengthening of our sales and strategic mobile partnership cycle could reduce growth in our revenue in the future. In addition, the lengthening of our sales and strategic mobile partnership cycle contributes to an increased cost of sales, thereby reducing our profitability.

We are dependent on a significant customer for our Premium Rate Services business and the loss of this customer could have an adverse effect on our business, results of operations and financial condition.

In 2010 the Company had a customer in the Netherlands, which accounted for Premium Rate Services revenue of $22,439,478 or (64% of the total revenue). For the same period in 2009, this same Dutch customer accounted for $21,905,840 or (50% of the total revenue). If this significant customer discontinues its relationship with us for any reason, or reduces or postpones current or expected revenues, it could have an adverse impact on our business, results of operations and financial condition although this impact is smaller than the revenue shows because of the low margin contribution of this particular (landline PRS) business.

Risks Related to Our Industry

Changes in the regulation of the telecommunications industry could adversely affect our business, revenue or cash flow.

We operate in a heavily regulated industry. As a multinational telecommunications company or provider of services to carriers and operators, we are directly and indirectly subject to varying degrees of regulation in each of the jurisdictions in which we provide our services. Local laws and regulations, and the interpretation of such laws and regulations, differ significantly among the jurisdictions in which we operate. Enforcement and interpretations of these laws and regulations can be unpredictable and are often subject to the informal views of government officials. Certain European, foreign, federal, and state regulations and local franchise requirements have been, are currently, and may in the future be, the subject of judicial proceedings, legislative hearings and administrative proposals. Such proceedings may relate to, among other things, the rates we may charge for our local, network access and other services, the manner in which we offer and bundle our services, the terms and conditions of interconnection, unbundled network elements and resale rates, and could change the manner in which telecommunications companies operate. We cannot predict the outcome of these proceedings or the impact they will have on our business, revenue and cash flow.

There can be no assurance that future regulatory changes will not have a material adverse effect on us, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations, any of which could have a material adverse effect upon us.. Potential future regulatory, judicial, legislative, and government policy changes in jurisdictions where we operate could have a material adverse effect on us. Domestic or international regulators or third parties may raise material issues with regard to our compliance or noncompliance with applicable regulations, and therefore may have a material adverse impact on our competitive position, growth and financial performance.

If competitive pressures continue or intensify and/or the success of our new products is not adequate in amount or timing to offset the decline in results from our legacy businesses, we may not be able to service our debt or other obligations.

There are substantial risks and uncertainties in our future operating results, particularly as aggressive pricing and bundling strategies by certain incumbent carriers and incumbent local exchange carriers have intensified competitive pressures in the markets where we operate, and/or if we have insufficient financial resources to market our services. The aggregate anticipated margin contribution from our new Mobile solutions may not be adequate in amount or timing to offset the declines in margin from our traditional land-line telecommunications services.

We experience intense domestic and international competition in our telecommunications traffic business which may adversely affect our results of operations and financial condition.

Both the land-line and mobile traffic business are intensely competitive with relatively limited barriers to entry in the more deregulated countries in which we operate and with numerous entities competing for the same customers. Recent and pending deregulation in various countries may encourage new entrants to compete, including ISPs, Mobile Network Operators, cable television companies, who would offer voice, broadband, Internet access and television, and electric power utilities who would offer voice and broadband Internet access. As competition intensifies as a result of deregulatory, market or technological developments, our results of operations and financial condition could be adversely affected, since the traffic business still constitutes a sizeable portion of our total business.

Deterioration in our relationships with facilities-based carriers could have a material adverse effect upon our telecommunications traffic business.

In our telecommunication traffic business, we primarily connect our customers' telephone calls and data/Internet needs through access agreements with facilities-based Mobile Network Operators and land-line carriers. Many of these carriers are, or may become, our competitors. Our ability to maintain and expand our business depends on our ability to maintain favorable relationships with the facilities-based carriers from which we lease transmission lines. If our relationship with one or more of these carriers were to deteriorate or terminate, it could have a material adverse effect upon our cost structure, service quality, network diversity, results of operations and financial condition. If we experience difficulties with our third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our business.

The telecommunications industry is rapidly changing, and if we are not able to adjust our strategy and resources effectively in the future to meet changing market conditions, we may not be able to compete effectively.

The telecommunications industry is changing rapidly due to deregulation, privatization, consolidation, technological improvements, availability of alternative services such as mobile, broadband, DSL, Internet, VOIP, and wireless DSL through use of the fixed wireless spectrum, and the globalization of the world's economies. In addition, alternative services to traditional land-line services, such as mobile, broadband, Internet and VOIP services, are a substantial competitive threat to our legacy land-line traffic business. If we do not continue to invest and exploit our contemplated plan of development of our communications information systems, outsourced solutions and value added (communication) services to meet changing market conditions, or if we do not have adequate resources, we may not be able to compete effectively. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. Achieving successful financial results will depend on our ability to anticipate, assess and adapt to rapid technological changes, and offer, on a timely and cost-effective basis, services including the bundling of multiple services that meet evolving industry standards. If we do not anticipate, assess or adapt to such technological changes at a competitive price, maintain competitive services or obtain new technologies on a timely basis or on satisfactory terms, our financial results may be materially and adversely affected.

If we are not able to operate a cost-effective network, we may not be able to grow our business successfully.

Our long-term success depends on our ability to design, implement, operate, manage and maintain a reliable and cost-effective network. In addition, we rely on third parties to enable us to expand and manage our global network and to provide local, broadband Internet and mobile services.

Risks Related to Our Capital Stock

We could issue additional common stock, which might dilute the book value of our capital stock.

Our board of directors has authority, without action or vote of our shareholders, to issue all or a part of our authorized but unissued shares of common stock. Any such stock issuance could be made at a price that reflects a discount or a premium to the then-current trading price of our common stock. In addition, in order to raise future capital, we may need to issue securities that are convertible into or exchangeable for a significant amount of our common stock. These issuances, if any, would dilute your percentage ownership interest in the company, thereby having the effect of reducing your influence on matters on which shareholders vote. You may incur additional dilution if holders of stock options, whether currently outstanding or subsequently granted, exercise their options, or if warrant holders exercise their warrants to purchase shares of our common stock. As a result, any such issuances or exercises would dilute your interest in the company and the per share book value of the common stock that you owned, either of which could negatively affect the trading price of our common stock and the value of your investment.

Our board of directors has the power to designate a series of preferred stock without shareholder approval that could contain conversion or voting rights that adversely affect our common shareholders.

Our Articles of Incorporation authorize the issuance of capital stock including 50,000,000 undesignated preferred shares, and empowers our board of directors to prescribe by resolution and without shareholder approval a class or series of such preferred shares, including the number of shares in the class or series and the voting powers, designations, rights, preferences, restrictions and the relative rights in each such class or series thereof. The creation and issuance of any such preferred shares could dilute your voting and ownership interest in the company, the value of your investment, the trading price of our stock and any cash (or other form of consideration) that you would otherwise receive upon the liquidation of the company.

If we issue additional shares of common stock in connection with subsequent financings, this will have a dilutive effect on your voting rights.

We are authorized to issue 300,000,000 shares of capital stock, including 250,000,000 shares of common stock and 50,000,000 shares of preferred stock, of which 98,820,013 were issued and outstanding as of March 29, 2011.

Furthermore, should we decide to finance the company through the issuance of additional common stock or preferred stock, this may have a dilutive effect on your voting rights, the value of your investment and the trading price of the common stock. If we issue more than 20% of our outstanding common stock in any equity-based financing, we may be required to call a special meeting of our shareholders to authorize the issuance of such additional shares before undertaking the issuance. As a result, we cannot assure you that our shareholders would authorize such issuance and the company could be required to seek necessary capital in an alternative manner, which may not be available on commercially reasonable terms, if at all. If the company is unable to adequately fund itself, through its operations or equity/debt financing, this would have a material adverse affect on the company as a going concern.

As a "thinly-traded" stock, large sales can place downward pressure on our stock price.

Our stock experiences periods when it could be considered "thinly traded." Financing transactions resulting in a large number of newly issued shares that become readily tradable, or other events that cause current shareholders to sell shares, could place further downward pressure on the trading price of our stock. In addition, the lack of a robust resale market may require a shareholder who desires to sell a large number of shares to sell the shares in increments over time to mitigate any adverse impact of the sales on the market price of our stock.

Shares eligible for future sale may adversely affect the market for our common stock.

We presently (December 31, 2010) have 4,390,842 options and 68,875,409 warrants to purchase shares of our common stock outstanding. If and when these securities are exercised into shares of our common stock, the number of our shares of common stock outstanding will increase. Such increase in our outstanding share, and any sales of such shares, could have a material adverse effect on the market for our common stock and the market price of our common stock.

In addition, from time to time, certain of our shareholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144, promulgated under the Securities Act of 1933, which we refer to in this prospectus as the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, after satisfying a six month holding period: (i) affiliated shareholders (or shareholders whose shares are aggregated) may, under certain circumstances, sell within any three month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale and (ii) non-affiliated shareholders may sell without such limitations, provided we are current in our public reporting obligations. Rule 144 also permits the sale of securities by non-affiliates that have satisfied a one year holding period without any limitation or restriction. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our securities.

The 2010 Registration Statement may cause that warrants may be more likely to be exercised now.

Warrants will dilute your interest in the Company.

Throughout the years the Company has been issuing warrants in conjunction with private placements and other financing.

As a result, the voluntary (or mandatory) exercise of the Warrants issued will significantly dilute your interest in the Company and could have a material adverse effect on the trading price of our common stock and the value of your investment.

Because our executive officers, directors and their affiliates own a large percentage of our voting stock, other shareholders' voting power may be limited.

As of December 31, 2010 Steven van der Velden, Martin Zuurbier, Johan Dejager, Yves van Sante, Mark Nije, Roderick de Greef and Phil Hickman, our executive officers and directors, beneficially owned or controlled approximately 20.27% of our outstanding common stock. In particular, as of December 31, 2010, Rising Water Capital AG, an entity affiliated with the certain of the aforementioned individuals, beneficially owned 31.37% of our common stock and QAT Investments, SA, another entity affiliated with certain of our officers and directors and the owner of 51% of Rising Water Capital, beneficially owned 61.97% of our common stock. Further, Q.A.T. II Investments SA, an entity affiliated with certain of our directors and officers, beneficially owned 22.39% of our common stock, and Patrick Carroll and Alex Vermeulen, the CEO of our ValidSoft subsidiary and our General Counsel, beneficially own less than 1% each of our common stock. If those shareholders act together, they will have the ability to control matters submitted to our shareholders for approval, including the election and removal of directors and the approval of any merger, consolidation or sale of all or substantially all of our assets. As a result, our other shareholders may have little or no influence over matters submitted for shareholder approval. In addition, the ownership of such shareholders could preclude any unsolicited acquisition of us, and consequently, materially adversely affect the price of our common stock. These shareholders may make decisions that are adverse to your interests.

We have no dividend history and have no intention to pay dividends in the foreseeable future.

We have never paid dividends on or in connection with our common stock and do not intend to pay any dividends to common shareholders for the foreseeable future.

Our common stock is considered a penny stock and penny stocks are subject to special regulations which may make them more difficult to trade on the open market.

Securities in the OTC market are generally more difficult to trade than those on the New York Stock Exchange, NASDAQ Markets, or the major world exchanges (e.g. London Stock Exchange, Toronto Stock Exchange, etc.). In addition, accurate price quotations are also more difficult to obtain. The trading market for our common stock is subject to special regulations governing the sale of penny stock.

A "penny stock" is defined by regulations of the Securities and Exchange Commission as an equity security with a market price of less than $5.00 per share. The market price of our class B common stock has been less than $5.00 for several years.

If you buy or sell a penny stock, these regulations require that you receive, prior to the transaction, a disclosure explaining the penny stock market and associated risks. Furthermore, trading in our common stock would be subject to Rule 15g-9 of the Exchange Act, which relates to non-NASDAQ and non-exchange listed securities. Under this rule, broker-dealers who recommend our securities to persons other than established customers and accredited investors must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale. Securities are exempt from this rule if their market price is at least $5.00 per share.

Penny stock regulations will tend to reduce market liquidity of our common stock, because they limit the broker-dealers' ability to trade, and a purchaser's ability to sell the stock in the secondary market. The low price of our common stock will have a negative effect on the amount and percentage of transaction costs paid by individual shareholders. The low price of our common stock may also limit our ability to raise additional capital by issuing additional shares. There are several reasons for these effects. First, the internal policies of many institutional investors prohibit the purchase of low-priced stocks. Second, many brokerage houses do not permit low-priced stocks to be used as collateral for margin accounts or to be purchased on margin. Third, some brokerage house policies and practices tend to discourage individual brokers from dealing in low-priced stocks. Finally, broker's commissions on low-priced stocks usually represent a higher percentage of the stock price than commissions on higher priced stocks. As a result, our shareholders will pay transaction costs that are a higher percentage of their total share value than if our share price were substantially higher.

ITEM 1 B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our offices in The Netherlands are located at Schiphol Boulevard 249, 1118 BH Schiphol. The office monthly rental is $10,157 that carry rental leases until June 2015. In addition the Company leases office space at Wattstraat 52, 1171 TR, Sassenheim, The Netherlands for a monthly rental of $1,843.

Elephant Talk Communications S.L.U. is currently leasing office space at Paratge Bujonis, 17220 Sant Feliu de Guixols, (Girona) Spain, on a quarter-to-quarter lease, at a monthly rent of $3,723. In Guangzhou, China, we lease office space for a monthly rental of $6,347.

ValidSoft Limited from Ireland is currently leasing office space at Donegal Suite, Castle Buildings, Tara Street, Tullamore, Co. Offaly, Ireland on a lease at a monthly rent of $18,480. ValidSoft (U.K.) Ltd leases office space at 9 Devonshire Square, London, United Kingdom on a renewable 12 month lease for a monthly rental of $18,092 ($8,651 in 2010).

We also lease space for our telecom switches, servers and IT platforms at data centers (“co-locations”) at an aggregate monthly rent of $41,664. The various co-location spaces include: Amsterdam, Madrid, Barcelona, Milan, Zurich, London, Paris, Vienna, Bahrain and other locations where our telecommunications equipment are located.

We believe the facilities currently under lease are adequate for our present activities and that additional facilities are available on competitive market terms to provide for such future expansion of our operations as may be warranted.

ITEM 3. 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 costs of the litigation. The Company denies Ohri's allegations and asserts several affirmative defenses.

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

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

(b) Bruce Barren Litigation

In December 2009 Bruce Barren (“Barren”), a former director of the Company between January 2008 and May 2009, commenced a lawsuit in the California Los Angeles County Superior Court called Bruce Barren v. Elephant Talk Communications, Inc., Case No. BC429032. Barren alleged that the Company breached a restricted stock agreement, the implied covenant of good faith and fair dealing, an oral employment agreement, and otherwise owes him the reasonable value of consulting services rendered. The Company denied Barren’s allegations and asserted several affirmative defenses. The Company contended that Barren’s claims are without merit, and that a September 2009 settlement agreement and general release between Barren and the Company barred all of his claims as a matter of law.

In December 2010 the Court granted the Company’s motion for summary judgment and dismissed Barren’s entire case with prejudice. The Court awarded $2,714 in costs to the Company.

(c) 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 to 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**.**

(d) 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.

PART II

ITEM 4. RESERVED

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND PURCHASES OF EQUITY SECURITIES

Our common stock is listed for quotation on the OTC BB under the symbol “ETAK”. The following table sets forth the high and low closing price per share as per closing of each trading day as quoted on the OTC Bulletin Board and published on the internet by www.nasdaq.com for each quarter from January 1, 2009 through December 31, 2010. These quotations reflect prices between dealers and do not include retail mark-ups, mark-downs or commissions and may not reasonably represent actual transactions.

	Common Stock	
Quarter Ended	**High**	**Low**
December 31, 2010	$ 3.50	$ 2.15
September 30, 2010	$ 2.60	$ 1.50
June 30, 2010	$ 2.05	$ 1.50
March 31, 2010	$ 1.75	$ 1.20
December 31, 2009	$ 2.00	$ 1.14
September 30, 2009	$ 1.48	$ 0.80
June 30, 2009	$ 1.00	$ 0.70
March 31, 2009	$ 1.16	$ 0.50

At December 31, 2010, we had approximately 3,825 recorded shareholders of our common stock.

Dividends

We have not declared any cash dividends since inception and do not anticipate paying any dividends in the foreseeable future. The payment of dividends is within the discretion of our Board of Directors and will depend on our earnings, capital requirements, financial condition, and other relevant factors. There are no restrictions that currently limit our ability to pay dividend on our common stock other than those generally imposed by applicable state law.

Securities Authorized for Issuance under Equity Compensation Plans

Plan category	Number of Securities Authorized	Number of option rights granted but not yet exercised	Number of issued Shares for this Plan, including exercised options	Number of securities remaining for future issuance	Weighted-average exercise price of outstanding options, warrants and rights
Securities Authorized for Issuance under Equity Compensation Plans Approved by Security Holders					
2006 Non-Qualified Stock and Option Compensation Plan (1)	1,000,000	306,809	933	692,258	$ 2.25
2008 Long-Term Incentive Compensation Plan (2)	5,000,000	4,083,100	832,300	84,600	$ 1.35
Equity compensation plans not approved by security holders	-	-	-	-	
Total	6,000,000	4,389,909	833,233	776,858	

(1) S-8 Filed July 21, 2006
(2) S-8 Filed July 11, 2008

Recent Sales of Unregistered Securities

On October 9, 2010 the company issued 15,000 shares to a consultant for services provided pursuant to an Introduction Services Agreement.

Shares issued in 2011

In January 2011 the company issued 71,429 shares of common stock relating to the exercise of warrants issued in 2008 as part of the private placement in 2008. The proceeds for the exercise had already been received in 2010 and totaled to an amount of $95,001.

During the first 3 months of 2011 the company issued an aggregate number of 1,659,983 shares which were pending to be issued as a result of the automatic conversion of the promissory notes. No additional proceeds were received.

During the first 3 months of 2011 the company issued a total number of 209,790 shares which were issued as part of the private placement of the convertible promissory note in 2009. The shares issued was the result of the 'cashless' exercise of 125,000 warrants and 125,000 warrant being exercised with cash. The proceeds for the cash exercised warrants ($125,000) was paid by check in 2010 and the proceeds arrived on our bank account in 2011.

Up to March 24, 2011 the company issued 2,450,250 shares relating to the exercise of so called 'A'-warrants which had been issued as part of the of the private placement in 2010 ('Bridge SPA'). The total proceeds for these shares had been $3,062,813. The exercises relates to the mandatory exercise as the ETAK share price exceeded $2.00 which was the trigger for such exercise. The above number includes an aggregate number of 65,250 warrants issued to the placement agent and the net proceed of $81,563. The deadline for exercise has been extended and the company expects that 400,000 warrants will be exercised and the relating $500,000 will arrive on our bank account for the end of this quarter and an additional number of 89,433 shares will be issued to QAT as a result of a cashless exercise of 167,400 placement agent warrants.

Up to March 24, 2011 the company issued 190,250 shares relating to the exercise of so called 'B'-warrants which had been issued as part of the private placement in 2010 ('Bridge SPA'). The total proceed will be $380,500. These exercises have been made on voluntary basis.

Up to March 24, 2011 the company issued an aggregate number of 2,306,412 shares as a result of the voluntary exercise of warrants which had been issued as part of the private placement in 2010 ('PIPE'). The total proceeds for these exercise has been $3,459,618 gross and will be $3,286,637 after deduction of the agreed placement agent fees.

