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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from ______ to ______

000-30061
(*Commission file No.)*

ELEPHANT TALK COMMUNICATIONS CORP.
(Exact name of registrant as specified in its charter)

DELAWARE	**95-4557538**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification no.)*

Cross Rock Place Executive Suites No. 102
3600 NW 138 th St.,
Oklahoma City, OK 73134
USA
(Address of principal executive offices)(Zip Code)

(405) 301-6774
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of July 31, 2014, there were 147,183,548 shares of the Company’s common stock outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ELEPHANT TALK COMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (UNAUDITED)	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 829,388	$ 1,252,315
Restricted cash	191,703	191,600

Accounts receivable, net of allowance for doubtful accounts of $29,547 and $7,693 at June 30, 2014 and December 31, 2013 respectively	8,223,963	5,976,879
Prepaid expenses and other current assets	2,619,882	2,254,213
Total current assets	11,864,936	9,675,007
NON-CURRENT ASSETS		
OTHER ASSETS	1,288,246	1,412,408
PROPERTY AND EQUIPMENT, NET	20,711,832	19,786,122
INTANGIBLE ASSETS, NET	7,122,940	8,670,677
GOODWILL	3,740,646	3,773,226
TOTAL ASSETS	$ 44,728,600	$ 43,317,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Overdraft	$ 413,958	$ 391,436
Accounts payable and customer deposits	2,305,933	2,586,662
Obligations under capital leases (current portion)	1,898,346	1,302,838
Deferred revenue	163,848	142,731
Accrued expenses and other payables	6,592,945	4,961,303
Loans payable	963,051	962,654
10% Related Party Loan (net of Debt Discount of $1,719,585 at December 31, 2013)	-	1,033,719
Total current liabilities	12,338,081	11,381,343
LONG TERM LIABILITIES		
10% 3rd Party Loan (net of Debt Discount of $518,463 at June 30, 2014 and $726,695 at December 31, 2013)	4,940,798	4,779,913
10% Related Party Loan (net of Debt Discount of $17,786 at June 30, 2014)	2,711,844	-
Warrant liabilities	2,144,858	1,973,534
Non-current portion of obligation under capital leases	487,728	845,529
Loan from joint venture partner	626,534	602,047
Total long term liabilities	10,911,762	8,201,023
Total liabilities	23,249,843	19,582,366
STOCKHOLDERS' EQUITY		
Preferred Stock $0.00001 par value, 50,000,000 shares authorized, 0 issued and outstanding	-	-
Common Stock $0.00001 par value, 250,000,000 shares authorized, 146,525,302 issued and outstanding as of June 30, 2014 (unaudited) and 140,466,801 shares issued and outstanding as of December 31, 2013	255,328,306	248,712,321
Accumulated other comprehensive income	121,636	269,869
Accumulated deficit	(234,115,159)	(225,391,922)
Elephant Talk Communications, Corp. stockholders' equity	21,334,783	23,590,268
NON-CONTROLLING INTEREST	143,974	144,806
Total stockholders' equity	21,478,757	23,735,074
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 44,728,600	$ 43,317,440

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

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

	For the three month periods ended		For the six month periods ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
REVENUES	$ 6,911,768	$ 4,994,145	$ 13,391,621	$ 11,590,645
COST AND OPERATING EXPENSES				
Cost of service	828,581	1,465,517	1,812,045	5,013,794
Selling, general and administrative expenses	7,432,784	7,472,772	13,408,891	13,380,746
Depreciation and amortization of intangibles assets	1,928,392	1,836,231	3,936,606	3,156,219
Total cost and operating expenses	10,189,757	10,774,520	19,157,542	21,550,759
LOSS FROM OPERATIONS	(3,277,989)	(5,780,375)	(5,765,921)	(9,960,114)
OTHER INCOME (EXPENSE)				
Interest income	29,545	21,527	57,156	55,247
Interest expense	(333,214)	(208,144)	(635,158)	(431,896)
Interest expense related to debt discount and conversion feature	(1,025,292)	(502,972)	(1,910,032)	(1,061,000)
Change in fair value of conversion feature	-	372,059	-	232,267
Changes in fair value of warrant liabilities	38,948	346,016	(171,324)	346,016
Loss on Extinguishment of Debt	-	(1,938,597)	(426)	(1,938,597)
Other income and (expense), net	68,008	-	71,398	-
Amortization of deferred financing costs	(113,090)	(2,075)	(249,457)	(72,406)
Total other income (expense)	(1,335,095)	(1,912,186)	(2,837,843)	(2,870,369)
LOSS BEFORE (BENEFIT) PROVISION FOR INCOME TAXES	(4,613,084)	(7,692,561)	(8,603,764)	(12,830,483)
Provision (benefit) for income taxes	(2,209)	-	133,228	-
NET LOSS	(4,610,875)	(7,692,561)	(8,736,992)	(12,830,483)
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation loss	(148,233)	(534,887)	(150,452)	(1,296,649)
COMPREHENSIVE LOSS	$ (4,759,108)	$ (8,227,448)	$ (8,887,444)	$ (14,127,132)
Net loss per common share and equivalents - basic and diluted	$ (0.03)	$ (0.06)	$ (0.06)	$ (0.12)
Weighted average shares outstanding during the period - basic and diluted	146,482,547	118,686,598	144,130,543	115,734,177

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

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

	For the six month period ended	
	June 30, 2014	**June 30, 2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,736,992)	$(12,830,483)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,936,606	3,156,219
Provision for doubtful accounts	18,865	(68,679)
Share-based compensation	2,674,261	4,405,959
Change in the fair value of the warrant liability	171,324	2,493,720
Amortization of deferred financing costs	249,457	-
Interest expense relating to debt discount and conversion feature	1,910,032	-
Unrealized foreign currency translation gain/(loss)	(71,398)	-
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Decrease (increase) in accounts receivable	(2,329,143)	1,679,337
Decrease (increase) in prepaid expenses, deposits and other assets	(346,129)	(406,790)
Increase (decrease) in accounts payable, proceeds from related parties and customer deposits	210,932	(241,952)
Increase (decrease) in deferred revenue	16,994	246,755
Increase (decrease) in accrued expenses and other payables	1,910,256	476,333
Net cash provided by (used in) operating activities	(384,935)	(1,089,581)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(3,922,724)	(2,262,540)
Net cash used in investing activities	(3,922,724)	(2,262,540)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash flow from Escrow account for principal and interest payments on 8% Convertible Notes	-	742,427
Proceeds from 12% Unsecured Loan from Related Party	-	1,290,790
Proceeds from Share Purchase Agreement – Unregistered securities	-	225,000
Proceeds from Share Purchase Agreement – Registered Direct	-	7,500,000
Proceeds from Share Purchase Agreement – Related Party	-	4,500,000
Fundraising fees	(90,000)	(707,500)
Payments on 8% Convertible Note installment payments and interest	-	(8,490,360)
Exercise of warrants and Options	4,283,033	60,394
Net cash provided by financing activities	4,193,033	5,120,751
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(308,301)	(22,225)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(422,927)	1,746,405
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,252,315	1,233,268
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 829,388	$ 2,979,673

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the period for interest	$	123,644	$	(304,381)
Purchases of Property and Equipment (delivered, not invoiced yet)		-		(1,938,180)
Leasing agreement	$	-		927,133
Increase in Share Capital due to Telnicity acquisition		-		1,180,000
Increase in Share Capital for third party settlement		-		468,000
Cash paid during the period for income taxes		56,881		-

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reclassification to prior year information

Prior to December 31, 2013, the Company presented share-based compensation as a separate line item in the Company's Consolidated Statement of Comprehensive Loss. Commencing in 2014, the Company includes share-based compensation within Selling, General and Administrative expenses in the Consolidated Statement of Comprehensive Loss. Share-based compensation amounted to $1,902,537 and $2,995,049 for the three months ended June 30, 2014 and 2013, respectively, and $2,674,261 and $4,405,959 for the six months ended June 30, 2014 and 2013, respectively. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

Note 2. Financial Condition

As reflected in the accompanying consolidated financial statements, the Company incurred net losses of $4,610,875 and $8,736,992 for the three and six month period ended June 30, 2014, and had an accumulated deficit of $234,115,159 as of June 30, 2014.

With cash and cash equivalents at June 30, 2014 of $829,388, the conversion of the Convertible Note amounting to $2,729,630 into equity subsequent to June 30, 2014 (refer to Note 28 Subsequent Events) and the improvement of net cash provided by operating activities, the Company believes that it can carry out its basic operational plans for the coming 12 months. However, for the longer term strategy and obligations of the Company, it will need to continue to attract financing in order to finance its organizational growth and capital expenditures.

If the Company is unable to achieve its anticipated revenues or financing arrangements with its major vendors, the Company will need to attract further debt or equity financing. Although the Company has been successful in the past in meeting its cash needs, there can be no assurance that proceeds from additional revenues, vendor financings or debt and equity financings, where required, will be received in the required time frames. If the Company is unable to achieve its anticipated revenues or obtain financing it may need to delay and restructure its operations. As of June 30, 2014, 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. Description of Business, Basis of Presentation and Principles of Consolidation

Description of Business

As a mobile Software Defined Network Architecture (Software DNA®) vendor, Elephant Talk Communications Corp. and its subsidiaries (also referred to as "Elephant Talk", "ET" and the "Company") provide a one stop solution for a full suite of mobile, fixed and convergent telecommunications software services. The Company also provides layered security services for mission critical applications in the cloud, through its wholly owned subsidiary, ValidSoft UK Limited ("ValidSoft").

Over the last decade, Elephant Talk has developed a comprehensive Mobile Enabling Platform, capable of hosting an integrated IT/BackOffice and Core Network for Mobile Network Operators (MNOs) and Mobile Virtual Network Operators (MVNOs), Enablers (MVNEs) and Aggregators (MVNAs) on a fully outsourced basis. The Company's mobile enabling platform is either made available as an on premise solution or as a fully hosted service in 'the cloud', depending on the individual needs of its MNO and MVNO/MVNE/MVNA partners. The Company's mobile security services supply telecommunications-based multi-factor mutual authentication, identity and transaction verification solutions for all electronic transaction channels. This integrated suite of security services provides mission critical applications in the cloud to customers in industries such as financial services, government benefits, and insurance, as well as electronic medical record providers and MNOs. The Company's services provide customers with tools to combat a variety of electronic fraud while at the same time protecting consumer privacy.

Basis of presentation of Interim Periods

The accompanying unaudited consolidated financial statements have been prepared in accordance with US generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and the regulations referred to therein. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and related notes as included the Company's Annual Report on Form 10-K for the year ended December 31, 2013, (the "Form 10-K"). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements in the Form 10-K. In the opinion of management, the accompanying unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and contain all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows as of and for the periods presented.

The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire year.

Principles of Consolidation

The accompanying consolidated financial statements for June 30, 2014 and December 31, 2013 include the accounts of Elephant Talk Communications Corp. and its subsidiaries, specifically:

- its wholly-owned subsidiary Elephant Talk Europe Holding B.V. and its wholly owned subsidiaries Elephant Talk Communications Luxembourg SA, Elephant Talk Communications Italy S.R.L., ET-Stream GmbH, Elephant Talk Business Services W.L.L., Guangzhou Elephant Talk Information Technology Limited, Elephant Talk Deutschland GmbH, Morodo Group Ltd., Elephant Talk Belgium BVBA, and the majority owned (51%) subsidiaries Elephant Talk Communications PRS U.K. Limited and (51%) ET-UTS NV;
- Elephant Talk Europe Holding B.V.'s wholly-owned subsidiary Elephant Talk Communication Holding AG and its wholly-owned subsidiaries Elephant Talk Communications S.L.U., Elephant Talk Mobile Services B.V., Elephant Talk Telekom GmbH, Elephant Talk Communication Carrier Services GmbH, Elephant Talk Communication Schweiz GmbH, Elephant Talk Communication (Europe) GmbH and the majority owned (51%) subsidiary Elephant Talk Communications Premium Rate Services Netherlands B.V.;
- Elephant Talk Telecomunicação do Brasil LTDA, owned 90% by Elephant Talk Europe Holding B.V. and 10% by Elephant Talk Communication Holding AG;
- Elephant Talk Europe Holding B.V.'s majority (100%) owned subsidiary Elephant Talk Middle East & Africa (Holding) W.L.L., its wholly owned (100%) subsidiaries Elephant Talk Middle East & Africa

(Holding) Jordan L.L.C., and its majority owned (99%) Elephant Talk Bahrain W.L.L.;

- its wholly-owned subsidiary Elephant Talk Limited ("ETL") and its majority owned (50.54%) subsidiary Elephant Talk Middle East & Africa FZ-LLC and 100% owned Elephant Talk Communications France S.A.S.;
- its wholly-owned subsidiary Elephant Talk North America, Corp;
- its wholly-owned subsidiary ValidSoft UK Limited and its wholly-owned subsidiaries ValidSoft Limited and ValidSoft (Australia) Pty Ltd (until December 31, 2013); and
- its wholly-owned subsidiary Elephant Talk Group International B.V., based in The Netherlands.

