

# **Elephant Talk Communications Reports Fourth Quarter 2009 and Year End Financial Results and Provides 2010 Guidance**

- **Management issues guidance of 600,000 to 700,000 subscribers for 2010 versus 22,000 for 2009**
- **Revenues reached \$5.8 million from Mobile Communication in 2009 with 33% operating margins compared to \$0 in 2008**
- **Company completes 100% acquisition of ValidSoft Limited and enters the telecom enabled credit card security business**
- **The Company records annual revenue of \$43.6 Million, an increase of 3.5 % in constant currency**

Elephant Talk Communications, Inc. ([ETAK](#)), a leader in telecommunications business software innovation and services, today announced financial results for the fiscal year ended December 31, 2009 and is providing a shareholder update.

In 2009 Elephant Talk delivered its comprehensive software services to T-Mobile and Vizzavi Espana, a Vodafone Group Company which are designed to expand their operating profits and increase customer retention. This is accomplished through the company's comprehensive software applications on the network which simplifies the user experience. The response Elephant Talk received has been positive and both operators intend to further roll out the company's services to their subscriber base throughout 2010.

"We are proud of the milestones that the company has achieved, as we have established a strong foundation of superior service and product offerings in the mobile carrier space along with creating several strategic relationships that position the company for significant future growth," said Steven van der Velden, CEO of Elephant Talk. "Throughout the last year we have strengthened our relationships with T-Mobile and Vizzavi Espana, a Vodafone Group Company, and added additional customers to our expanding stable of virtual telecom companies. By the end of 2010 we expect to expand service offerings into at least two additional countries and manage at least 600,000 to 700,000 subscribers and expect to be cash-flow break even from operations by the end of 2010 on a monthly basis. Additionally, we are excited to add ValidSoft Limited, a best in class fraud-prevention service offering to the Elephant Talk family. Going forward we believe that the combination of Elephant Talk's current products offerings combined with ValidSoft's intellectual property will provide customers and shareholders a strong value proposition."

## **Recent Operational Highlights**

- The Company announced on March 23, 2010, it has completed the acquisition of ValidSoft Limited, a leading banking fraud-prevention software company that provides cutting-edge solutions for credit and debit card fraud using ValidSoft's flagship product; VALid-POS.
  - ValidSoft's patent pending solution, not only reduces false-positive card declines (situations where legitimate credit card transactions are denied) by as much as 95%, it also detects fraudulent transactions in real-time. VALid-POS automated

solution is invisible to the card user and takes less than half a second to advise the bank.

- Designed for both cross-border and domestic, card present fraud, covering both Point-of-Sale and ATM devices, VALid-POS works by correlating the proximity of a customer's cell phone to the location of the actual transaction anywhere in the world without tracking the individual.
- The Company enabled the launch of 2NR, a new MVNO brand of TeleCombination International BV, a Dutch Telecom service provider. 2NR has the capabilities to offer two mobile numbers on a single SIM card which allows for all mobile services to be available on one SIM card without having multiple handsets.
- The Company signed a heads of term agreement with Suri-Change BV to become a mobile virtual network operator and focus on the ethnic Surinam community located in The Netherlands. SURA PRODUCTIONS has considerable ties with the largest money exchange company regarding remittances between Suriname and The Netherlands.
- Elephant Talk signed a heads of agreement with U-WISS to become a mobile virtual network operator (MVNO) in The Netherlands. U-WISS is an IT and Telco service provider for the Business-to-Business (B2B) market. Management of U-WISS is targeting sales of the new MVNO of up to 35,000 Subscriber Identity Module's (SIM's) by the end of 2010.
- The Company signed a Heads of Terms Agreement with United Telecommunication Services (UTS) for its subsidiary Dutch United Telecommunication Services BV (dUTS) in The Netherlands.
  - UTS will use Elephant Talk's carrier grade Mobile Virtual Network Enabler (MVNE) platform to offer these new services to existing customers and expand geographically through dUTS in The Netherlands. This will enable dUTS to offer attractive pricing plans, including those former MVNO customers who want to continue their MVNO service.
- Management announced that it has signed a heads of term agreement with 88 Telecom, a mobile virtual network operator (MVNO) in The Netherlands and intends to provide a full set of telecom services to the Chinese community living in The Netherlands.
- The Company signed a Heads of Agreement contract with ECOFOON Nederland BV. ECOFOON is introducing a new mobile virtual network operator for the Dutch Consumer and Business Marke and they expect to launch its services with an estimated sale of approximately 150,000 subscribers in the first two years of operation.

Mr. van der Velden continued, "The Company remains focused on its business model of developing technologically superior wireless applications, securing additional mobile carriers as partners, increasing the number of virtual operators and their loyal subscribers on our network, and establishing partnerships with major international credit card processors all of which are high margin businesses. We saw growth in 2009 for the demand for our new virtual operator services and we expect continued growth in 2010 and beyond. We believe customer demand for mobile services and products continues to be strong, and we are well positioned at the center of this growth. As we deliver these high margin businesses to the market place we will deliver long-term shareholder value."