Up to March 24, 2011 the company issued 7,974 shares as a result of the 'cash' exercise of 2010 placement agent warrants and 96,289 shares as a result of the 'cashless' exercise of 2009 placement agent warrants. The exercises resulted in a proceed of $11,961 The number of warrants surrendered was 153,846.

In January 2011 the company issued an aggregate number of 12,044 shares relating to the 'cashless' exercise of 33,534 employee options from our '2006 Non-Qualified Stock and Option Compensation Plan'. Some of the shares were already 'pending to be issued' in December 2010 but were actually delivered in January 2011.

During the first 3 months of 2011 the company issued 159,482 shares for consideration of services provided by consultancy firms.

Warrants issued in 2011

In 2011 the company issued 18,659 warrants as consideration for the services of Third Creek Advisors provided to the Company from October through December 2010 of our consultants. No cash was received but the warrants represented a value of $23,128 using the Black Scholes valuation method.

Options issued in 2011

During the first 3 month of 2011 the company has granted 75,000 options on the companies' common stock from our '2008 Long-Term Incentive Plan'.

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

ITEM 6. SELECTED FINANCIAL DATA

We are a "smaller reporting company" as defined by Regulation S-K and as such, are not required to provide the information contained in this item pursuant to Regulation S-K.

ITEM 7. 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 create what we believe is the best integrated electronic fraud prevention solution available. A number of milestones:

- At the end of 2010 ValidSoft entered into a contractual arrangement with Visa Europe for the provision of its fraud-prevention solutions, VALid-POS® and VALid®.
- 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.

  ValidSoft announced an 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-VSG™.

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-VSG™

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 year ended December 31, 2010, consisted of the operations of Elephant Talk , 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 with real currency exchange effects), which impact our reported USD results and may make it difficult to determine actual increases and decreases in our revenue and expenses which are attributable to our actual operating activities. In addition to reporting changes in our financial statements in USD'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 2010 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 2010 were generated for more than 90% by landline business, the margin contribution came for almost 60% 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 before derivative accounting, such as warrant liabilities and conversion feature expensing, income taxes, depreciation and amortization and stock-based compensation, for several purposes, including as a measure of our operating performance. We use Adjusted EBITDA because it removes the impact of items not directly resulting from our core operations, thus allowing us to better assess whether the elements of our growth strategy are yielding positive results.

A reconciliation of Adjusted EBITDA to net loss, the most directly comparable measure under U.S. GAAP, for each of the fiscal periods indicated, is as follows:

	year ended December, 31		
	2010	**2009**	**2009 in constant currency**
	(unaudited)	**(unaudited)**	**(unaudited)**
Net loss	$ (92,483,360)	$ (17,299,884)	$ (17,023,110)
Provision for income taxes	800	800	800
Net loss attributable to noncontrolling interest	5,046	1,771	1,771
Depreciation and amortization	5,312,469	3,051,461	2,940,975
Stock-based compensation	5,588,392	1,727,870	1,727,870
Interest income and expenses	1,563,091	778,092	776,688
Other non-cash financing charges	72,440,675	5,499,275	5,499,275
Adjusted EBITDA	$ (7,572,887)	$ (6,240,615)	$ (6,075,731)

(Note to Adjusted EBITDA: 2010 figures include ValidSoft as of 1 April 2010. In 2009 ValidSoft not in figures.)

Revenue

Revenue for the year ended December 31, 2010 was $37,168,351, a decrease of $6,482,606 or 14.9%, compared to $43,650,957 for the year ending December 31, 2009. $2,008,830 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 $4,473,776 or 10.7% compared to the same period in in 2009, and was attributable to a decrease in our Mobile revenue of $2,739,253, Middle East pre-paid calling cards revenue $584,135 and premium rate services ("PRS") revenue of $ 1,052,625. Other revenue (including ValidSoft) decreased by $97,763 compared to the same period in 2009 as a result of decreasing landline revenues.
We had new mobile customers in 2010, especially in the lower revenue (but higher margin) managed service segment, but still experienced delays in the roll-out of other mobile customers, with the result that these new revenues could not compensate yet for the loss in wholesale revenue following the departure of an early stage mobile customer in financial disarray as well as a one-off project the company completed in 2009.

Despite these revenue declines, Revenue minus Cost of Service remained at a level just below that of 2009, because of the higher margin in the mobile managed service segment as well as initial revenues from the high margin Validsoft business.

Revenue	2010	2009 constant currency	variance 2010 v 2009 constant currency
Premium Rate Services	$ 32,632,140	$ 33,684,765	$ (1,052,625)
Mobile Services	2,826,625	5,565,878	(2,739,253)
Middle East Calling Cards	622,813	1,206,948	(584,135)
Other revenue	1,086,773	1,184,536	(97,763)
Total Revenue	$ 37,168,351	$ 41,642,127	$ (4,473,776)

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 year ended December 31, 2010 was $35,120,916, a decrease of $6,331,723 or 15.3%, compared to $ 41,452,639 for the year ended December 31, 2009. $1,913,634 of the decrease was a result of a favorable impact of the currency translation effect arising from a lower USD/Euro exchange rate. $ 4,418,087 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 $4,418,087 or 11.2% compared to the same period in 2009, 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 94.5% and 95.0% for the years ended December 31, 2010 and 2009, 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 years ended December 31, 2010 and 2009, were $ 9,620,322 and $7,958,933, respectively. SG&A expenses increased by $1,661,389, or 20.9%, in 2010 compared to 2009.

Selling, general and administrative – constant currency

In constant currency, SG&A increased by $1,921,469, or 25.0%, compared to the same period in 2009.
The increase in expenses was mainly attributable to increased staffing levels and the inclusion of ValidSoft into our financials as of April 1, 2010.

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

Non-cash compensation for the years ended December 31, 2010 and 2009, was $ 5,588,392 and $1,727,870, respectively. The increase is primarily attributable to higher staffing levels and the inclusion of ValidSoft.
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 years ended December 31, 2010 and 2009, was $ 5,312,469 and $3,051,461 respectively. Depreciation and amortization expenses increased by $2,261,008 or 74.1% in 2010 compared to 2009. 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 $2,371,495 or 80.6% compared to the same period in 2009. The increase of the amortization was primarily due to the amortization of the acquired intangible assets of Validsoft in 2010.

Intangible assets impairment charge

The December 31, 2010 consolidated balance sheet includes: $16.3 million of intangible assets, net, and $3.2 million of goodwill. Management updated its analysis of intangible assets and long-lived assets as of December 31, 2010 and we determined that for 2010 no asset impairment charges are necessary.

We have acquired several companies in the last few years and our current business strategy includes continuing to make additional acquisitions in the future. These acquisitions may continue to give rise to goodwill and other intangible assets which will need to be assessed for impairment from time to time.

Other Income and Expenses

Interest income was $239,713 and $160,535 for the years ended December 31, 2010 and 2009 respectively. Interest income was interest received on bank balances.

Interest expense was $1,802,804 and $938,627 for the years ended December 31, 2010 and 2009 respectively. The increase in interest expenses of $864,177 compared to 2009 was related to higher levels of debt financing and less favorable interest rates. With the automatic conversion of the QAT 2010 bridge loan and 2009 promissory notes on November 19, 2010 future interest charges will be limited.

Other expenses were $0 and $480,000 for the years ended December 31, 2010 and 2009 respectively. We accrued in 2009 a FIN48 reserve of $480,000 for uncertain tax position, including interest and penalties.

In 2010 fair value expenses and amortizations related to the Convertible Notes, associated Warrants and deferred financing costs were $72,440,675 compared to $5,499,275 in 2009. The substantial increases in these expenses were primarily caused by the increase of our share price at the moments when fair value calculations for reporting purposes were required, including the fair value calculations that were necessary upon the automatic conversion of all convertible notes and loans.

With the conversion in 2010 of all of the outstanding convertible loans into equity there are no financial instruments left that require fair value measurements as of 2011, hence no more income statement impacts related to these type of instruments unless new financial instruments are issued that trigger liability accounting.

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 years ended December 31, 2010 and December 31, 2009 of $5,046 and $1,771 respectively.

Net Loss

Net Loss was $92,483,360 and $17,299,884 for the years ended December 31, 2010 and 2009 respectively. The deterioration of $ 75,183,476 was primarily the result of non-cash financing charges that increased in 2010 by $ 66,941,400 compared to 2009, The remaining $ 8,242,076 was the result of:

- increased depreciation and amortization of $ 2,261,008 compared to 2009
- increased SG&A expensees of $1,661,389 compared to 2009
- increased, stock based compensation expenses of $ 3,860,522 compared to 2009
- increased interest income and expenses of $ 784,999 compared to 2009
- decrease of margin of $150,883 compared to 2009
- decrease of other expenses of $476,725 compared to 2009

The adjusted EBITDA (for definition see earlier section in the MD&A) for the years ended December 31, 2010 and 2009 was $ (7,572,887) and $ (6,240,615) respectively.

Comprehensive Income (Loss)

We record foreign currency translation gains and losses as comprehensive income or loss. Comprehensive Income (Loss) for the years ended December 31, 2010 and 2009 was ($1,655,917) and $190,063 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 $154,818,436 as of December 31, 2010. Historically, we have relied on a combination of debt and equity financings to fund our ongoing cash requirements. In 2010 we received a total of $19,905,841 in gross proceeds from certain convertible loans made to us by QAT aggregating $2,518,220, the 2010 Bridge Share Purchase Agreement ($2,885,000), the 2010 Private Placement Offering ($14,000,000) and exercised warrants for the amount of $502,621.

After deduction of placement fees and associated costs the net proceeds amounted to $17,885,749.

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 includes interest expenses and the operational losses of the recently acquired company ValidSoft Ltd but excludes cash required for capital expenditures and the necessary reduction of our accounts payable and accrued expenses.

Following the delivery of our mobile platform and network and consequent commercialization plus the planned revenues from the integrated Elephant Talk / ValidSoft fraud solution management expects substantial revenue increases and margin improvements in 2011.

In addition to driving margin improvement, management is actively attempting to attract additional financing for the Company such as with the exercise of warrants already issued, the level of which depends on the speed and roll-out of commercial activities (including associated capital expenditures), acquisition activities and financial market conditions.

We believe that our cash balance at December 31, 2010, in combination with the additional funding received from warrants exercised in 2011 until 24 March of $6,708,641 , cash generated from operations, expected additional revenues, reduction of accounts payable as well as continued investment in capital expenditures will last us into the 3rd quarter 2011. Considering our share price development and upcoming achievements we expect warrants to purchase stock in our company continue to be exercised, which would provide sufficient funds until at least 4th quarter 2011. In the event warrants are not exercised to the extent expected, the company plans to seek alternative financing.

Although the Company has previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, on reasonable terms at the moments we need it. Further, the terms of such financing may be dilutive to existing shareholders or otherwise on terms not favorable to the Company or existing shareholders. The current global financial situation may offer additional challenges to raising the required capital. If we are unable to secure additional capital, as circumstances require, or do not succeed in meeting our sales objectives we may not be able to continue operations. As of December 31, 2010, these conditions raised substantial doubt from our auditors as to our ability to continue as a going concern.

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 year ended December 31, 2010 was $14,107,838 compared to $5,329,837 in 2009, an increase of $8,778,001. This increase is primarily attributable to working capital changes such as reduction of accounts payable and secondly 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 year ended December 31, 2010 was $3,187,762 a decrease of $2,418,236 (or 43%) compared to $5,605,998 in 2009. The decrease was primarily attributable to the elimination of the loans to ValidSoft following the consolidation of their financials into the company's and a lower level of equipment and software purchases.

Financing activities

Net cash received by financing activities for the year ended December 31, 2010 was $17,899,518 compared to $ 10,799,201 for the year ended December 31, 2009. Please see footnotes 2 and 26 for more information.

As a result of the above activities, the Company had a cash and cash equivalents balance of $2,245,697 as of December 31, 2010, a net increase in cash and cash equivalents of $787,797 compared to 2009.

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, generally three years), which we have elected to amortize on a straight-line basis.

Business Combinations

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

Intangible Assets and Impairment of long Lived Assets

In accordance with ASC 350 (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 financial statements.

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

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

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We will adopt this guidance on January 1, 2011 and apply it prospectively.

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.

Material Transactions

Acquisition of ValidSoft Ltd

On March 17, 2010, we completed the acquisition with ValidSoft. The acquisition will be effective as of April 1, 2010.

As part of the ValidSoft acquisition the Company entered into two Sale and Purchase Agreements (each an “SPA” and, collectively, the “SPAs”) with the shareholders of ValidSoft Limited (“ValidSoft”), a company organized under the laws of the Republic of Ireland. The entry into the SPAs follows the parties’ execution of a Heads of Terms on November 2, 2009. Two SPAs were entered into because one SPA, entered into with shareholder Enterprise Ireland, an Irish agency, is to be governed by Irish law. The remaining shareholders entered into the other SPA, governed by New York law.\

Pursuant to the SPAs, the Registrant acquired the securities of ValidSoft for consideration consisting of 20% of the issued and outstanding common stock of Registrant as of February 1, 2009 and warrants to purchase common stock of Registrant equal to (i) 20% of the issued and outstanding warrants of Registrant as of February 1, 2009; and (ii) 20% of the issued and outstanding options of Registrant as of February 1, 2009. Twenty-five percent of the foregoing consideration was placed into escrow and, in the event certain revenue milestones (as set forth the in the SPAs) have not been achieved, is subject to forfeiture and cancellation.

In connection with the SPAs, the shareholders of ValidSoft entered into lock-up agreements restricting the sale, transfer and disposition of the unregistered common stock owned by such shareholders (i) for a period of 2 years from Completion (as defined in the SPAs) with respect to the shareholders who participate in the management of the Registrant and (ii) for a period of 1 year from Completion or 6 months from the completion of a rights offering by ValidSoft, whichever is earlier, with respect to the non-management shareholders. See Note 9 for details.

Financing related events in 2010

Loan conversions and Share Offerings

Below is a summary of the results of the efforts of the company to attract funds and also improve the balance sheet position of the company by having all outstanding convertible loans and notes converted into equity. For further information see references to the Notes under Details in the table below.

Financing	Principal amount	Type	Gross Proceeds 2010	December 31st 2010	Details
Convertible Note 2009	$ 12,333,015	Convertible Loan	$ -	All Converted into equity	Note 17,15,16
QAT II Loans 2010	$ 2,518,220	Convertible Loan	$ 2,518,220	All Converted into Equity	Note 17,15,16
Bridge Offering 2010	$ 2,885,000	Share Sale	$ 2,885,000		Note 18
Private Placement 2010	$ 14,000,000	Share Sale	$ 14,000,000		Note 18
			$ 19,403,220		
Warrant exercises (Convertible Note 2009)		Warrant	$ 502,621		
			19,905,841		

Registration Statement

On December 21, 2010 the company’s Registration Statement became effective.

The prospectus relates to the sale of up to a total of 68,872,357 shares of common stock of Elephant Talk Communications, Inc., a California corporation, that may be sold from time to time by the selling stockholders named in this prospectus and their successors and assigns. The shares of common stock subject to this prospectus include: (i) 18,437,997 shares of common stock issued in the 2010 private placement offering, (ii) 2,885,000 shares of common stock issued in the 2010 bridge offering, (iii) 23,464,387 shares of common stock issuable in connection with 23,464,387 warrants issued in connection with the 2010 private placement (including (a) 11,666,686 warrants underlying the units issued to investors in the 2010 private placement, (b) 6,711,311 warrants underlying automatic conversions of certain notes and loans by QAT II Investments, SA ("QAT II") and (c) 5,026,390 warrants issued in connection with the amendment to certain loans from QAT II), (iv) 5,770,000 shares of common stock underlying 5,770,000 warrants issued in the 2010 bridge offering (including 2,885,000 "A" warrants and 2,885,000 "B" warrants), (v) 11,543,020 shares of common stock underlying 11,543,020 warrants issued in connection with the 2009 private placement, (vi) 2,100,003 shares of common stock underlying 2,100,003 warrants issued to Dawson James for acting as selling agent in connection with the 2010 private placement offering, (vii) 465,300 shares of common stock underlying 465,300 warrants issued to Sandgrain Securities and Quercus Management Group NV ("QMG") for acting as selling agent in connection with the 2010 bridge offering (including 232,650 "A" warrants and 232,650 "B" warrants), (viii) 1,693,455 shares of common stock underlying 1,693,455 warrants issued to Dawson James and QMG for acting as selling agents in connection with the 2009 convertible note offering and (ix) 2,513,195 shares of common stock underlying 2,513,195 warrants issued to QAT II in connection with certain loans made to the company. The securities offered for resale hereby were issued to the applicable selling stockholders in private placement or other exempt transactions completed prior to the filing of the registration statement of which this prospectus is a part.

The selling shareholders may sell all or a portion of the shares of common stock held by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale or at negotiated prices.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a "smaller reporting company" as defined by regulation S-K and as such, are not required to provide the information contained in this item pursuant to regulation S-K.

ITEM 8. FINANCIAL STATEMENTS

ELEPHANT TALK COMMUNICATIONS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010 and 2009

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Independent Auditors' Report

Board of Directors
Elephant Talk Communication Inc

We have audited the accompanying consolidated balance sheets of Elephant Talk Communication Inc., as of December 31, 2009 and 2010 and the related consolidated statements of income and comprehensive loss, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elephant Talk Communication Inc., at December 31, 2009 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. As of December 31, 2010, the Company incurred a net loss of $92.5 million, used cash in operations of $14.1 million and had an accumulated deficit of $154.8 million. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO USA, LLP

March 30, 2011

ELEPHANT TALK COMMUNICATIONS, INC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2010 AND 2009

	December 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,245,697	$ 1,457,900
Restricted cash	190,312	192,116
Accounts receivable, net of an allowance for doubtful accounts of $119,044 and $764,302 at December 31, 2010 and December 31, 2009 respectively	5,600,562	5,071,293
Prepaid expenses and other current assets	2,337,914	2,657,019
Total Current Assets	10,374,485	9,378,328
LONG TERM DEPOSITS	610,486	330,946
DEFERRED FINANCING COSTS	—	3,033,277
PROPERTY AND EQUIPMENT, NET	8,452,588	7,773,862
INTANGIBLE ASSETS, NET	16,253,587	3,910,363
GOODWILL	3,230,786	—
TOTAL ASSETS	$ 38,921,932	$ 24,426,776
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Overdraft	$ 356,738	$ 351,589
Accounts payable and customer deposits	4,703,875	6,475,074
Deferred revenue	—	132,205
Accrued expenses and other payables	3,843,938	2,738,998
Advances from related parties	—	13,287
Loans payable	877,357	880,536
Total Current Liabilities	9,781,908	10,591,689
LONG TERM LIABILITIES		
Loan from related party	468,756	437,161
Warrant liabilities	—	16,626,126
Conversion feature	—	2,899,801
Total Long term Liabilities	468,756	19,963,088
Total Liabilities	10,250,664	30,554,777
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value, 250,000,000 shares authorized, 88,660,848 issued and outstanding as of December 31, 2010 compared to 53,695,984 shares issued and outstanding as of December 31, 2009	183,825,665	54,880,778
Accumulated other comprehensive income (loss)	(519,020)	1,136,897
Accumulated deficit	(154,818,436)	(62,335,076)
Elephant Talk Comunications, Inc. Stockholders' Equity	28,488,209	(6,317,401)
NON-CONTROLLING INTEREST	183,059	189,400
Total Stockholders' Equity	28,671,268	(6,128,001)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 38,921,932	$ 24,426,776

The accompanying notes are an integral part of these consolidated financial statements.

