

VOIP INC  
Form 10KSB/A  
May 11, 2006

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

**FORM 10-KSB/A  
(Amendment No. 2)**

(Mark One)

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

For the fiscal year ended December 31, 2004

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period \_\_\_\_\_ to \_\_\_\_\_  
*Commission file number 000-28985*

**VOIP, INC.**

(Name of small business issuer in its charter)

Texas  
(State or other jurisdiction of incorporation or organization)

75-2785941  
(I.R.S. Employer Identification No.)

12330 SW 53<sup>rd</sup> Street, Suite 712  
Fort Lauderdale, Florida  
(Address of principal executive offices)

33330  
(ZIP Code)

Issuer's telephone number, including area code: (954) 434-2000

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

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.001.**

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and none will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by a check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
YES  NO

The issuer's revenues for its most recent fiscal year were: \$1,828,193.

The aggregate market value of the voting common stock held by non-affiliates of the issuer, based on the average bid and asked price of such stock, was \$98,248,877 at December 31, 2004.

At March 18, 2005, the registrant had outstanding 26,378,132 shares of par value \$.001 common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business Disclosure Format (Check one): Yes ; No

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**VOIP, INC.**

**FORM 10-KSB/A FOR THE YEAR ENDED DECEMBER 31, 2004**

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### Explanatory Note

VoIP, Inc. (the "Company") is filing this Amendment No. 2 to its Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "2004 10-KSB"), which was originally filed on March 30, 2005, and amended on November 23, 2005. This Amendment No. 2 is being filed to restate the Company's financial statements for the year ended December 31, 2004, which were misstated, resulting in overstated revenues, expenses, receivables and payables, and understated net loss. This misstatement was discovered by the senior financial management personnel that commenced their employment with the Company in the fourth quarter of 2005, during their review and analysis in connection with the preparation of the Company's 2005 annual financial statements. This misstatement occurred in the financial statements of the Company's consolidated subsidiary VCG Technologies, Inc., doing business as DTNet Technologies ("DTNet"), which was acquired in June 2004. The Company has therefore decided to restate its 2004 consolidated financial statements to correct these misstatements. Adjustments are made to reduce: (a) the overstatements of revenues and receivables; (b) the overstatement of cost of goods sold; and (c) the understatement of net loss, which aggregated \$791,200, \$498,123, and \$462,618, respectively, for the year ended December 31, 2004.

The Company's amended Annual Report on Form 10-KSB/A filed on November 23, 2005 previously restated the Company's 2004 consolidated financial statements to include approximately \$1.4 million in compensation expense relating to warrants and options issued to employees during 2004. In addition, certain reclassifications have been made to the 2004 financial statements presented herein to conform to the presentation as filed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005 which was filed on April 17, 2006.

This Amendment No. 2 amends (i) Part II, Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Plan of Operation to reflect the restated results of operations for 2004; (ii) Part II, Item 8 - Financial Statements to provide the restated financial statements and notes thereto for 2004; (iii) Part II Item 8A - Controls and Procedures - Evaluation of Disclosure Controls and Procedures to report management's assessment of the Company's disclosure controls as of the date of the filing of this Amendment No. 2; and (iv) the certifications required under Rules 13a-15 and 15d-15(e) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") so that they can be dated as of a current date as required by Rule 12b-15 of the Exchange Act.

This Amendment does not reflect events occurring after the filing of the 2004 10-KSB, and does not update or modify the disclosures therein in any way other than as required to reflect the amendments described above.

## PART II

### **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND PLAN OF OPERATION**

The information presented in this section should be read in conjunction with the information contained in the financial statements, including the notes thereto, and the other financial statements appearing elsewhere in this report.

#### **General**

The following discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other financial information appearing elsewhere in this Annual Report on Form 10-KSB/A. Certain statements contained in this Annual Report on Form 10-KSB/A and other written material and oral statements made from time to time by us do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" that provide current expectations or forecast of future events. Such statements are typically characterized by terminology such as "believe," "anticipate," "should," "intend," "plan," "will," "expect," "estimate," "project," "strategy" and similar expressions. Our forward-looking statements generally relate to the prospects or future sales of our products, the success of our marketing activities, and the success of our strategic corporate relationships. These statements are based upon assumptions and assessments made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors our management believes to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including the following: our ability to achieve profitable operations and to maintain sufficient cash to operate its business and meet its liquidity requirements; our ability to obtain financing, if required, on terms acceptable to it, if at all; the success of our research and development activities; competitive developments affecting our current products; our ability to successfully attract strategic partners and to market both new and existing products; exposure to lawsuits and regulatory proceedings; our ability to protect our intellectual property; governmental laws and regulations affecting operations; our ability to identify and complete diversification opportunities; and the impact of acquisitions, divestitures, restructurings, product withdrawals and other unusual items. Except as required by applicable law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **Restatement of 2004 Financial Statements**

On March 22, 2006, we concluded that our consolidated financial statements for the year ended December 31, 2004 were misstated, resulting in overstated revenues, expenses, receivables and payables, and understated net loss. These misstatements were discovered by the senior financial management personnel that commenced their employment with the Company in the fourth quarter of 2005, during their review and analysis in connection with the preparation of the 2005 annual financial statements. The misstatements occurred in the financial statements of our consolidated subsidiary, DTNet, which was acquired in June 2004. We have therefore decided to restate our 2004 consolidated financial statements to correct these misstatements. Adjustments to reduce: (a) the overstatements of revenues and receivables; (b) the overstatement of cost of goods sold; and (c) the understatement of net loss, aggregated \$791,200, \$498,123, and \$462,618, respectively, for the year ended December 31, 2004.