## **Financial Results for the Year Ended December 31, 2009**

### **Revenue overview (in constant currency):**

variance

Revenue	2009	2008 constant currency	2009 v 2008 constant currency
Premium Rate Services	\$ 35.791.740	\$ 40.040.619	\$ -4.248.879
Mobile Services	5.842.379	362.194	5.480.185
Middle East Calling Cards	1.207.298	296.259	911.040
Other revenue	809.539	1.470.418	-660.878
Total Revenue	\$ 43.650.957	\$ 42.169.489	\$ 1.481.468

Revenue for the year ended December 31, 2009 was \$43,650,957 compared to that of \$44,359,007 million for 2008, the decrease was a result of unfavorable impact of a \$2,189,518 currency translation (not exchange) effect arising from a lower USD/Euro exchange rate. In constant currency revenues in actual fact increased with \$ 1,481,468 compared to 2008. The company achieved Mobile revenue of \$5,842,379.

Cost of service for the year ended December 31, 2009 was \$41,452,639, a decrease of \$1,883,472 or 4.3%, compared to \$43,336,111 for the same period in 2008. In constant currency the cost of service increased with \$251,580 or 0.6% compared to the same period in 2008, primarily as a result of higher levels of revenue.

Selling, general and administrative ("SG&A") expense for the year ended December 31, 2009 and 2008, was \$7,958,933 and \$7,569,583, respectively. SG&A expenses increased by \$389,350 or 5.1% in 2009 compared to 2008. In constant currency the SG&A increased with \$635,537 or 8.7% compared to the same period in 2008.

Depreciation and amortization for the years ended December 31, 2009 and 2008, was \$3,051,461 and \$2,903,244 respectively. Depreciation and amortization expenses increased by \$148,217 or 5.1% in 2009 compared to 2008. In constant currency the depreciation and amortization expenses increased with \$287,450 or 9.4% compared to the same period in 2008.

As a result of the Private Placement of Convertible Notes with associated warrants that took place during the third and fourth quarters of 2009 with gross proceeds of \$12.3 million, the Company had to account for (non-cash) interest expense related to amortization of debt discount on Promissory Notes of \$4,369,183 and a (non-cash) mark to market charge from the change in the fair value of Warrant Liabilities of \$538,382.

Net loss for the year ended December 31, 2009 was \$(17,299,884) compared to (\$16,015,359) for the same period in 2008. Excluding the abovementioned expenses related to the Convertible Notes as well as the Note beneficial conversion feature in the preceding year, the Net loss came to \$12,392,319 for 2009 and \$14,815,359 for 2008.

#### SEC REGULATION G -- NON-GAAP INFORMATION

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 FY 09 actual results.

	2009	2008
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,457,900	\$ 1,656,546
Restricted cash	192,116	191,209
Accounts receivable, net of an allowance for doubtful accounts of \$764,302 and \$503,102 at December 31, 2009 and December 31, 2008 respectively	5,071,293	4,574,013
Prepaid expenses and other current assets	2,657,019	1,916,967
	-----	-----
Total Current Assets	9,378,328	8,338,735
LONG TERM DEPOSITS	330,946	310,356
DEFERRED FINANCING COSTS	3,033,277	--
PROPERTY AND EQUIPMENT, NET	7,773,862	6,345,113
INTANGIBLE ASSETS, NET	3,910,363	4,461,869
	-----	-----
TOTAL ASSETS	\$24,426,776	\$19,456,073
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Overdraft	\$ 351,589	\$ 322,903
Accounts payable and customer deposits	6,475,074	5,809,211
Deferred revenue	132,205	220,058
Accrued expenses and other payables	2,738,998	1,890,004
Shares to be issued	--	619,057
Advances from related parties	13,287	274,762
Loans payable	880,536	881,035
	-----	-----
Total Current Liabilities	10,591,689	10,017,030
LONG TERM LIABILITIES		
Loan from related party	437,161	402,425
Warrant liabilities	16,626,126	--
Conversion feature	2,899,801	--
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Total Long term Liabilities	19,963,088	402,425
	-----	-----
Total Liabilities	30,554,777	10,419,455
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STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value, 250,000,000 shares authorized, 53,695,984 issued and outstanding as of December 31, 2009 compared to 50,433,260 shares issued and outstanding as of December 31, 2008	54,880,778	52,933,209
Accumulated other comprehensive income	1,136,897	946,834
Accumulated deficit	(62,335,076)	(45,035,192)
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Elephant Talk Communications, Inc. Stockholders' Equity	(6,317,401)	8,844,851
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NON-CONTROLLING INTEREST	189,400	191,767
	-----	-----
Total Stockholders' Equity	(6,128,001)	9,036,618
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$24,426,776	\$19,456,073
	=====	=====
	2009	2008
	-----	-----
REVENUES	\$ 43,650,957	\$ 44,359,007
COST AND OPERATING EXPENSES		
Cost of service	41,452,639	43,336,111
Selling, general and administrative expenses	7,958,933	7,569,583
Non cash compensation to officers, directors and employees	1,727,870	1,266,155
Depreciation and amortization of intangibles assets	3,051,461	2,903,244
Intangible assets impairment charge	--	3,730,524
	-----	-----
Total cost and operating expenses	54,190,903	58,805,617
LOSS FROM OPERATIONS	(10,539,946)	(14,446,610)
OTHER INCOME (EXPENSE)		
Interest income	160,535	42,258
Interest expense	(938,627)	(499,015)
Other expenses	(480,000)	--
Interest expense related to amortization of debt discount on promissory notes	(4,369,183)	--
Change in fair value of warrant liabilities	(538,382)	--
Amoritization of deferred financing costs	(591,710)	--
Note beneficial conversion feature	--	(1,200,000)
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Total other income (expense)	(6,757,367)	(1,656,757)
LOSS BEFORE PROVISION FOR INCOME TAXES	(17,297,313)	(16,103,367)