All intercompany balances are eliminated in consolidation.

Note 4. Significant Accounting Policies

Foreign Currency Translation

The functional currency is Euros for the Company's wholly-owned subsidiary Elephant Talk Europe Holding B.V. and its subsidiaries and the British Pound Sterling for its wholly-owned subsidiary ValidSoft. 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 Standards Codification ("ASC") 830, Foreign Currency Matters, net gains and losses resulting from translation of foreign currency financial statements are included in stockholder's equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are included in consolidated loss; under the line item 'Other income and (expense)'.

Use of Estimates

The accompanying consolidated financial statements were prepared in accordance with GAAP, which requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Significant areas of estimates include bad debt allowance, valuation of financial instruments, useful lives and share-based compensation. Actual results may differ from these estimates under different assumptions or conditions.

Cash and Cash Equivalents

For purposes of the cash flow statements, the Company would normally consider all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. The Company has full access to the whole balance of cash and cash equivalents on a daily basis without any delay.

Restricted Cash

Restricted cash as of June 30, 2014 and December 31, 2013, was $191,703 and $191,600 respectively, and consists of cash deposited in blocked accounts as bank guarantees for national interconnection and wholesale agreements with telecom operators.

Accounts Receivables, Net

The Company's customer base is geographically dispersed. The Company maintains an allowance for potential credit losses on accounts receivable. The Company makes ongoing assumptions relating to the collectability of its accounts receivable. The accounts receivable amounts presented on its balance sheets include reserves for accounts that might not be collected. In determining the amount of these reserves, the Company considers its historical level of credit losses. The Company also makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations, and the Company assesses current economic trends that might impact the level of credit losses in the future. The Company's reserves have generally been adequate to cover its actual credit losses. However, since the Company cannot reliably predict future changes in the financial stability of its customers, it cannot guarantee that its reserves will continue to be adequate. If actual credit losses are significantly greater than the reserves, the Company has established that it would increase its general and administrative expenses and increase its reported net losses. Conversely, if actual credit losses are significantly less than its reserve, this would eventually decrease the Company's general and administrative expenses and decrease its reported net losses. Allowances are recorded primarily on a specific identification basis. See Note 5 of the Financial Statements of this Report for more information.

Leasing Arrangements

At the inception of a lease covering equipment or real estate, the lease agreement is evaluated under the criteria of *ASC 840, Leases.* Leases meeting one of the four key criteria are accounted for as capital leases and all others are treated as operating leases. Under a capital lease, the discounted value of future lease payments becomes the basis for recognizing an asset and a borrowing, and lease payments are allocated between debt reduction and interest. For operating leases, payments are recorded as rent expense. Criteria for a capital lease include (i) transfer of ownership during the lease term; (ii) existence of a bargain purchase option under terms that make it likely to be exercised; (iii) a lease term equal to 75 percent or more of the economic life of the leased equipment; and (iv) minimum lease payments that equal or exceed 90 percent of the fair value of the property. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset. The assets are amortized in accordance with the Company's accounting policy for Property and Equipment.

Revenue Recognition and Deferred Revenue

The Company derives revenue from outsourced services in telecommunications based activities by deploying its operational management services, network, switching technology and mobile enabling platform. Revenue represents amounts earned for these services provided to customers (net of value added tax).

The Company follows ASC 605, Revenue Recognition ("ASC 605") and recognizes revenue when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed or determinable; and (iv) collectability of the fee is reasonably assured. Revenues are recognized on a gross basis as the Company acts as principal in the transaction and has risk of loss for collection and delivery of service.

For the mobile solutions services, the Company recognizes revenues from two different service offerings, namely managed services and bundled services. For managed services, revenues are recognized for network administration services provided to end users on behalf of Mobile Network Operators (MNO). Managed service revenues are recognized monthly based on an average number of end-users managed and calculated on a pre-determined service fee per user. For bundled services, the Company provides both network administration as well as mobile airtime management services. Revenues for bundled services are recognized monthly based on an average number of end-users managed and mobile air time and calculated based on a pre-determined service fee.

For the security solutions services, the Company recognizes revenues primarily from SIM lookup services using the VALid-SSD platform. Security solutions revenue is recognized based on the number of SIM lookups performed and calculated based on a pre-determined service fee per lookup. Other revenues recognized in the security solutions business include consulting services which are recognized as the services are performed.

For landline solution services, and specifically in the Premium Rate Services (PRS), the Company provides technical, operational and financial telecom infrastructure to telecommunication service providers. Revenues are recognized when delivery occurs based on a pre-determined rate, number of calls and number of user minutes that the Company has managed in a given month.

Management's judgment is applied regarding, among other aspects, conformance with acceptance criteria and if delivery of services has occurred, to determine if revenue and costs should be recognized in the current period. In addition, management evaluates the degree of completion of the services and the customer's credit standing to assess whether payment is likely or not to justify revenue recognition.

Cost of Service and Operating Expenses

Cost of service includes origination, termination, network and billing charges from telecommunications operators, charges from telecommunication service 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.

Within the caption "total costs and operating expenses" in line item selling, general and administrative expenses ("SG&A") in the accompanying statement of comprehensive loss, the Company presents the costs incurred in the development of the Company's services which are expensed as incurred. Costs incurred during the application development stage of internal-use software projects, such as those used in the Company's network operations, are capitalized in accordance with the accounting guidance for costs of computer software developed for internal use.

Reporting Segments

ASC 280, Segment Reporting ("ASC 280"), 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 business operates as one single segment and discrete financial information is based on the whole, not segregated; and is used by the chief decision maker accordingly.

Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and customer deposits approximate their fair values based on their short-term nature. The recorded values of long-term debt approximate their fair values, as interest approximates market rates. The Company's warrant liability, a derivative instrument, is recognized in the balance sheet at its fair values with changes in fair market value reported in earnings.

Fair Value Measurements

In accordance with ASC 820 Fair Value Measurement ("ASC 820"), the Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but are traded less frequently, derivative instruments whose fair values have been derived using a model where inputs to the model are directly observable in the market and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level 3 – Instruments that have little to no pricing observability as of the reported date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Share-based Compensation

The Company follows the provisions of ASC 718, Compensation-Stock Compensation, ("ASC 718"). Under ASC 718, share-based awards are recorded at fair value as of the grant date and recognized as expense with an adjustment for forfeiture over the employee's requisite service period (the vesting period, generally up to three years). The share-based compensation cost based on the grant date fair value is amortized over the period in which the related services are received.

To determine the value of our stock options at grant date under our employee stock option plan, the Company uses the Black-Scholes option-pricing model. The use of this model requires the Company to make a number of subjective assumptions. The following addresses each of these assumptions and describes our methodology for determining each assumption:

Expected Life

The expected life represents the period that the stock option awards are expected to be outstanding. The Company uses the simplified method for estimating the expected life of the option, by taking the average between time to vesting and the contract life of the award.

Expected Volatility

The Company estimates expected cumulative volatility giving consideration to the expected life of the option of the respective award, and the calculated annual volatility by using the continuously compounded return calculated by using the share closing prices of an equal number of days prior to the grant-date (reference period). The annual volatility is used to determine the (cumulative) volatility of its Common Stock (= annual volatility x square root (expected life)).

Forfeiture rate

The Company is using the aggregate forfeiture rate. The aggregate forfeiture rate is the ratio of pre-vesting forfeitures over the awards granted (pre-vesting forfeitures/grants). The forfeiture discount (additional loss) is released into the profit and loss in the same period as the option vesting-date. The forfeiture rate is actualized every reporting period.

Risk-Free Interest Rate

The Company estimates the risk-free interest rate using the "Daily Treasury Yield Curve Rates" from the U.S. Treasury Department with a term equal to the reported rate or derived by using both spread in intermediate term and rates, to the expected life of the award.

Expected Dividend Yield

The Company estimates the expected dividend yield by giving consideration to its current dividend policies as well as those anticipated in the future considering its current plans and projections. The Company does not currently calculate a discount for any post-vesting restrictions to which its awards may be subject.

Income Taxes

The Company accounts for income taxes under the provisions of ASC 740, Accounting for Income Taxes ("ASC 740"). Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Current tax is based on the income or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are recognized for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry-forwards. Establishment of a valuation allowance is provided when the likelihood of realization of deferred tax assets it is more likely than not to be realized. Deferred taxes are recorded at tax rates for each respective tax jurisdiction in which the Company operates.

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.

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 files federal income tax returns in the United States ("US"), various US state jurisdictions and various foreign jurisdictions. The Company's income tax returns are open to examination by federal, state and foreign tax authorities, generally for the years ended December 31, 2008 and later, with certain state jurisdictions open for audit for earlier years. The Company's policy is to record estimated interest and penalties on unrecognized tax benefits as part of its income tax provision.

Comprehensive Income/ (Loss)

Comprehensive income/ (loss) include all changes in equity during a period from non-owner sources, consisting of the Company's net loss and foreign currency translation adjustments.

Business Combinations

The acquisition method of accounting for business combinations as per ASC 805, Business Combinations ("ASC 805"), requires the Company to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which the Company may adjust the provisional amounts recognized for a business combination).

Under the acquisition method of accounting, the identifiable assets acquired, the liabilities assumed, and any non-controlling interests acquired in the acquisition are recognized as of the closing date for purposes of determining fair value. The Company measures goodwill as of the acquisition date as the excess of consideration transferred, over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed. Costs that the Company incurs to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and the Company charges them to general and administrative expense as they are incurred.

During the measurement period, the Company adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Measurement period adjustments are reflected retrospectively in all periods being presented in the financial statements.

Goodwill

The Company records goodwill when the fair value of consideration transferred in a business combination exceeds the fair value of the identifiable assets acquired and liabilities assumed. Goodwill and other intangible assets that have indefinite useful lives are not amortized, but the Company tests them for impairment annually during its fourth quarter and whenever an event or change in circumstances indicates that the carrying value of the asset is impaired.

The authoritative guidance for the goodwill impairment model includes a two-step process. First, it requires a comparison of the carrying value of the reporting unit to its fair value. If the fair value is determined to be less than the carrying value, a second step is performed. In the second step, the Company compares the implied fair value of goodwill to its carrying value in the reporting unit. The shortfall of the fair value below carrying value, if any, would represent the amount of goodwill impairment charge. The Company is using the criteria in the Accounting Standards Update ("ASU") 2011-08 Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which permits the Company to make a qualitative assessment of whether it is more likely than not than not that a reporting unit's fair value is less than the carrying amount before applying the two-step goodwill impairment test. If the Company concludes that it is not more likely than not that the fair value of a reporting unit is less that its carrying amount, it would not need to perform the two-step impairment test for that reporting unit.

The Company tests goodwill for impairment in the fourth quarter of each year, or sooner should there be an indicator of impairment as per *ASC 350, Intangibles – Goodwill and Other.* The Company periodically analyzes whether any such indicators of impairment exist. Such indicators include a sustained, significant decline in the Company's stock price and market capitalization, a decline in the Company's expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, and/or slower growth rate, among others. In the Company's case, the indicator is the continuing losses.

Long-lived Assets and Intangible Assets

In accordance with ASC 350, Intangibles – Goodwill and Other (“ASC 350”), intangible assets are carried at cost less accumulated amortization and impairment charges. Intangible assets are amortized on a straight-line basis over the expected useful lives of the assets, between three and ten years. Other indefinite life intangible assets are reviewed for impairment in accordance with ASC 350, on an annual basis, 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 amortizing intangible assets that management expects to hold and use is tested for impairment when amounts may not be recoverable. Impairment is measured based on the amount of the carrying value that exceeds the fair value of the asset.

Property and Equipment, Internal Use Software 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 350-40, Accounting for the Costs of Computer Software developed or obtained for internal use (former AICPA SOP 98-1, “ASC 350-40”), and therefore the costs incurred in the preliminary stages of development are expensed as incurred. The Company capitalizes all costs related to software developed or obtained for internal use when management commits to funding the project; the preliminary project stage is completed and when technological feasibility is established. Software developed for internal use has generally been used to deliver hosted services to the Company’s customers. 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. Once a new functionality or improvement is released for operational use, the asset is moved from the property and equipment category “construction in progress” or CIP to a property and equipment asset subject to depreciation in accordance with the principle described in the previous sentence. In this account we also record equipment acquired from third parties, until it is ready for use. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. Depreciation is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal use software during the three and six month periods ended June 30, 2014 and 2013.

