

Conclusion

Elephant Talk has leveraged an existing legacy telephone business into an enviable market position in two new areas of expected growth: Mobile telecomm back office services and transaction authentication and verification services. In its mobile telecomm unit, Elephant Talk has agreements to migrate mobile users in three countries in the EU and could add several more markets and even continents of service over the next 1-2 years, and through its ValidSoft division, the Company has filled out its product suite this year, and has signed recent agreements with a major UK building society and with a multinational credit card processor for its European bank customers, for a start. Altogether, with several growth initiatives on tap, an improved balance sheet, increased share price, trading volume and market capitalization, we feel that Elephant Talk will soon begin to attract greater interest from investors, and thus we are initiating coverage on ETAK with a BUY rating and 12-18 month price target of \$4.75 per share, or approximately 8X estimated revenues of \$50 million for this year.

History/Capitalization

Elephant Talk Communications was formed in 2001 as a result of a merger between Staruni Corporation of the US and Elephant Talk Limited based in Hong Kong. Staruni (previously Altuni) was a web developer and Internet Service Provider while Elephant Talk Limited was an international long distance services provider, specializing in international calling to China. In 2006, the Company abandoned its strategy focusing on calls to China and instead established a foothold in the European Telecommunications Market with the January 2007 acquisition of Benoit Telecom of Switzerland. In March 2010, Elephant Talk entered the market for authentication and transaction verification services through the acquisition of ValidSoft.

Elephant Talk became a reporting company on the OTC Bulletin Board in 2000 under the symbol "SRUN" but began trading under the current ETAK symbol in 2008 pursuant to a stock split. The Company has funded its acquisitions and operations through a series of equity offerings, the most recent of which was completed in October 2010. The Company maintains its corporate headquarters in the Netherlands with additional offices in Spain and China.

Products and Services

Elephant Talk Communications is an international provider of business software and services to the telecommunications and financial services industry. They focus their corporate strategy in three areas:

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

Landline Outsourced Solutions

Elephant Talk offers traditional landline services like Carrier Select, Carrier Pre-Select, Toll Free, and Premium Rate Services. These services are offered in nine European countries and Bahrain by operating a switch-based telecom network with national licenses and direct land line interconnects with Incumbents/National Telecom Operators. Elephant Talk also operates a Network Operations Center in Guangzhou, China, to monitor all landline, data and mobile traffic throughout their global clear bandwidth and IP network. Through its

proprietary Intelligent Network-Customer Relationship Manager (IN-CRM) platform, the Company offers geographical, premium rate, toll free, personal, nomadic and Voice over Internet Protocol (VoIP) services to primarily business customers. In recent years, Elephant Talk has focused its resources on other areas of growth, but this product line still accounts for the large majority of their current revenue.

Mobile Telecommunications

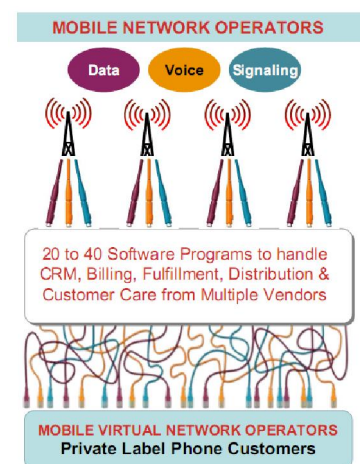
The use of mobile telephony has grown rapidly over the past five years, as consumers and business users more frequently choose handheld devices to best handle services such as mobile banking, telemedicine, location based services, credit card transactions, and social entertainment. The current telecommunications business model consists of Mobile Network Operators (MNO), who historically needed large capital outlays for the construction of the new towers, switches and infrastructure necessary to connect mobile telephone users as well as marketing programs to attract mobile customers. Examples of traditional MNOs include Sprint, Verizon, Vodafone and T-Mobile.

More recently, however, Mobile Network Operators have been outsourcing elements of their network operations (or “back office”) in an effort to reduce costs. In addition, a new organizational structure has grown in the past several years, Mobile Virtual Network Operators (MVNO), which can be either new subsidiaries of established providers or MNOs formed to offer a new, more specialized brand, or fast-moving sales and marketing companies reselling re-focused re-priced, re-bundled and re-packaged mobile telecomm services, in many cases well-established marketers who expand on an existing well-known brand in other non-telecomm areas, such as Virgin Mobile. These types of MVNOs must lease wireless spectrum and other services from existing MNOs, allowing new MVNO’s to serve niche customer markets (such as specifically targeted end-user groups) without incurring the high start-up costs associated with creating a cellular network., and also allowing MNO’s to leverage their existing capital-intensive infrastructure by increasing traffic (voice, text, data or media) over their networks.

Current MNO to MVNO Model

In order to provide service to the MVNO’s, each MNO employs roughly 20-30 separate software modules to handle back office tasks such as network management, billing, and customer relationship management (CRM). The diagram to the right depicts a traditional MNO to MVNO relationship. The drawbacks of the current model are:

- Operational expenses are high since personnel are required to manage as many as 20-30 different pieces of software;
- There are 6-12 month lead times for adding a new MVNO;
- Modules are difficult to update or modify because the software is all owned and maintained by multiple third party companies; and
- MVNO’s require substantial telecommunications expertise.