ELEPHANT TALK COMMUNICATIONS, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUES	$ 37,168,351	$ 43,650,957
COST AND OPERATING EXPENSES		
Cost of service	35,120,916	41,452,639
Selling, general and administrative expenses	9,620,322	7,958,933
Non cash compensation to officers, directors and employees	5,588,392	1,727,870
Depreciation and amortization of intangibles assets	5,312,469	3,051,461
Total cost and operating expenses	55,642,099	54,190,903
LOSS FROM OPERATIONS	(18,473,748)	(10,539,946)
OTHER INCOME (EXPENSE)		
Interest income	239,713	160,535
Interest expense	(1,802,804)	(938,627)
Other expenses	—	(480,000)
Interest expense related to amortization of debt discount on promissory notes	(21,094,104)	(4,369,183)
Change in fair value of warrant liabilities	(48,107,969)	(538,382)
Amoritization of deferred financing costs	(3,238,602)	(591,710)
Total other income (expense)	(74,003,766)	(6,757,367)
LOSS BEFORE PROVISION FOR INCOME TAXES	(92,477,514)	(17,297,313)
Provision for income taxes	(800)	(800)
NET LOSS BEFORE NONCONTROLLING INTEREST	(92,478,314)	(17,298,113)
Net (loss) income attributable to noncontrolling interest	(5,046)	(1,771)
NET LOSS	(92,483,360)	(17,299,884)
OTHER COMPREHENSIVE (LOSS) INCOME		
Foreign currency translation gain (loss)	(1,655,917)	190,063
	(1,655,917)	190,063
COMPREHENSIVE LOSS	$ (94,139,277)	$ (17,109,821)
Net loss per common share and equivalents - basic and diluted	$ (1.31)	$ (0.32)
Weighted average shares outstanding during the period - basic and diluted	70,670,776	53,553,354

The accompanying notes are an integral part of these consolidated financial statements.

ELEPHANT TALK COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

Description	Common Shares	Common Amount	Other comprehensive income (loss)	Accummulated Deficit	Total stockholders Equity (Deficit)
Balance - December 31, 2008	50,433,260	$ 52,933,208	$ 946,834	$ (45,035,192)	$ 8,844,850
Shares issued, sold in 2008	476	500	—	—	500
Shares issued for sign-in fee	866,316	571,074	—	—	571,074
Shares issued for directors compensation	1,884,200	532,583	—	—	532,583
Shares issued to consultants	307,300	205,389	—	—	205,389
Shares returned by former CFO	(420,368)	(192,694)	—	—	(192,694)
Shares issued for management compensation	624,800	469,880	—	—	469,880
Placement fees	—	(100,000)	—	—	(100,000)
Amortization of Stock Options expense	—	460,838	—	—	460,838
Other comprehensive loss due to foreign exchange rate translation	—	—	190,063	—	190,063
Net Loss	—	—	—	(17,299,884)	(17,299,884)
Balance - December 31, 2009	53,695,984	$ 54,880,778	$ 1,136,897	$ (62,335,076)	$ (6,317,401)
Shares issued for acquisitions	7,682,869	16,008,172	—	—	16,008,172
Shares issued for financing	16,879,342	19,678,188	—	—	19,678,188
Shares issued for management compensation	1,395,168	2,441,544	—	—	2,441,544
Shares issued for note conversions	7,722,867	9,759,283	—	—	9,759,283
Shares issued for warrant exercises	1,087,809	2,237,897	—	—	2,237,897
Shares issued to consultants	195,876	293,371	—	—	293,371
Shares issued for employee stock option exercises	933	-	—	—	-
Shares issued for sign-in fee	—	(85,974)	—	—	(85,974)
Shares to be cancelled	—	(21,629)	—	—	(21,629)
Shares to be issued	—	3,461,865	—	—	3,461,865
Placement fees	—	(1,839,765)	—	—	(1,839,765)
Equity warrants	—	49,929,012	—	—	49,929,012
Amortization of Stock Options expense	—	2,639,236	—	—	2,639,236
Change in fair value of warrants	—	24,443,689	—	—	24,443,689
Other comprehensive loss due to foreign exchange rate translation	—	—	(1,655,917)	—	(1,655,917)
Net Loss	—	—	—	(92,483,360)	(92,483,360)
Balance - December 31, 2010	88,660,848	$ 183,825,664	$ (519,020)	$ (154,818,436)	$ 28,488,209

The accompanying notes are an integral part of these consolidated financial statements.

ELEPHANT TALK COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (92,483,360)	$ (17,299,884)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,312,469	3,051,461
Provision for doubtful accounts	(584,722)	220,156
Stock based compensation	5,080,783	1,561,378
Noncontrolling interest	5,046	1,771
Amortization of Shares issued for Consultancy	507,609	162,501
Change in fair value of warrant liabilities	48,167,991	538,382
Interest expense relating to debt discount and conversion feature	21,094,104	4,960,893
Amortization of deferred financing costs	3,238,602	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(238,523)	(628,082)
Decrease (Increase) in prepaid expenses, deposits and other assets	229,343	846,491
Increase (decrease) in accounts payable, proceeds from related parties and customer deposits	(1,574,761)	602,179
Increase (decrease) in deferred revenue	(131,886)	(87,853)
Increase (decrease) in accrued expenses and other payables	(2,730,533)	740,769
Net cash used in operating activities	(14,107,838)	(5,329,837)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,246,057)	(3,869,149)
Restricted cash	42	(93)
Cash received from acquisition of subsidiary	58,253	—
Loan to third party	—	(1,736,756)
Net cash used in investing activities	(3,187,762)	(5,605,998)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	13,769	27,125
Deferred financing costs	(205,326)	(1,495,674)
Loan from related party QAT Bridge Loan	2,518,220	—
Loan from related party Bridge SPA	2,885,000	—
Proceeds from Private Placement Offering	14,000,000	—
Exercise of warrants	502,621	—
Placement fees	(1,814,766)	(100,000)
Proceeds from Convertible 12% secured note	—	5,568,000
Proceeds from Convertible 12% secured note - related parties	—	6,765,015
Loan from related party	—	34,736
Net cash provided by financing activities	17,899,518	10,799,201
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	183,879	(62,012)
NET DECREASE IN CASH AND CASH EQUIVALENTS	787,797	(198,646)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,457,900	1,656,546
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 2,245,697	$ 1,457,900
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 1,295,298	$ 21,965

	2010	2009
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING & FINANCING ACTIVITIES:		
Shares issued to convert the notes payable and accrued interest	$ 15,461,715	$ 532,583
Cash paid during the period for income taxes	$ 800	$ 800
Warrants and derivative liabilities for issuance of 12% Promissory Notes are considered as discount of the Promissory Notes	$ —	$ 12,333,020
Warrants issued to placement agents for services, treated as deferred financing costs	$ —	$ 2,129,313
Increase in Share Capital due to Aquisitions and Non-cash Compensation	$ 14,899,393	$ —
Increase of Share Capital due to Exercsie of Warrants and Conversion of Notes	$ 9,457,044	$ —
Warrants issued to placement agents for services, treated as deferred financing costs	2,565,300	—

Note 1. Organization

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

Converged telecommunication services – full MVNE solutions

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

ValidSoft – electronic fraud prevention

Our recent major 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-VSG™.

Note 2. Financial Condition and Going Concern

The Company has an accumulated deficit of $154,818,436 as of December 31, 2010. Historically, the Company has relied on a combination of debt and equity financings to fund our ongoing cash requirements. In 2010 we received a total of $19,905,841 in gross proceeds from the QAT 2010 convertible loan of $2,518,220, 2010 Bridge Share Purchase Agreement of $2,885,000, the 2010 Private Placement Offering of $14,000,000 and the exercised warrants for the amount of $502,621.

We believe that our cash balance at December 31, 2010, in combination with the additional funding received thereafter from warrants exercised in 2011 ($6,708,641), cash generated from operations, expected additional revenues, reduction of accounts payable as well as continued investment in capital expenditures will last us into the 3rd quarter 2011. Considering our share price development and upcoming achievements we expect warrants to purchase stock in our company continue to be exercised, which would provide sufficient funds until at least 4th quarter 2011. In the event warrants are not exercised to the extent expected, the Company plans to seek alternative financing.

Although the Company has 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 existing shareholders. Further, the current global financial situation may offer additional challenges to raising the required capital. If the Company is unable to secure additional capital, as circumstances require, it may not be able to continue operations.

As of December 31, 2010, 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

Principles of Consolidation

The accompanying consolidated financial statements for December 31, 2010 and December 31, 2009 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..

Acquisitions.

On March 17, 2010, the Company acquired all of the assets of privately held ValidSoft Ltd, an Irish company (“ValidSoft”) for total consideration of $ 16,033,689, paid by the issuance of shares of the Company’s common stock, as well as warrants to purchase shares of common stock. This consideration excludes the contingent consideration payable upon ValidSoft meeting certain performance targets. The opening balance sheet of ValidSoft has been recorded as of April 1 2010. The Consolidated Statement of Income ending December 31, 2010 includes the financial results of ValidSoft as of April 1 2010.

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”) 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 December 31, 2010 and December 31, 2009 was ($519,020) and $1,136,897, respectively. The foreign currency translation gain/(loss) for the years ended December 31, 2010 and 2009 was ($1,655,917) and $190,063, 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 interconnects.

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 December 31, 2010 and 2009, the allowance for doubtful accounts was $119,044 and $764,302, 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). 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. Deferred revenue was $0 and $132,205 as of December 31, 2010 and December 31, 2009, respectively.

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 future tax benefit that is more likely than not to be realized. Although we believe that our estimates are reasonable and that we have considered future taxable income and ongoing prudent and feasible tax strategies in estimating our tax outcome and in assessing the need for the valuation allowance, there is no assurance that the final tax outcome and the valuation allowance will not be different than those that are reflected in our historical income tax provisions and accruals.

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

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

Comprehensive Income/(Loss)

Comprehensive income (loss) includes all changes in equity during a period from non-owner sources. Other comprehensive income refers to gains and losses that under accounting principles generally accepted in the United States are recorded as an element of shareholders' equity but are excluded from net income. For the 2010 and 2009 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 financial statements.

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

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

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. We will adopt this guidance on January 1, 2011 and apply it prospectively.

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.

Note 4. Long-term Deposit

Long-term earnest deposits to various telecom carriers during the course of its operations and a deposit towards the French Tax Authorities for the total amount of $610,486 as at December 31, 2010 compared with $330,946 as of December 31, 2009. The 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 $2,337,914 as of December 31, 2010, compared with $2,657,019 as of December 31, 2009. The 2010 amount consists primarily of prepaid Value Added Tax (“VAT”).

Note 6. Deferred Financing Costs

Deferred financing costs consist of commissions, warrants issued to placement agents, associated expenses and legal fees for the convertible 12% secured notes. At December 31, 2010 and 2009 deferred financing costs were $0 and $3,033,277 respectively, and are amortized over the term of the convertible 12% secured notes.

Note 7. 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 software
- Mediation, Rating & Pricing engine
- Operations and Business Support software
- Network management tools

Property and equipment at December 31, 2010 and December 31, 2009 consist of:

	Average Estimated Useful Lives	December 31, 2010	December 31, 2009
Furniture and fixtures	5	215,905	219,469
Computer, communication and network equipment	3 - 10	9,724,189	8,071,138
Software	5	4,187,523	4,410,714
Automobiles	5	125,241	135,455
Construction in progress		1,984,674	1,009,969
		16,237,531	13,846,745
Less: accumulated depreciation		(7,784,944)	(6,072,833)
		$ 8,452,587	$ 7,773,862

Total depreciation expense for the year ended December 31, 2010 totaled $2,260,489 compared to $2,246,669 for the same period of 2009.

Note 8. 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 as of December 31, 2010 and 2009 consisted of the following:

	Average Estimated Useful Lives	December 31, 2010	December 31, 2009
Customer Contracts, Licenses , Interconnect & Technology	5 - 10	$ 11,615,700	$ 12,282,126
ValidSoft IP & Technology	1 - 10	15,639,154	—
		27,254,854	12,282,126
Less: Accumulated Amortization and impairment charges		(8,684,964)	(8,371,763)
Less: Accumulated Amortization ValidSoft IP & Technology		(2,316,303)	—
		$ 16,253,587	$ 3,910,363

Total amortization expense for the year ended December 31, 2010 totaled $ 3,051,980 compared to $804,792 for the same period of 2009.

Goodwill	December 31, 2010	December 31, 2009
Goodwill at acquisition (Note 9)	$ 3,433,833	—
End of period exchange rate translation	(203,047)	—
	$ 3,230,786	$ 0

Estimated future amortization expense related to our intangible assets is:

	2011	2012	2013	2014	2015	2016	2017 thereafter
Interconnect licenses and contracts	652,603	650,242	619,226	544,857	130,010	17,943	149,155
ValidSoft IP & Technology	2,145,933	2,145,933	2,145,933	2,145,933	2,002,675	1,954,923	806,660
	2,798,536	2,796,175	2,765,159	2,690,790	2,132,685	1,972,866	955,815

Intangible Assets Impairment charge

The Company assessed the carrying value of its intangible assets as of December 31, 2010. As a result of this assessment, the Company determined that the value of certain specific intangible assets was not higher than the estimated recoverable value and therefore no impairment charge was recorded during 2009. In the evaluation of its Intangible Assets, the Company estimated the discounted future cash flows directly associated with the asset and compared these to the asset's carrying amount.

Note 9. Acquisition of ValidSoft Ltd

On March 17, 2010 we issued 10,235,739 shares and 3,829,487 warrants as purchase price consideration following the completion of the acquisition of ValidSoft of which 2,558,937 shares and 957,373 warrants are contingent upon meeting specific targets following a stepped earn-out agreement. Based upon a number material contracts not having been concluded yet as of the date of this report, the Company does not expect that the targets set forth in the earn-out agreement, will be met at this point in time. Consequently, the total value for the consideration is $16,033,688 comprising the fair market value for the non-contingent shares of $12,129,352 and non-contingent warrants of $3,904,336. The contingent consideration is held in escrow. The Company will continue to monitor the progress made and determine quarterly to what extent the stepped targets are likely to be met.

Consideration paid	**Total Consideration**	**Non-Contingent Consideration**	**Contingent Consideration**
ANumber of shares	10,235,739	7,676,805	2,558,934
Fair value (share price at 17 March 2010)	$ 1,58	$ 12,129,352	-
Numer of warrants	3,829,487	2,872,114	957,373
Fair Value (black-scholes)		$ 3,904,336	
Total Consideration Paid		$ 16,033,688	

Following the valuation of ValidSoft, we allocated the above purchase price to the identifiable assets and liabilities of ValidSoft.

A summary of the assets acquired and liabilities assumed for ValidSoft are:

Estimated fair values:	
Assets acquired	$ 16,677,323
Liabilities assumed	4,077,467
Net assets acquired	12,599,856
Consideration paid	16,033,688
Goodwill	$ 3,433,832

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

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION DISCLOSURE FOR THE YEARs ENDED DECEMBER 31, 2010 AND 2009

The following un-audited pro forma consolidated financial information for the years ended December 31, 2010 and 2009, as presented below, reflects the results of operations of the Company assuming that the acquisition had occurred on January 1, 2010 and January 1, 2009, respectively, and after giving effect to the purchase accounting adjustments. These pro forma results have been prepared for information purposes only and do not purport to be indicative of what operating results would have been had the acquisitions actually taken place on January 1, 2010 and 2009 respectively, and may not be indicative of future operating results.

Pro forma consolidated	December 31, 2010	December 31, 2009
Revenues	$ 37,224,930	$ 43,789,341
Operating loss	(19,698,600)	(17,367,988)
Net loss	(93,759,415)	(24,313,619)
Loss per share - basic and fully diluted	$ (1.33)	$ (0.40)

Note: The Company included the financial results of ValidSoft in its consolidated 2010 financial results from the date April 1, 2010 through December 31, 2010.

Further details on the acquisition of ValidSoft can be found in our Current Report on Form 8-K/A filed June 2, 2010.

Note 10. 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 December 31, 2010, the overdraft balance, including accrued interest totaled, $278,637 compared to $250,022 as of December 31, 2009. 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 December 31, 2010, Moba Consulting Partners B.V., a subsidiary of the Company, had an overdraft of $78,101 compared to $101,567 as of December 31, 2009 on one of the company's bank accounts.

Note 11. Accrued Expenses

	December 31, 2010	December 31, 2009
Accrued Selling, General & Administrative expenses	$ 1,494,218	$ 589,630
Placement fees	-	-
Accrued cost of sales and network	380,236	307,172
Accrued taxes	791,128	855,370
Accrued interest payable	653,146	552,393
Other	525,210	434,432
Total accrued expenses	$ 3,843,938	$ 2,738,998

Note 12. Advances from Related Parties

As at December 31, 2010 and 2009 the Company had $0 and $13,287, respectively as payable to related parties.

Note 13. Loans Payable

Loans payable at December 31, 2010 and 2009 are summarized as follows:

	December 31, 2010	**December 31, 2009**
Installment loan payable due December 24, 2006, secured by personal guarantees of two shareholders, a former director, and a third party	$ 319,182	$ 320,339
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	190,716	191,407
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	84,799	85,106
Term loan payable, bank, monthly payments of interest at bank's prime rate, 7.0% at December 31, 2007	282,660	283,684
Total	$ 877,357	$ 880,536

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 $655,015 as of December 31, 2010. As a result of the default, the entire loan balance outstanding at December 31, 2009, totaling $877,357, 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 $4,716 and $100,084 in interest expense and default interest expense, respectively, on loans payable as of December 31, 2010 and $5,408 and $111,361 in interest expense as of December 31, 2009. 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 14. Loan from related parties

The Company's 51% owned subsidiary ET-UTS N.V. has received $468,756 in interest bearing (8% per annum) unsecured loans from United Telecommunication Services N.V., the 49% shareholder in the subsidiary. No maturity date has been fixed.

Note 15. Convertible Notes/Loans

12% Secured Convertible Promissory Note 2009

On July 31, August 18, September 3, September 30 and October 30, 2009, the Company consummated closings of its private placement offerings of Units comprised of 12% secured convertible promissory notes (the 'Notes") and warrants to purchase shares of no par value common stock to accredited investors. The Securities were offered and sold pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The Company sold an aggregate of $12,333,020 principal amount of Notes and delivered Warrants to purchase an aggregate of 12,333,020 shares of the Company's no par value common stock at a purchase price of $1.00 per share. The Company intends to use the net proceeds from the Offering primarily for working capital.

The Notes are convertible at the option of the holder into no par value common stock, of the Company at a conversion price equal to eighty five percent (85%) of the price at which shares are sold in a future public offering currently contemplated by the Company if consummated; provided, however, that if the public offering is not consummated on or before March 31, 2010, the conversion price shall be equal to eighty five percent (85%) of the twenty (20) day average closing price of the Common Stock for the twenty (20) trading days prior to March 31, 2010 (the "March 31, 2010 Conversion Price"); provided further, however, that if at any time following the earlier of the closing of the Public Offering or March 31,2010, the twenty (20) day average closing price of the Common Stock for any twenty (20) consecutive trading days exceeds two hundred percent (200%) of the Public Offering closing price or of the twenty (20) day average closing price of the Common Stock for the twenty (20) trading days prior to March 31, 2010, as applicable, that any Notes which remain unconverted shall automatically convert into shares of the Common Stock at the Conversion Price or the March 31, 2010 Conversion Price, as applicable. For further details see also Note 27.

The above terms and conditions resulted in a determination of the conversion price of the note in case of voluntary conversion of $1.35 per share (being 85% of $1.59). On November 19, 2010 the share price exceeded the two hundred percent of the (200%) of the twenty (20) day average closing price of the Common Stock for the twenty (20) trading days prior to March 31, 2010. When on 19 November 2010 the share price reached the twenty (20) day average closing price of 200% at $3.18, the notes automatically converted into shares. The company notified the remaining note holders of this event and issues shares upon return by the noteholders of the original note and 'Certification on Non-Affiliate Status'-form. As per December 31, 2010 the company has not issued 2,210,552 corresponding shares pending the abovementioned documents. As a result, these 2,210,552 shares are not included in the number of shares outstanding as per December 31, 2010.