Recently Issued Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (“FASB”), issued ASU No. 2014-12 – Compensation – Stock Compensation (“Topic 718”): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target could be achieved after the requisite Service Period. The amendments in this Update require that a performance target included in a share-based payment award that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Therefore, such performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance condition would be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effects of adopting the new guidance are unknown.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). It establishes a comprehensive revenue recognition standard for virtually all industries subject to GAAP, including those that previously followed industry-specific guidance such as the construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard is the culmination of a joint project with the IASB. Public entities will apply the new standard for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available—full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy GAAP at the date of initial application (e.g., January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy GAAP. Early adoption is prohibited. The effects of adopting the new guidance are unknown.

In April 2014, the FASB issued ASU-2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which amends the definition of a discontinued operation in Accounting Standards Codification Topic 205-20 (Presentation of Financial Statements – Discontinued Operations) and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. The ASU redefines a discontinued operation as a component or group of components of an entity that (1) has been disposed of by sale or other than by sale or classified as held for sale and (2) represents a strategic shift that has (or will have) a major effect on an entity's operations and results includes the disposal of a major geographic area, a major line of business, a major equity investment, or other major parts of an entity. The ASU is effective prospectively for disposals of components classified as held for sale in periods on or after December 15, 2014. The effects of adopting the new guidance are unknown.

Note 5. Allowance for Doubtful Accounts

Accounts receivable are presented on the balance sheet net of estimated uncollectible amounts. The Company records an allowance for estimated uncollectible accounts in an amount of its estimated anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Company recorded an allowance for doubtful accounts of $29,547 and $7,693 as of June 30, 2014 and December 31, 2013, respectively.

Note 6. Prepaid expenses and Other Current Assets

Prepaid expenses and other current assets amounted to $2,619,882 as of June 30, 2014, compared with $2,254,213 as of December 31, 2013. On June 30, 2014, $1,243,196 of the prepaid expenses was related to prepaid Value Added Tax ("VAT") and $732,838 as of December 31, 2013.

Note 7. Other Assets

Other Assets are long-term in nature, and consist of other assets as well as long-term deposits and deferred financing costs amounting to $1,288,246 as of June 30, 2014, compared to $1,412,408 as of December 31, 2013, broken down as follows:

Long-term Deposit

As of June 30, 2014, there was $738,047 in long-term deposits made to various telecom carriers during the course of operations and a deposit to the French Tax Authorities, compared with $771,193 as of December 31, 2013. The deposits are refundable at the termination of the business relationship with the carriers.

Deferred Financing Costs

During 2013, the Company paid financing costs of $636,624 and $45,000 for legal expenses, related to the issuance of two convertible notes in the quarter ended September 30, 2013 (see Notes 14 and 15). These costs are amortized using the effective interest method over the term of each applicable convertible note. The outstanding deferred financing cost balances were $477,673 as of December 31, 2013 and $273,217 as of June 30, 2014.

Due from third parties

In 2013, the Company agreed to provide a loan to a third party at an interest rate of 5% per annum, with an option to acquire an equity interest. The loan was provided to fund the development and exploitation of applications using electronic medical health records. The loan will be repaid at the completion of the proof of concept (POC), which is a prototype that is designed to determine feasibility of the application development, which will not occur prior to 2015. The loan has been provided in a number of tranches, the last one was on April 7, 2014 for additional $50,000. The carrying value of the loan was $268,604 and $160,518 as of June 30, 2014 and December 31, 2013, respectively.

Note 8. Property and Equipment

Property and equipment at June 30, 2014 (unaudited) and December 31, 2013 consisted of:

	Average Estimated Useful Lives	**June 30, 2014** (Unaudited)	**December 31, 2013**
Furniture and fixtures	5	$ 305,224	$ 314,686
Computer, communication and network equipment	3 – 10	24,140,931	24,287,111
Software	5	4,370,684	8,473,042
Automobiles	5	90,793	91,580
Construction in progress for internal use software		4,807,973	2,603,731
Total property and equipment		33,715,605	35,770,150
Less: accumulated depreciation and amortization		(13,003,773)	(15,984,028)
Total property and equipment, Net		$ 20,711,832	$ 19,786,122

Computers, communications and network equipment includes the capitalization of the Company's systems engineering and software programming activities. Typically, these investments pertain to the Company's:

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

During the first six months of 2014, the Company performed an analysis of its fully depreciated assets, which resulted in an adjustment to the historic cost and associated accumulated depreciation for $5,580,953 and $5,487,683, respectively. The net effect of the adjustment was $77,848.

Construction in progress ("CIP") for internal use software consists of software projects in developments that have not been completed, and equipment acquired from third parties but not yet ready for service. Upon completion of development, the assets are reclassified from Construction in progress to the appropriate Property and Equipment category, at which point the assets begin to depreciate or amortize. During the first six months of 2014, we added to CIP $2,269,334 of internal use software costs, $908,983 in acquired equipment and we reclassified $919,792 from Computer, Communication and Network, because this equipment was not yet ready for service. During the six months period ended June 30, 2014, we reclassified $1,651,033 from CIP into computer equipment and $155,618 as software.

Note 9. Intangible Assets

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 and pipeline, registration and licenses, patents and trademark/brands.

Intangible assets as of June 30, 2014 (unaudited) and December 31, 2013 consisted of the following:

	Estimated Useful Lives	June 30, 2014 (unaudited)	December 31, 2013
Customer Contracts, Licenses , Interconnect & Technology	5-10	$ 4,520,296	$ 13,005,460
ValidSoft IP & Technology	1-10	16,106,600	16,246,291
Total intangible assets		20,626,896	29,251,751
Less: Accumulated amortization Customer Contracts, Licenses, Interconnect & Technology		(3,411,321)	(11,484,600)
Less: Accumulated Amortization ValidSoft IP & Technology		(10,092,635)	(9,096,474)
Total intangible assets, Net		$ 7,122,940	$ 8,670,677

During the period ended March 31, 2014, the Company performed an analysis of its fully amortized assets, which resulted in an adjustment to the historic cost and associated accumulated depreciation for $8,465,474 and $8,399,160, respectively. The net effect of the adjustment is $66,314.

Accumulated amortization increased by $1,348,379 in the first six months of 2014. Total amortization expense for the three and six month periods ended June 30, 2014 and 2013 was $739,617 and $725,539, respectively. As of June 30, 2014, December 31, 2013 and June 30, 2013, the Company did not record any impairment.

Estimated future amortization expense related to our intangible assets is:

	Rest of 2014	2015	2016	2017	2018	2019 and thereafter
ValidSoft IP and Technology	$ 330,434	$ 389,391	$ 240,094	$ 84,222	$ 64,834	$ -
Interconnect licenses and contracts	1,105,453	2,063,311	2,014,113	585,421	109,185	136,481
Total	$ 1,435,887	$ 2,452,702	$ 2,254,207	$ 669,643	$ 174,019	$ 136,481

Note 10. Goodwill

The carrying value of the Company's goodwill as of June 30, 2014 (unaudited) and December 31, 2013 was as follows:

Goodwill	June 30, 2014 (unaudited)	December 31, 2013
Goodwill ValidSoft Ltd	$ 3,328,553	$ 3,433,833
Goodwill Morodo Ltd.	221,692	214,689
Goodwill Telnicity assets	190,401	190,401
End of period exchange rate translation	-	(65,697)
Total	$ 3,740,646	$ 3,773,226

Goodwill represents the excess of cost over the fair value of assets. Goodwill is not amortized, but instead is evaluated for impairment using a discounted cash flow model and other measurements of fair value such as market comparable transactions. The authoritative guidance for the goodwill impairment model includes a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the reporting unit that have goodwill assigned to them. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment. In the second step, a fair value for goodwill is estimated, based in part of the fair value of the reporting unit used in the first step, and is compared to its carrying value. The shortfall of the fair value below carrying value, if any, would represent the amount of goodwill impairment.

The Company assesses goodwill for impairment during the fourth quarter of each year, or sooner should there be an indicator of impairment. The Company periodically analyzes whether any such indicators of impairment exists. Such indicators include a sustained, significant decline in the Company's stock price and market capitalization, a decline in the Company's expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, and/or slower growth rate, among others. After considering qualitative factors including the Company's market capitalization and the Company's previously announced outlook for 2014, it concluded that, for the second quarter of 2014, a goodwill impairment test was required. In performing the first step of the two-step goodwill impairment test, the Company determined that the fair value of the Company as a single reporting unit, measured by the Company's market capitalization, exceeded the carrying value by a significant amount indicating no impairment was necessary.

Note 11. Overdraft and Loan Payable

In 2004, Elephant Talk Ltd ("ETL"), a subsidiary of the Company, executed a credit facility with a bank in Hong Kong pursuant to which ETL borrowed funds. The interest rate and default payment interest rate were charged at 2% and 6% per annum respectively, 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 nor is it otherwise obligated to pay funds drawn upon it on behalf of ETL.

The related loans payable as of June 30, 2014 (unaudited) and December 31, 2013 are summarized as follows:

	June 30, 2014 (unaudited)	December 31, 2013
Installment loan payable due December 24, 2006, secured by personal guarantees of two stockholders, a former director, and a third party	$ 320,490	$ 320,358
Installment loan payable, 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 stockholders and a former director	254,801	254,696

Installment loan payable, 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 stockholders and a former director	103,940	103,897
Term loan payable, monthly payments of interest at bank’s prime rate, 7.0% at December 31, 2007	283,820	283,703
Total	$ 963,051	$ 962,654

In December 2009 Chong Hing Bank Limited (“Bank”), formerly known as Liu Chong Hing Bank Limited, a foreign banking services company based in Hong Kong, 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 alleged that it entered into various installment and term loan agreements and an overdraft account with ETL, a wholly-owned Hong Kong subsidiary of the Company. Various former officers and directors of ETL personally guaranteed the loans and overdraft account. As of June 30, 2014, the overdraft balance amounted to $413,958, compared to $369,859 for the same period in 2013. The balance as of December 31, 2013 was $391,436.

The Bank alleged that ETL was in default on the loans and overdraft account, and that approximately $1,933,308 including interest and default interest was due. The Bank alleged that the Company was directly liable to repay the loans and overdraft account as a successor in interest to ETL or because the Company expressly or impliedly assumed direct liability for the loans and overdraft account. The Company denied the Bank’s allegations and asserted several affirmative defenses. The Company contended that it had no direct liability to the Bank, and that the Bank must pursue its recourse against ETL and its personal guarantors.

The Bank and the Company tried the case to the court without a jury between October, 5 and 12, 2011. The court found, among other things, that

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

The court entered judgment in favor of Elephant Talk Communications Corp. and against the Bank on December 14, 2011, and awarded the Company $5,925 in costs. The judgment became final on February 16, 2012. The Company continues to accrue for these loans and related interest since its subsidiary ETL, may still be held liable for these loans.

Note 12. Deferred Revenue

Because the Company recognizes revenue upon performance of services, deferred revenue represents amounts received from the customers against future sales of services, such as in pre-paid mobile services, pre-paid maintenance fees and mobile and security project work. Deferred revenue was $163,848 (unaudited) and $142,731 as of June 30, 2014 and December 31, 2013, respectively.

Note 13. Accrued expenses

As of June 30, 2014 (unaudited) and December 31, 2013, the accrued expenses were comprised of the following:

	June 30, 2014 (unaudited)	December 31, 2013
Accrued Selling, General and Administrative expenses	$ 3,040,757	$ 2,271,086
Accrued cost of service	587,579	547,111
Accrued taxes (including VAT)	683,212	255,577
Accrued interest payable	1,771,092	1,300,101
Other accrued expenses	510,305	587,428
Total accrued expenses	$ 6,592,945	$ 4,961,303

Within accrued taxes are included income taxes payable as of June 30, 2014 (unaudited) and December 31, 2013 amounting to $7,543 and $88,420, respectively.

Accrued Selling, General and Administrative expenses include social security premiums, personnel related costs such as payroll taxes, provision for holiday allowance, accruals for marketing and sales expenses, and office related expenses.

Note 14. 10% Related Party Convertible Note

The following table shows the composition of the 10% Related Party Convertible Note as shown in the Consolidated Balance Sheets:

	June 30, 2014 (Unaudited)	December 31, 2013
10% Convertible Note (principal amount)	€ 2,000,000	€ 2,000,000
Exchange rate June 30, 2014: EURO 0.7327=US$1 and December 31, 2013: EURO 0.7264=US$1		
10% Convertible Note	$ 2,729,630	$ 2,753,304
Less:		
Debt Discount (Beneficial Conversion Feature)	(7,405)	(728,332)
Debt Discount (Extended Warrants)	(9,440)	(849,453)
Debt Discount (Warrants)	(941)	(141,800)
10% Related Party Convertible Note (Net of Debt Discount of $17,786 as per June 30, 2014 and $1,719,585 as per December 31, 2013)	$ 2,711,844	$ 1,033,719

On August 17, 2013, the Company issued a Convertible Note in the amount of € 2,000,000 ($2,729,630 at June 30, 2014) to an affiliate of the Company and an accredited investor at an interest rate of 10% per annum (the “2013 Related Party Convertible Note”). At any time after August 17, 2013, the 2013 Related Party Convertible Note became convertible, in whole or in part, at the option of the investor, into a number of shares of common stock of the Company equal to the quotient of the outstanding balance under the 2013 Related Party Convertible Note by $0.887. The 2013 Related Party Convertible Note also contains default provisions, including provisions for potential acceleration of the 2013 Related Party Convertible Note. Interest is computed on the basis of the actual number of days elapsed in a 365-day year, and shall accrue from the date negotiated, and shall continue to accrue on the outstanding principal balance until paid in full or converted. The maturity date was July 2, 2014.