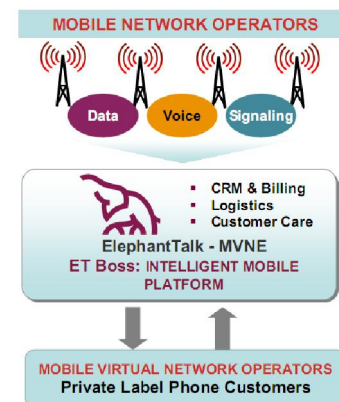


MVNE Model

Elephant Talk operates as a full Mobile Virtual Network Enabler (MVNE) with its own integrated platforms, switches, and network capabilities for back-office and customer interaction solutions. By implementing Elephant Talk’s ET Boss, MNO’s are able to do a one-time implementation to provide all back office services through one software platform. The advantages of implementing ET Boss are:

- Costs are typically reduced 75% for MNO's and 50% for MVNO's by eliminating the staff required to maintain 20-30 different modules;
- MNO's and MVNO's are provided with direct access to update and modify the components of ET Boss;
- Lead times in establishing a new MVNO are typically reduced from 6-12 months to 1-3 months;
- Software is easy to use and doesn't require the MVNO to possess extensive telecommunications expertise; and
- MVNO's are able to focus solely on marketing and sales

The diagram to the right outlines an alternative MVNE to MNO relationship employing the Company's proprietary intelligent mobile telecommunications software platform.



Elephant Talk Business Operating Support Solution (ET Boss) Software Platform

ET Boss software enables mobile carriers to outsource their entire back office to Elephant Talk. ET Boss reduces the number of software modules and vendors from over twenty to one. Additionally, ET Boss enables MVNO's to control their pricing and product offerings with the touch of a keypad through a windows interface. This compares with the current situation often experienced by virtual operators whereby it can take up to six months to effect a change in their product offerings. ET Boss' feature set includes:

Core Modules

- **Billing:** rating management, bill mediation, invoicing
- **Payment:** credit card, direct debit, PayPal
- **Provisioning:** switches, porting
- **Self Care:** mobile, carrier select, premium rate, toll free services
- **CRM:** trouble ticketing, customer management
- **Sales:** prospect management, sales management, analysis tools
- **Revenue Collection:** end-user credit management, credit control, fraud management
- **Control:** dashboard overview, reporting, quality analysis, quality control

Sub-Modules

- **Inficore:** core of the Intelligent Network (IN) platform, defines the framework, administrative modules and service logic processor that runs the call flows created with Infiscript
- **Infiscript:** graphical suite with which the call flows and business logic can be developed and compiled to be distributed to running Inficore environments
- **Infitel Suite:** comprises the applications and call flows that are running on top of Inficore and that have been created with Infiscript

Monetizing ET Boss

Elephant Talk has two business models for monetizing its ET Boss software:

- Model 1 markets the ET Boss software platform directly to MNO's with the goal of outsourcing their entire back office operations; while

- Model 2 markets Elephant Talk as a one stop solution for MVNO's by bundling back office support with airtime purchased from an MNO. Elephant Talk plans to service one MNO per country under Model 1, and provide service to numerous MVNO's under Model 2.

The diagrams below depict the Company's two mobile telecomm services models and components of each:

Model 1	Model 2
<ul style="list-style-type: none"> • Managed services provided directly to MNO's • \$1 per subscriber per month • High gross margins • Lower profit per subscriber but higher volume 	<ul style="list-style-type: none"> • Managed services bundled with airtime provided to MVNO's • \$15-\$25 per subscriber per month • Lower gross margins (20-30%) • Higher profit per subscriber but lower volume

Current Mobile Contracts

Elephant Talk's first revenue from its mobile enabling platform began during the fourth quarter of 2008 with T-Mobile in the Netherlands followed in 2009 with Vodafone's Vizzazi subsidiary in Spain, and in 2010 with KPN Group in Belgium. Elephant Talk hopes to grow its mobile service revenues in three ways:

- 1) Additional contracts with existing MNOs (such as T-Mobile and Vodafone) in new countries such as Turkey, Italy, United Kingdom, Germany, and India;
- 2) Expansion in existing countries such as the Netherlands and Spain through the signing of contracts with new MVNOs separately or in partnership with T-Mobile and/or Vodafone. Examples of these new contracts would be recently-signed agreements with Your Card and T-Mobile's Pre-paid Ben card in the Netherlands and Orbitel in Spain; and
- 3) Entering into new geographical service areas through contracts with new MNOs altogether.