2010 QAT II Loans

On February 2, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend to us the sum of €350,000 ($488,775 based on the February 2, 2010 exchange rate published in the Wall Street Journal). The proceeds were made available to the Company on February 2, 2010.

On February 24, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend us the sum of €850,000 ($1,150,390 based on the February 24, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on February 24, 2010.

On March 22, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend us the sum of €150,000 ($203,280 based on the March 22, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on March 22, 2010

On March 30, 2010, we entered into a loan agreement with QAT II. Pursuant to the loan agreement, QAT II Investments agreed to lend us the sum of €500,000 ($670,750 based on March 30, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on March 31, 2010.

Each of the above mentioned loan agreement initially provided that we would pay QAT II interest at a rate of fourteen percent (14%) per annum on the outstanding balance and provided the principal and interest shall be due and payable on the earlier of: (i) within 180 days from the date of the loan or (ii) in the event we consummate a Placement. QAT II-has the ability to convert the principal and accrued interest outstanding as of the date of the Placement into the same type of equity or debt securities issued by us and on the same terms and conditions offered to other investors in the Placement. The outstanding principal and interest becomes immediately due and payable in the event we fail to make required payments of principal and interest, or otherwise breach the loan agreement and fail to cure such breach upon twenty days notice, or if we dispose of our properties or assets without QAT II's prior consent, or if we file a petition for bankruptcy or otherwise resolves to wind up our affairs.

In connection with the above-referenced loans, we also issued to QAT II warrants to purchase common stock in an amount equal to one warrant per each United States dollar loaned hereunder to the Company (using the Euro-United States dollar conversion rate published by the Wall Street Journal at the close of business of the loan date). Such warrants have a term of three years and an exercise price equal to the OTCBB closing price of our common stock on the loan date.

The loan agreements described above were amended on June 10, 2010. Pursuant to the amendment, QAT II agreed to extend the existing maturity dates of the loans to May 1, 2011. The amendment also provides for the automatic conversion of the Notes if we raise at least $11 million in connection with the 2010 Private Placement Offering. The unpaid principal of such loans will convert into units consisting of common stock and warrants at a price of $1.20 per unit. Further, the units will be issued on the same terms and conditions as the units being offering in the 2010 Private Placement Offering. Accrued but unpaid interest due on the QAT II loans will also convert into units. As additional consideration for entering into the amendment, QAT II was issued warrants to purchase common stock at an amount equal to two (2x) the existing warrant coverage under the terms of such loan agreement.

On October 8, 2010 together with the fourth and final closing of the 2010 Private Placement Offering, in which the company successfully raised $14 million and therefore met the $11 million condition, the QAT II loans totaling € 2,005,304 ($2,793,188) automatically converted into 2,327,657 shares of our common shares.

Note 16. Warrant liabilities

Investor and placement agent warrants – 12% secured convertible note 2009

We issued the Warrants in connection with the 2009 private placement. The Warrants include conversion provisions that require us to record them at fair value as a liability in accordance with ASC 815 (formerly EITF 00-19), with subsequent changes in fair value recorded as a non-operating gain or loss in our statement of operations. The fair value of the warrants is determined using a Black-Scholes option pricing model, and is affected by changes in inputs to that model including our stock price, expected stock price volatility, interest rates and expected term. The fair value of the Warrants issued to investors and placement agents in connection with the 2009 private placement was $16,569,721 upon issuance.

During 2010 a number of the Warrants relating to the 2009 private placement were exercised. The total outstanding number of Warrants, including the warrants issued to the selling agents, has decreased by 1,608,872. Including the warrants issued to the selling agent in connection with the 2009 private placement, the total outstanding Warrants as of December 31, 2010 is 12,504,399. The number of outstanding shares of common stock increased by 879,006 as a result of the above exercises. The number of shares did not increase by the same number as the exercised warrants since the warrant agreement includes a cashless exercise option. Pursuant to the voluntary exercises of the notes we reclassified the fair value of the warrant liability of $3,905,572 into equity.

As a result of the automatic conversion of the 12% Secured Convertible Promissory notes (also see note 14) we reclassified the fair value of the Warrants Liability into Equity. We calculated fair value as per November 19, 2010 at an aggregate amount of $13,033,503.

At October 8, 2010 the outstanding notes held by QAT which were automatically converted into shares according to the terms and conditions of the 2010 Private Placement (PIPE) also resulted in the reclassification of the Warrant Liability into Equity. The calculated fair value as per October 8, 2010 was determined to be $14,145,482.

The various voluntary and finally the automatic conversion of the 12% Secured Convertible Promissory notes resulted in the accelerated amortization of the 'Agent Warrants' which had been accounted for as Debt Discount. The warrants issued to placement agents were capitalized as deferred financing costs (see note 6) and were valued using the Black-Scholes model and the inputs in accordance with ASC 505. During 2010 a total amount of $1,943,034 has been accounted for as accelerated amortization on debt discount through our profit and loss account for this Liability.

As per December 31, 2010 all warrants have been reclassified into equity or have been subject to accelerated amortization and will not be subject to further fair value calculations.

Warrants issued in connection with the 14% 2010 QAT II Loans

In connection with the above-referenced 14% 2010 QAT II loans, we also issued to QAT II warrants to purchase common stock in an amount equal to one warrant per each United States dollar lent hereunder to the Company (using the Euro-United States dollar conversion rate published by the Wall Street Journal at the close of business of the loan date). Such warrants have a term of three years and an exercise price equal to the OTCBB closing price of our common stock on the loan date.

Issue of Warrants relating to:	Exercise price		Number of Issued Warrants
Loan granted February 2, 2010	$	1.50	488,775
Loan granted February 24, 2010	$	1.45	1,150,390
Loan granted March 22, 2010	$	1.61	203,280
Loan granted March 30, 2010	$	1.73	670,750
			2,513,195

The warrants include conversion provisions that require us to record them at fair value as a liability in accordance with ASC 815 (formerly EITF 00-19), with subsequent changes in fair value recorded as a non-operating gain or loss in our statement of operations. The fair value of the warrants is determined using a Black-Scholes option pricing model, and is affected by changes in inputs to that model including our stock price, expected stock price volatility, interest rates and expected term. The initial fair value was determined at an aggregate amount of $2,401,571 at the various grant-dates. As per October 8, 2010, the date of the final closing of the Private Placement (PIPE) the fair value of the warrants issued to QAT II were re-valued at $5,537,547 and reclassified in our accounts as Equity (Warrant Equity) due to the automatic conversion of the 14% 2010 QAT II Loans.

Warrants issued in connection with the amendment letter of the 14% 2010 QAT II Loans

The loan agreements described above were amended on June 10, 2010. Pursuant to the amendment, QAT II agreed to extend the existing maturity dates of the loans to May 1, 2011. As additional consideration for entering into the amendment, QAT II was issued warrants to purchase common stock at an amount of 5,026,390 warrants equal to two (2x) the existing warrant coverage under the terms of such loan agreement. The fair value of these warrants calculated at June 30, 2010 for a value of $5,718,467 had been accounted for as "Interest expense related to amortization of debt discount on promissory notes" in the profit and loss account. An additional amendment was made to the above the amendment provided for the automatic conversion of the Notes if we raised at least $11 million in connection with the 2010 Private Placement Offering. The unpaid principal of such loans would convert into units consisting of common stock and warrants at a price of $1.20 per unit. Further, the units will be issued on the same terms and conditions as the units being offering in the 2010 Private Placement Offering. Accrued but unpaid interest due on the QAT II loans will also convert into units. Pursuant to the automatic conversion of the 14% 2010 QAT II Loans the fair value of the loan amendment warrants issued to QAT II were re-valued at $11,075,095 as per October 8, 2010, the date of the final closing of the Private Placement (PIPE) and this value had been reclassified from Warrant Liability into Equity (Warrant Equity).

Note 17. Conversion feature

12% Secured Convertible Promissory Note

A conversion feature (promissory note-holders will receive a discount of 15% when converting the principal into shares instead of cash repayment) was recognized at fair value on the respective issuance dates of the Notes as a discount and will be amortized using the effective interest rate method from issuance to the maturity date of the respective Notes. The fair value of the aggregate conversion feature was $2,899,801 as of December 31, 2009. The conversion feature has been marked to market each reporting date with subsequent changes in fair value recorded as a non-operating gain or loss in our statement of operations. Following these changes in fair value, voluntary conversions and the automatic conversion on 19 November 2010, the then existing liability of $19,555,610 was reclassified into equity.

14% 2010 QAT II Loans

The loans provided by QAT II during the first quarter of 2010 (the '2010 QAT II Loans') included the right to convert the loans including accrued interest into the same type of equity or debt securities issued by the company under the placement of at least $5,000,000 and pursuant to the same placement terms and conditions offered to such other person or company. The Private Placement ('PIPE') met the conditions of such right of conversion and the outstanding principal and accrued interest was converted at the fourth and final closing of the 'PIPE'. The calculated conversion feature at fair value as per October 8, 2010 amounted to $4,888,079 and was reclassified into equity.

Note 18. Shareholders' equity

(A) Common Stock

The Company is presently authorized to issue 250,000,000 shares common stock. The Company had 88,660,848 shares of common shares issued and outstanding as of December 31, 2010, an increase of 34,964,864 shares since December 31, 2009, largely due to the shares issued in connection with the ValidSoft acquisition (7,676,805), the Bridge Financing (2,885,000), shares issued in relation with the 2010 Private Placement Offering (11,666,685), shares issued as consideration for management and board compensation (1,395,168), warrant exercises (1,087,809), conversion of QAT II loans (2,327,657) and conversion of 12% secured convertible promissory notes (7,722,867).

The following table summarizes the shares issued for the year ended December 31, 2010:

Computation of Full Dilution - December 31, 2010	Number of shares issued
December 31, 2009 Total number of shares issued	**53,695,984**
Shares issued to consultants	195,876
Shares issued for management compensation	1,395,168
Shares issued for warrant exercises	1,087,809
Shares issued for acquisitions	7,682,869
Shares issued for financing	16,879,342
Shares issued for note conversions	7,722,867
Shares issued for employee stock option exercises	933
December 31, 2010 Total number of shares issued	**88,660,848**

Reconciliation with stock transfer agent records:

The number of 88,660,848 excludes the 245,900 unreturned and the 2,558,934 escrowed contingent shares (see below). The shares issued and outstanding as per December 31, 2010 according to the stock transfer agent's records are 91,465,684, 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.

2010 Bridge Security Purchase Agreement

In May 2010 we sold 2,885,000 of units at a purchase price of $1.00 per unit, with each unit consisting of one share of our restricted common stock and two warrants to accredited, United States and foreign investors (including affiliates of the Company) in transactions exempt from registration under the Securities Act pursuant to Section 4(2), Regulation D and Regulation S (the "Sales"). In connection with the Sales, the purchasers received (i) warrants to purchase up to 2,885,000 of shares of our common stock, at an exercise price of $1.25 per share and (ii) warrants to purchase up to 2,885,000 of shares of our common stock, at an exercise price of $2.00 per share. None of the warrants contain cashless exercise provisions. Each warrant contains standard anti-dilution protection and may be cancelled upon the occurrence of the following: (i) with respect to the $1.25 warrant, in the event that the average of the last closing sale price of the common stock on the OTC Bulletin Board, or a national securities exchange, trading market or inter-dealer electronic quotation system, exceeds $3.00 for twenty (20) consecutive trading days and the holder fails to exercise within fifteen (15) days of receipt of notice this target was met, the warrants will expire worthless and (ii) with respect to the $2.00 warrant, in the event that the average of the last closing sale price of the common stock on the OTC Bulletin Board, or a national securities exchange, trading market or inter-dealer electronic quotation system, exceeds $4.00 for twenty (20) consecutive trading days and the holder fails to exercise within fifteen (15) days of receipt of notice this target was met, the warrants will expire worthless.

2010 Private Placement Offering
On October 8, 2010, we consummated the fourth and final closing of the 2010 Private Placement Offering to accredited investors. In a total of four closings we sold in 2010 units having an aggregate value of $14,000,000 at a price of $1.20 per unit and we delivered 11,666,667 shares of common stock and warrants to purchase up to 11,666,667 shares of common stock at $1.50 per share for a five year period.
The units, consisting of common stock and warrants, were offered and sold and/or converted pursuant to an exemption from registration under Section 4(2) of the Securities Act. The Company is obligated to register the common stock underlying the units and warrants on a registration statement to be filed after the final closing of the 2010 Private Placement Offering. The Registration Statement was subsequently filed and declared effective December 21, 2010.

In addition, the investors in the 2010 Private Placement Offering are entitled to unlimited piggy-back registration rights. We intend to use the net proceeds primarily for working capital.
The warrants, and the 2,100,005 warrants issued to Dawson James in connection with the 2010 Private Placement, entitle the holders to purchase shares of common stock for a period of five years from the date of issuance and contain standard anti-dilution rights. In the event: (i) the trading price of our common stock exceeds $2.25 for twenty consecutive trading days and (ii) there is an effective registration statement with a current prospectus on file with the Securities and Exchange Commission, the Company has the option to redeem the warrants issued in the 2010 Private Placement Offering.
In the 2010 Private Placement Offering, the Company raised in the aggregate $22,125,571 in gross proceeds, including $14,000,000 in cash raised by Dawson James (with full exercise of the $3,000,000 over-allotment option) and $8,125,571 in automatic conversions by QAT II. After payment of commissions, non-accountable expenses and other fees and expenses, the Company received net cash proceeds of $12,340,908 (and the cancellation of $8,125,571 of promissory notes and loans held by QAT II). The Company delivered an aggregate of 14,437,997 shares of Common Stock and warrants to purchase an aggregate of 21,564,392 shares of Common Stock, including 17,515,552 warrants with an exercise price of $1.50, 2,300,780 warrants with an exercise price of $1.45, 406,560 warrants with an exercise price of $1.61 and 1,341,500 warrants with an exercise price of $1.73.

(B) Class B Preferred Stock

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

During 2009 or 2010 the Company did not issue any shares of Preferred Stock.

Note 19. 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 20. Non-Qualified Stock and Option Compensation Plan and Long Term Incentive Plan

2006 Non-Qualified Stock and Option Compensation Plan

Under this plan there are, as of December 31, 2010, 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 December 31, 2010:

	Number of shares	Exercise Price	Initial Fair Market Value
Options:			
Outstanding as of December 31, 2009	344,342	$ 2.25	$ 453,917
Granted in 2010	—	—	—
Exercised	9,410	—	14,158
Cancelled/Forfeited/Returned to reserve	27,190	2.25	41,151
Outstanding as of December 31, 2010	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 2010 of 27,190 consisted of 22,206 options granted in 2007 and 4,984 in 2008.

Following is a summary of the status of options outstanding at December 31, 2010:

	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	1.25 years	$ 2.25	232,742	$ 2.25

At December 31, 2010, 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 $13,109.

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 December 31, 2010, a total of 4,083,100 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 date of vesting. It is expected that future options will be awarded with the nine-year exercise period after first vesting.

Common stock purchase options and warrants consisted of the following as of December 31, 2010:

	Number of shares	Average Exercise Price	Initial Fair Market Value
Options:			
Outstanding as of December 31, 2009	976,000	$ 0.89	$ 758,900
Granted in 2010	3,271,000	$ 1.49	$ 4,460,521
Exercised	—	—	—
Cancelled/Forfeited/Returned unused	163,900	$ 1.48	$ 217,183
Outstanding as of December 31, 2010	4,083,100	$ 1.35	$ 5,002,238

The options granted in 2010 were granted with an average exercise price of $1.492. The initial fair market value of the options granted using the Black-Sholes options model for these options has been valued at $4,460,521 at their initial grant-date.

Following is a summary of the status of options outstanding at December 31, 2010:

	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**
$ 0.60-2.50	4,083,100	7.87 years	$ 1.35	325,000	$ 1.09

The weighted average assumptions used so far for the options granted in 2010 using the Black-Scholes options model are: volatility of 137%, term of 9.95 years and a Risk Free Interest Rate assumption of 3.677%. The expected dividend yield is zero.

At December 31, 2010 the unexpensed portion of stock-based awards granted to employees under the provisions of ASC 718 and the Company’s 2008 stock award plan, was approximately $2,070,414. 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 year ended December 31, 2010, $5,588,392 in stock-based compensation expense for management shares, Non-Qualified Stock and Option Compensation Plan and shares issued for consultancy and employee compensation. For the comparable period in 2009 the expensing was $1,727,870. 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 21. Income taxes

Income tax expense (benefit) for the year ended December 31, 2010 and 2009 is summarized as follows:

	December 31, 2010	December 31, 2009
Current:		
Federal	$ (7,894,958)	$ (5,881,961)
State	(1,393,228)	(1,037,993)
Deferred Taxes	9,288,986	6,920,754
Income tax expense	$ 800	$ 800

The following is a reconciliation of the provision for income taxes at the United States federal statutory rate to the foreign income tax rate at December 31, 2010:

	2010	2009
Tax expense (credit) at statutory rate-federal	(34)%	(34)%
State tax expense net of federal tax	(6)%	(6)%
Foreign income tax rate difference	12,8%	8,1%
Change in valuation allowance	27,2%	31,9%
Tax expense at actual rate	—	—

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 2010 are as follows:

Deferred tax assets:	2010	2009
Deferred Tax Asset	$ 34,223,016	$ 24,934,030
Total gross deferred tax assets	34,223,016	24,934,030
Less: Valuation allowance	(34,223,016)	(24,934,030)
Net deferred tax assets	$ —	$ —

At December 31, 2010, the Company had accumulated deficit carry forwards of approximately $ 85,555,541. The net change in the valuation allowance during the twelve months period ended December 31, 2010 was $ 9,288,986.

At December 31, 2009, the Company had accumulated deficit carry forwards of approximately $ 62,335,076.
The net change in the valuation allowance during the twelve months period ended December 31, 2009 was $6,920,274.

A valuation allowance of $ 34,223,016 and $ 24,934,030 at December 31, 2010 and 2009, respectively, has been recorded against deferred tax assets as the Company was unable to conclude that it is more likely than not that such deferred tax assets will be realized.

As of December 31, 2010, we had net federal operating loss carry forwards and state operating loss carry forwards of approximately $ 35,6 million. The net federal operating loss carry forwards begin to expire in 2018 and the net state operating loss carry forwards begin to expire in 2012. The net operating loss carry forwards for foreign countries amounts to approximately $ 48.9 million. In all foreign countries various periods of expiration dates are applicable.

Section 382 of the Internal Revenue Code limits the use of net operating loss and tax credit carry forwards in certain situations where changes occur in the stock ownership of a company. In the event we have a change in ownership, utilization of the carry forward could be restricted."

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes. FIN 48 requires that companies recognize in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective for years beginning after December 15, 2006. We adopted FIN 48 on January 1, 2007 with no impact to our consolidated financial statements. We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Due to the net operating loss, all the tax years are open for tax examination. As of December 31, 2009 and 2008, we accrued FIN48 reserve of $480,000 and $0, respectively for uncertain tax benefit, including interest and penalties.