Subsequent to June 30, 2014, the Company entered into a Note Conversion Letter Agreement (the “Conversion Agreement”) and a Warrant Amendment Letter Agreement (the “Warrant Amendment”) with the affiliate to, among other things, immediately convert the 2013 Related Party Convertible Note into a number of shares of common stock. Please refer to Note 28 for more information.

Per ASC 470-10-45-12B and 45-14, replacing a short term obligation with securities requires long-term classification of the debt. Therefore, as a result of the conversion into shares, the Company has reclassified the Related Party Convertible Note to long-term debt as of June 30, 2014.

In conjunction with the issuance of the 2013 Related Party Convertible Note, on August 17, 2013, the Company issued a Warrant to the investor to purchase 1,000,000 shares of restricted common stock. The Warrant is exercisable at any time on or after February 17, 2014 at a price of $0.887 per share for a term of 5 years, after the issuance date. In connection with the issuance of the 2013 Related Party Convertible Note and the Warrant, the Company also issued letters of extension to certain investors holding warrants issued previously by the Company to purchase shares of common stock of the Company. Pursuant to the extensions, the expiration date of the warrants has been extended for a period of two years to 2015 from the original expiration date of these warrants.

The securities underlying the Warrant and the shares of common stock issuable upon conversion of the 2013 Related Party Convertible Note have not been registered under the Securities Act, as amended, or any state securities laws.

The Company concluded that the Warrant and the extended warrants do not require liability classification and are considered equity instruments. The Warrant is recognized at the relative fair value on the issue date of the 2013 Related Party Convertible Note as a debt discount and will be amortized using the effective interest method from issuance to the maturity date of the 2013 Related Party Convertible Note. The other warrants were valued using the binomial model and a relative fair value at issuance of $1,535,656 was determined and accounted for as debt discount of which $1,525,275 has been amortized and accounted for in the Consolidated Statement of Comprehensive Loss for the period ended June 30, 2014. At June 30, 2014, the balance of the debt discount due to warrants was $10,381 In addition, a beneficial conversion feature of $1,132,404 was identified, of which $1,124,999 has been amortized, and the unamortized portion of the beneficial conversion feature amounted to $7,405 as of June 30, 2014. The embedded conversion feature is not required to be separated.

Note 15. 10% 3rd Party Convertible Note

The following table shows the composition of the 10% 3rd Party Convertible Note as shown in the Consolidated Statement of Financial Position:

	June 30, 2014	December 31, 2013
10% Convertible Note (principal amount)	€ 4,000,000	€ 4,000,000
Exchange rate June 30, 2014: EURO 0.7327=US$1, and December 31, 2013: EURO 0.7264=US$1		
10% Convertible Note	$ 5,459,260	$ 5,506,608
Less:		
Debt Discount (Warrants)	(518,463)	(726,695)
10% 3rd Party Convertible Note (Net of Debt Discount of $518,463 as per June 30, 2014 and $726,695 as per December 31, 2013)	$ 4,940,797	$ 4,779,913

On August 28, 2013, the Company issued a Convertible Note for the amount of €4,000,000 ($5,459,260 at June 30, 2014) to an accredited investor at an interest rate of 10% per annum with maturity date of August 28, 2015. At any time after August 28, 2013, the Convertible Note is convertible, in whole or in part, at the option of the investor, into a number of shares of common stock equal to the quotient of the outstanding balance under the Convertible Note divided by $0.887. The Convertible Note also contains default provisions, including provisions for potential acceleration of the Convertible Note. Interest is computed on the basis of the actual number of days elapsed in a

365-day year, and shall accrue from the date negotiated, and shall continue to accrue on the outstanding principal balance until paid in full or converted.

In conjunction with the issuance of the Convertible Note, on August 28, 2013, the Company issued a Warrant to the investor to purchase 2,000,000 shares of restricted common stock. The Warrant is exercisable at any time on or after February 28, 2014 at a price of $0.887 per share. The Warrant has a five year term after the issuance date of August 28, 2013.

The securities underlying the Warrant and the shares of common stock issuable upon conversion of the Convertible Note have not been registered under the Securities Act, as amended, or any state security laws.

The Company concluded that the Warrant does not require liability classification and is considered an equity instrument. The Warrants is recognized at a relative fair value on the issue date of the Convertible Note as a debt discount which was amortized using the effective interest method from issuance to the maturity date of the Convertible Note. The Warrant was valued using the binomial model at $864,394 on the date of issuance of the Note. The debt discount balance as of June 30, 2014 and December 31, 2013 was $518,463 and $726,695 respectively. The embedded conversion feature is not required to be separated.

Note 16. Registered Direct Offering and Warrant liabilities

On June 11, 2013, the Company entered into an Amendment No. 1 (the “Amendment to SPA”) to a certain Securities Purchase Agreement (the “SPA”) dated June 3, 2013 with certain institutional and other investors (“DJ Investors”) placed by Dawson James Securities Inc. (the “Placement Agent”) and Mr. Steven van der Velden, the Chief Executive Officer and Chairman of the Board (“Affiliated Investors”), relating to a registered direct public offering by the Company (the “Offering”). The gross proceeds of this SPA were $12,000,000 and resulted in net proceeds of $11,292,500 after the deduction of $707,500 for financing related expenses to various parties involved. The majority of the net proceeds were used to pay off the outstanding Senior 8% Secured Convertible Notes issued by the Company in 2012.

The number of shares issued relating to the SPA amounted to 17,425,621, the number of warrants amounted to 7,841,537 and was covered by the registration statement filed in 2012 for an amount of $75,000,000 (S-3/A Amendment No. 2, File No. 333-181738 dated June 6, 2012). The Company determined the fair value of the remaining outstanding warrants, totaling 2,892,857 using a Monte-Carlo Simulation model, which as of June 30, 2014 and December 31, 2013 amounted to $2,144,858 and $1,973,534, respectively. The warrants are re-evaluated at each reporting period with changes in the fair value recognized through the applicable period Consolidated Statement of Comprehensive Loss.

The SPA included the issuance of 7,841,537 investor warrants (“investor warrants”) and 183,284 warrants issued to the fund raising agent (“agent warrants” and together with the investor warrants, the “RD warrants”). The RD warrants have a five year term from the date of issuance, are exercisable at the price of $0.887 per share for the investor warrants and $0.853 per share for the agent warrants immediately from the date of issuance and include provisions governing the adjustments to the number of Warrant Shares issuable upon exercise of the RD warrants upon stock dividends, stock splits, and other events. The RD warrants may be transferred by a holder thereof in accordance with applicable securities laws.

In the event that, among other things, the registration statement relating to the shares of common stock is not effective, a holder of RD Warrants will also have the right, in its sole discretion, to exercise its RD Warrants for a net number of RD Warrant Shares pursuant to the cashless exercise procedures specified in the RD Warrants. The RD Warrants may be exercised in whole or in part, and any portion of a RD Warrant not exercised prior to the termination date shall be and become void and of no value. The absence of an effective registration statement or applicable exemption from registration does not alleviate the Company's obligation to deliver common stock issuable upon exercise of a RD Warrant.

Each RD Warrant also allows the holder the ability, at any time after 90 days from the issuance of the RD Warrant through its expiration, to exchange the RD Warrant with the Company for shares of common stock equal to the value of the RD Warrant at the time of the exchange based on a negotiated Black-Scholes formula. Under certain circumstances, the holder may receive cash in lieu of such shares of common stock.

Under certain circumstances after 90 days from the issuance of the RD Warrant, in the event that the common stock trades at a price that is 20% or more above the exercise price of the RD Warrants for a period of twenty consecutive trading days (with an average daily volume equal to or greater than $350,000), the Company may require the holder of the RD Warrants to exercise the RD Warrants for cash. After the 90 days waiting period some of the RD Warrant holders indeed did decide to use their right to exchange their RD Warrants, and subsequently, the Company issued shares of common stock rather than paying cash. The number of RD Warrants exchanged amounted to 5,131,965 which resulted in the issuance of 4,102,792 shares of common stock. The exchange of the RD Warrants did not result in any cash inflow or cash outflow.

If, at any time a RD Warrant is outstanding, the Company consummates any fundamental transaction, as described in the RD Warrants and generally including any consolidation or merger into another corporation, or the sale of all or substantially all of its assets, or other transaction in which the common stock is converted into or exchanged for other securities or other consideration, the holder of any RD Warrants will thereafter receive the securities or other consideration to which a holder of the number of shares of common stock then deliverable upon the exercise or exchange of such RD Warrants would have been entitled upon such consolidation or merger or other transaction.

The exercisability or exchangeability of the RD Warrants may be limited in certain circumstances if, after giving effect to such exercise or exchange, the holder or any of its affiliates would beneficially own (as determined pursuant to Section 13(d) of the Securities Act, as amended, and the rules and regulations promulgated thereunder) more than 9.9% of the Common Stock issued and outstanding.

According to ASC 480-10 Distinguishing Liabilities from Equity, the accounting for an equity instrument with detachable warrants classified as a liability reflects the notion that the consideration received upon issuance must be allocated between the instruments issued. Proceeds from the issuance of an equity instrument with stock purchase warrants are allocated to the two elements based on the following: (i) the liability element has initially been recorded at fair market value; and (ii) the remaining portion of the consideration has been allocated to the equity element.

Note 17. Obligations under Capital Leases

The Company has a number of financing arrangements with its vendors to acquire equipment and licenses. These trade arrangements contain maturity periods ranging from two to three years, and interest rates between Euribor (3M) +1.5% and 8.65%. The following is an analysis of the property and equipment acquired under capital leases, recorded in the Property and Equipment line item by major classes:

	June 30, 2014	December 31, 2013
Network equipment	$ 1,644,606	$ 1,642,759
Software licenses	1,549,065	874,174
Other	170,602	103,249
Total	3,364,273	2,620,182
Debt Discount (Warrants)	(333,537)	(101,209)
Total	$ 3,030,736	$ 2,518,973

The current portion of the Obligation under Capital Leases of $1,898,346 and $1,302,838 as of June 30, 2014 and December 31, 2013, respectively, is included in Current Liabilities “Obligations under capital leases” in the accompanying balance sheets and the long term portion of $487,728 and $845,529, is reported as “Non-current portion of obligations under capital lease” as of June 30, 2014 and December 31, 2013, respectively. Accrued interest is included in ‘Accrued expenses’ in the balance sheet. Depreciation of assets recorded under the capital leases is included in depreciation expense.

During the first half of 2014, the Company closed a lease agreement with Hewlett-Packard for software licenses amounting to €568,425 ($775,795 as of June 30, 2014).

Note 18. Loan from joint venture partner

The Company entered into a 51% owned joint venture with ET-UTS N.V. on December 17, 2008 and received an unsecured loan with a principal amount of ANG (Antillian Guilder) 724,264 ($402,424) at an interest rate of 8% per annum, from the 49% shareholder in the joint venture, United Telecommunication Services N.V. that is the government owned incumbent telecom operator of Curaçao. No maturity date has been fixed and repayment of the loan and accrued interest will only take place when the joint venture is in a cash flow positive situation. The amount outstanding as of June 30, 2014 (unaudited) and December 31, 2013 was $626,534 and $602,047, respectively, inclusive of accumulated accrued interest and is reflected as a long term liability on the accompanying balance sheets.

Note 19. Fair Value Measurements

The following tables summarize fair value measurements by level as of June 30, 2014 and December 31, 2013 for financial assets and liabilities measured at fair value on a recurring basis:

	June 30, 2014 (unaudited)			
	Level 1	Level 2	Level 3	Total
Derivative Liabilities				
Warrant Liabilities	$ -	$ -	$ 2,144,858	$ 2,144,858
Total Derivatives Liabilities	$ -	$ -	$ 2,144,858	$ 2,144,858

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Derivative Liabilities				
Warrant Liabilities	$ -	$ -	$ 1,973,534	$ 1,973,534
Total Derivatives Liabilities	$ -	$ -	$ 1,973,534	$ 1,973,534

The Company has classified the outstanding warrant liabilities into level 3 due to the fact that some inputs are not published and not easily comparable to industry peers. The differences in level 3 items from December 31, 2013 to June 30, 2014 were only as a result in changes in the fair values. The Company uses the Monte Carlo valuation model to determine the value of the remaining outstanding warrants from the Registered Direct Offering of June 2013, discussed in Note 17 under the title “Registered Direct Offering and Warrant Liabilities”. Since this model requires special software and expertise to model the assumptions to be used, the Company hired a third party valuation expert. The assumptions used are:

Number of outstanding warrants

The number of outstanding warrants is adjusted every re-measurement date after deducting the exercise or exchange of any outstanding warrants during the previous reporting period.

