

Elephant Talk Communications Inc. Reports Second Quarter 2010 Results and Provides Business Update

SCHIPHOL, THE NETHERLANDS- 17th August 2010 - Elephant Talk Communications, Inc. (OTC BB:[ETAK](#)) (www.elephanttalk.com), an international provider of business software and services to the telecommunications and financial services industries, today announced the results of operations for the second quarter of Fiscal Year 2010. Revenues for the quarter ended June 30, 2010 were \$9.6 million. Elephant Talk also achieved certain key milestones during the first six months of 2010 that management believes will the position the company for future success and growth.

Since the beginning of 2010, Elephant Talk Communications has achieved the following:

- The Company signed a Mobile Virtual Network Operating (MVNO) Agreement with T-Mobile Netherlands BV. This hosting agreement is to service a new MVNO initiative of T-Mobile Netherlands using the Elephant Talk MVNO platform, expected to go live early September.
- The final regulatory issue to migrate substantial MVNO traffic in Spain has now been cleared; migration will start early September.
- Elephant Talk has signed seven Heads of Term Agreements with new MVNOs in the Netherlands.
 - The implementation phase for most of these new MVNOs are currently in the final stage.
- ValidSoft has been granted the European Privacy Seal in regards to its anti-fraud technology software, VALid-POS[®], which is designed to detect and prevent card related fraud, a global multibillion dollar problem for financial institutions.
- ValidSoft was successful in its submission to the European Union FP7 grant funding program in respect of Research & Development for continued research in the area of Voice Biometrics.
- The Company launched VALid-SVP[™] (Speaker Verification Platform), a voice biometric technology to improve secure authentication.
 - This solution is a product of the R&D function of ValidSoft (www.validsoft.com), an ETAK subsidiary based in Ireland. ValidSoft is a global supplier of fraud prevention, authentication and transaction verification solutions with a significant investment in Intellectual Property.
- ValidSoft was successful in a joint bid for the provision of a Self Certification project to an EU Government in the area of citizen benefit payments. The solution will evaluate the use of technology and incorporate ValidSoft's Speaker Verification Platform, VALid-SVP[™] to provide automation in the processing of citizen benefits with a view to achieving cost reduction and efficiencies.
- ValidSoft has filed applications for two new patents in the Card Not Present fraud prevention area.
- ValidSoft announced an agreement with Cumberland Building Society (www.cumberland.co.uk), the 15th largest building society in the UK with assets exceeding £1.5billion, to incorporate ValidSoft's VALid[®] solution technology into a new secure transaction service.
 - Cumberland Building Society is a mutual organization owned by its current account holders, and borrowers which follows a similar model of community banks in the US.

“During the Second Quarter, Elephant Talk worked diligently to move forward with our hosting agreement with T-Mobile Netherlands which is a high margin business,” commented Mr. Steven van der Velden, President and CEO. “Additionally, we received international recognition on the validity and safety of our ValidSoft anti-fraud technology. Management is confident that the Cumberland Building Society agreement will allow us to secure additional banking deals for ValidSoft. The attainment of the European Privacy Seal validates our efficacy to our methods for card fraud detection and prevention and

ensures that concerns over any potential privacy issues are eliminated due to full compliance with European Union Data Protection and Data Privacy legislation. These recent milestones combined with our strong base of operation has positioned the company for significant near term growth. Management's strategy has been shown a vote of confidence by shareholders that have invested nearly \$11 million in ETAK's common shares. Going forward we plan to leverage existing relationships, while at the same time enter new markets in an effort to increase earnings, expand market share, and improve overall shareholder value."

Financial Results for the Three Month Period Ended June 30, 2010

Revenue for the three months ended June 30, 2010 was \$9,673,825, a decrease of \$1,637,573 or (14.5%), compared to \$11,311,398 for the three months ended June 30, 2009. The decrease was the result of the lower sales during the period as well as the unfavorable impact of a \$650,056 currency translation effect arising from a higher USD/Euro exchange rate. The roll-out of new mobile customers was not able to compensate yet the loss in revenue compared with the three months previous year following the departure of a mobile customer in financial disarray. Cost of service for the three months ended June 30, 2010 was \$9,005,394, a decrease of \$1,626,811 (or 15.3%), compared to \$10,632,205 for the three months ended June 30, 2009. The decrease in cost of service was the result of lower sales volumes and a favorable impact of a \$620,097 currency translation effect arising from a higher USD/Euro exchange rate.

Selling, general and administrative ("SG&A") expense for the three months ended June 30, 2010 was \$2,079,361, an increase of \$295,566 or 16.6 % compared to \$1,783,795 for the same period in 2009.