Note 22. Non-controlling Interest

The Company had non-controlling interests in several of its subsidiaries. The balance of the non-controlling interests as of December 31, 2010 and December 31, 2009 were as follows

Subsidiary	Noncontrolling Interest %	Noncontrolling interest Balance at December 31, 2010	December 31, 2009
ETC PRS UK	49%	$ 9,723	$ 10,516
ETC PRS Netherlands	49%	129,870	140,462
ET ME&A Holding WLL	49%	—	—
ET Bahrain WLL	1%	6,385	3,180
ET ME&A FZ LLC	49.46%	37,081	35,242
ET UTS Curacao	49%	—	—
Total		$ 183,059	$ 189,400

Note 23. Commitments

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

Years ending December 31,	
2010	3,479,844
2011	2,706,890
2012	2,342,679
2013	580,597
2014	580,597
Total	$ 9,690,607

As of December 31, 2010 the commitments of the Company relating to purchase orders are valued at cost of $ 681,876.

Note 24. 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 costs of the litigation. The Company denies Ohri's allegations and asserts several affirmative defenses.

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

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

(b) Bruce Barren Litigation

In December 2009 Bruce Barren ("Barren"), a former director of the Company between January 2008 and May 2009, commenced a lawsuit in the California Los Angeles County Superior Court called Bruce Barren v. Elephant Talk Communications, Inc., Case No. BC429032. Barren alleged that the Company breached a restricted stock agreement, the implied covenant of good faith and fair dealing, an oral employment agreement, and otherwise owes him the reasonable value of consulting services rendered. The Company denied Barren's allegations and asserted several affirmative defenses. The Company contended that Barren's claims are without merit, and that a September 2009 settlement agreement and general release between Barren and the Company barred all of his claims as a matter of law.

In December 2010 the Court granted the Company's motion for summary judgment and dismissed Barren's entire case with prejudice. The Court awarded $2,714 in costs to the Company.

(c) 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 to 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**.**

(d) 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 25. Segment information

Year ended December 31, 2010

	EUROPE								
	Netherlands	Spain	Switzerland	Others	Total	Far East Hong Kong / China	Middle East	The Americas	TOTAL
Revenues from unaffiliated customers:	$ 27,623,380	1,752,470	6,653,139	461,742	$36,490,732	$ -	$ 622,813	$ 54,806	$ 37,168,351
Operating income (loss)	$ (3,105,391)	$ (208,965)	$ (2,946,337)	$ (3,675,903)	$ (9,936,596)	$ (840,314)	$ (83,588)	$ (7,613,249)	$(18,473,748)
Net income (loss):	$ (3,154,172)	$ (208,951)	$ (2,935,071)	$ (3,659,588)	$ (9,957,781)	$ (1,778,949)	$ (83,588)	$ (80,663,042)	$(92,483,360)
Identifiable assets	$ 6,469,979	$1,202,064	$ 11,012,075	$18,379,628	$37,063,745	$ 223,329	552,100	1,082,758	$ 38,921,932
Depreciation and amortization	$ (114,114)	$ (212,517)	$ (2,097,331)	$ (2,325,546)	$ (4,749,509)	$ (55,996)	$ (26,934)	$ (480,030)	$ (5,312,469)
Capital expenditure	$ -	$ 3,374	$ 2,861,906	$ 366,864	$ 3,232,144	$ -	$ -	$ 19,857	$ 3,252,002

Year ended December 31, 2009

	EUROPE								
	Netherlands	Spain	Switzerland	Others	Total	Far East Hong Kong / China	Middle East	The Americas	TOTAL
Revenues from unaffiliated customers:	$ 33,610,555	$2,277,766	$ 6,117,537	$ 431,548	$42,437,406	$ 753	$ 1,207,298	$ -	$ 43,645,457
Operating income (loss)	$ (2,242,451)	$ 306,505	$ (3,111,328)	$ (753,604)	$ (5,800,877)	$ (254,678)	$ (97,699)	$ (4,386,693)	$(10,539,946)
Net income (loss):	$ (2,216,043)	$ 306,499	$ (3,110,907)	$ (752,157)	$ (5,772,607)	$ (1,204,025)	$ (98,887)	$ (10,224,365)	$(17,299,884)
Identifiable assets	$ 5,156,354	$1,459,767	$ 11,066,207	$ 559,357	$18,241,686	$ 602,574	$ 518,745	$ 5,063,772	$ 24,426,776
Depreciation and amortization	$ (110,968)	$ (211,707)	$ (1,892,639)	$ (97,106)	$ (2,312,420)	$ (51,397)	$ (41,507)	$ (646,137)	$ (3,051,461)
Capital expenditure	$ 103,893	$ 30,105	$ 3,082,942	$ -	$ 3,214,940	$ 438,989	$ -	$ 215,220	$ 3,869,149

Note 26 . Concentrations

Customers in excess of 10% of total revenues were as follows:

For the year ended December 31, 2010, the Company had a customer in the Netherlands, which accounted for Premium Rates Services revenue of $22,439,478 or (64% of the total revenue). For the same periods in 2009, this same customer accounted for $21,905,840 or (50% of total revenue).

Note 27. Loans and Convertible Notes (Private Placement 2009)

Automatic Conversion of 2009 12% Convertible Promissory Notes

On November 19, 2010, the twenty day average closing price of the common stock of Elephant Talk Communications, Inc. (the “Company”) exceeded $3.18. As a result and pursuant to their terms, all outstanding 12% convertible promissory notes (the “Notes”) issued in connection with the Company’s 2009 private placement offering of units consisting of Notes and warrants to purchase shares of the Company’s common stock, no par value (the “Units”), plus all interest due the holder of the Note, automatically converted into common stock at the previously established conversion price of one (1) share of common stock per each $1.35 in principal plus interest due. The Units are more fully described in the Company’s Current Reports on Form 8-K filed with the Securities and Exchange Commission (the “Commission”) on August 6, 2009, August 24, 2009, September 10, 2009, October 5, 2009 and November 10, 2009 and in the Company’s quarterly filings on Form 10-Q and annual report for the year ended December 31, 2009 filed with the Commission on March 31, 2010.

As of November 20, 2010, the Notes only represented the right to receive such issuable shares of common stock. Further, upon the automatic conversion of the Notes and pursuant to the terms of the Notes, the amounts due thereunder were deemed fully paid and satisfied and there will be no further Notes outstanding. In connection with the automatic conversion of the Notes, the Company expects to issue approximately 3,644,775 shares of common stock. In aggregate, including shares previously issued upon conversion of a portion of the Notes, the Company will have issued 9,933,419 shares in connection with the conversion of all of the Notes.

2010 QAT II Loan agreements

See Note 28.

Note 28. Related Party Transactions

12% Secured convertible note 2009

On June 10, 2010 and at our request, QAT II entered into an agreement with us calling for the mandatory conversion of the total principal amounts outstanding under the Notes to QAT II ($4 million issued July 31, 2009 and $1.3 million issued October 31, 2009, totaling $ 5.3 million), in case the Company raises a minimum of $ 11 million in connection with the 2010 Private Placement Offering.

The Company and QAT II agreed the unpaid principal due pursuant to the Notes, excluding any accrued but unpaid interest or other fees due on such Notes, would be exchanged for units, at a price of $1.20 per unit and on the same terms and conditions as the 2010 Private Placement Offering, upon our raising an aggregate of $11 million in connection with our 2010 Private Placement Offering (also see item “Unregistered Sales of Equity Securities and Use of Proceeds”).

On October 8, 2010 together with the fourth and final closing of the 2010 Private Placement Offering, in which the company successfully raised $14 million and therefore met the $11 million condition, the notes totaling $5.3 million automatically converted into 4,443,654 shares of our common shares.

QAT II Loan agreements2010

On February 2, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend to us the sum of €350,000 ($488,775 based on the February 2, 2010 exchange rate published in the Wall Street Journal). The proceeds were made available to the Company on February 2, 2010.

On February 24, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend us the sum of €850,000 ($1,150,390 based on the February 24, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on February 24, 2010.

On March 22, 2010, we entered into a loan agreement with QAT II. Pursuant to this loan agreement, QAT II Investments agreed to lend us the sum of €150,000 ($203,280 based on the March 22, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on March 22, 2010.

23 On March 30, 2010, we entered into a loan agreement with QAT II. Pursuant to the loan agreement, QAT II Investments agreed to lend us the sum of €500,000 ($670,750 based on March 30, 2010 exchange rate published in the Wall Street Journal). The proceeds of the loan agreement were made available to the Company on March 31, 2010.

Each of the above mentioned loan agreement initially provided that we would pay QAT II interest at a rate of fourteen percent (14%) per annum on the outstanding balance and provided the principal and interest shall be due and payable on the earlier of: (i) within 180 days from the date of the loan or (ii) in the event we consummate a Placement. QAT II has the ability to convert the principal and accrued interest outstanding as of the date of the Placement into the same type of equity or debt securities issued by us and on the same terms and conditions offered to other investors in the Placement. The outstanding principal and interest becomes immediately due and payable in the event we fail to make required payments of principal and interest, or otherwise breach the loan agreement and fail to cure such breach upon twenty days notice, or if we dispose of our properties or assets without QAT II’s prior consent, or if we file a petition for bankruptcy or otherwise resolves to wind up our affairs.

In connection with the above-referenced loans, we also issued to QAT II warrants to purchase common stock in an amount equal to one warrant per each United States dollar loaned hereunder to the Company (using the Euro-United States dollar conversion rate published by the Wall Street Journal at the close of business of the loan date). Such warrants have a term of three years and an exercise price equal to the OTCBB closing price of our common stock on the loan date.

The loan agreements described above were amended on June 10, 2010. Pursuant to the amendment, QAT II agreed to extend the existing maturity dates of the loans to May 1, 2011. The amendment also provides for the automatic conversion of the Notes if we raise at least $11 million in connection with the 2010 Private Placement Offering. The unpaid principal of such loans will convert into units consisting of common stock and warrants at a price of $1.20 per unit. Further, the units will be issued on the same terms and conditions as the units being offering in the 2010 Private Placement Offering. Accrued but unpaid interest and any other fees due on the QAT II loans will not convert into units. As additional consideration for entering into the amendment, QAT II was issued warrants to purchase common stock at an amount equal to two (2x) the existing warrant coverage under the terms of such loan agreement.

On October 8, 2010 together with the fourth and final closing of the 2010 Private Placement Offering, in which the company successfully raised $14 million and therefore met the $11 million condition, the loans totaling $2.8 million automatically converted into 2,327,657 shares of our common shares.

Compensation to QMG

During 2010 Quercus Management Group (‘QMG’) an entity affiliated with certain officers and directors of the Company received for their involvement in the loans raised from QAT II a fee equal to 8% of the granted loan amounts. The fee was paid in cash and amounted to €148,000 ($205,326). QMG also received a compensation for their placement agent activities relating the Bridge Securities Placement Agreement (‘Bridge SPA’) of $167,400 in cash representing an agreed fee of 9% of the proceed of the sale of common stock of the company. Together with the cash compensation ‘QMG’ was also entitled to 9% of the number of common stock sold for a total number of 167,400 warrants on shares of our common stock. QMG did not receive any additional compensation at the effect of the automatic conversions of the ‘QAT II Loans’ or at the automatic conversions of the 12% Secured Convertible Promissory notes. Neither do they and will they receive compensation when any of the investors they have acquired, decides to exercise its warrants.

During 2010 Quercus Management Group (‘QMG’) an entity affiliated with certain officers and directors of the Company received for providing throughout the full year office space, back office support and car travel expenses invoices for the total amount of € 21,000 ($27,819).

Note 29. Subsequent Events

The Company’s management evaluated subsequent events through March 30, 2011, the date the financial statements were issued and filed with the Securities and Exchange Commission.

Following the Registration Statement 2010, conversions of the Convertible Notes 2009 and exercise of cash and cashless warrants we have issued between January 1, 2011 and 24 March 2011 a total of 7,026,403 shares of common stock of which:

- 5,013,815 shares were issued upon cash exercise warrants with gross proceeds of $ 6,708,641 in 2011
- 2,012,588 shares were issued upon cashless exercise of warrants
- 196,429 shares were issued upon cash exercise of warrants with gross proceeds of $ 220,001 that were already received by the company in 2010.

Further details in “Recent Sales of Unregistered Securities” above.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, at December 31, 2010, such disclosure controls and procedures were not effective.

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.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this Report, that our disclosure controls and procedures were not effective in providing reasonable assurance that the objectives of our disclosure control system were met.

Management's Report on Internal Control Over Financial Reporting

As required by the SEC rules and regulations for the implementation of Section 404 of the Sarbanes-Oxley Act, our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company,

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements in our consolidated financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of our internal control over financial reporting at December 31, 2010. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework.* Based on an initial assessment as of December 31, 2010 as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, Our management determined that a material weakness within its internal control over financial reporting exists.

Based on this assessment, management determined that our internal control was ineffective as of December 31, 2010 due to the material weakness noted below.

Our management has identified thes lack of personnel and technological resources as a material weakness in our internal control over financial reporting. While management believes the financial reports included in this Annual Report fairly represent our financial condition, no guarantee can be given that the financial reports accurately represent our financial condition.

Changes in Internal Control over Financial Reporting

In order to remediate the material weakness described above we have started a Sarbanes-Oxley ("SOX") program strengthening internal controls over financial reporting in 2008. Key risks and key controls have been identified and assessed and many improvements were implemented, but remediation of all material weaknesses was not complete at year end. We aim to complete the remediation in 2011.

Auditor attestation on Internal Control over Financial Reporting

This Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC in this Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Our directors and executive officers and their ages as of March 31, 2010 are as follows:

Name	Age	Position	**Director Since**
Steven van der Velden	54	Chairman of the Board President, Chief Executive Officer and Director	**2006**
Martin Zuurbier	51	Operations, Chief Technical Officer and Director	**2007**
Yves R. Van Sante	50	Director	**2006**
Johan Dejager	51	Director	**2006**
Roderick de Greef (1)(2)(3)	50	Director	**2008**
Phil Hickman (1) (2) (3)	60	Director	**2010**
Mark Nije	48	Chief Financial Officer	**n/a**
Willem van der Brink	53	Chief Commercial Officer	**n/a**
Pat Carroll	52	Chief Executive Officer – ValidSoft subsidiary	**n/a**
Alex Vermeulen	56	General Counsel	**n/a**

(1) Member of Audit and Finance Committee.

(2) Member of Nominating and Corporate Governance Committee.

(3) Member of Compensation Committee

Background

The following is a brief summary of the background of each Director of the Company:

Steven van der Velden has been a director since October 24, 2006 and our Chairman, President and Chief Executive Officer since October 30, 2006. Mr. van der Velden has experience in consultancy, logistics, real estate development, and telecommunications, e-commerce and investment management. He founded his first consultancy firm in 1983 and since then Mr. van der Velden has started over a dozen companies. Mr. van der Velden is involved in various Information Communication Technology ventures throughout Europe, North America and the Far East, and currently serves as Chairman of the Board of QAT Investments SA in Luxembourg. In 2000, he co-founded E-commerce Park NV, which has developed a 50,000 sq.ft. data centre and Internet hosting facility, located on top of the various fiber optic landing points in Curacao. In 1994, Mr. van der Velden co-founded the ITA International Telemedia Association, known today as the Network for Online Commerce, and served as its first Chairman. In the same year, he co-founded InTouch Telecom SA/NV to offer a wide range of business and consumer telecom applications to the Belgian Market, and served as its CEO until the company was sold to Global TeleSystems, Inc. in 1999. From 1988 until 1992 he served as the first Managing Director of Antillephone NV. Currently he is a Director of Unicom NV. Between 1986 and 1988, Mr. van der Velden co-headed a team of 16 consultants, which advised on and implemented a wide range of measures to balance budgets and to restructure the internal organizations of the Governments of both the Dutch Antilles and the island of Curacao. Mr. van der Velden earned his Master's Degree in Business Administration from Rotterdam School of Management, the Netherlands, and a Master's Degree in Law from Leiden University, the Netherlands. He splits his time between Curacao, Dutch Antilles and Brussels, Belgium.

Martin Zuurbier has been responsible for Operations and Chief Technical Officer and a director since January 1, 2007. From January 2005 until January 1, 2007, Mr. Zuurbier had been the Chief Operating Officer and Chief Technology Officer of Benoit Telecom Holding AG, a telecom service provider in Europe that was acquired by us on January 1, 2007. From December 1999 to December 2004, Mr. Zuurbier served as director and was the founder of Vocalis Telecom Group located in The Netherlands and Switzerland. Mr. Zuurbier was responsible for building, maintaining and operating a telecommunications network spanning eight countries in Europe, including all back-office, billing and Client Provisioning Management systems. From January 1995 to June 1999, Mr. Zuurbier was directly involved in the telecommunications industry and was involved in the development of new switching technology in collaboration with hardware manufacturer Dialogic, implementation of the Amsterdam Carrier Ring in 1999 with COLT Telecom BV as the launch customer, and negotiating increased capacity on behalf of various international telecommunications companies. Prior to 1995, Mr. Zuurbier was involved in the production of television commercials for the European market.

Yves R. van Sante has been a director since October 24, 2006. Mr. van Sante founded QAT Investments S.A. in 2002, where he currently serves as the Chief Executive Officer. Concurrently, Mr. van Sante has held various Management and Board functions in companies supported by Quercus Aimer Trust Investments ("QAT"), the majority shareholder of our company, such as being a member of the Business Club 'De Warande' in Belgium since 1998. In 2000, Mr. van Sante became the Managing Director of E-port NV in Ostend, Belgium, a call centre owned by the Port of Ostend. When E-port was sold after six months to the Dutch call-centre Call-IT, Mr. van Sante was asked to become Advisor to the Management Board of Call-IT. In 1999, Mr. van Sante became Vice-President Business Services with GTS, a Pan European Telecom operator. In this position, Mr. van Sante consolidated acquisitions and turned a voice Telco operator around into an IP operator. In 1994, Mr. van Sante co-founded and became partner of InTouch Telecom, a privately owned Belgium Telco company. As its Managing Director, Mr. van Sante was responsible for Business Development, Sales and Marketing. From 1987 until 1993, Mr. van Sante served as Sales and Marketing Manager for Central Europe at 3C Communications (currently named Tele-2) in Luxemburg, where he launched Credit Card Telephony across Europe. Prior to this position, Mr. van Sante became a Business Unit Manager of Public Telephony at Belgacom, a former Belgian owned telecom operator, where he managed a department of over 650 employees. Mr. van Sante started his career as an Advisor at United Brokers in 1982. Mr. Van Sante studied Marketing, Communication and Commercial Management at the High School for Business Economics and Commercial Management in Ghent, Belgium in 1980.

Johan Dejager has been a director since October 24, 2006. Mr. Dejager is managing director and owner of Osta Carpets, a specialized niche producer of area rugs with production plants in Belgium and a distribution center in Barcelona, and Gaverdal, a finishing plant for the carpet industry. He is also Managing Director of Ligne Pure, a company specialised in the design and manufacturing of handmade carpets for the decorator market. Mr. Dejager serves as a member of the Board of Directors of QAT Investments SA. In addition, he is a shareholder and director of Keyware, a provider of identity-related solutions and services, and of SPARNEX, an engineering company developing and industrializing DSL products for the telecom industry. Mr. Dejager is a member of the Board of Directors of FEBELTEX (the Federation of the Belgian Textile Companies). As Vice-President of the company, Mr. Dejager is in charge of the subdivision of interior textiles. Mr. Dejager holds a Bachelors degree (1981) and a Masters degree in Commercial Engineering from the University of Leuven, Belgium (1981) and an MBA from Insead Fontainebleau, France (1982).