Stock price at valuation date

The closing stock price at re-measurement date being the last available closing price of the reporting period taken from www.nasdaq.com.

Exercise Price

The exercise price is fixed and determined under the terms of the Convertible Note.

Remaining Term

The remaining term is calculated by using the contractual expiration date of the Convertible Note at the moment of re-measurement.

Expected Volatility

We estimate expected cumulative volatility giving consideration to the expected life of the note and calculated the annual volatility by using the continuously compounded return calculated by using the share closing prices of an equal number of days prior to the maturity date of the note (reference period). The annual volatility is used to determine the (cumulative) volatility of our common stock (= annual volatility x SQRT (expected life)).

Risk-Free Interest Rate

We estimate the risk-free interest rate using the “Daily Treasury Yield Curve Rates” from the U.S. Treasury Department with a term equal to the reported rate, or derived by using both spread in intermediate term and rates, up to the maturity date of the Convertible Note.

Expected Dividend Yield

We estimate the expected dividend yield by giving consideration to our current dividend policies as well as those anticipated in the future considering our current plans and projections.

Exchange condition

The warrant holder has the option to do a cashless exchange of warrants at certain exchange conditions described in the warrants. The valuation for the exchange is based on a Black-Scholes calculation with pre-determined variables such as *volatility* (135%), *remaining term* (5 years), *risk-free rate* (variable), *dividend yield* (0%), *exercise price* ($0.887) and *market price* (closing bid price one day prior to the exchange date).

Mandatory exercise condition

Management’s estimate for the likelihood of being able to force a mandatory exercise of the warrants prior to the maturity of the warrant agreement.

Note 20. Stockholders’ Equity

(A) Common Stock

The Company is presently authorized to issue 250,000,000 shares common stock. The Company had 146,525,302 and 140,466,801 shares of common stock issued and outstanding as of June 30, 2014 (unaudited) and December 31, 2013, respectively, an increase of 6,058,501 shares, largely due to the issuance of 5,518,392 shares that were issued as a result of the exercise of 5,518,392 warrants; 342,944 shares were issued to employees as a result of exercised employee stock options, and a total of 197,165 shares (of which 183,205 shares were issued from the 2008 Option

Plan plus 13,960 issued under the 2006 Option Plan) were issued as compensation to the Company's executive officers and non-executive directors.

Reconciliation with Stock Transfer Agent Records:

The shares issued and outstanding as of June 30, 2014 and December 31, 2013 according to the Company's stock transfer agent's records were 146,771,202 and 140,712,701, respectively. The difference in number of issued shares recognized by the Company of 146,525,302 amounts to 245,900 and it is the result of the exclusion of the 233,900 unreturned shares from 'cancelled' acquisitions (pre-2006) and 12,000 treasury shares issued under the former employee benefits plan.

(B) Preferred Stock

The Company's Certificate of Incorporation ("Articles") authorizes the issuance of 50,000,000 shares of preferred stock $0.00001 par value per share (the "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, subject to the rules of the NYSE MKT LLC, 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 stockholder 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.

For the period ended June 30, 2014, the Company did not issue any shares of Preferred Stock, and no shares of Preferred Stock are outstanding.

(C) Warrants

Throughout the years, the Company has issued warrants with varying terms and conditions related to multiple financing rounds, acquisitions and other transactions. The warrants outstanding at June 30, 2014 (unaudited) and December 31, 2013 have been recorded and classified as equity, except as of June 30, 2014 and December 31, 2013, the Company has recorded $2,144,858 and $1,973,534, respectively, in the balance sheet for the warrant liabilities issued in connection with the Registered Direct Offering described in Note 17. The Weighted Average Exercise Price for the currently outstanding warrants in the table below is $1.24. The table below summarizes the warrants outstanding as of June 30, 2014 and as of December 2013:

Outstanding Warrants	Exercise/ Conversion price(s) (range)	Expiring	2014	2013
Warrants – Acquisitions	$0.63- $2.25	2013	-	-
Warrants – Fundraising	$0.853- $2.00	2013 – 2018	31,710,838	37,229,230
Warrants – Other	$2.21	2016	18,659	18,659
			31,729,497	37,247,889

Note 21. Non-controlling Interest

The Company had non-controlling interests in several of its subsidiaries. The balance of the non-controlling interests as of June 30, 2014 (unaudited) and December 31, 2013 were as follows:

Subsidiary	Non-controlling Interest %	June 30, 2014 (unaudited)	December 31, 2013
ETC PRS UK	49%	$ 10,222	$ 9,894
ETC PRS Netherlands	49%	133,752	134,912
ET Bahrain WLL	1%	-	-
ET ME&A FZ LLC	49.46%	-	-
Total		$ 143,974	$ 144,806

Net losses attributable to non-controlling interest were insignificant for all the years presented.

Note 22. Basic and diluted net loss per share

Net loss per share is calculated in accordance with ASC 260, Earnings per Share ("ASC 260"). 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. The Company uses the "if converted" method for its senior secured convertible notes. 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.

The diluted share base for 2014 and 2013 excludes incremental shares related to convertible debt, warrants to purchase common stock and employee stock options as follows:

Dilutive Securities	Six months ended June 30, 2014	2013
Convertible Notes	10,011,159	-
Warrants	31,729,497	42,203,174
Employee Stock Options	41,204,259	20,070,397
	82,944,915	62,273,571

These shares were excluded due to their anti-dilutive effect on the loss per share recorded in each of the years presented. No additional securities were outstanding that could potentially dilute basic earnings per share.

Note 23. 2006 Non-Qualified Stock and Option Compensation Plan and Amended and Restated 2008 Long Term Incentive Compensation Plan

2006 Non-Qualified Stock and Option Compensation Plan

The Company has a 2006 Non-Qualified Stock and Option Compensation Plan (the "2006 Plan"). Under the 2006 Plan, there are no stock options outstanding as of June 30, 2014 and December 31, 2013. All remaining outstanding options expired in December 2013. During the second quarter of 2014, no restricted shares were issued under the 2006 Plan as non-cash compensation granted to management and board members for services. There are 89,490 shares that remain available for issuance under the 2006 Plan. During 2014, there were no option grants or exercises made under the 2006 Plan.

Amended and Restated 2008 Long-Term Incentive Compensation Plan

In 2008, the Company adopted the Elephant Talk Communications Inc. Long-Term Incentive Compensation Plan (the “2008 Plan”). The 2008 Plan initially authorized total 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.

In 2011, the stockholders approved an increase in the shares available under the 2008 Plan from 5,000,000 to 23,000,000 shares of Common Stock. In 2013, the Company’s stockholders approved the amendment and restatement of the 2008 Plan, which increased the number of authorized shares from 23,000,000 to 46,000,000 shares of Common Stock.

Reconciliation of registered and available shares and/or options as of June 30, 2014:

	Total
Registered January 15, 2008	5,000,000
Registered October 6, 2011	18,000,000
Approved in 2013	23,000,000
Total Authorized under this plan	46,000,000
Shares issued in prior years	1,521,366
Q4-2013 share-based compensation issued in 2014	183,205
Options exercised	2,094,748
Outstanding options	41,204,259
Available for grant:	996,422

During the first six months of 2014, no shares were issued to consultants under the 2008 Plan. During the first quarter of 2014, the Company issued 183,205 restricted shares to various directors and officers under the 2008 Plan, in conjunction with their willingness to receive all or part of their cash compensation for the fourth quarter of 2013 in shares of the Company. Options issued to directors and officers vested immediately upon grant.

During the fourth quarter of 2013, the total authorized shares under the 2008 Plan increased by 23,000,000, and the increase was approved at the Company’s shareholders meeting held at December 18, 2013. Currently, a total of 41,204,259 stock options are outstanding at June 30, 2014 under the 2008 Plan. Options awards generally vest immediately or over a three-year period after the grant date. Options generally expire between three and four years from the date of grant.

Common Stock purchase options consisted of the following as of the quarter ended June 30, 2014 and the years ended December 31, 2013 and 2012:

Options:	**Number of Options**	**Weighted Average Exercise Price**	**Initial Fair Market Value (Outstanding Options)**
Outstanding as of December 31, 2012	12,181,130	$ 2.15	$ 15,418,671
Granted in 2013	24,496,741	$ 1.12	$ 14,107,008
Exercised (with delivery of shares)	(809,737)	$ 0.66	$ (270,682)
Forfeitures (Pre-vesting)	(805,266)	$ 1.81	$ (807,662)

Expirations (Post-vesting)	(556,524)	$ 1.92	$ (648,529)
Exchanged for Cashless exercise	(26,571)	$ 0.60	$ (13,834)
Outstanding as of December 31, 2013	34,479,773	$ 1.47	$ 27,784,972
Granted in 2014	8,090,221	$ 1.22	$ 5,120,228
Exercised (with delivery of shares)	(342,944)	$ 0.74	$ (109,699)
Forfeitures (Pre-vesting)	(538,466)	$ 1.55	$ (502,371)
Expirations (Post-vesting)	(484,325)	$ 2.02	$ (570,671)
Exchanged for Cashless exercise	-	$	$ -
Outstanding as of June 30, 2014	41,204,259	$ 1.40	$ 31,722,459

In 2014, options awarded had a weighted average exercise price of $1.40. The grant date fair market value of the options, in the aggregate, was $5,120,228.

The weighted average assumptions used for the options granted in 2014 using the Black-Scholes options model are: expected cumulative volatility of 151% based on calculated annual volatility of 86%, contractual life of 4.35 years, expected option life of 3.3 years (using the simplified method) and a Risk Free Interest Rate of 0.94%. The expected dividend yield is zero.

At June 30, 2014, the unrecognized expense portion of share-based awards granted to employees under the 2008 Plan was approximately $11,607,937, compared to $5,149,945 for the same period in 2013, under the provisions of ASC 718. The future expensing takes place proportionally to the vesting associated with each stock-award, adjusted for cancellations, forfeitures and returns. The forfeiture rate was adjusted from 9.47% as per closing December 2013 to 10.307% as per closing June 30, 2014 and the corresponding impact in the Consolidated Statement of Comprehensive Loss has been accounted for in the second quarter of 2014.

Share-Based Compensation Expense

Share-based compensation amounted to $1,902,537 and $2,995,049 for the three months ended June 30, 2014 and 2013, respectively, and $2,674,261 and $4,405,959 for the six months ended June 30, 2014 and 2013, respectively. From these amounts, for the three and six month periods ending June 30, 2014, $1,864,537 and $2,598,261, respectively, consisted of shares issued to directors and officers and employee option expensing under the provisions of ASC 718 and ASC 505-50, for both the 2006 Non-Qualified Stock and Option Compensation Plan and the 2008 Long-Term Incentive Plan. The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock-options at grant. The remaining $38,000 and $76,000 of share-based compensation for the three and six month periods ending June 30, 2014, was not part of any compensation plan, but was the result of restricted common stock issued in 2013 with prior approval from the NYSE MKT, LLC for one year of consultancy services.

Share-Based Compensation Expense	**Three months ended June 30, 2014**	**Three months ended June 30, 2013**
Consultancy services	$ 38,000	$ -
Directors and Officers (shares and options)	$ 105,048	$ 1,204,984
Employee (options)	$ 1,759,489	$ 1,790,065
	$ 1,902,537	$ 2,995,049

Share-Based Compensation Expense	**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Consultancy services	$ 76,000	$ -
Directors and Officers (shares and options)	$ 40,988	$ 1,466,178

Employee (options)	$	2,557,273	$	2,939,781
	$	2,674,261	$	4,405,959

As explained in Note 1 to the Financial Statements, under the title “Reclassification of changes to prior year information”, certain reclassifications have been made to the June 30, 2013 Financial Statements to conform to the current year presentation. Prior to December 31, 2013, the Company presented the share-based compensation as one line item in the Company’s Consolidated Statement of Comprehensive Loss. The Company now includes the share-based compensation within Selling, General and Administrative expenses line in the Consolidated Statement of Comprehensive Loss. These reclassifications had no effect on previously reported results of operations or retained earnings.