The chart below outlines population, cell phones, land lines and density for 15 top European countries and the United States:

Country	Population	Cell Phones	Land Lines	LL/Person	CP/Person
Belgium	10,414,336	12,419,000	4,255	0.0004	1.192
Denmark	5,500,510	7,406,000	2,062,000	0.3749	1.346
Finland	5,250,275	7,700,000	1,430,000	0.2724	1.467
France	64,420,073	60,950,000	36,431,000	0.5655	0.946
Germany	82,329,758	105,000,000	48,700,000	0.5915	1.275
Ireland	4,203,200	5,048,000	2,202,000	0.5239	1.201
Italy	58,126,212	88,580,000	20,031,000	0.3446	1.524
Netherlands	16,715,999	19,927,000	7,324,000	0.4381	1.192
Norway	4,660,539	5,287,000	1,928,000	0.4137	1.134
Portugal	10,707,924	14,910,000	4,121,000	0.3849	1.392
Spain	40,525,002	49,682,000	20,200,000	0.4985	1.226
Sweden	9,059,651	10,988,000	5,323,000	0.5876	1.213
Switzerland	7,604,467	8,780,000	4,820,000	0.6338	1.155
Turkey	76,805,524	65,824,000	17,502,000	0.2279	0.857
United Kingdom	61,113,205	75,565,000	33,209,000	0.5434	1.236
United States	307,212,123	270,000,000	150,000,000	0.4883	0.879

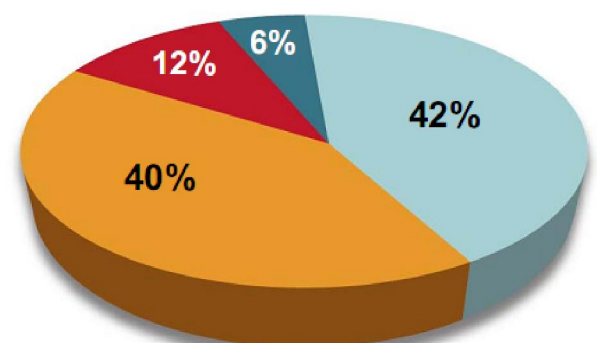
Source: US CIA World Factbook 2010

ValidSoft

ValidSoft provides advanced authentication and transaction verification capabilities that allow organizations to quickly implement solutions that protect against some of the latest forms of credit and debit card fraud and online transaction and identity theft. For example, in a recent press release by ValidSoft CEO Pat Carroll, the Company points out that there has been a recent surge of new, innovative types of credit/debit card fraud schemes such as "vishing" or "voice phishing" which occurs when criminals use an automated system to call people in a certain region to illicitly obtain financial information and "smishing" or "Short Message Service (SMS) phishing" when a text is used for the same purpose. By correlating the relative location of a person's credit card with the location of their mobile phone, ValidSoft's service can rapidly tell a bank or card issuer if a particular transaction is likely genuine or fraudulent. The Company intends to generate revenues from its ValidSoft subsidiary on a per transaction (or per verification) basis.

According to a recent study by Javelin Research (2009), the cost of electronic fraud in the United States to the financial services industry is currently at levels of \$128 billion per year and is expected to increase three fold over the next 3 to 5 years (Gartner Group). The chart to the right depicts the types of electronic fraud and their relative costs to the US financial services industry:

- Card Not Present Fraud (CNP) ~ \$52 Bn
- Card Present Fraud (CP) ~ \$50 Bn
- Internet Banking Fraud (IB) ~ \$15 Bn
- Telephone Fraud (Tel) ~ \$7 Bn



The main components of the Company's VALid product suite designed to combat these various threats are:

- **VALid-IVR** is the Real-Time Interactive Voice Response (IVR) Internet, Phone Banking and Call Center mutual authentication and transaction verification solution;
- **VALid-SMS** is the Store-and-Forward based protocol that provides Standard, Premium and Flash based messages, all with configurable Transaction Verification;
- **VALid-SVP** stands for Speaker Verification Platform and is the biometric voice verification capability of the VALid platform;
- **VALid-TDS** is the Transaction Data Signing capability of VALid, crucial in the provision of Non-Repudiation for Internet based financial transactions;
- **VALid-POS** is the Card-Present fraud prevention solution from ValidSoft, which targets one of the fastest growing fraud threats: card skimming;
- **VALid-ARM** stands for Advanced Risk Management and provides organizations with a suite of tools to enhance their fraud prevention capability and increase the effectiveness of their risk management function;
- **VALid-TTS** - The pluggable Text-to-Speech option that can run in parallel with a WAV based voice service or replace it completely;
- **VALid-VPN** - The Virtual Private Network client that allows users to gain secure remote access to an organization's protected network; and
- **VALid-ISA** - VALid's ISA integration provides secure access to applications accessed through ISA, e.g. Microsoft OWA.

Since inception, ValidSoft has achieved a number of milestones, chiefly:

1. Granted the European Privacy Seal in regards to VALid-POS;
2. Launched VALid-SVP;
3. Successful in a joint bid for the provision of a Self-Certification project to a European Union Government in the area of citizen benefit payments;
4. Filed applications for two new patents in the Card Not Present fraud prevention area;
5. Announced an agreement with the Cumberland Building Society, the 15th largest building society in the United Kingdom (similar to a community bank in the US), to incorporate VALid solution technology into new secure transaction services; and
6. Entered into a contractual arrangement with Visa Europe for the provision of fraud-prevention solutions (VALid-POS and VALid) to Visa's member banks in Europe.