Roderick de Greef has served on our Board of Directors since January, 2008. Mr. de Greef is the principal of Taveyanne Capital Advisers, Inc., a firm providing corporate finance consulting services. Since November 2008, Mr. de Greef has been chairman of the board of Cambridge Heart, Inc. Previously Mr. de Greef has served as the Chief Financial Officer of Cambridge Heart from October 2005 to July 2007. Mr. de Greef served as the Executive Vice President, Chief Financial Officer and Secretary of Cardiac Science, Inc. from March 2001 to September 2005. From 1995 to 2001, Mr. de Greef provided corporate finance advisory services to a number of early stage companies including Cardiac Science, where he was instrumental in securing equity capital beginning in 1997, and advising on merger and acquisition activity. Mr. de Greef also serves on the board of directors of Endologix, Inc., a public medical device company located in Irvine, California, and BioLife Solutions, Inc., a public life sciences company based in Bothell, Washington.

Phil Hickman was appointed as director on 29 March 2010. Mr. Hickman manages his own consultancy and advisory business in the fields of corporate strategy and organization, offshore banking, business process outsourcing (BPO), payment & cash management solutions, internet and telephony security, sales and marketing. Mr. Hickman is Chairman of ValidSoft, a member of the Elephant Talk Communications Group, and he is also a Director of Alfa Bank Holdings, the largest privately-owned bank in Russia and part of the Alfa Group. He also acts as an advisor with the Bank in Russia, Ukraine, Belarus and Kazakhstan. Mr Hickman is also Chairman of Earthport plc, a publicly quoted company in the UK engaged in the Payments industry. Mr. Hickman spent 32 years in HSBC Bank plc and has been responsible for developing and implementing many areas of change and innovation both in the UK and around the world. Before leaving HSBC, Mr. Hickman was Head of Strategy & Planning HSBC Commercial Bank.

Executive Officers

Mark Nije was general manager Europe since January 1 2007, a function he held since the end of 2004 within the acquired Benoit Telecom Group. Mr. Nije was appointed Chief Financial Officer on December 15, 2008. Mr. Nije has experience in finance, project management, business development, investment management, logistics and telecommunications. Mr. Nije started as project manager and management consultant for Tebodin Consulting Engineers and Reitsma & Wertheim M&A specialists, the Netherlands. In 1990 he co-founded Logistic Management International NV (LMI), an international cargo transportation and airport handling company at the airport of Curacao, Netherlands Antilles. During those years he served as a board member and vice-chairman of the Curacao Exporters Association. From 2000-2002 Mr. Nije was co-founder and director of PickYourGifts BV, an internet start-up. In 2003 he became partner of QAT Investments SA, the Luxemburg venture capital fund, where he has been active as investment manager and/or board member in various ICT related ventures of QAT. Currently he is member of the Dutch Association of CEO’s and Directors (NCD). Mr. Nije earned his Master’s Degree in Business Administration from the Rotterdam School of Management, the Netherlands, and a Bachelor of Science Degree in Building Construction Management from the University of Reading, United Kingdom.

Mr. Nije is a cousin of the wife of Mr. van der Velden. Other than the aforesaid, there are no family relationships between any director or executive officer.

Patrick Carroll is Founder and CEO of ValidSoft Limited, the company that was acquired in 2010 by Elephant Talk Communications. ValidSoft is a software engineering company that develops advanced security software solutions to help global institutions counter the most sophisticated Card and electronic fraud consistent with leading independent research thinking. Prior to founding ValidSoft, Mr. Carroll was employed as Head of Electronic Trading Technology in Europe for Goldman Sachs International where responsibilities included technical strategy related to Electronic Trading, Client Connectivity and Straight Through Processing (STP). Mr. Carroll has extensive Financial Services & technical experience (over 25 years) and has previously worked in a senior capacity with J.P Morgan, Credit Suisse Financial Products and Bankers Trust Company.

Willem van den Brink started working for Elephant Talk October 1, 2010 as our Chief Commercial Officer. Prior to joining Elephant Talk, Mr. Van den Brink served as Vice President New Business Development for KPN Mobile International, which operates in Germany, Belgium, France and Spain. Throughout his tenure, he generated new business developments via partnerships with non-telecommunications companies and created bottom-line value for KPN. Mr. Van den Brink also organized multi-country partnerships that accelerated revenue and margin growth. Prior to his role as Vice President New Business Development for KPN Mobile International, Mr. Van den Brink held a variety of senior management positions with KPN Netherlands, the leading telecom and ICT service provider in the Netherlands. Within his responsibilities he contributed to reorganizing businesses resulting in direct increase of the bottom-line and top-line results. He has extensive experience in restructuring sales from commodity sales to value-added consultative selling sales, focusing on ICT outsourcing, to aggressively grow the business. Mr. Van den Brink holds a Masters degree in Experimental Physics from Catholic University Nijmegen and a Ph.D. from the University of Utrecht.

Alexander Vermeulen has been General Counsel of the company since 2007. Mr. Vermeulen worked for twenty years as manager with ING, one of Europe's leading financial groups. He served amongst others as General Manager for the Caribbean area and General Manager Postbank Insurances, a leading direct writer in the Dutch market. In Italy he was responsible for all the life insurance activities of ING and was director of various ING entities, amongst which the funds investment company. In 2003 Mr. Vermeulen started his own consultancy company in Italy, initially with advisory services in the life insurance market and broadening later on to other sectors. In 2006 Mr. Vermeulen started working for Elephant Talk as consultant. In 2007 he joined Elephant Talk full time as General Counsel. Mr. Vermeulen holds a Masters degree in Law from Leiden University, the Netherlands.

There are no arrangement between our directors and any other person pursuant to which our directors were nominated or elected for their positions other than the following:

We have agreed with Rising Water Capital, A.G., a large shareholder, and an entity in which QAT holds a 51% ownership interest, to use our best efforts to retain our current management, including Mr. van der Velden, pursuant to a settlement agreement dated May 13, 2008.

Officer and Director Qualifications

We have not formally established any specific, minimum qualifications that must be met by each of our officers or directors or specific qualities or skills that are necessary for one or more of our officers or members of the board of directors to possess. However, we generally evaluate the following qualities: educational background, diversity of professional experience, knowledge of our business, integrity, professional reputation, independence, wisdom, and ability to represent the best interests of our shareholders.

Our officers and board of directors are composed of a diverse group of leaders. In their prior positions they have gained experience in core management skills, such as strategic and financial planning, public company financial reporting, compliance, risk management, and leadership development. Most of our officers and directors also have experience serving on boards of directors and board committees of other public companies and private companies, and have an understanding of corporate governance practices and trends, which provides an understanding of different business processes, challenges, and strategies.

We, along with our officers and directors, believe that the above-mentioned attributes, along with the leadership skills and other experiences of our officers and board members described below, provide us with a diverse range of perspectives and judgment necessary to facilitate our goals of consummating a business transaction.

Steven van der Velden

Mr. van der Velden is well qualified to serve on our board because of his 30 years of experience in management of which 20 years in telecommunications. In addition, Mr. Van der Velden was selected because he is our Chief Executive Officer.

Martin Zuurbier

Mr. Zuurbier is well qualified to serve on our board because of his experience in telecommunication markets and technologies and because he is our Chief Technology Officer.

Yves van Sante

Mr. Van Sante is well qualified to serve on our board because of his experience in private equity and as representative of our larger shareholder QAT Investments.

Johan Dejager

Mr. Dejager is well qualified to serve on our board because of his experience in private equity and as representative of our larger shareholder QAT Investments.

Roderick de Greef

Mr. de Greef is well qualified to serve on our board because of his experience with public companies and because he is independent.

Phil Hickman

Mr. Hickman is well qualified to serve on our board because of his experience in banking and because he is independent.

Committee Membership, Meetings and Attendance

During the fiscal year ended December 31, 2010, there were:

- 5 meetings of the Board of Directors;
- 4 meetings of the Audit Committee;
- 4 meetings of the Compensation Committee; and
- 1 meeting of the Nominating Committee.

Each director attended or participated in at least 3/4 of the meetings of the Board of Directors and his respective committees held during our fiscal year ended December 31, 2010 and during his term of service.

Board Committees

Our board of directors has established three standing committees: Audit and Finance, Nominating and Corporate Governance, and Compensation. Each Committee operates under a charter that has been approved by our board of directors.

Audit and Finance Committee

We have a separately designated standing Audit & Finance Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the "Exchange Act"). Our Audit Committee is currently composed of Roderick de Greef(Chairman) and Phil Hickman. Mr. de Greef was appointed on January 15, 2008 and Mr. Phil Hickman on April 1, 2010; and are involved in discussions with management and our independent registered public accounting firm with respect to financial reporting and our internal accounting controls. Mr. de Greef and Mr. Hickman are considered independent as defined in the listing standards applicable to the Company. The board of directors has determined that Mr. de Greef is an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K. The Audit Committee has the sole authority and responsibility to select, evaluate and replace our independent registered public accounting firm or nominate the independent auditors for shareholder approval. The Audit Committee must pre-approve all audit engagement fees and terms and all non-audit engagements with the independent auditors. The Audit Committee consults with management but does not delegate these responsibilities. See "Audit Committee Report."

The Audit Committee reviewed and discussed our audited financial statements as of and for the year ended December 31, 2010 with the Board of Directors.

The Board of Directors reviewed and discussed with representatives of BDO USA, LLP, our independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No.61 (Codification of Statements on Auditing Standards, AU §380), as amended. The Board of Directors has also received and reviewed the written disclosures and the letter from BDO USA, LLP, required by PCAOB rule 3526, and has discussed with BDO USA, LLP their independence.

Compensation Committee

Our Compensation Committee was formed on January 15, 2008 and consists of Phil Hickman(Chairman) and Roderick de Greef. Our Compensation Committee will award stock options to officers and employees. The Compensation Committee has overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the company.

In 2010 this Committee reviewed the Board and Management compensation, including bonus awards upon the realization of defined targets. Stock options were granted to staff and consultants. A company wide bonus stock plan has been implemented by the Committee. A sales commission structure and an appraisal system is under study.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee was formed on January 15, 2008 and consists of Phil Hickman(Chairman) and Roderick de Greef. The Nominating and Corporate Governance Committee is responsible for (1) reviewing suggestions of candidates for director made by directors and others; (2) identifying individuals qualified to become Board members, and recommending to the Board the director nominees for the next annual meeting of shareholders; (3) recommending to the Board director nominees for each committee of the Board; (4) recommending to the Board the corporate governance principles applicable to the company; and (5) overseeing the annual evaluation of the Board and management. Pursuant to the Nominating and Corporate Governance Committee charter, there is no difference in the manner in which a nominee is evaluated based on whether the nominee is recommended by a shareholder or otherwise.

Corporate Governance Guidelines

Our board of directors has adopted Corporate Governance Guidelines to which adherence is full commitment. The Corporate Governance Guidelines may be found on our website at www.elephanttalk.com. We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of these Guidelines by posting such information on our website, at the address specified above.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our directors and executive officers and persons who beneficially own more than 10% of our common stock (referred to herein as the “reporting persons”) file with the SEC various reports as to their ownership of and activities relating to our common stock. Such reporting persons are required by the SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based solely upon a review of copies of Section 16(a) reports and representations received by us from reporting persons, and without conducting any independent investigation of our own, in 2010, all Forms 3, 4 and 5 were timely filed with the SEC by such reporting persons except for some Form 4’s for Roderick de Greef, Johan Dejager, Yves van Sante, Phil Hickman, Mark Nije, Patrick Carroll, Alex Vermeulen, RWC and QAT and QAT II Investments, Interact W.L.L., PGH Business Solutions, Ltd. and Scere Company Italy SRL. Form 5’s regarding 2010 have been filed/will be filed shortly.

ITEM 11 . EXECUTIVE COMPENSATION

The following table sets forth all annualized compensation paid to our named executive officers at the end of the fiscal years ended December 31, 2010 and 2009. Individuals we refer to as our "named executive officers" include our Chief Executive Officer, Chief Technology Officer, Chief Financial Officer, Chief Commercial Officer, Chief Executive Officer of ValidSoft and General Counsel.

SUMMARY COMPENSATION TABLE

Name and principle position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)		Total ($)
Steven van der Velden	2009	$ 0	$	$ 193,380		$ 193,380
(President and CEO)	2010	$ 0	$	$ 955,665	(2)	$ 955,661
Martin Zuurbier	2009	$ 216,920	$	$ 118,500		$ 335,420
(OPS,CTO)	2010	$ 206,655	$	$ 301,788	(3)	$ 508,443
Mark Nije	2009	$ 191,891	$	$ 79,000		$ 270,891
(Chief Financial Officer)	2010	$ 182,811	$	$ 301,788	(4)	$ 484,598
Patrick Carroll	2009	$ 0	$	$ 0		$ 0
(Chief Executive Officer of ValidSoft)	2010	$ 182,811	$	$ 301,788	(5)	$ 484,598
Willem van den Brink (>01Oct2010)	2009	$ 0	$	$ 0		$ 0
(Chief Commercial Officer)	2010	$ 59,612	$	$ 21,343	(6)	$ 80,955
Alex Vermeulen	2009	$ 150,176	$	$ 79,000		$ 229,176
(General Counsel)	2010	$ 143,069	$	$ 150,894	(7)	$ 293,963

(1) The amounts included in these columns are the aggregate fair values of the awards granted by the Company to the executives in the fiscal year, valued in accordance with ASC 718 for the fiscal years ended December 31, 2009 and December 31, 2010. Pursuant to SEC rules, the amounts in this column exclude the impact of estimated forfeitures related to service-based vesting conditions. The share price used has been the share price at closing of the grant-date on April 1, 2010 ($1.75) except for the shares granted to Willem van den Brink who joint October 1, 2010 these were valued against $2.29 which had been the 10 (working)day average of the last quarter of 2010. Changes in compensation in the above table may arise as a result of exchange rate differences.

(2) Comprised of 546,092 shares of restricted stock granted as salary in lieu of € 228,000 cash; see note

(3) Comprised of 172,450 shares of restricted stock granted as salary in lieu of € 72,000 cash; see note

(4) Comprised of 172,450 shares of restricted stock granted as salary in lieu of € 72,000 cash; see note

(5) Comprised of 172,450 shares of restricted stock granted as salary in lieu of € 72,000 cash; see note

(6) Comprised of 9,304 shares of restricted stock granted as salary in lieu of € 12,000 cash.

(7) Comprised of 86,225 shares of restricted stock granted as salary in lieu of € 36,000 cash; see note

Note to (2), (3), (4), (5) and (7):

In order to convert part of the agreed cash salaries into shares the Company applied a valuation model based upon the conditions provided to investors of the 2009 Convertible Promissory Note. This resulted in the number of shares of stock issued to the executive officers. However, from an accounting point of view these shares had to be fair valued based on the share price of the date of grant, which translates into the (larger) amounts mentioned in the table compared to amounts as valued by the company and as agreed in cash. The stock awards as mentioned for 2009 only include the bonus shares awarded to the executive officers and not their respective salary stock compensation in lieu of cash because these stock awards were already granted and vested in earlier years.

Employment Agreements

Except as set forth below, we currently have no written or unwritten employment agreements with any of our executive management or directors.

Steven van der Velden, President and Chief Executive Officer - We intend to enter into an employment agreement with Mr. van der Velden which will provide for his continued employment in his present capacity as President and Chief Executive Officer prior to the end of 2011. Mr. van der Velden is paid as base compensation € 228,000 per annum, of which 100% is paid in the form of restricted common stock, which is consistent with prior years. Mr. Van der Velden receives no fees (cash or stock) for serving on our board of directors.
All shares for Mr. Van der Velden were on his behalf issued to QAT II Investments.

Martin Zuurbier, Operations/Chief Technical Officer - We intend to enter into an employment agreement with Mr. Zuurbier which will provide for his continued employment in his present capacity as Chief Operating Officer and Chief Technical Officer prior to the end of 2011. Mr. Zuurbier is paid € 228,000 per annum, of which 31.5% is paid in the form of restricted common stock, which is consistent with prior years. Mr. Zuurbier receives no fees (cash or stock) for serving on our board of directors.
All shares for Mr. Zuurbier were on his behalf issued to Interact W.L.L..

Mark Nije, Chief Financial Officer, - We intend to enter into an employment agreement with Mr. Nije which will provide for his continued employment in his present capacity as Chief Financial Officer prior to the end of 2011. Mr. Nije is paid € 210,000 per annum, of which 34% is paid in the form of restricted common stock, which is consistent with prior years. All the shares for Mr. Nije were on his behalf issued to LMI Europe B.V.

Patrick Carroll, Chief Executive Officer of ValidSoft, a 100% subsidiary of the Company,- We intend to enter into an employment agreement with Mr. Carroll which will provide for his continued employment in his present capacity as Chief Executive Officer of ValidSoft prior to the end of 2011. Mr. Carroll is paid € 210,000 per annum, of which 34% is paid in the form of restricted common stock, which is consistent with prior years.
Alex Vermeulen, Chief General Counsel,- We intend to enter into an employment agreement with Mr. Vermeulen which will provide for his continued employment in his present capacity as Chief General Counsel prior to the end of 2011. Mr. Vermeulen is paid € 144,000 per annum, of which 25% is paid in the form of restricted common stock, which is consistent with prior years.
All the shares for Mr. Vermeulen were on his behalf issued to Scere Company Italy SRL.

Willem van den Brink, Chief Commercial Officer,-Per October 1, 2010 we have entered into a written agreement with Mr. Van den Brink for the provision of his services as Chief Commercial Officer. The contract has a 4 year duration. Annual compensation is € 228,000, of which till January 1, 2012 21% is paid in shares.

Administration

Our board of directors has established a compensation committee that, among other duties, will administer the Incentive Plan. The compensation committee will be composed of two members of the Board , whom will be “non-employee directors” within the meaning of Rule 16b-3(b)(3) of the Securities Exchange Act of 1934, as amended. Members of our compensation committee will serve at the pleasure of our Board. In connection with the administration of our Incentive Plan, the compensation committee, with respect to awards to be made to any person who is not one of our directors will:

- determine which employees and other persons will be granted awards under our Incentive Plan;
- grant the awards to those selected to participate;
- determine the exercise price for options; and
- prescribe any limitations, restrictions and conditions upon any awards, including the vesting conditions of awards.

With respect to stock options or restricted stock awards to be made to any of our directors, the Compensation Committee will make recommendations to our Board of Directors as to:

- which of such persons should be granted stock options, restricted stock awards, performance units or stock appreciation rights;
- the terms of proposed grants of awards to those selected by our Board of Directors to participate;
- the exercise price for options; and
- any limitations, restrictions and conditions upon any awards.

Any grant of awards to any of directors under our Incentive Plan must be approved by our Board of Directors.

In addition, the compensation committee will:

- interpret our Incentive Plan; and
- make all other determinations and take all other action that may be necessary or advisable to implement and administer our Incentive Plan.

Types of Awards

Our Incentive Plan permits the Compensation Committee to grant the following types of awards.

Stock Options . Stock options are contractual rights entitling an optionee who has been granted a stock option to purchase a stated number of shares of our common stock at an exercise price per share determined at the date of the grant. Options are evidenced by stock option agreements with the respective optionees. The exercise price for each stock option granted under our Incentive Plan will be determined by our Board of Directors or a committee of the Board at the time of the grant, but will not be less than fair market value on the date of the grant. Our Board of Directors or a committee of the Board will also determine the duration of each option; however, no option may be exercisable more than ten years after the date the option is granted. Within the foregoing limitations, the Board of Directors or committee of the Board may, in its discretion, impose limitations on exercise of all or some options granted under our Incentive Plan, such as specifying minimum periods of time after grant during which options may not be exercised. Options granted under our Incentive Plan will vest at rates specified in the option agreement at the time of grant; however, all options granted under our Incentive Plan will vest upon the occurrence of a change of control, as defined in the Incentive Plan. Our Incentive Plan also contains provisions for our Board of Directors or a committee of the Board to provide in the participants' option award agreements for accelerating the right of an individual employee to exercise his or her stock option or restricted stock award in the event of retirement or other termination of employment. No cash consideration is payable to us in exchange for the grant of options.