Note 24. Income taxes

For financial statement purposes, loss before the income tax provision is divided amongst the following;

	For the Three Months Period ended June 30,		**For the Six Months Period ended June 30,**	
	2014	**2013**	**2014**	**2013**
Domestic	$ (4,298,371)	$ (6,074,160)	$ (7,628,398)	$ (8,690,939)
Foreign	(314,713)	(1,618,401)	(975,366)	(4,139,544)
Total	$ (4,613,084)	$ (7,692,561)	$ (8,603,764)	$(12,830,483)

The Company files income tax returns in the US federal jurisdiction and various state and foreign jurisdictions. The applicable statutory tax rates vary between none (zero) and 34%. However, because the Company and its subsidiaries have incurred annual corporate income tax losses since their inception, management has determined that it is more likely than not that the Company will not realize the benefits of its US and foreign net deferred tax assets. Therefore, the Company has recorded a full valuation allowance to reduce the net carrying amount of the deferred taxes to zero. The Company’s provision for income taxes for the three and six month periods ending on June 30, 2014 were $2,209 and $(133,228), respectively.

In the ordinary course of business the Company is subject to tax examinations in the jurisdictions in which it files tax returns. The Company’s statute of limitations for tax examinations is four years for federal and state purposes and four to six years in the major foreign jurisdictions in which the company files.

Income tax (benefit)/expense for the period ended June 30, 2014 and June 30, 2013 is summarized as follows:

	June 30, 2014	June 30, 2013
Current:		
Federal		
State	-	-
Foreign	(2,209)	-
	(2,209)	
Deferred:		
Federal	-	-
State	-	-
Foreign	-	-
Income tax (benefit)/expense	$ (2,209)	$ -

The following is a reconciliation of the provision for income taxes at the US federal statutory rate (34%) to the foreign income tax rate for the periods ended June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Tax expense (credit) at statutory rate-federal	34%	34%
State tax expense net of federal tax	-	-
Foreign income tax rate difference	(5.2)%	(5.1)%
Change in valuation allowance	(29.3)%	(28.9)%
Other	-%	-%
Tax expense at actual rate	0.05%	0.00%

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at June 30, 2014 and December 31, 2013 are as follows:

Deferred tax assets:	June 30, 2014	June 30, 2013
Net Operating Losses	$ 42,118,949	$ 32,704,008
Total gross deferred tax assets	42,118,949	32,704,008
Less: Valuation allowance	(42,118,949)	(32,704,008)
Net deferred tax assets	$ -	$ -

As of June 30, 2014 and December 31, 2013, the Company had significant net operating losses ("NOL") carry forwards. The deferred tax assets have been offset by a full valuation allowance in 2014 and 2013 due to the uncertainty of realizing any tax benefit for such losses. Releases of the valuation allowances, if any, will be recognized through earnings.

As of June 30, 2014 and December 31, 2013, the Company had federal and state income tax NOLs carry forwards of approximately $32 million and $39 million, respectively. The NOL carry forwards for foreign countries amounts to approximately $131 million. Such NOL carry forwards expire as follows:

	Domestic (US)	Foreign
2014-2019	$ 514,911	$ 25,456,300
2019-2024	4,173,661	24,137,127
2024-2031	27,398,936	81,977,419
NOL's as of June 30, 2014	$ 32,087,508	$ 131,570,846

Section 382 of the Internal Revenue Code limits the use of NOLs and tax credit carry forwards in certain situations where changes occur in the stock ownership of a company. In the event the Company has a changes in ownership, utilization of the NOL carry forward could be restricted.

The Company files federal income tax returns in the US and various US state and foreign jurisdictions. Due to the net operating loss, all the tax years are open for tax examination. As of June 30, 2014 and December 31, 2013, the Company accrued an ASC 740-10 tax reserve of $0 and $0 for uncertain tax (benefits)/liability including interest and penalties.

The Company does not currently anticipate recording any amount for unrecognized tax benefits within the next 12 months. The following table summarizes the 2012 and 2013 activity related to the unrecognized tax benefits and related tax carry forward:

Balance at December 31, 2012	$ 289,136
Increases related to prior year tax positions	-
Decreases related to prior year tax positions	(289,136)
Balance at December 31, 2013	$ -
Increases related to prior year tax positions	-
Decreases related to prior year tax positions	-
Balance at March 31, 2014	$ -
Balance at December 31, 2012	-
Increases related to prior year tax positions	-
Balance at June 30, 2014	**$** -

Note 25. Contingencies

Rescission of the Purchase Agreement of March 31, 2004 of New Times Navigation Limited.

As previously described in our 2004 Annual Report on Form 10-K, the Company and New Times Navigation mutually agreed to terminate a purchase agreement. The Company returned the shares, on May 24, 2004, and the Company issued 5,100,000 shares of restricted Common Stock to four shareholders of New Times Navigation Limited ("NTVL") and the Company received back 90,100 of its shares of Common Stock out of the 204,000 issued under the terms of the purchase agreement. In addition, the Company issued 37 unsecured convertible promissory notes for a total amount of $3,600,000. Upon the Company's request 21 of the unsecured convertible promissory notes were returned for a total value of $2,040,000.

On April 28, 2006 the Company instituted proceedings to seek relief from the High Court of the Hong Kong Special Administrative Region against the holders of the unreturned shares to return the remaining 113,900 shares of common stock (valued at $381,565) and return the remaining 18 unsecured convertible promissory notes, representing a total amount of $1,740,000, and rescind the purchase agreement underlying the Purchase Transaction. The case is currently pending.

Other

The Company is involved in various claims and lawsuits incidental to its business. In the opinion of management, the ultimate resolution of such claims and lawsuits will not have a material effect on its financial position, liquidity, or results of operations.

Note 26. Geographic and Concentration Risk Information

Three months ended June 30, 2014

	Europe	**Other foreign countries**	**Total**
Revenues from unaffiliated customers	$ 3,236,358	$ 3,675,410	$ 6,911,768
Identifiable assets	$ 35,373,740	$ 9,354,860	$ 44,728,600

Three months ended June 30, 2013

	Europe	**Other foreign countries**	**Total**
Revenues from unaffiliated customers	$ 4,036,154	$ 957,991	$ 4,994,145

Identifiable assets	$	28,307,487	$	11,792,190	$	40,099,677

Concentration of Credit Risk and Significant Customers

The Company has no off-balance sheet risks related to foreign exchange contracts, option contracts or other foreign hedging arrangements. The Company currently maintains the majority of its cash equivalent balances with one major financial institution. The Company, by policy, routinely assesses the financial strength of its customers. As a result, the Company believes that its accounts receivable credit risk exposure is limited and has not experienced significant write-downs in its accounts receivable balances.

As of June 30, 2014, two significant customers accounted for 47% and 36%, respectively, of our revenue. In the same period for 2013, two significant customers represented 42% and 11%, respectively, of our revenue.

<u>Note 27. Related Party Transactions</u>

On March 17, 2014, a warrant holder affiliated with the Company exercised certain of its warrants to purchase an aggregate of 5,332,383 shares of the Company’s common stock at an exercise price of $0.70 per share, for gross proceeds to the Company of $3,732,668. The warrants were originally issued in 2009 with an exercise price of $1.00 per share. A Special Committee of the board of directors of the Company authorized the reduction of the exercise price in order to induce the holder to immediately exercise the warrant for cash providing additional liquidity to the Company, which reduction was subsequently ratified by the Company’s board of directors.

<u>Note 28. Subsequent Events</u>

On July 15, 2014, the Company entered into a Note Conversion Letter Agreement (the “Conversion Agreement”) and a Warrant Amendment Letter Agreement (the “Warrant Amendment”) with Moncarey (a Director of QAT Investments S.A. and QAT II Investments S.A., affiliates of the Company) to, among other things,

- immediately convert the 2013 Related Party Convertible Note issued on August 17, 2013, due July 2, 2014 (the “Maturity Date”), pursuant to which the Company borrowed a principal amount of €2,000,000 ($2,652,600) at an interest rate of 10% per annum. The 2013 Related Party Convertible Note permits conversion, in whole or in part, at the option of Moncarey, into a number of shares of common stock, par value $0.00001 of the Company (the “Common Stock”) equal to the quotient of the Outstanding Balance (as defined in the Convertible Note) into a number of shares of Common Stock equal to the quotient of the Outstanding Balance by a reduced Conversion Price of $0.70 per share or 4,238,501 shares of the Company’s Common Stock;

- amend the Moncarey Warrant to reduce the Exercise Price to $0.70 per share for the remainder of the term; and

- issue a warrant to Moncarey to purchase 500,000 shares of restricted Common Stock (the “July Warrant” and together with the Conversion Agreement and the Warrant amendment, collectively, the “Transaction”).

The July Warrant is exercisable any time after January 15, 2015 at an exercise price of $0.9228 per share (the closing price of the Company’s Common Stock immediately preceding the date the July Warrant was issued). The term of the July Warrant expires on July 15, 2019.

The Audit and Finance Committee of the Company’s Board of Directors authorized the Transaction in order to immediately satisfy the Company’s obligations under the 2013 Related Party Convertible Note. The Transaction was subsequently ratified by the Company’s Board of Directors.

The securities underlying the Warrant Amendment, July Warrant and the shares of Common Stock issuable upon conversion of the Convertible Note pursuant to the Conversion Agreement have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws, and were offered and sold only in Europe to an "accredited investor" (as defined in Rule 501(a) of the Securities Act) pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act and Regulation D promulgated pursuant thereto.

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

Forward-Looking Statements

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, without limitation, statements with respect to Elephant Talk's plans and objectives, projections, expectations and intentions. These forward-looking statements are based on current expectations, estimates and projections about Elephant Talk's industry, management's beliefs and certain assumptions made by management. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict, including, without limitation, the ability of the Company to regain compliance with the listing standards of the NYSE MKT LLC. Because such statements involve risks and uncertainties, the actual results and performance of Elephant Talk may differ materially from the results expressed or implied by such forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Unless otherwise required by law, Elephant Talk also disclaims any obligation to update its view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made here. Additional information concerning certain risks and uncertainties that could cause actual results to differ materially from those projected or suggested may be found in Elephant Talk's filings with the Securities and Exchange Commission (the "SEC"), copies of which are available from the SEC or may be obtained upon request from Elephant Talk.

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.

Recent milestones for mobile product line:

- On December 13, 2013 we announced that we signed a 5-year extension with our Mobile Network Operator ("MNO") client Vodafone Enabler España, S.L. ("VEE"), with an average 13% increase on hosting fees. Our contract with VEE provides for a mechanism to assure continuous prepayments of approximately $10 million for the duration of the contract. We agreed with VEE to effectuate this part of the extension to the contract in twelve monthly payments during 2014.

- On February 25, 2014, we announced that we successfully migrated the first 600,000+ Grupo Iusacell ("Iusacell") pre-paid subscribers in Mexico onto our dedicated platform. We expect additional migrations throughout the second half of 2014, as lusacell completes its transition and begins to rollout new services for its MNO and mobile virtual network operator ("MVNO") customers in the Mexican market.

- On April 22, 2014, we provided clarification on developments in Saudi Arabia following the announcement that Saudi Arabia has updated its mobile licensing efforts. We believe that our business plan in Saudi Arabia will develop during 2014, as our current contract with Zain Saudi Arabia ("Zain") for the use of our platform includes any licensed MVNOs operating through the Zain mobile network. We are working with Zain's new Matrix brand to provision all these SIMs onto our platform.

- On June 26, 2014 we announced the next phase of migration of Iusacell subscribers to our newly enhanced Software Defined Networking ("SDN") platform known as Software DNA® 2.0., which was developed in conjunction with existing MNO customers in Spain and Mexico where the systems have been deployed. At the moment the platform in Mexico is managing approximately 1.2 million Iusacell subscribers. Our platforms currently are managing millions of mobile retail customers and we believe the solution is the first comprehensive, hosted SDN solution. It includes core network functions that are dedicated to the unique needs of mobile operators who are faced with expensive and complex network infrastructure challenges.

Recent milestones for the security product line (ValidSoft UK Limited or "ValidSoft"):

- In November 2013, FICO announced the launch of ValidSoft proximity correlation service for credit and debit card issuers, which will be deployed with several UK banks.

- In November 2013, ValidSoft won the coveted European Software testing Awards – TESTA – for the "Most Innovate Project in 2013". The award related to ValidSoft's accomplishment in outstanding achievements in the software testing and quality assurance market specific to the ValidSoft Voice Biometrics solutions.

- During the last quarter of 2013, ValidSoft signed an Memorandum Of Understanding with Syniverse, a world-leading provider of services to the telecommunications industry and related enterprise and financial services sectors. Syniverse will explore opportunities for reselling ValidSoft's products and services to its existing customer base.

- On June 4, 2014, ValidSoft announced that it was featured in a special report, "Speech and Voice Recognition White Paper" published by Biometrics Research Group, Inc., an independent research group. In the report, ValidSoft was identified as one of the global leaders in the field of voice biometrics. According to the report, the voice biometric market has a potential market size of $2.5 billion globally across all market sectors in 2015, driven by the banking and financial sector, it is estimated that the banking and financial sector will spend at least $750 million on voice biometrics by 2015.