Management and personnel

In addition to Company management and staff, Elephant Talk employs 85 individuals directly and the uses the long-term services of 27 independent contractors, each of which has entered into a confidentiality and non-competition agreement. In the past fiscal year, the Company has concentrated on the hiring of additional engineers and software developers to expand the Company's VoIP, Intelligent Network Platform, and Billing-CRM capabilities in order to strengthen the Company's competitive positions in the mobile services market. In addition, Elephant Talk has also increased personnel to some extent in the support and project management departments.

Competition

Landline Telecom Services

Elephant Talk faces competition in all segments where they offer traditional telecom services like carrier select, premium rate, and toll free services. They compete on a national basis with the incumbent telecom operators in Europe such as British Telecom, France Telecom, KPN, Telefonica, Telecom Italia, and Telekom Austria.

Providing Back-Office Services to MNO's

Elephant Talk faces competition in providing outsourced back office support to MNO's from three avenues:

- 1) The first is from companies such as Amdocs, Comverse, and Artilium that provide software to handle individual modules such as CRM and billing;
- 2) In addition, companies like Cap Gemini, Atos Origin, and Ericsson have emerged in a consulting role to integrate and manage the numerous modules from different providers; and
- 3) Furthermore, Elephant Talk faces competition from companies also aiming to become one-stop MVNE's such as Aspider, Vistream, Effortel, and Transatel.

Competitors in providing back-office services in the wireless industry include:

- **Amdocs** (NYSE/DOX/Not Rated) – Provides software and services to the communications, media, and entertainment industry. They specialize in CRM systems.
- **Comverse** (Nasdaq/CMVT/Not Rated) – Provides value added services and software to the communications industry. They specialize in CRM and billing systems.
- **Artilium** (LSE/ARTA.L/Not Rated) – Provides software solutions to the telecommunications industry. They provide support to MVNO's based on the ARTA platform, and compete in the MVNE space.
- **Cap Gemini** (Euronext/CAP.NX/Not Rated) – Provides consulting, technology, and outsourcing services.
- **Atos Origin** (Euronext/ATO.NX/Not Rated) – Provides consulting, systems integration, and managed operations services.
- **Ericsson** (Nasdaq/ERIC/Not Rated) – Provides communications equipment and related services.
- **Aspider** (Private) – Supplies a complete outsourced solution for branded mobile services.
- **Vistream** (Private) – Operates as an MVNE by taking on the tasks of a mobile network operator for its customers.
- **Effortel** (Private) – Enables leading consumer brands to offer simple and inexpensive telecom products to their customers.
- **Transatel** (Private) – Launches MVNO's in European countries through agreements with Bouygues Telecom, Orange, and Tango.

Providing Airtime to MVNO's

Elephant Talk directly competes with MNO's to provide airtime to MVNO's. These MNO's are the same companies Elephant Talk hopes to provide managed services to, such as Vodafone, T-Mobile, and KPN. Currently, the competition is minimal, but may increase if new technologies make it more cost effective for MNO's to provide service to both larger and smaller MVNO's.

Fraud Prevention Services

Elephant Talk's subsidiary ValidSoft faces competition in the fraud prediction and prevention services market from companies such as Authentify, Strikeforce, and VeriSign. These competitors are further described below:

- **Authentify** (Private) – Provides automated authentication services to online business enterprises.
- **Strikeforce** (Nasdaq/SFOR/Not Rated) – Provides a suite of integrated computer network security products and develops identification protection software.
- **VeriSign** (Nasdaq/VRSN/Not Rated) – Provides internet infrastructure, identify, and authentication services. VeriSign recently sold its domain name registry business to concentrate on these services.

Recent Results

Elephant Talk reported financial results for their Q3/2010 (ending September) in mid-November, and while legacy telecom and overall revenues declined, the Company made progress in advancing their new business initiatives forward. For the quarter, revenues declined to \$9.0 million from \$11.5 million in the prior year period, or 21%, due primarily to the loss earlier this year of a large landline telephony customer which had experienced financial difficulty. Net loss increased to \$22.9 million or (\$0.32) per share in Q3/2010 versus \$5.1 million or (\$0.09) per share in the prior year period. Gross margins decreased slightly during the period, however, even with a richer product mix leaning more heavily on mobile services. A \$1 million currency translation effect resulting from the strength of the Euro versus the \$US also had a large impact on results in Q3/2010, including an unfavorable impact on revenues and a positive impact on gross profit. Minus the impact of currency translation, non-cash stock compensation, increased amortization from the recent ValidSoft acquisition, and other expenses, adjusted EBITDA came in at (\$5.1) million for the first nine months of 2010, just slightly less than the (\$4.7) million Adjusted EBITDA for the same period in 2009.

Among the new business developments reported by the Company since the start of the calendar year, are:

- Mobile Virtual Network Operating (MVNO) agreements in the Netherlands with T-Mobile, which went live in early September. Concurrently, Elephant Talk has signed seven agreements with new MVNOs in the Netherlands, with implementation phase in the final stage;
- Signed a framework hosting agreement with KPN Group Belgium NV, Elephant Talk will begin connecting MVNO's in Belgium to its platform in the near future;
- Started migration of substantial MVNO traffic migration in Spain following recent regulatory clearance. Altogether, 50,000 users in Europe have migrated to the Company's mobile platform so far this year; and
- Launched VALid-SVP, a voice biometric technology, was granted the European Privacy Seal for VALid-POS, and announced an agreement with Cumberland Building Society, the 15th largest building society in the UK (similar to a community bank in the US) to incorporate ValidSoft's VALid secure transaction technology.