Provision for income taxes	(800)	(800)
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NET LOSS BEFORE NONCONTROLLING INTEREST	(17,298,113)	(16,104,167)
Net (loss) income attributable to noncontrolling interest	(1,771)	88,808
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NET LOSS	(17,299,884)	(16,015,359)
OTHER COMPREHENSIVE (LOSS) INCOME		
Foreign currency translation gain (loss)	190,063	(490,239)
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	190,063	(490,239)
COMPREHENSIVE LOSS	\$ (17,109,821)	\$ (16,505,598)
	=====	=====
Net loss per common share and equivalents - basic and diluted	\$ (0.32)	\$ (0.53)
	=====	=====
Weighted average shares outstanding during the period - basic and diluted	53,553,354	30,263,376
	=====	=====
	2009	2008
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CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (17,299,884)	\$ (16,015,359)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,051,461	2,903,244
Provision for doubtful accounts	220,156	381,783
Stock based compensation	1,561,378	1,266,154
Noncontrolling interest	1,771	(88,808)
Amortization of Shares issued for Consultancy	162,501	135,417
Change in fair value of warrant liabilities	538,382	--
Interest expense relating to debt discount and conversion feature	4,960,893	--
Note beneficial conversion feature	--	1,200,000
Intangible assets impairment charge	--	3,730,524
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(628,082)	(717,991)
Decrease (Increase) in prepaid expenses, deposits and other assets	846,491	542,528
Increase (decrease) in accounts payable, proceeds from related parties and customer deposits	602,179	1,157,354
Increase (decrease) in deferred revenue	(87,853)	126,171
Increase (decrease) in accrued expenses and other payables	740,769	(899,758)
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Net cash used in operating activities	(5,329,837)	(6,278,741)
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CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,869,149)	(2,178,478)
Restricted cash	(93)	(168,654)
Cash paid for acquisition of subsidiary	--	(1)
Loan to third party	(1,736,756)	--
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Net cash used in investing activities	(5,605,998)	(2,347,133)
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CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	27,125	127,495
Issuance of Common Stock	--	7,400,127
Placement fees	(100,000)	(1,737,915)
Proceeds from bank loans	--	--
Proceeds from Convertible 12% secured note	5,568,000	--
Proceeds from Convertible 12% secured note - related parties	6,765,015	--
Deferred financing costs	(1,495,674)	--
Loan from related party	34,736	402,425
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Net cash provided by financing activities	10,799,201	6,192,132
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EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(62,012)	(276,023)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(198,646)	(2,709,766)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	1,656,546	4,366,312
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CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 1,457,900	\$ 1,656,546
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$ 21,965	\$ 7,527
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	2009	2008
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SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING & FINANCING ACTIVITIES:

Shares issued to convert the notes payable to related parties and accrued interest	\$ 532,583	\$ 7,939,171
Cash paid during the period for income taxes	800	800
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Deemed Dividend as a result of loss on conversion of the above Note to related party	--	1,200,000
Warrants and derivative liabilities for issuance of 12% Promissory Notes are considered as discount of the Promissory		

Notes	12,333,020	--
Warrants issued to placement agents for services, treated as deferred financing costs	2,129,313	--

## **About Elephant Talk Communications**

Elephant Talk Communications, Inc., is a leader in telecommunications business software innovation and services. 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: <http://www.elephanttalk.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 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. Such statements involve risks and uncertainties, therefore 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; however, readers should review carefully reports or documents Elephant Talk files periodically with the Securities and Exchange Commission.

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