Application of Critical Accounting Policies and Estimates

Revenue Recognition and Deferred Revenue

Revenue represents amounts earned for telecommunication and security services provided to customers (net of value added tax and inter-company revenue). We derive revenue from activities as a fixed-line, security and mobile services provider with its network and its own switching technology.

We follow the appropriate revenue recognition rules for each type of revenue. See "Revenue Recognition" in Note 3 of the Financial Statements for more information. The Company's revenue recognition policies are in compliance with ASC 605, Revenue Recognition ("ASC 605"). Revenue is recognized only when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed or determinable; and (iv) collectability of the fee is reasonably assured. Revenue is recorded as deferred revenue before all of the relevant criteria for revenue recognition are satisfied. Deferred revenue represents amounts received from the customers against future sales of services since we recognize revenue upon performance of the services.

We report revenue on a gross basis using authoritative guidance issued by the FASB. Particularly for our landline solution services, we consider the following factors to determine the gross versus net presentation: if we (i) act as principal in the transaction and (ii) have risks and rewards of ownership, such as the risk of loss for collection and delivery of service.

Telecommunications revenues are recognized when delivery occurs based on a pre-determined rate and number of user minutes and number of calls that we managed in a given month.

For the mobile solutions services, we recognize revenues from two different service offerings, namely managed services and bundled services. For managed services, revenues are recognized for network administration services provided to end users on behalf of Mobile Network Operators (MNO) and virtual Mobile Network Operators (MVNO's). Managed service revenues are recognized monthly based on an average number of end-users managed and calculated on a pre-determined service fee per user. For bundled services, we provide both network administration as well as mobile airtime management services. Revenues for bundled services are recognized monthly based on an average number of end-users managed and mobile air time and calculated based on a pre-determined service fee. Other revenues recognized in the mobile solutions include technical services which are recognized as the services are performed.

For the security solutions services, we recognize revenues primarily from SIM (Subscriber Identity Module) lookup services using the VALid-SSD platform. Security solutions revenue is recognized based on the number of SIM lookups performed and calculated based on a pre-determined service fee per lookup. Other revenues recognized in the security solutions services include consulting services which are recognized as the services are performed.

Management's judgment is applied regarding, among other aspects, conformance with acceptance criteria and if delivery of services has occurred, to determine if revenue and costs should be recognized in the current period. In addition, management evaluates, the degree of completion of the services and the customer's credit standing to assess whether payment is likely or not to justify revenue recognition.

Share-based Compensation

Effective January 1, 2006, we adopted the provisions of ASC 718 "Compensation-Stock Compensation", using the prospective approach. As a result, we recognize share-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 convertible 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, share-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.

For both the long term independent consultants and advisory board members, we recognize the guidance for share-based compensation awards to non-employees in accordance with ASC 505-50 "Equity-Based Payments to Non-Employees" ("ASC 505-50"). Under ASC 505-50, we determine the fair value of the options or share-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Share-based compensation (cash and non-cash) related to equity plans for employees and non-employee directors is included within our cost of revenues and operating expenses.

Business Combinations

Under the purchase method of accounting we generally recognize the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in an acquiree at their fair values as of the date of acquisition. We measure goodwill as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. The acquisition method of accounting requires us to exercise judgment and make significant estimates and assumptions regarding the fair values of the elements of a business combination as of the date of acquisition, including the fair values of identifiable intangible assets, deferred tax asset valuation allowances, liabilities related to uncertain tax positions, and contingencies. This method also requires us to refine these estimates over a one-year measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. If we are required to retroactively adjust provisional amounts that we have recorded for the fair value of assets and liabilities in connection with acquisitions, these adjustments could materially decrease our operating income and net income and result in lower asset values on our balance sheet.

Significant estimates and assumptions that we must make in estimating the fair value of acquired technology, customer lists, and other identifiable intangible assets include future cash flows that we expect to generate from the acquired assets. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could record impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Intangible Assets and Impairment of long Lived Assets

In accordance with ASC 350, intangible assets are carried at cost less accumulated amortization and impairment charges. Intangible assets are amortized on a straight-line basis over the expected useful lives of the assets, between three and ten years. Other intangible assets are reviewed for impairment in accordance with ASC 350, on an annual basis, 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.

Results of Operations

Our results of operations for the three months ended June 30, 2014, consisted of the operations of Elephant Talk Communications Corp., its wholly-owned subsidiaries, Elephant Talk Ltd and its subsidiaries, Elephant Talk Europe Holding B.V. and its subsidiaries, Elephant Talk Group International B.V., Elephant Talk North America Corp., and ValidSoft Limited and its subsidiaries.

Although the vast majority of our business activities are carried out in Euros, we report our financial statements in US dollars (“USD”). The conversion of Euros to 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. We do not currently engage in hedging activities.

The following table shows the USD equivalent of the major currencies for the three and six months ended June 30, 2014:

	USD equivalent	
	1st quarter 2014	2nd quarter 2014

Euro	$	1.3702	$	1.3715
British Pound	$	1.6548	$	1.6825

Non-GAAP measures: Adjusted EBITDA and Margin

To supplement the consolidated financial statements presented in accordance with generally accepted accounting principles, or GAAP, Elephant Talk uses measures of non-GAAP: Adjusted EBITDA and margin. Margin is derived from the statement of operations and comprehensive loss by subtracting cost of service from revenues. Adjusted EBITDA is defined as earnings before provision for income taxes, depreciation and amortization, share-based compensation, interest income and (expenses), interest expense related to debt discount and conversion feature, changes in fair value of conversion feature, loss on extinguishment of debt, changes in fair value of warrant liabilities, other income and (expense), and amortization of deferred financing costs. Adjusted EBITDA is included 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 the desired results. Accordingly, we believe that Adjusted EBITDA provides useful information for stockholders and others which allow them to better understand and evaluate our operating results. These adjustments to the Company's GAAP results are made with the intent of providing both management and stockholders with a more complete understanding of the Company's underlying operational results, trends and performance.

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

	Three months ended June 30,			
Adjusted EBITDA		**2014**		**2013**
Net loss – US GAAP	**$**	**(4,610,875)**	**$**	**(7,692,561)**
(Benefit) for income taxes		(2,209)		-
Depreciation and amortization		1,928,392		1,836,231
Share-based compensation		1,902,537		2,995,049
Interest income and (expenses)		303,669		186,617
Interest expense related to debt discount and conversion feature		1,025,292		1,198,051
Loss on extinguishment of debt		-		-
Changes in fair value of warrant liabilities		(38,948)		(346,016)
Other income and (expense)		(68,008)		-
Amortization of deferred financing costs		113,090		873,534
Adjusted EBITDA	$	552,940	$	(949,095)

	Six months ended June 30,			
Adjusted EBITDA		**2014**		**2013**
Net loss – US GAAP	**$**	**(8,736,992)**	**$**	**(12,830,483)**
Provision for income taxes		133,228		-
Depreciation and amortization		3,936,606		3,156,219
Share-based compensation		2,674,261		4,405,959
Interest income and (expenses)		578,002		376,649
Interest expense related to debt discount and conversion feature		1,910,032		2,207,858
Change in fair value of conversion feature		-		(311,987)
Loss on extinguishment of debt		426		-
Changes in fair value of warrant liabilities		171,324		(346,016)
Other income and (expense)		(71,398)		-

Amortization of deferred financing costs	249,457	943,865
Adjusted EBITDA	$ 844,946	$ (2,397,936)

Comparison of three and six month periods ended June 30, 2014 and June 30, 2013.

Revenue

Revenue for the mobile and security services solutions for the three month period ended June 30, 2014 was an increase of 54%, compared to the same period of 2013. Revenue for the mobile and security service solutions increased as a percentage of our total revenue to 99% during the second quarter of 2014 as compared to 72% in the same period in 2013.

The increase in our mobile and security services solutions business is mainly due to additional contracts for new and existing customers.

Revenue for the landline services solutions for the three month period ended June 30, 2014 decreased by 92%, compared to the same period of 2013. Revenue for the landline services solutions for the six months period ended June 30, 2014 decreased by 96%, compared to the same period in 2013.

The decrease in the revenue for the landline service solutions is due to our Company's strategy of shifting away from the landline business solution to the mobile and security service solutions.

Following the above, total revenue for the three month periods ended June 30, 2014 and June 30, 2013, increased by 38%, while revenue for the six month periods ended June 30, 2014 and June 30, 2013, increased by 16%.

	Three months ended June 30,		
Revenue	**2014**	**2013**	**Variance**
Landline Services	$ 42,499	$ 526,080	$ (483,581)
Mobile & Security Solutions	6,869,269	4,468,065	2,401,204
Total Revenue	$ 6,911,768	$ 4,994,145	$ 1,917,623

	Six months ended June 30,		
Revenue	**2014**	**2013**	**Variance**
Landline Services	$ 141,230	$ 3,262,783	$ (3,121,553)
Mobile & Security Solutions	13,250,391	8,327,862	4,922,529
Total Revenue	$ 13,391,621	$ 11,590,645	$ (1,800,976)

Cost of service

Cost of service for the three months ended June 30, 2014 was $828,581, a decrease of $636,936 or 43%, compared to $1,465,517 for the same three month period ending June 30, 2013.

Cost of service for the six months ended June 30, 2014 was $1,812,045, a decrease of $3,201,749 or 64%, compared to $5,013,794 for the same six month period ending June 30, 2013.

This decrease is related to the decline in our legacy landline service solution. Cost of service as a percent of the total revenue was 14% and 43% for the first half of 2014 and 2013, respectively.

Cost of service includes origination, termination, network and billing charges from telecommunications operators, costs of telecommunications service 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.

	Three months ended June 30,		
	2014	2013	Variance
Revenues	$ 6,911,768	$ 4,994,145	$ 1,917,623
Cost of service	828,581	1,465,517	(636,936)
	$ 6,083,187	$ 3,528,628	$ 2,554,559

	Six months ended June 30,		
	2014	2013	Variance
Revenues	$ 13,391,621	$ 11,590,645	$ 1,800,976
Cost of service	1,812,045	5,013,794	3,201,749
	$ 11,579,576	$ 6,576,851	$ 5,002,725

The following tables illustrate revenues and margins for the quarters ended:

Mobile and Security (Unaudited) Reported Revenue				***Total Margin ($ in millions)**	*** Total Margin as a % of Total**
Quarter	**($ in millions)**	**% of Total Company Revenue**	**Quarter**	**(Unaudited)**	**Company Revenue**
2Q12	2.8	39.3	2Q12	1.9	26.8
3Q12	2.9	43.9	3Q12	2.1	31.3
4Q12	3.6	52.1	4Q12	2.7	39.4
1Q13	3.9	58.5	1Q13	3.0	46.2
2Q13	4.5	89.5	2Q13	3.5	70.7
3Q13	5.0	95.9	3Q13	4.1	79.2
4Q13	5.9	97.6	4Q13	5.0	82.5
1Q14	6.4	98.5	1Q14	5.5	84.8
2Q14	6.9	99.4	2Q14	6.1	88.0

(* Margin is a non-gaap measure and defined by us as revenues minus cost of service)

Selling, general and administrative expenses
Selling, general and administrative (“SG&A”) expense for the three month periods ended June 30, 2014 and 2013 were $7,432,784 and $7,472,772, respectively, a decrease of $39,988 or 1%.

Selling, general and administrative (“SG&A”) expense for the six month periods ended June 30, 2014 and 2013 were $13,408,891 and $13,380,746, an increase of 28,145 or 0.2%.

SG&A expenses remained relatively stable in the first half of 2014 compared to the same period in 2013, even though our staffing levels increased by 13% in the first six months of 2014.

Share-based compensation for the three month period ended June 30, 2014 and 2013 was $1,902,537 and $2,995,049, respectively, a decrease of $1,092,512 or 36%. Share-based compensation for the six month period ended June 30, 2014 and 2013 was $2,674,261 and $4,405,959, respectively, a decrease of $1,731,698 or 39%. The decrease in the first half of 2014 compared to the same period in 2013 is due to a grant provided on April 5, 2013 followed by the immediate vesting of 5,040,000 options to the management team. There was no grant during the first six months of 2014.

Share-based compensation is comprised of:

- the expensing of the options granted under the 2008 Plan to staff and management;
- the expensing of the shares issued to under the 2006 and 2008 Plans to the directors and executive officers in lieu of cash compensation;
- the expensing of restricted shares issued for consultancy services;

***Depreciation and Amortization*.**
Depreciation and amortization expenses for the three months ended June 30, 2014 was $1,928,392, an increase of $92,161 or 5%, compared to $1,836,231 for the three months ended June 30, 2013.

Depreciation and amortization expenses for the six months ended June 30, 2014 was $3,936,606, an increase of $780,387 or 25%, compared to $3,156,219 for the same period in 2013. The largest portion of the increase relates to depreciation expenses, following the launch of the Mexican platform.