The chart below outlines revenues, gross profit, operating expenses, net income (loss), earnings per share and shares outstanding for Elephant Talk for the most recent Q3/2010 financial results as compared with the prior year period:

Quarter ended (\$000s)	September 30, 2009	September 30, 2010
Revenues	\$11,455	\$9,040
Gross Profit	\$581	\$402
Operating expenses	\$4,063	\$5,057
Net income (loss)	(\$5,088)	(\$22,908)
Earnings per share	(\$0.09)	(\$0.32)
Shares outstanding	53,553	72,426

Balance Sheet and Operating Cash Flow

At the end of its third quarter (ending September 30, 2010), the Company had approximately \$1.8 million in cash and equivalents, offset by approximately \$4.0 million in combined short-term and long-term notes, convertibles, and bank overdrafts. For the quarter, we estimate that Elephant Talk's net cash burn was approximately \$2.5-\$3.0 million, as compared with \$2.0 million in the prior year period. Subsequent to the end of the third quarter, the Company completed the final tranche of its \$14 million private placement for net proceeds of \$12.3 million, bolstering its balance sheet. In addition, certain clauses contained in the Company's promissory notes and loans owed to QAT investments were triggered as a result of Elephant Talk raising over \$11 million in an offering, and therefore over \$5.3 million of the convertible notes and \$2.8 million in bridge notes were converted to 4.4 million and 2.3 million shares of stock, respectively. Although we do not forecast Elephant Talk showing profitable operations or positive cash flow until sometime next year or even 2012, current cash on hand (including the recently completed private placement) should be adequate to cover expected operating losses for the Company until quarterly revenues increase to the levels required to reach profitability or at least positive cash flow.

The table below outlines cash and equivalents, receivables, loans payable and overdrafts, convertible debt, and stockholders' equity (deficit) for Elephant Talk for the most recent Q3/2010 ended September 30th as compared with the prior year-ended December 31st, 2009 period:

Quarter ended (\$000s)	December 31st, 2009	September 30th, 2010
Cash and equivalents	\$1,458	\$1,824
Accounts receivable	\$5,071	\$6,691
Loans payable/overdrafts	\$1,233	\$1,244
Convertible debt	\$0	\$2,813
Stockholders' equity (deficit)	(\$6,128)	(\$28,106)

Outlook/Growth Drivers

Our forecasts for Elephant Talk over the next 12-24 months assume a turnaround in revenue growth in the 20%-30% annual range, steadily rising gross margins as volumes pick up, operating expense line items (primarily selling and general and administrative) rising only slowly from current levels and steady interest costs helping

the Company reduce its net losses next year and possibly reach break-even in 2012. On the revenue side, we forecast that new MVNO customers will fuel growth in 2011, especially in Europe, but that the following year ValidSoft-created transactions fees and MVNO customers in new geographic areas will also contribute to revenue growth.

For Q4/2010, set to be reported in March or early April of next year, we are estimating that Elephant Talk will record \$9.5 million in revenues and approximately \$4.7 million in net losses (including about one-half of these losses in non-cash items) or (\$0.05) per share. Similar to the third quarter, we are forecasting that growth in new MVNO adoptees will not yet offset the loss of older legacy customers, but however, growth in new business will be great enough to show quarter-to-quarter revenue growth once again.

For 2011, we are estimating that Elephant Talk will reach \$50 million in revenues, led by over \$16 million in mobile service sales and \$1 million in other revenue, including initial sales/transaction fees from ValidSoft products. While our estimates for the 2011 year include \$10.5 million in losses, or (\$0.12) per share, since much of our assumed expenses are non-cash related, we are actually forecasting break-even operating cash flow and positive adjusted EBITDA for Elephant Talk for that year. For the following year, 2012, we are estimating that the mobile services category will continue to grow for Elephant Talk, but that ValidSoft fees will also expand, leading to revenues of \$60 million and break-even net income. Due again to high non-cash expenses expected in 2012, adjusted EBITDA and cash flow will be much better for the Company, forecasted to be a positive \$0.11 per share for each.

Management

Steven van der Velden has served as Chairman, CEO, and President of Elephant Talk since 2006. He is also currently the Chairman of QAT investments, a Luxembourg-based early/mid-stage private equity venture fund investing in early stage technology companies. Prior to joining Elephant Talk, Mr. van der Velden co-founded InTouch Telecom in 1994, a provider of telecom applications to the Belgian market, which became the second largest carrier in that country and was successfully sold to Global Telesystems Group in 1999. In 2003, Mr. van der Velden was involved in the acquisition and repositioning of Telfort NV, a mobile telephone network service provider, which was sold in 2005 to Dutch telecom company KPN. Mr. van der Velden also co-founded the International Telemedia Association (now known as the Network for Online Commerce) and E-commerce Park, a data center and internet housing facility in Curacao. Mr. van der Velden holds a master's degree in Law and a master's degree in Business Administration.