Our Incentive Plan provides that the stock options may either be Incentive Stock Options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or Non-Qualified Options, which are stock options other than Incentive Stock Options within the meaning of Sections 422 of the Code. Incentive Stock Options may be granted only to our employees or employees of our subsidiaries, and must be granted at a per share option price not less than the fair market value of our common stock on the date the Incentive Stock Option is granted. In the case of an Incentive Stock Option granted to a shareholder who owns shares of our outstanding stock of all classes representing more than 10% of the total combined voting power of all of our outstanding stock of all classes entitled to vote in the election of directors, the per share option price must be not less than 110% of the fair market value of one share of our common stock on the date the Incentive Stock Option is granted and the term of such option may not exceed five years. As required by the Code, the aggregate fair market value, determined at the time an Incentive Stock Option is granted, of our common stock with respect to which Incentive Stock Options may be exercised by an optionee for the first time during any calendar year under all of our incentive stock option plans may not exceed $100,000.

The exercise price for Non-Qualified Options may not be less than the fair market value of our common stock on the date the Non-Qualified Option is granted. Non-Qualified Options are not subject to any of the restrictions described above with respect to Incentive Stock Options. The exercise price of stock options may be paid in cash, in whole shares of our common stock, in a combination of cash and our common stock, or in such other form of consideration as our Board of Directors or the committee of the Board may determine, equal in value to the exercise price. However, only shares of our common stock which the option holder has held for at least six months on the date of the exercise may be surrendered in payment of the exercise price for the options. In no event may a stock option be exercised after the expiration of its stated term.

Stock Appreciation Rights . A stock appreciation right permits the grantee to receive an amount (in cash, common stock, or a combination thereof) equal to the number of stock appreciation rights exercised by the grantee multiplied by the excess of the fair market value of our common stock on the exercise date over the stock appreciation rights' exercise price. Stock appreciation rights may or may not be granted in connection with the grant of an option. The exercise price of stock appreciation rights granted under the Incentive Plan will be determined by the Board of Directors or a committee of the Board; provided, however, that such exercise price cannot be less than the fair market value of a share of common stock on a date the stock appreciation right is granted (subject to adjustments). A stock appreciation right may be exercised in whole or in such installments and at such times as determined by the Board of Directors or a committee of the Board.

Restricted Stock . Restricted shares of our common stock may be granted under our Incentive Plan subject to such terms and conditions, including forfeiture and vesting provisions, and restrictions against sale, transfer or other disposition as the Board of Directors or a committee of the Board may determine to be appropriate at the time of making the award. In addition, the Board of Directors or a committee of the Board may direct that share certificates representing restricted stock be inscribed with a legend as to the restrictions on sale, transfer or other disposition, and may direct that the certificates, along with a stock power signed in blank by the grantee, be delivered to and held by us until such restrictions lapse. The Board of Directors or a committee of the Board, in its discretion, may provide in the award agreement for a modification or acceleration of shares of restricted stock in the event of permanent disability, retirement or other termination of employment or business relationship with the grantee.

Performance Units . The Incentive Plan permits grants of performance units, which are rights to receive cash payments equal to the difference (if any) between the fair market value of our common stock on the date of grant and its fair market value on the date of exercise of the award, except to the extent otherwise provided by the Board of Directors or a committee of the Board or required by law. Such awards are subject to the fulfillment of conditions that may be established by the Board of Directors or a committee of the Board including, without limitation, the achievement of performance targets based upon the factors described above relating to restricted stock awards.

Performance Bonus . The Incentive Plan permits grants of performance bonuses, which may be paid in cash, common stock or combination thereof as determined by the Board of Directors or a committee of the Board. The maximum value of performance bonus awards granted under the Incentive Plan shall be established by the compensation committee at the time of the grant. An employee's receipt of such amount will be contingent upon achievement of performance targets during the performance period established by the compensation committee. The performance targets will be determined by the Board of Directors or a committee of the Board based upon the factors described above relating to restricted stock awards. Following the end of the performance period, the Board of Directors or a committee of the Board will determine the achievement of the performance targets for such performance period. Payment may be made within 60 days of such determination. Any payment made in shares of common stock will be based upon the fair market value of the common stock on the payment date.

DIRECTOR COMPENSATION

Compensation of Directors Summary Table

The following table represents compensation paid in 2010 to our directors who are not "named executive officers."

Name	Fees Earned or Paid in Cash ($)	Stock Award ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Johan Dejager (1)(2)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Yves van Sante (1)(2)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Roderick de Greef (3)	$ 0	$ 256,729	$ 0	$ 0	$ 0	$ 0	$ 256,729
Phil Hickman (4)	$ 0	$ 172,898	$ 0	$ 0	$ 0	$ 0	$ 172,898

(1) In 2010 no compensation was paid to the above directors as a result of the fact that each of the above-named directors was granted shares of restricted common stock already in 2008, which vested immediately, for their continued service on our Board of Directors through December 31, 2010. As a result and in accordance with accounting rules, the table does not show compensation for 2010.

(2) We granted to QAT Investments SA on behalf of each of Messrs. Dejager and van Sante, on November 17, 2008, respectively, 500,000 shares of our common stock for their continued service on our Board of Directors through December 31, 2010.

(3) On April 1, 2010 we granted 146,702 shares of our common stock to Mr. de Greef for his continued service on our Board of Directors through December 31, 2010. The grant resulted from the agreement that Mr. de Greef was entitled to a cash compensation of € 61,250. Based upon the calculation of a fair value equal to that cash compensation we adopted a valuation based upon the conditions provided to investors of the 2009 Convertible Promissory Note. Hence, the € 61,250 translated into 146,702 shares. However, from an accounting point of view these shares had to be fair valued based on the share price of the date of grant. Consequently, we reported a value of $ 256,729 on the date of issuance which vested immediately.

(4) Mr. Hickman was appointed in our Board as of March 30, 2010. On April 1, 2010, we granted 98,977 shares of our common stock to PGH Business Solutions, Ltd. On behalf of Mr. Hickman for his service on our Board of Directors through December 31, 2010. The grant resulted from the agreement that Mr. Hickman was entitled to a cash compensation of € 41,250. Based upon the calculation of a fair value equal to that cash compensation we adopted a valuation based upon the conditions provided to investors of the 2009 Convertible Promissory Note. Hence, the € 41,250 translated into 98,977 shares. However, from an accounting point of view these shares had to be fair valued based on the share price of the date of grant. Consequently, we reported a value of $ 172,898 on the date of issuance which vested immediately. In addition, in 2010 Mr. Hickman was paid by Validsoft, Ltd., a subsidiary of the Company, GBP 60,000 to PGH Business Solutions Ltd. for services provided during the year by Mr. Hickman to Validsoft.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.

Beneficial Ownership of Principal Shareholders, Officers and Directors

The following table sets forth, based on 97,934,969 shares of common stock outstanding and as of March 16, 2011, certain information as to the stock ownership of each person known by us to own beneficially five (5%) percent or more of the outstanding common stock, of each of the our named officers and directors who owns any shares and of all officers and directors as a group. In computing the outstanding shares of common stock, the Company has excluded all shares of Common Stock subject to options, warrants or other securities that are not currently exercisable or exercisable within 60 days and are therefore not deemed to be outstanding and beneficially owned by the person holding the options, warrants or other securities for the purpose of computing the number of shares beneficially owned and the percentage ownership of that person. Unless otherwise indicated, the address for each person listed below is c/o Elephant Talk Communications, Inc., Schiphol Blvd 249, 1118 BH Schiphol, The Netherlands.

Name of Beneficial Holder	Number of Shares of Common Stock Owned*	Percent of Class as of 16 March 2011
Rising Water Capital AG (1)	32,574,518(2)	31.37%(2)
CMV Invest II CVA (3)	8,689,660(4)	8.42% (4)
Patrick Carroll	172,450	**%
CMV Invest CVA	1,728,697	1.77%
Q.A.T. Investments SA	40,593,793(2) (5)(6)	61.97% (2) (5)(6)
Q.A.T. II Investments SA	26,566,992	22.39%
Phil Hickman	211,491	**%
Interfield Consultancy Ltd.	975,744(7)	1.00%
Interact WLL(8)	826,578	**%
PGH Business Soft Ltd.	98,799	**%
Logistic Management International NV	272,450	**%
Steven van der Velden	12,564,068(9)	12.18%(9)
Johan Dejager	3,755,087(10)	3.77%(10)
Yves van Sante	436,484(11)	**
Martin Zuurbier	826,578	**%
Mark Nije	671,825	**%
Roderick de Greef	555,035(12)	**%
Alex Vermeulen	235,296	**%
William Van den Brink	0	**%
Scere Company Italy	86,225	**%
All Officers and Directors as a Group	6,931,126	20.27%

*Calculated in accordance with Rule 13d-(3)(d)(1) under the Securities Exchange Act of 1934.
**less than one percent

(1) Voting power and dispositive power over the shares held by RWC are under the control of its investment committee. To our knowledge, RWC's address of record is Baarerstrasse 135, 6301 Zug, Switzerland.

(2) Includes warrants to purchase 338,029 shares of our common stock at $1.05 per share, warrants to purchase 338,029 shares of our common stock at $1.26 per share, and warrants to purchase 169,015 shares of our common stock at $1.47 per share.

(3) Mr. van der Velden owns a 40.75% ownership interest in CMV II Invest CVA ("CMV II"), and therefore controls shared voting and dispositive power over the securities held by this entity. To our knowledge, CMV II's address of record is Rubensheide 73, 2950 Kappellen, Belgium.

(4) Includes warrants to purchase 3,475,864 shares of our common stock at $1.26 per share, and warrants to purchase 1,737,932 shares of our common stock at $1.47 per share.

(5) Includes warrants to purchase 357,172 shares of our common stock at $1.05 per share, warrants to purchase 357,172 shares of our common stock at $1.26 per share, and warrants to purchase 178,586 shares of our common stock at $1.47 per share.

(6) Includes 774,022 warrants issued to Quercus Management Group N.V., a wholly-owned subsidiary of QAT Investments, for its role as placement agent in our Offering to European-area investors.

(7) Steven van der Velden owns 100% of Interfield and therefore has voting and dispositive power of the shares of common stock held by this entity.

(8) Mr. Zuurbier owns 100% of Interact W.L.L. and therefore has voting and dispositive power of the shares of common stock held by this entity.

(9) Includes shares of common stock held by CMV, CMV II, and Interfield and the warrants described in notes (3).

(10) Includes warrants to purchase 1,728,572 shares of our common stock.

(11) Includes warrants to purchase 436,484 shares of our common stock. All such shares and warrants are owned by Amelia & Associates, SA. Mr. van Sante holds a 33% ownership interest in Amelia and therefore holds shared voting and dispositive power over the securities held by this entity. To our knowledge, Amelia's address of record is Rue du Fort Rheinshein 7, 2419 Luxembourg.

(12) Mr. Vermeulen owns 100% of Scere Company Italy and therefore has voting and dispositive power of the shares of common stock held by this entity.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

On January 27, 2009, QAT II Investments SA, a closed-end fund of QAT Investments, entered into a preliminary loan agreement with us whereby QAT II Investments will provide us with $1,300,000. According to the terms, the loan will bear interest at a rate of twelve percent (12%) per annum and shall be repaid either: (1) if QAT II Investments and we sign an investment agreement, the amount due under the loan will be reduced by the investment amount pursuant to the investment agreement, or (2) if no investment agreement is executed, the principal amount of the loan plus interest is due and payable by June 30, 2009. On February 15, 2009, February 23, 2009 and March 31, 2009, in connection with the above referenced agreement, QAT II Investments entered into three loan agreements with us whereby QAT II Investments agreed to provide us with $650,000, $650,000 and $650,000, respectively. The outstanding principal and interest shall become immediately due and payable in the event we fail to make required payments of principal and interest, or otherwise breaches the agreements and fails to cure such breach upon twenty (20) days notice, or if it disposes of its properties or assets without QAT II Investments' prior consent, or if we file a petition for bankruptcy or otherwise resolves to wind up its affairs. All agreements and amounts were entered in euro's with a conversion rate used above of 1.30 EUR/USD, deviations may occur with 8-K filings due to different exchange rate usage.

On February 3, 2009, 23,982 shares of common stock were issued to RWC as part of the Incentive Payment. As a result of our private placement of securities in excess of $1.0 million, RWC is additionally entitled, as an Incentive Payment, approximately $451,915 in cash and was issued warrants to purchase 338,029 shares of our common stock at $1.05 per share, warrants to purchase 338,029 shares of our common stock at $1.26 per share and warrants to purchase 169,015 shares of our common stock at $1.47 per share. In lieu of the cash payment to RWC was entitled it accepted 742,000 shares of our common stock, based on a conversion price of $0.60 per shareIn connection with the loan agreements described above, on March 30, 2009 we entered into a security agreement (the "Security Agreement") with QAT II. The Security Agreement granted QAT II a security interest in the revenues received by us under a Spanish MVNE Agreement which management expects to be entered into by the parties (the "MVNE Agreement"). The Security Agreement will terminate when all amounts due under the loan agreements have been paid in full by Registrant.

On June 30, 2009, we issued 124,800 shares of our common stock to QAT as consideration for the services provided by Steven van der Velden, our Chairman, President and Chief Executive Officer. The shares of common stock were issued directly to QAT pursuant to an agreement between QAT and Mr. van der Velden.

On July 1, 2009 and July 8, 2009 QAT II, a closed-end fund of QAT Investments, entered into a loan agreement with the Company whereby QAT II provided the Company with $ 213,795 and $ 142,530. According to the terms, the loans will bear interest at a rate of twelve percent (12%) per annum and shall be repaid either: (1) if QAT II and the Company sign an investment agreement, the amount due under the loan will be reduced by the investment amount pursuant to the investment agreement, or (2) if no investment agreement is executed, the principal amount of the loan plus interest is due and payable by August 31, 2009. The agreement and amount were entered in Euro's, which means that currency differences may occur in filings made and this Report.

On July 31, 2009, QAT II converted $4,100,000 provided under the loan agreements into $4,100,000 in Notes and Warrants as part of the First Closing with respect to the Offering. On October 30, 2009, QAT II converted $1,332,383 into Notes and Warrants as part of the Fifth Closing with respect to the Offering.

Quercus Management Group N.V. ("QMG"), an entity affiliated with certain officers and directors of the Company served as European placement agent for the Offering. In the aggregate, QMG raised $4,837,632, entitling it to 774,022 Warrants (equal to 8% of the aggregate amount of Notes and Warrants sold in the Offering, including those Notes and Warrants sold to affiliates of the Company), an 8% selling concession equal to $387,010.56 and 2% non-accountable expenses and fees equal to $96,752.64. Of the $4,837,632 raised by QMG, $4,399,995.10 (or 91% of the total) was raised from parties affiliated with the Company (including the $4,100,000 conversion by QAT II).

For transactions in 2010 reference is made to Note 28.

All future transactions between us and our officers, directors or five percent shareholders, and respective affiliates will be on terms no less favorable than could be obtained from unaffiliated third parties and will be approved by a majority of our independent directors who do not have an interest in the transactions and who had access, at our expense, to our legal counsel or independent legal counsel.

To the best of our knowledge, other than as set forth above, there were no material transactions, or series of similar transactions, or any currently proposed transactions, or series of similar transactions, to which we were or are to be a party, in which the amount involved exceeds $120,000, and in which any director or executive officer, or any security holder who is known by us to own of record or beneficially more than 5% of any class of our common stock, or any member of the immediate family of any of the foregoing persons, has an interest.

Director Independence

Our board of directors has determined that Roderick de Greef and Phil Hickman are independent for Amex and NASDAQ Stock Market purposes. Roderick de Greef and Phil Hickman are appointed to the standing committees of the Board of Directors. These committees are: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

In addition, Mr. de Greef qualifies as “independent” under special standards established by the U.S. Securities and Exchange Commission (“SEC”) for members of audit committees. The Audit Committee therefore includes one independent member, in our case Mr. de Greef, who is determined by the board of directors to meet the qualifications of an “audit committee financial expert” in accordance with SEC rules, including that the person meets the relevant definition of an “independent director. Shareholders should understand that this designation is a disclosure requirement of the SEC related to Mr. de Greef’s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. de Greef any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the board of directors, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the board of directors. Our board of directors also determined that Mr. de Greef has sufficient knowledge in reading and understanding financial statements to serve on the Audit Committee.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The aggregate fees billed by BDO USA (“BDO”) for professional services rendered for the audit of our annual financial statements for the years ended December 31, 2010 and 2009 and the review of the financial statements included in our Current Reports on Form 10-Q during the 2010 and 2009 fiscal years totaled $299,800 and $250,000 The above amounts include interim procedures as audit fees as well as attendance at audit committee meetings.

Tax Fees. The aggregate fees billed by BDO for professional services rendered for tax compliance, for the years ended December 31, 2010 2009 were $0 and $0 respectively.

All Other Fees. The aggregate fees billed by BDO for products and services, other than the services described in the paragraphs captions “Audit Fees”, and “Tax Fees” above for the year ended December 31, 2010 and 2009 totaled $0 and $0.

The Audit Committee of our Board of Directors has established its pre-approval policies and procedures, pursuant to which the Audit Committee approved the foregoing audit, tax and non-audit services provided by BDO in 2010 and 2009 consistent with the Audit Committee’s responsibility for engaging our independent auditors, all audit and permitted non-audit services require pre-approval by the Audit Committee. The full Audit Committee approves proposed services and fee estimates for these services. The Audit Committee chairperson has been designated by the Audit Committee to approve any audit-related services arising during the year that were not pre-approved by the Audit Committee. Any non-audit service must be approved by the full Audit Committee. Services approved by the Audit Committee chairperson are communicated to the full Audit Committee at its next regular meeting and the Audit Committee reviews services and fees for the fiscal year at each such meeting. Pursuant to these procedures, the Audit Committee approved the foregoing audit services provided by BDO.

Part IV

ITEM 15. EXHIBITS, FINANCIAL STATMENT SCHEDULES.

The following exhibits are filed with this Report.