For the quarter ended June 30, 2010, the company recorded an adjusted EBITDA loss of \$1.4 million versus \$1.1 million during the corresponding quarter of 2009. Based on the USD/Euro exchange rate, the loss year over year is relatively flat. Adjusted EBITDA is a non-GAAP measure as defined by Earnings Before Interest Tax Depreciation and non-cash compensation expenses. Net Loss for the three months ended June 30, 2010 was \$14,358,524 or (0.23) per share, compared to \$2,687,340 or (0.05) per share for the same period in 2009.

Financial Results for the Six Month Period Ended June 30, 2010

Revenue for the six months ended June 30, 2010 was \$19,617,590, a decrease of \$1,122,691 or (5.4%), compared to \$20,740,282 for the six months ended June 30, 2009. The decrease was the result of lower sales and to some extent the unfavorable impact of a \$105,351 currency translation effect arising from a higher USD/Euro exchange rate. The decrease in the first six months of 2010 revenue of \$1,017,341 over the first six months of 2009, in constant currency, was attributable to an increase in our other landline services of \$24,469 and a decline in our premium rate services ("PRS") of (\$408,148), Mobile revenue of (\$528,979) and Middle East pre-paid calling cards revenue of (\$104,682) compared to the same period in 2009. The lower mobile revenue was the results of a customer in financial disarray leaving our Company.

Cost of service for the six months ended June 30, 2010 was \$18,379,282, a decrease of \$1,400,720 (or 7.1%), compared to \$19,780,001 for the six months ended June 30, 2009. The decrease in cost of service was the result of lower sales volumes and a favorable impact of a \$100,710 currency translation effect arising from a higher USD/Euro exchange rate.

For the six months ended June 30, 2010, SG&A expense was \$ 3,984,709, an increase of \$737,766 or 24.8%, compared to \$3,246,943 in the same period in 2009.

Net Loss for the six months ended June 30, 2010 was \$ 26,696,719 or (0.45) per share, compared to \$4,831,661 or (0.09) per share for the same period in 2009.

Adjusted EBITDA

For the six month period ended June 30, 2010, the company recorded an adjusted EBITDA loss of \$2.7 million versus \$2.3 million during the corresponding period of 2009. Year over year the loss is relatively flat. Adjusted EBITDA is a non-GAAP measure as defined by Earnings Before Interest Tax Depreciation, non-cash compensation expenses and other expenses.

ADJUSTED EBITDA

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net loss	14,358,524	2,687,340	26,696,719	4,831,661
Provision for income taxes	-800	0	-800	-800
Net loss attributable to noncontrolling interest	-1,785	-653	-2,283	-756
Depreciation and amortization	-1,515,428	-707,763	-2,360,122	-1,337,945
Stock-based compensation	-2,712,756	-750,406	-3,253,669	-1,019,866
Other Expenses	-8,716,827	-123,917	-18,333,444	-185,632
Adjusted EBITDA	(1.4 M)	(1.1 M)	(2.7 M)	(2.3 M)

This press release includes non-GAAP revenues, non-GAAP cost of service and non-GAAP SG&A. These non-GAAP financial measures exclude the impact of currency translation adjustments. We have reconciled these non-GAAP financial measures with the most directly comparable GAAP financial measures in the text of this release. We believe that these non-GAAP financial measures provide meaningful supplemental information for investors regarding the performance of our business and facilitate a meaningful evaluation of our quarterly and FY10 actual results. "Other Expenses" above primarily consist of non-cash Interest expense related to debt discount, Change in fair value of warrant liabilities & conversion feature, and Amortization of deferred financing costs and to a much smaller extent Interest Income and Interest expense