Mark Nije has served as Chief Financial Officer since 2008. Prior to joining Elephant Talk, Mr. Nije served as an investment manager and partner for QAT. In addition, he co-founded Logistic Management International, a cargo transportation and airport handling company, and was also employed as a project manager for Tebodin Consulting Engineers, a management consultant for Reitsma & Wertheim M&A specialists, and as General Manager/CFO of Benoit Telecom. Mr. Nije earned a Master's Degree in Business Administration and a Bachelor of Science Degree in Building Construction Management.

Martin Zuurbier has held the positions Chief Operating Officer and Chief Technical Officer since 2007. Prior to joining Elephant Talk, he served as COO and CTO of Benoit Telecom Holdings, a telecom service provider in Europe that was acquired by Elephant Talk in 2007. In addition, Mr. Zuurbier was the founder of Vocalis Telecom Group, a telecommunications company servicing countries throughout Europe, and was involved in the development of new switching technology in collaboration with hardware manufacturer Dialogic and implementation of the Amsterdam Carrier Ring. Mr. Zuurbier is also a director of Elephant Talk.

Willem van den Brink has served as Chief Commercial Officer since October 2010. Prior to joining Elephant Talk, Mr. van den Brink was the Vice President of New Business Development for KPN Mobile International

and held other senior management positions for KPN Netherlands. In the newly created CCO position, Mr. van den Brink will create and organize partnership agreements between mobile telecom and media, branding, content, distribution and financial transaction partners. Mr. van den Brink holds a Masters degree in Experimental Physics and a Ph. D.

Patrick Carroll is the CEO of ValidSoft. Prior to founding ValidSoft, Mr. Carroll was Head of Electronic Trading Technology in Europe for Goldman Sachs and has over 25 years experience in information technology and financial markets.

Phil Hickman is the Chairman of ValidSoft. Prior to joining ValidSoft, Mr. Hickman was the CEO of Intelligent Processing Solutions, and spent over 30 years in international commercial banking. Mr. Hickman is also a director of Elephant Talk and was appointed in March 2010.

Steve Gersten is the Vice President of US Sales and Operations for ValidSoft. Prior to joining ValidSoft, Mr. Gersten spent 15 years as a Senior Sales Executive for Computer Associates and headed up several start-up security ventures in the US.

In addition to Mr. van der Velden, Mr. Zuurbier and Mr. Hickman, other directors for Elephant Talk include **Johan Dejager**, currently the managing director and owner of Osta Carpets, a specialized niche producer of area rugs, **Yves R. van Sante**, the current CEO of QAT investments; and **Roderick de Greef**, who is currently the principal of Taveyenne Capital Advisers, a firm providing corporate finance consulting services and Chairman of the Board of Cambridge Heart (Nasdaq/CAMH/Buy), a US-based provider of cardiovascular diagnostic systems.

Comparable Company Analysis/Stock Valuation

We have compiled a five-member group of comparable stocks to Elephant Talk, including several firms providing software services for mobile telecommunications companies, notably Amdocs (Nasdaq/DOX/Not Rated), newly-public Motricity (Nasdaq/MOTR/Not Rated), PROS Holding (NYSE/PRO/Not Rated), and Virtusa (Nasdaq/VRTU/Not Rated), as well as VeriSign (Nasdaq/VRSN/Not Rated) the leading provider of identity and authentication services similar to the services provided by Elephant Talk's subsidiary ValidSoft. Table 1. outlines price/earnings and price/revenues multiples for five companies in the mobile telecomm services or authentication services and Elephant Talk.

Using the Company's projected revenues for 2010 of a little over \$50 million, we find that Elephant Talk's price/revenue multiple is near the mean of 4.7x for the five member comparable group; however by using the average multiple of the two fastest growing and most well-known stocks in our group, VeriSign and Motricity, we find that Elephant Talk is valued at a discount of 40%-50% to this average ratio. Thus, we believe that as Elephant Talk grows and its story and prospects become more familiar to technology investors, ETAK shares can appreciate to an average price/revenue multiple over 8X, allowing for share price appreciation to approximately \$4.75. Thus, we are recommending that investors Buy shares of ETAK with a 12-18 month price target of \$4.75, representing a price/revenue multiple of a little over 8X estimated revenues of \$50 million for the Company for this fiscal year.

Catalysts/Investor Timeline

- 1) Agreement signed with Visa Europe for fraud-protection solutions – November 2010
- 2) Further agreements signed with Visa Europe member banks – 2011-12
- 3) Growth in mobile user migrations in Spain, the Netherlands and Belgium – 2011-12
- 4) Additional MVNOs signed as part of existing platform agreements – 2011-12
- 5) Mobile service agreements for new European countries – 2011-12
- 6) Mobile service agreements for new continents – 2011-12

Risk Factors

We believe an investment in Elephant Talk involves the following risks:

- **Lack of historic profitability** — Elephant has not achieved operating profitability since its initial organization several years ago, and the Company is furthermore not projected to reach profitability for several more years by our estimate. Although Elephant Talk has recently raised additional operating funds from the public equity markets, there can be no assurance that the Company will not need to raise additional equity capital in the future before it can turn profitable and begin to operate on a positive cash flow basis.
- **Share price issues** – Currently ETAK shares trade on the US Over-the-Counter bulletin board, making the trading of these shares very problematic for many investors and thus reducing the overall market for these shares. However, the recent increase in trading volumes has made amassing and holding investment positions in ETAK shares less difficult, and with the recent improvement in the Company's balance sheet and increase in share price, the Company may soon be able to complete a move of its shares to a larger, more established US-based stock exchange, for example Nasdaq or the American Stock Exchange.
- **Technological obsolescence** – Currently, Elephant Talk's growth strategy relies on the future potential adoption of mobile telephone services by an increasing number of individuals in Europe and later across the globe. However, there can be no assurance that in the future new technologies will not be invented and adopted which will make existing mobile telephones obsolete, thus reducing the need for the Company's services.
- **Reliance on partners** – At present, Elephant Talk derives much of its revenues and future growth prospects from customers of a relatively few large telecommunications providers such as T-Mobile and Vodafone. There can be no assurance that these large partners will continue to add new customers or migrate older customers into new platforms, including MVNO subsidiaries.

Elephant Talk Communications, Inc.
Consolidated Statements of Operations and Comprehensive Loss
 (In 000s, except per share data)

FYE December	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10E	2010E	2011E	2012E
			March	June	Sept	Dec		March	June	Sept	Dec			
Revenues	\$47,361	\$44,359	\$9,429	\$11,311	\$11,455	\$11,455	\$43,651	\$9,944	\$9,674	\$9,040	\$9,500	\$38,158	\$50,300	\$60,000
Cost of services	45,609	43,336	9,148	10,632	10,874	10,798	41,453	9,374	9,005	8,639	8,800	35,818	40,240	40,200
Gross Profit	1,752	1,023	281	679	581	657	2,198	570	668	402	700	2,340	10,060	19,800
Operating Expenses:														
Selling, general & administrative expenses	5,826	7,570	1,463	1,784	2,949	1,763	7,959	1,905	2,079	2,796	2,900	9,680	10,000	10,300
Non-cash compensation	5,046	1,266	269	750	253	455	1,728	541	2,713	780	830	4,863	5,000	4,000
Depreciation and amortization	2,233	2,903	630	708	862	852	3,051	845	1,515	1,481	1,500	5,342	5,500	5,800
Impairment change & other one-time	0	3,731	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	13,105	15,470	2,363	3,242	4,063	3,070	12,738	3,291	6,308	5,057	5,230	19,885	20,500	20,100
Income (loss) from operations	(11,352)	(14,447)	(2,082)	(2,563)	(3,482)	(2,414)	(10,540)	(2,721)	(5,639)	(4,655)	(4,530)	(17,544)	(10,440)	(300)
Other Income														
Interest income	101	42	10	12	24	114	161	33	33	41	100	206	400	800
Interest expense	(849)	(499)	(72)	(136)	(324)	(407)	(939)	(447)	(536)	(538)	(100)	(1,621)	(400)	(100)
Other expenses	1,470	(1,602)	(668)	470	(1,306)	(4,286)	(5,790)	(9,725)	(11,384)	(17,756)	(200)	(39,065)	(100)	(100)
Income (loss) before tax	(10,630)	(16,506)	(2,811)	(2,217)	(5,088)	(6,992)	(17,108)	(12,860)	(17,527)	(22,908)	(4,730)	(56,610)	(10,540)	300
Provision for income taxes	1	1	1	0	0	0	1	1	1	0	0	2	0	0
Net income (loss)	(10,631)	(16,506)	(2,812)	(2,217)	(5,088)	(6,992)	(17,109)	(12,861)	(17,527)	(22,908)	(4,730)	(56,611)	(10,540)	300
Basic income per share	(\$1.12)	(\$0.55)	(\$0.05)	(\$0.04)	(\$0.09)	(\$0.13)	(\$0.32)	(\$0.23)	(\$0.28)	(\$0.32)	(\$0.05)	(\$0.81)	(\$0.12)	\$0.00
Diluted income per share	(\$1.12)	(\$0.55)	(\$0.05)	(\$0.04)	(\$0.09)	(\$0.13)	(\$0.32)	(\$0.23)	(\$0.28)	(\$0.32)	(\$0.05)	(\$0.81)	(\$0.12)	\$0.00
Basic shares outstanding	9,531	30,263	51,509	53,864	54,373	54,373	53,553	55,667	62,356	72,142	88,500	69,666	90,500	92,500
Diluted shares outstanding	9,531	30,263	51,509	53,864	54,373	53,553	53,553	55,667	62,356	72,142	88,500	69,666	90,500	92,500
Key ratios:														
Revenue growth		-6.3%	-19.8%	-5.1%	1.0%	22.7%	-1.6%	5.5%	-14.5%	-21.1%	-17.1%	-12.6%	31.8%	19.3%
Gross margin	3.7%	2.3%	3.0%	6.0%	5.1%	5.7%	5.0%	5.7%	6.9%	4.4%	7.4%	6.1%	20.0%	33.0%
S G & A/sales	12.3%	17.1%	15.5%	15.8%	25.7%	15.4%	18.2%	19.2%	21.5%	30.9%	30.5%	25.4%	9.0%	9.0%
Depreciation, amort, non-cash comp	\$7,279	\$4,169	\$900	\$1,458	\$1,114	\$1,307	\$4,779	\$1,386	\$4,228	\$2,261	\$2,330	\$10,204	\$10,500	\$9,800
Operating margin	-24.0%	-32.6%	-22.1%	-22.7%	-30.4%	-21.1%	-24.1%	-27.4%	-58.3%	-51.5%	-47.7%	-46.0%	-20.8%	-0.5%
Cash Flow/share	(\$0.51)	(\$0.29)	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.03)	(\$0.12)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.02)	(\$0.13)	\$0.00	\$0.11
EBITDA/share	(\$0.51)	(\$0.27)	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.03)	(\$0.12)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.02)	(\$0.13)	\$0.00	\$0.11