Number	Description
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated By-Laws (2)
3.3	Amended and Restated Articles of Incorporation, filed with the State of California on June 10, 2008. (3)
10.1	Stock Purchase Agreement dated June 30, 2005, by and among the Company and Rising Water Capital, A.G. (4)
10.2	Convertible Promissory Note dated December 15, 2005, by the Company, in favor of Rising Water Capital, A.G. (5)
10.3	Equity Transfer Agreement, dated January 4, 2006, by and among Zhongrun Chuangtou Technology Co. Ltd. and Guangdong Guangxiang Network Information Co., Ltd (6)
10.4	Exclusive Technical Consulting and Services Agreement, dated January 2, 2006, by and among Jinfuyi Technology (Beijing) Co., Ltd. and Beijing Chinawind Communication Information Technology Co., Ltd. (6)
10.5	Convertible Promissory Note dated May 26, 2006, by the Company, in favor of Rising Water Capital, A.G. (7)
10.6	Agreement of Purchase and Sale, dated November 16, 2006, by and among the Company, Elephant Talk Europe Holding B.V. and Beltrust A.G. (8)
10.7	Form of Common Stock Purchase Agreement, dated August 31, 2007, by and among the Company and certain investors. (9)
10.8	Settlement Agreement, entered by and between the Company and Rising Water Capital AG. (10)
10.9	Loan Agreement by and between the Company and QAT II Investments dated January 27, 2009(11)

10.10 Loan Agreement by and between the Company and QAT II Investments dated February 15, 2009(12)

10.11 Loan Agreement by and between the Company and QAT II Investments dated February 23, 2009(12)

10.12 Loan Agreement by and between the Company and QAT II Investments dated March 31, 2009(12)

10.13 Security Agreement, entered into by and between the Company and QAT II Investments (12)

10.14 Loan Agreement by and between the Company and QAT II Investments dated May 27, 2009(13)

10.15 Contract for the Supply of Operation and Technical Services through a Comprehensive Technological Platform between Vizzavi Espana S.L. and the Company(14)

10.16 Collaboration Agreement by and between ValidSoft Limited and the Company(15)

10.17 Loan Agreement by and between the Company and QAT II Investments dated July 1, 2009(16)

10.18 Amendments to Loan Agreements dated January 27, 2009, February 15, 2009, March 4, 2009, March 31, 2009, May 4, 2009, and May 27, 2009 by and between QAT II Investments and the Company(16)

10.19 Side Agreement by and between ValidSoft Limited and the Company(17)

10.20 Extension Agreement by and between ValidSoft Limited and the Company(17)

10.21 Amendment to Loan Agreements dated January 27, 2009, February 15, 2009, March 4, 2009, March 31, 2009, May 4, 2009, May 27, 2009, July 1, 2009 and July 8, 2009 by and between QAT II Investments and the Company(18)

10.22 Letter Agreement by and between ValidSoft Limited and the Company(19)

10.23 Heads of Terms Agreement by and between ValidSoft Limited and the Company(20)

10.24 Loan Agreement by and between the Company and QAT II Investments dated February 3, 2010(21)

10.25 Loan Agreement by and between the Company and QAT II Investments dated February 24, 2009(22)

10.26 Sale and Purchase Agreement, dated March 17, 2010, by and among the Company. and the shareholders of ValidSoft Limited other than Enterprise Ireland (23)

10.27 Sale and Purchase Agreement, dated March 17, 2010, by and the Company and Enterprise Ireland (23)

14.1 Code of Ethics (*)

21.1 Subsidiaries of the Registrant (*)

23.1 Consent public accounting firm BDO Seidman, LLP (*)

31.1 Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)(**)

31.2 Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)(**)

32.1 Certification of the Company’s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)(**)

32.2 Certification of the Company’s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)(**)

* Filed Herewith

** A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

(1) Filed as part of our Definitive Proxy Statement on Schedule 14A on December 28, 2007.

(2) Filed as an Exhibit to our Current Report on Form 8-K on January 22, 2008.

(3) Filed as an Exhibit to our Current Report on Form 8-K on June 12, 2008.

(4) Filed as an Exhibit to our Current Report on Form 8-K on July 7, 2005.

(5) Filed as an Exhibit to our Current Report on Form 8-K on December 16, 2005.

(6) Filed as an Exhibit to our Current Report on Form 8-K on January 13, 2006.

(7) Filed as an Exhibit to our Current Report on Form 8-K on June 5, 2006.

(8) Filed as an Exhibit to our Current Report on Form 8-K on December 1, 2006.

(9) Filed as an Exhibit to our Current Report on Form 8-K on November 19, 2007.

(10) Filed as an Exhibit to our Current Report on Form 8-K on June 12, 2008.

(11) Filed as an Exhibit to our Current Report on Form 8-K on February 2, 2009.

(12) Filed as an Exhibit to our Current Report on Form 8-K on April 9, 2009.

(13) Filed as an Exhibit to our Current Report on Form 8-K on June 1, 2009.

(14) Filed as an Exhibit to our Current Report on Form 8-K on June 4, 2009 and amended by a Current Report on Form 8-K filed September 17, 2009.

(15) Filed as an Exhibit to our Current Report on Form 8-K on June 24, 2009.

(16) Filed as an Exhibit to our Current Report on Form 8-K on July 2, 2009.

(17) Filed as an Exhibit to our Current Report on Form 8-K on July 8, 2009.

(18) Filed as an Exhibit to our Current Report on Form 8-K on July 21, 2009.

(19) Filed as an Exhibit to our Current Report on Form 8-K on August 6, 2009.

(20) Filed as an Exhibit to our Current Report on Form 8-K on November 6, 2009.

(21) Filed as an Exhibit to our Current Report on Form 8-K on February 18, 2010.

(22) Filed as an Exhibit to our Current Report on Form 8-K on February 26, 2010.

(23) Filed as an Exhibit to our Current Report on Form 8-K on March 23, 2010.

SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	ELEPHANT TALK COMMUNICATIONS, INC.
Date: March 30, 2011	By: /s/ Steven van der Velden
	Name: Steven van der Velden
	Title: President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Person	Capacity	Date
/s/ Steven van der Velden Steven van der Velden	Chairman of the Board and Director (Principal Executive Officer)	March 30, 2011
/s/ Mark Nije Mark Nije	Chief Financial Officer	March 30, 2011
/s/ Martin Zuurbier Martin Zuurbier	Operations , Chief Technical Officer, Director.	March 30, 2011
/s/ Yves R. van Sante Yves R. van Sante	Director	March 30, 2011
/s/ Johan Dejager Johan Dejager	Director	March 30, 2011
/s/ Roderick de Greef Roderick de Greef	Director	March 30, 2011
/s/ Phil Hickman Phil Hickman	Director	March 30, 2011

Exhibit 14.1

CORPORATE GOVERNANCE GUIDELINES OF
ELEPHANT TALK COMMUNICATIONS, INC.

OVERVIEW - THE ROLE OF THE BOARD OF DIRECTORS:

It is the paramount duty of the Board of Directors to oversee the CEO and other senior management in the competent and ethical operation of the Company on a day-to-day basis and to assure that the long-term interests of the shareholders are being served. To satisfy this duty, the directors will take a proactive, focused approach to their position, and set standards to ensure that the Company is committed to business success through maintenance of the highest standards of responsibility and ethics.

Directors bring to the Company a wide range of experience, knowledge and judgment, and bring these skills to bear for the Company. These varied skills mean that good governance depends on far more than a "check-the-box" approach to standards or procedures. The governance structure in the Company is designed to be a working structure for principled actions, effective decision-making and appropriate monitoring of both compliance and performance.

DIRECTOR QUALIFICATIONS:

The board believes that there should be at least a majority of independent directors on the board who meet the criteria for independence established by the American Stock Exchange. The Nominating and Corporate Governance Committee shall solicit and receive recommendations and review the qualifications of potential director candidates in accordance with the charter and principles of that committee. The consideration of a candidate as a director will be based on the Nominating and Corporate Governance Committee’s assessment of the individual’s background, skills and abilities, and whether such characteristics qualify the individual to fulfill the needs of the board at that time. The board should monitor the mix of skills and experience of its directors in order to assure that the board has the necessary tools to perform its oversight function effectively. The Nominating and Corporate Governance Committee will be responsible for considering shareholder proposals with respect to director nominations.

Serving on the Company’s board requires significant time and attention. Directors must spend the time needed and meet as often as necessary to properly discharge their responsibilities. A director who also serves as CEO of the Company should not serve on more than two (2) other boards of public companies in addition to the Company’s board. Directors other than the CEO of the Company should not serve on more than four (4) other boards of public companies in addition to the Company’s board.

ETHICS AND CONFLICT OF INTERESTS:

The board expects its directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the Company’s code of conduct. The board will not permit the waiver of any ethics policy for any director or executive officer.

SIZE OF BOARD AND DIRECTOR ELECTIONS:

The directors are elected annually by the shareholders to serve a three-year term. Between annual shareholder meetings, the board may elect directors to serve until the end of the term under which the vacancy was created. The By-laws prescribe that shareholders may propose nominees for consideration by the Nominating and Corporate Governance Committee by submitting the names and supporting information to: Secretary, Elephant Talk Communications, Inc., Schiphol Boulevard 249, 1118 BH Schiphol, The Netherlands.

The By-laws prescribe that the number of directors will not be less than six (6) nor more than eleven (11). In general, the board believes that smaller boards are more cohesive, work better together and tend to be more efficient monitors than larger boards. The board currently has seven (7) members and reviews from time to time the appropriateness of its size. The board would consider expanding its size to accommodate outstanding candidates.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION:

The Company's management should provide new directors with materials, briefings and additional educational opportunities to permit them to become familiar with the Company and to enable them to better perform their duties. Board members are also encouraged to visit Company facilities and meet with Company employees throughout their tenure on the board. In addition, board members are encouraged to attend accredited director education programs.

SERVICE LIMITS AND RETIREMENT POLICY:

The board believes that service limits are on balance not the best way to maximize the effectiveness of the board. While service limits would likely introduce fresh perspectives and make new viewpoints available to the board, they may have the countervailing effect of causing the loss of the benefit gained from the contributions of directors who have developed, over time, increasing insight into the Company. As an alternative to service limits, the Nominating and Corporate Governance Committee will periodically review the appropriateness of each board member's continued service. A board member may not stand for reelection after age 75, but need not resign until the end of his or her term.

DIRECTORS WHO CHANGE THEIR PRESENT JOB RESPONSIBILITIES:

Directors who retire or change from the positions they held when initially elected to the board are expected to tender their resignation to the board at the time of such change. The board does not believe that a director in this circumstance should necessarily be required to leave the board. Instead, the board believes that the Nominating and Corporate Governance Committee should review each situation and make a recommendation to the board as to the continued appropriateness of board membership under the new circumstances or whether the board should accept such tendered resignations.

DIRECTOR RESPONSIBILITIES:

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. In fulfilling that responsibility, the directors should be able to rely on the honesty and integrity of the Company's senior management and expert legal, accounting, financial and other advisors.

Board members are expected to prepare for, attend and participate in all board and applicable committee meetings, and to spend the time needed to meet as often as necessary to properly discharge their obligations. At the beginning of each year the board will, to the extent foreseeable and practicable, set a schedule of agenda items to be discussed during the year. Each board member is free to suggest the inclusion of items on the agenda and to raise at any board meeting subjects that are not on the agenda for that meeting. The board shall meet at least four times per year.

An agenda for each board meeting, along with information and data that is important to the board's understanding of the business to be conducted at the board meeting, should be distributed to the directors in advance of the meeting, so that board meeting time may be focused on questions that the board has about the materials. Certain matters may be discussed at the meeting without advance distribution of written materials, as appropriate.

The board does not have a policy on whether or not the roles of Chief Executive Officer and chairperson of the Board should be separate and, if they are to be separate, whether the chairperson should be selected from the non-employee directors or be an employee of the Company. The board believes these issues should be considered as part of the board's broader succession planning process. The board shall, however, appoint a lead director or co-lead directors to conduct executive sessions and for such other purposes as the board finds useful.

The board's policy is to periodically hold executive sessions without the presence of management, including the CEO or other non-independent directors. Such meetings should occur at least four times per year. In general, time is reserved following each regularly scheduled board meeting should the outside directors wish to meet in private executive session. When the outside directors meet without a chairperson of the board, the lead director shall chair the meeting. The outside directors may also meet at such other times as determined by the presiding director.

The board believes that management speaks for the Company. Individual board members may occasionally meet or otherwise communicate with various constituencies that are involved with the Company, but it is expected that board members would do this with the knowledge of management and, in most instances, absent unusual circumstances or as contemplated by the committee charters, at the request of management.

BOARD COMMITTEES:

The board currently has a Nominating and Corporate Governance Committee, an Audit and Finance Committee and a Compensation Committee. All of the members of these committees will meet the then-effective criteria for independence established by the American Stock Exchange and, in the case of the Audit and Finance Committee, the Sarbanes-Oxley Act of 2002. The members of these committees will also meet the other membership criteria specified in the respective charters for these committees. Committee members and committee chairpersons will be appointed by the board. There will be, from time to time, occasions on which the board may want to rotate committee members, but the board does not believe that a formal policy of rotation is warranted.

Each committee shall have its own charter. The charter will set forth the principles, policies, objectives and responsibilities of the committee in addition to the qualifications for committee membership.

The chairperson of each committee will, in consultation with the appropriate committee members and members of management, and in accordance with the committee's charter, determine the frequency and length of committee meetings and develop the committee's agenda. At the beginning of the year, each committee will establish a schedule of agenda subjects to be discussed during the year (to the extent these can be foreseen). The schedule for each committee will be furnished to the full board.

The board and each committee have the right at any time to obtain advice, reports or opinions from internal and external counsel and expert advisors and have the authority to hire independent legal, financial and other advisors as they may deem necessary, at the Company's expense, without consulting with, or obtaining approval from, any officer of the Company in advance.

The board may, from time to time, form new committees as it deems appropriate.

DIRECTOR ACCESS TO OFFICERS AND EMPLOYEES:

The board has complete access to all Company officers and employees. Any meetings or contacts that a director desires to initiate may be arranged directly by the director or through the CEO or other Company officer.

The board welcomes the attendance of senior officers at each board meeting. The board also encourages management to schedule managers to present at board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) have future potential that management believes should be given exposure to the board.

DIRECTOR COMPENSATION:

The form and amount of director compensation will be determined by the board after review of recommendations of the Nominating and Corporate Governance Committee. It is appropriate for the staff of the Company to report from time to time to the Nominating and Corporate Governance Committee on the status of board compensation in relation to other comparable U.S. companies. The Nominating and Corporate Governance Committee should conduct an annual review of director compensation. The current practice of the board is that a substantial portion of a director's annual retainer be equity-based. Directors do not receive any additional consideration for serving on committees or as committee chairpersons.

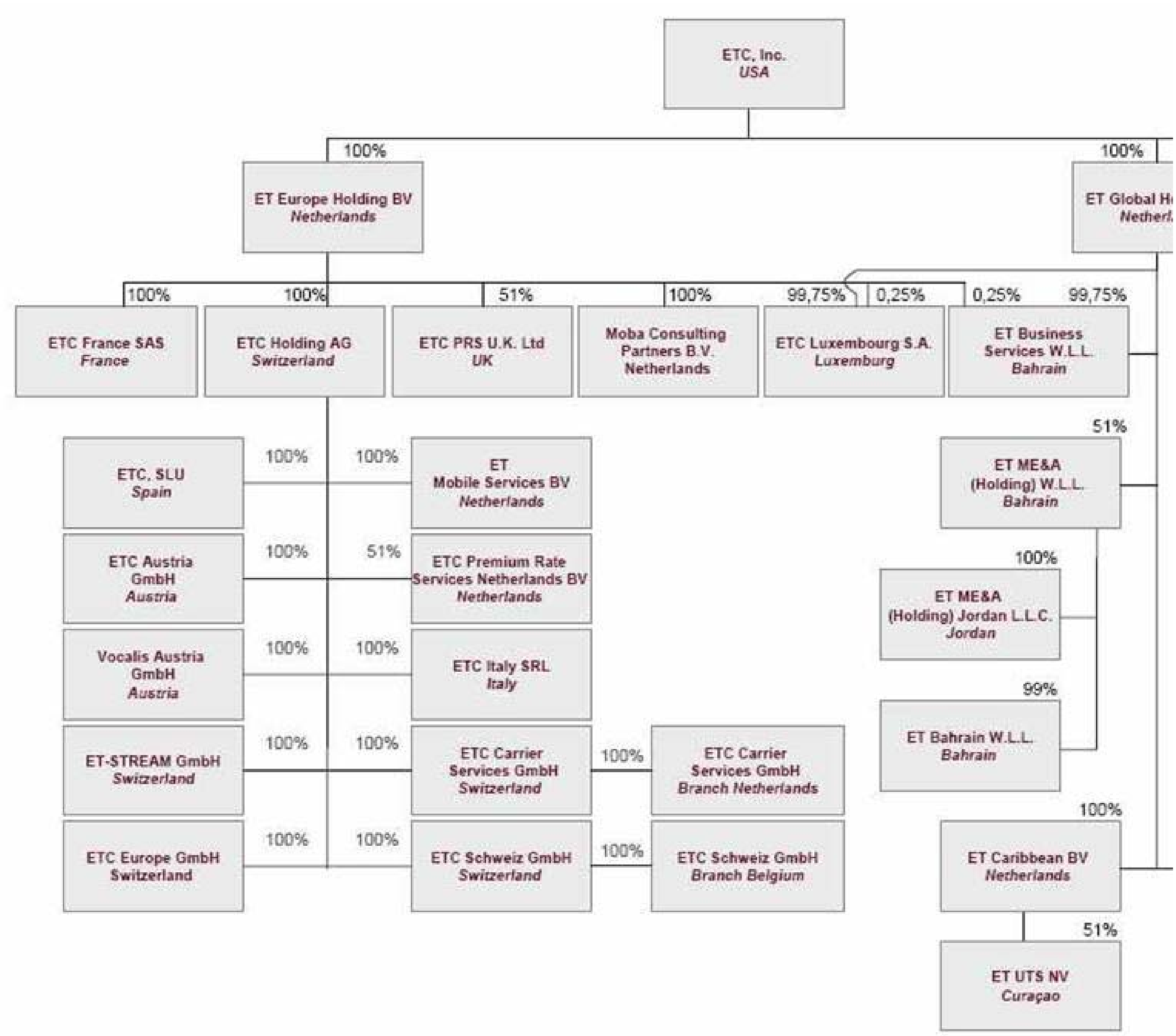
BOARD EVALUATION:

The board should conduct a self-evaluation at least annually to determine whether it and its members and committees are functioning effectively. The Nominating and Corporate Governance Committee is responsible for coordinating and overseeing the annual board evaluation process in accordance with the charter and principles of that committee.

MANAGEMENT REVIEW AND SUCCESSION PLANNING:

The Compensation Committee should conduct and review with the board an annual evaluation of the performance of all executive officers, including the CEO. This review is used by the Compensation Committee in the course of its deliberations when considering the compensation of the CEO and senior management. The CEO performance evaluation is also reviewed by the board to ensure that the CEO is providing effective leadership for the Company. As part of the annual CEO evaluation, the board and the CEO should conduct an annual review of management development and succession planning for senior management, including the CEO.

Exhibit 21.1



ETC, Inc.
USA
100%
ET Europe Holding BV
Netherlands
100%
ET Global H
Netherl
100%
ETC France SAS
France
100%
ETC Holding AG
Switzerland
51%
ETC PRS U.K. Ltd
UK
100%
Moba Consulting Partners B.V.
Netherlands
99,75%
0,25%
ETC Luxembourg S.A.
Luxemburg
0,25%
99,75%
ET Business Services W.L.L.
Bahrain
100%
ETC, SLU
Spain
100%
ET Mobile Services BV
Netherlands
100%
ETC Austria GmbH
Austria
51%
ETC Premium Rate Services Netherlands BV
Netherlands
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Vocalis Austria GmbH
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ETC Italy SRL
Italy
100%
ET-STREAM GmbH
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ETC Carrier Services GmbH
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ETC Schweiz GmbH
Branch Belgium
51%
ET ME&A (Holding) W.L.L.
Bahrain
100%
ET ME&A (Holding) Jordan L.L.C.
Jordan
99%
ET Bahrain W.L.L.
Bahrain
100%
ET Caribbean BV
Netherlands
51%
ET UTS NV
Curaçao

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Board of Directors
Elephant Talk Communications, Inc.

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-135971) of Elephant Talk Communications, Inc. of our reports dated March 31, 2010 and April 15, 2009, relating to the consolidated financial statements and financial statement schedules, which appear in this Form 10-K. Our report contains an explanatory paragraph regarding the Company’s ability to continue as a going concern.

/s/ BDO USA, LLP

BDO USA, LLP

(Formerly known as BDO Seidman, LLP)
New York, New York

March 30, 2011

BDO USA, LLP, a New York limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

Exhibit 31.1

Certification Pursuant to Rule 13a-14(a)

I, Steven van der Velden, hereby certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 30, 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 Annual Report on Form 10-K 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.

March 30, 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 Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K") 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-K fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: March 30, 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 Annual Report on Form 10-K for the year ended December 31, 2010 (the “Form 10-K”) 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-K fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: March 30, 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.