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

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

	For the Three Months Period ended, June 30		For the Six Months Period ended, June 30	
	2010	2009	2010	2009
REVENUES	\$ 9,673,825	\$ 11,311,398	\$ 19,617,590	\$ 20,740,282
COST AND OPERATING EXPENSES				
Cost of service	9,005,394	10,632,204	18,379,282	19,780,001
Selling, general and administrative expenses	2,079,359	1,783,795	3,984,709	3,246,943
Non cash compensation to officers, directors and employees	2,712,756	750,406	3,253,669	1,019,866
Depreciation and amortization of intangibles assets	1,515,428	707,763	2,360,122	1,337,945
Total cost and operating expenses	15,312,937	13,874,168	27,977,782	25,384,755
LOSS FROM OPERATIONS	(5,639,112)	(2,562,770)	(8,360,192)	(4,644,473)
OTHER INCOME (EXPENSE)				
Interest income	32,520	12,237	65,119	22,307
Interest expense	(535,887)	(136,154)	(982,427)	(207,939)
Interest expense related to debt discount	(4,959,044)	--	(7,545,823)	--
Change in fair value of warrant liabilities & conversion feature	(2,660,727)	--	(8,748,778)	--
Amortization of deferred financing costs	(593,689)	--	(1,121,535)	--
Total other income (expense)	(8,716,827)	(123,917)	(18,333,444)	(185,632)
LOSS BEFORE PROVISION FOR INCOME TAXES	(14,355,939)	(2,686,687)	(26,693,636)	(4,830,105)
Provision for income taxes	(800)	-	(800)	(800)
NET LOSS BEFORE NONCONTROLLING INTEREST	(14,356,739)	(2,686,687)	(26,694,436)	(4,830,905)
Net (loss) income attributable to noncontrolling interest	(1,785)	(653)	(2,283)	(756)
NET LOSS	(14,358,524)	(2,687,340)	(26,696,719)	(4,831,661)
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation gain (loss)	(3,168,961)	470,533	(3,690,746)	(197,259)
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COMPREHENSIVE LOSS	\$ (17,527,485)	\$ (2,216,807)	\$ (30,387,465)	\$ (5,028,920)
Net loss per common share and equivalents - basic and diluted	\$ (0.23)	\$ (0.05)	\$ (0.45)	\$ (0.09)
Weighted average shares outstanding during the period - basic and diluted	62,356,471	53,864,109	58,696,088	52,693,232

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

	June 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,276,714	\$ 1,457,900
Restricted cash	188,630	192,116
Accounts receivable, net of an allowance for doubtful accounts of \$595,284 and \$764,302 at June 30, 2010 and December 31, 2009 respectively	5,716,232	5,071,293
Prepaid expenses and other current assets	2,166,298	2,657,019
Total Current Assets	12,347,874	9,378,328
LONG TERM DEPOSITS	346,746	330,946
DEFERRED FINANCING COSTS	2,117,067	3,033,277
PROPERTY AND EQUIPMENT, NET	6,829,204	7,773,862
INTANGIBLE ASSETS, NET	16,699,367	3,910,363
GOODWILL	3,046,790	--
TOTAL ASSETS	\$ 41,387,048	\$ 24,426,776
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Overdraft	\$ 353,904	\$ 351,589
Accounts payable and customer deposits	4,178,589	6,475,074
Deferred revenue	--	132,205
Accrued expenses and other payables	5,552,413	2,738,998
Shares to be issued	7,161,795	--
Convertible 14% loan - related party (net of discount of \$ 1,421,941 and \$0, respectively)	836,539	--
Advances from related parties	--	13,287
Loans payable	877,187	880,536
Total Current Liabilities	18,960,427	10,591,689
LONG TERM LIABILITIES		
Loan from related party	450,436	437,161
Convertible 12% secured note (net of discount of \$ 12,126,341 and \$12,333,020 respectively)	95,680	--
Warrant liabilities	28,038,455	16,626,126
Conversion feature	8,735,904	2,899,801
Total Long term Liabilities	37,320,475	19,963,088
Total Liabilities	56,280,902	30,554,777
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value, 250,000,000 shares authorized, 65,812,367 issued and outstanding as of June 30, 2010 compared to 53,695,984 shares issued and outstanding as of December 31, 2009	76,521,715	54,880,778
Accumulated other comprehensive income (loss)	(2,553,849)	1,136,897
Accumulated deficit	(89,030,994)	(62,335,076)
Elephant Talk Communications, Inc. Stockholders' Equity	(15,063,128)	(6,317,401)
NON-CONTROLLING INTEREST		
Total Stockholders' Equity	(14,893,854)	(6,128,001)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 41,387,048	\$ 24,426,776

About Elephant Talk Communications

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

About ValidSoft

ValidSoft is a subsidiary of Elephant Talk Communications, Inc. ([ETAK](#)), and is a market leader in providing solutions to counter electronic fraud relating to card, the internet, and telephone channels. ValidSoft's solutions are at the cutting edge of the market and are used to verify the authenticity of both consumers and institutions (Mutual Authentication), and the integrity of transactions (Transaction Verification) for the mass market, in a highly cost effective and secure manner, yet easy to use and intuitive. For more information please visit www.validsoft.com.

Forward-Looking Statements

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates and projections about the Company'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. Because such statements involve risks and uncertainties, the actual results and performance of the Company 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, the Company 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; however, readers should review carefully reports or documents the Company files periodically with the Securities and Exchange Commission.

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