Interest income and expense
During the three months ended June 30, 2014 and 2013, interest income consisted of interest received on bank balances.

Interest expense for the three month periods ended June 30, 2014 and June 30, 2013 was $333,214 and $208,144, respectively, an increase of $125,070 or 60%. Interest expense for the six month periods ended June 30, 2014 and June 30, 2013 was $635,158 and $431,896, respectively, an increase of $203,262 or 47%.

Higher levels of interest expense were the result of convertible notes issued in 2013 to two investors. See Notes 14 and 15 for more information.

Interest expense related to debt discount and conversion feature
For the three month periods ended June 30, 2014 and 2013, interest expenses related to debt discount and conversion feature were $1,025,292 and $502,972, respectively, an increase of $522,320 or 104%.

For the six month periods ended June 30, 2014 and 2013, interest expenses related to debt discount and conversion feature were $1,910,032 and $1,061,000, respectively, an increase of $849,032 or 80%.

The increase in the first six months of 2014 compared to the same period in 2013 is due to the convertible notes issued in August 2013. See Notes 14 and 15 for more information.

Change in Fair Value of Conversion Feature
The change in the fair value of the conversion feature (related to the 8% Senior Secured Convertible Note issued on March 29, 2012) for the three month periods ended June 30, 2014 and June 30, 2013 amounted to $0 and $372,059, respectively, while the change in the six month period ended June 30, 2014 and June 30, 2013 amounted to $0 and $232,267, respectively. The reason for the decrease is that the conversion feature was extinguished when the convertible note was repaid in June 2013.

Change in Fair Value of Warrant Liabilities.
For the three and six month periods ended June 30, 2014 and 2013, the fair value of the remaining outstanding warrants related to a registered direct public offering made by us on June 2013 decreased from $346,016 to $38,948 (a decrease of $307,068 or 89%) and from $346,016 to ($171,324), a decrease of $517,340 or 150%, respectively. Such a decrease is mainly caused by the decreased value of the stock price, because this is one of the major variables of the valuation. The value of the warrants was determined by a third party valuation expert using a Monte-Carlo Simulation model.

Loss on extinguishment of debt
Loss on extinguishment of debt (related to the JGB loan) decreased from $1,938,597 to $0 in the three month periods ended June 30, 2014 and 2013, and decreased from $1,938,597 to $426 in the six month periods ended June 30, 2014 and 2013. The decrease is due to the extinguishment of the loan facility in 2013. The small loss is a late charge relating to the repayment in 2013

Other income & (expense)
Other income & (expense) represents the change in fair value of the Euro denominated convertible notes due to revaluation, and amounted, in the three month periods ended June 30, 2014 and 2013, to a gain of $68,008 and $0, respectively. In the six month period ended June 30, 2014 and 2013, there was a gain of $71,398 and $0, respectively.

Amortization of deferred financing costs
The amortization of deferred financing costs (related to convertible notes related financing) increased to ($113,090) from ($2,075), in the three month period ended June 30, 2014 and 2013. The amortization of deferred financing costs increased to ($249,457) from ($72,406), in the six month period ended June 30, 2014 and 2013.

These deferred financing costs relate to the 2013 JGB loans and the 2014 deferred financing costs related to the Convertible Notes issued to an affiliate and a third party.

Provision (Benefit) Income taxes.
Income tax benefit for the three month periods ended June 30, 2014 and 2013, was $2,209 and $0, respectively.

Income taxes Benefit for the six month periods ended June 30, 2014 and 2013, was ($133,228) and $0, respectively. The provision for income taxes was adjusted in the second quarter of 2014 by $135,437 to reflect the current position.

Net Loss
Net loss for the three month period ended June 30, 2014, was $4,610,875, a decrease of $3,081,686 or 40%, compared to the loss of $7,692,561 for the same period in 2013.

Net loss for the six month period ended June 30, 2014, was $8,736,992, a decrease of $4,093,491 or 32%, compared to the loss of $12,830,483 for the same period in 2013.

The main reason for the continued decrease in the net loss in the three and six months periods ended June 30, 2014 and 2013 is the decrease in the Loss from Operations amounting 43% and 42%, respectively, caused by increased revenues from our mobile and security service solutions which yield higher margins.

Other Comprehensive (Loss) Income
We record foreign currency translation gains and losses as part of other comprehensive (loss) Income, which amounted to losses of $148,233 and $534,887 for the three month periods ended June 30, 2014 and 2013, respectively. The foreign currency translation loss decreased to $150,446 from $1,296,649 in the six month periods ended June 30, 2014 and 2013. This change is primarily attributable to the translation effect resulting from the substantial fluctuations in the USD/Euro exchange rates.

Liquidity and Capital Resources

As reflected in the accompanying financial statements, for the three and six month periods ended June 30, 2014, we incurred net losses of $4,610,875 and $8,736,992, respectively, and net cash flows used in operating activities of $384,935 and $1,089,581. The accumulated deficit amounted to $234,115,159 as of June 30, 2014.

With cash and cash equivalents at June 30, 2014 of $829,388, the conversion of the Convertible Note amounting to $2,729,630 into equity subsequent to June 30, 2014 (refer to Note 28 Subsequent Events) and the improvement of net cash provided by operating activities, the Company believes that it can carry out its basic operational plans for the coming 12 months. However, for the longer term strategy and obligations of the Company, it will need to continue to attract financing in order to finance its organizational growth and capital expenditures.

If we are unable to achieve the anticipated revenues or financing arrangement with our major vendors, we will need to attract further debt or equity financing. Although we have been successful in the past in meeting our cash needs, there can be no assurance that proceeds from additional revenues, vendor financings or debt and equity financings, where required, will be received in the required time frames. If this occurs, we may need to delay or restructure our operations. As of June 30, 2014, these conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Operating activities

	Six months ended June 30,	
	2014	**2013**
Net loss – US GAAP	**$ (8,736,992)**	**$(12,830,483)**
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	8,889,147	9,987,219
	152,155	(2,843,264)
Changes in operating assets and liabilities	(537,091)	1,753,683
Net cash provided (used) by (in) operating activities	$ (384,935)	$ (1,089,581)

Before changes in operating assets and liabilities, net cash used decreased from $2,843,264 for the six months ended June 30, 2013 to net cash provided by operating activities of $152,156 for the six months ended June 30, 2014, which is an increase of $2,995,419 or 105%. This increase is largely driven by the increased revenues in the mobile and security service solutions.

Changes in operating assets and liabilities for the six months ended June 30, 2014 of ($537,091) compared to $1,753,683 for the same period in 2013 were caused by increasing levels of accounts receivable and accrued expenses.

In total, compared to the same period last year, the net cash change improved from a use of $1,089,58 into net cash used in operating activities of $384,935 in the six months ended June 30, 2014, which represents an improvement of $704,646 or 65%.

Investing activities

Net cash used in investing activities for the six months ended June 30, 2014 was $3,922,724, an increase of $1,660,184, or 73% compared to $2,262,540 in the same period in 2013. This change resulted from investments in property and equipment, following increased demand for our services.

Financing activities

Net cash provided by financing activities for the six months ended June 30, 2014 and 2013 was $4,193,033 and $5,120,751, respectively, a decrease of $927,718 or 18%.

As a result of the above activities, for the six months ended June 30, 2014, we had cash and cash equivalents of $829,388, a net decrease in cash and cash equivalents of $422,927 since December 31, 2013.

Off- Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have either 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, nor we have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 3. Quantitative and Qualitative Disclosure about Market Risks

Foreign currency exchange rate

Although the vast majority of our business activities are carried out in Euros, our Financial Statements are reported 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. We carry out our business activities primarily in Euros, and we do not currently engage in hedging activities. Fluctuations in foreign currencies impact the total amount of assets and liabilities that we report for our foreign subsidiaries upon the translation of those amounts in USD.

We do not believe that we currently have material exposure to interest rate or other market risks.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of June 30, 2014, the Company carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the our disclosure controls and procedures, as defined in Rule 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that its disclosure controls and procedures are effective as of June 30, 2014. Disclosure controls and procedures are necessary to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

A "material weakness" is defined as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A "significant deficiency" is defined as a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial information reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

For the accounting and financial reporting period ended December 31, 2013 management had identified material weaknesses in internal controls over financial reporting relating to accounting for complex transactions including accounting and valuations associated with business combinations, complex financial instruments, disclosures surrounding income taxes, and the fact that the Company's Board of Directors did not have an adequate number of independent director members during the period from December 18, 2013 until March 25, 2014.

Changes in Internal Control Over Financial Reporting

In response to the material weaknesses identified related to the accounting and financial reporting for the period ended December 31, 2013, the Company instituted the following measures in the fourth quarter of 2013 and in the first six months of 2014 in order to remediate these weaknesses:

- The Company consulted a professional valuation company to assist in determining the value of warrants using a Monte-Carlo Simulation model, which provided an expert review layer for complex financing transactions. The Company does not have in-house expertise for these types of complex valuations. On November 30, 2013, the Company filed an amendment to its Quarterly Report on Form 10-Q for the period ended June 30, 2013 to reflect the value of warrants as reported by the professional valuation company. During the period ended June 30, 2014, the Company continues using the professional valuation company. The Company believes that this remediated the material weakness identified for the period ended June 30, 2013.

- The Company further reviewed the identified weakness on the valuation of business combinations. The business combination under consideration, whereby the Company acquired certain assets, was not material from a significance acquisition test point of view. As a result, at the time, the Company performed a purchase price allocation internally. Subsequent review of this internal valuation showed that the Company did not have sufficient documentation for all of the assumptions, notably those underlying its calculation of the discount rate. During the first quarter of 2014, the Company performed procedures to ensure that the business combination accounting identified and considered all pertinent factors related to the intangibles acquired, including taking into account any potential contingent consideration; the Company further reviewed all assumptions and documented them. The review of the purchase price allocation assumptions and discount rate resulted in no material adjustments to the initially recorded amounts of intangibles or goodwill. As a result of the above, the Company believes that this weakness was remediated as of March 31, 2014.

- The Company has been reviewing and improving the documentation of its processes with respect to the (a) identification and ongoing evaluation of uncertain tax positions in foreign tax jurisdictions; (b) complete and accurate recording of deferred tax assets and liabilities due to differences in accounting treatment for book and tax purposes. The Company believes that the improved documentation reflects the current status of its internal controls over financial reporting in the tax area, since management believes that it has controls in place sufficient to ensure that material misstatements of the Company's annual and interim financial statements will be prevented or detected in a timely basis. The Company will continue its evaluation of improvement measures during the third quarter of 2014, in order to conclude whether it has fully remediated the weakness identified in the period ended December 31, 2013.

- On March 25, 2014, the Company appointed two directors to the Board of Directors (the "Board"). The Company's Board has determined that the two new directors satisfy the independence standards under the rules of the NYSE MKT, LLC and the Securities and Exchange Commission. Effective April 1, 2014, Carl D. Stevens and Geoffrey Leland joined the Board, filling vacancies created following the 2013 annual meeting of stockholders in December 2013. Mr. Stevens and Mr. Leland serve as members of the Board’s Audit and Finance Committee, Compensation Committee and Nominating and Corporate Governance Committee. This weakness was therefore remediated as of March 31, 2014.

Under the direction of the Audit and Finance Committee, management continues to review and make any changes it deems necessary to the overall design of the Company's internal control over financial reporting, including implementing improvements in policies and procedures. The Company will continue to assess the effectiveness of our remediation efforts in connection with management's future evaluations of internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various ordinary routine claims and lawsuits incidental to our business. In the opinion of management, the ultimate resolution of such claims and lawsuits will not have a material effect on the Company’s financial position, liquidity, or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the Risk Factors included in Part I, “Item 1A. — “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2013. These Risk Factors could materially impact our business, financial condition and/or operating results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely impact our business, financial condition and/or operating results.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 29, 2014 the Company appointed Yves van Sante to the Company’s Board of Directors (the “Board”), effective June 1, 2014. Mr. Van Sante fills the vacancy created by the resignation of Johan Dejager. Prior to his appointment, Mr. van Sante had served as an observer to the Board since August 1, 2011. From October 24, 2006 to August 1, 2011, Mr. van Sante was a member of our Board of Directors.

Item 6. Exhibits

(a) Exhibits

31.1	Certification of the CEO pursuant to Rule 13a-14(a) or Rule 15(d)-14(a) *

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

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

SIGNATURES

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

ELEPHANT TALK COMMUNICATIONS CORP.

Date: Aug 11, 2014	By/s/ Steven van der Velden Steven van der Velden President and Chief Executive Officer (Principal Executive Officer)
Date: Aug 11 , 2014	By/s/ Mark Nije Mark Nije Chief Financial Officer (Principal Financial and Accounting Officer)