Balance Sheets

(\$000s)

Assets:	12/31/09	9/30/10
Cash and equivalents	\$1,458	\$1,633
Restricted Cash	192	191
Accounts receivables, net	5,071	6,691
Prepaid expenses & other current	2,657	2,115
Total current	9,378	10,630
Long Term Deposits	331	384
Deferred Financing Costs	3,033	1,551
Property and Equipment	7,774	8,297
Intangible assets, net	3,910	17,507
Goodwill	0	3,320
TOTAL ASSETS	\$24,427	\$41,688
Liabilities:		
Overdraft	352	364
Accounts payable	6,475	4,709
Deferred Revenue	132	0
Accrued expenses	2,739	5,275
Shares to be issued	0	352
Convertible 14% loan	0	2,518
Advances	13	0
Loans payable	881	880
Total current	10,592	14,099
Loan from related party	437	460
Convertible 12% note	0	295
Warrant liabilities	16,626	38,587
Conversion feature	2,900	16,354
TOTAL LIABILITIES	30,555	69,794
Stockholders' equity	(6,128)	(28,106)
TOTAL LIAB & EQ	\$24,427	\$41,688

Quarterly Earnings Comparisons

	March	June	Sept	Dec	Total
Revenues (in \$Mill)					
2008	\$11,757	\$11,921	\$11,346	\$9,334	\$44,359
2009	9,429	11,311	11,455	11,455	43,651
2010E	9,944	9,674	9,040	9,500	38,158
Earnings per Share					
2008	(\$0.01)	(\$0.15)	(\$0.12)	(\$0.13)	(\$0.55)
2009	(0.05)	(0.04)	(\$0.09)	(\$0.13)	(0.32)
2010E	(0.23)	(0.28)	(\$0.32)	(\$0.05)	(0.81)

Operating Statistics

	2007	2008	2009	2010E	2011E	2012E
Sales by Type (\$000s)						
Premium Rate Services		\$40,041	\$35,792	\$33,500	\$32,000	\$31,000
Mobile Services		362	5,842	3,000	16,300	25,000
Middle East Calling Cards		296	1,207	1,000	1,000	1,000
Other Revenue		1,470	810	700	1,000	3,000
Total Revenue (Constant Currency)		42,169	43,651	38,200	50,300	60,000
Sales by Region (\$000s)						
Netherlands		\$33,456	\$32,745	\$33,611	\$28,500	\$34,000
Spain		3,644	2,772	2,278	2,500	5,000
Switzerland		9,450	7,351	6,118	6,000	7,000
Middle East		-	296	1,207	1,000	1,300
Other countries		811	1,200	438	200	3,000
Total Revenue		47,361	44,365	43,651	38,200	50,300

Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Mobile Telecom IT Services/Authentication Services Comparable Company Analysis

Company	Symbol	Price	Shares	Market Cap	Calendar Year		Revenues	Calendar Year		Price/Revs	Earnings	Growth Notes
			(millions)	(\$Millions)	EPS '10E	EPS '11E	2010E(Mil)	P/E '10E	P/E '11E	2010E		
Amdocs	DOX	\$26.31	195	\$5,130.5	\$2.28	\$2.47	\$2,990.0	11.5	10.7	1.72	8.3%	CRM Software Services
Motricity	MOTR	28.05	40	1,130.4	0.38	0.79	133.0	73.8	35.5	8.50	107.9%	Mobile data services for wireless providers
Pros Holding	PRO	10.01	26	262.1	0.22	0.31	72.5	45.5	32.3	3.61	40.9%	Pricing and Margin Optimization Software
Virtusa	VRTU	13.75	24	330.0	0.50	0.66	211.7	27.5	20.8	1.56	32.0%	Communications IT Services Consulting
VeniSign	VRSN	35.50	172	6,106.0	1.16	1.50	780.0	<u>30.6</u>	<u>23.7</u>	<u>7.83</u>	<u>29.3%</u>	Identity and Authentication Verification
Average								37.8	24.6	4.64	43.7%	
Elephant Talk	ETAK	\$3.33	88	293	(\$0.81)	(\$0.12)	\$ 50	N/A	N/A	5.83	N/A	Mobile telecomm and Identity Theft Consulting

Source: DJSI Research; Thomson Financial Network, Capital IQ

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – November 26, 2010 – Target \$4.75

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	17	74%	5	29%
Neutral	6	26%	5	83%
Sell	0	0%	0	0%
Total	23	100%	10	43%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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