Our amended Annual Report on Form 10-KSB/A filed on November 23, 2005 previously restated our 2004 consolidated financial statements to include approximately \$1.4 million in compensation expense relating to warrants and options issued to employees during 2004.

In addition, certain reclassifications have been made to the 2004 financial statements contained herein, to conform to the 2004 presentation as filed in our Annual Report on Form 10-KSB for the year ended December 31, 2005, which

was filed on April 17, 2006.

The following table sets forth the impact of these restatements on certain amounts previously reported in our consolidated financial statements for the year ended December 31, 2004:

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Balance Sheet Data

|                            | As of December 31, 2004 |  |                    |
|----------------------------|-------------------------|--|--------------------|
|                            | As Originally Reported  | As Previously Restated in Amendment No.1 | As Restated Herein |
| Accounts receivable        | \$ 818,071              | \$ 818,071                               | \$ 166,239         |
| Inventory                  | 187,451                 | 187,451                                  | 324,185            |
| Accounts payable           | 1,224,974               | 1,224,974                                | 1,148,833          |
| Additional paid-in capital | 12,722,565              | 14,107,328                               | 14,107,328         |
| Accumulated deficit        | (4,639,386)             | (6,024,149)                              | (6,486,767)        |

Statement of Operations Data

|   | Year Ended December 31, 2004 |  |                    |
|---|------------------------------|--|--------------------|
|   | As Originally Reported       | As Previously Restated in Amendment No.1 | As Restated Herein |
| Revenue   | \$ 2,619,393                 | \$ 2,619,393                             | \$ 1,828,193       |
| Cost of goods sold  | 1,870,269                    | 1,870,269                                | 1,372,146          |
| Compensation and related expenses   | 2,721,296                    | 4,106,059                                | 4,106,059          |
| General and administrative expenses   | 2,187,878                    | 2,187,878                                | 2,357,419          |
| Loss from continuing operations before income taxes and discontinued operations | (4,160,050)                  | (5,544,813)                              | (6,007,431)        |
| Net loss  | (4,014,739)                  | (5,399,502)                              | (5,862,120)        |
| Net loss per share  | (0.27)                       | (0.37)                                   | (0.40)             |

For discussion of the impact of these restatements on current management's evaluation of disclosure controls and procedures, the separate Board of Directors investigation of these misstatements and the steps we are taking to address the issues associated with these misstatements, see Item 8A. "Controls and Procedures."

**Results of Operations**

Net revenue totaled \$2,236,806 (\$1,828,193 from continuing operations) for the year ended December 31, 2004 as compared to \$8,678 for the year ended December 31, 2003. The \$2,228,128 increase in total net revenue was primarily attributable to our entry into the new voice over internet protocol ("VoIP") business segment and the acquisition of Vox Consulting Group, Inc., doing business as VoipAmericas, and DTNet in 2004.

Revenue from the sale of tea in the segment business that we have discontinued was \$408,613, or 18.3%, of total net revenue for the year ended December 31, 2004, versus \$8,678, or 100%, of total net revenue for the prior year.

We acquired DTNet in June 2004 and VoipAmericas in September 2004. DTNet provides customer premises equipment to cable and DSL Internet providers throughout North America. DTNet sales were approximately \$4.7 million in 2003. VoipAmericas' revenue for the first nine months of 2004 were \$1.4 million. Management believes that the acquisitions of DTNet and VoipAmericas will provide proven distribution channels and leadership in sales throughout the Americas. DTNet and VoipAmericas complement our strategy to deliver VoIP services over a wireless local loop and deliver service provider solutions to cable operators.

Net losses for the respective years ended December 31, 2004 and 2003 were \$5,862,120 and \$352,968, respectively. Net loss per share was \$0.40 and \$0.20, respectively, for each period.

Operating expenses consist of salaries and related personnel costs, outside legal and professional fees, directors and officers insurance, bad debt expenses and general corporate overhead costs. Operating expenses were approximately \$6.5 million for the year ended December 31, 2004. Operating expenses for 2003 have been reclassified and included in the loss from discontinued operations for 2003 of \$352,968. Compensation and related expenses for 2004 include approximately \$2.2 million in compensation costs for warrants issued to employee and approximately \$1.1 million in compensation costs for stock options issued to employees and also reflect increases in headcount and related personnel expenses. The general and administrative expenses for 2004 reflect the Company's new line of business, VoIP telephony services.



The comparison of operations for the years ended December 31, 2004 and 2003 is not indicative of our current business model, since during 2003, we were in the business of importing and selling a line of fine teas. We have since discontinued the tea business, to focus solely on VoIP and emerging technologies.

### Liquidity and Capital Resources

As of December 31, 2004, we had cash and cash equivalents approximating \$1,141,000. We had two borrowing arrangements, one for \$200,000 with a local bank and one for \$560,000 with a note payable to a shareholder. Cash used in operating activities of \$2.9 million in fiscal year 2004 was primarily attributable to the net loss of \$5.9 million, which included non cash items for warrants and options issued to Company employees amounting to approximately \$3.3 million recorded as compensation in the Consolidated Statement of Operations. Cash provided by financing activities in fiscal 2004 consisted primarily of \$3.6 million of proceeds resulting from the sale of common stock to investors in private placement transactions during the whole year and, as above-mentioned, proceeds from issuance of note payable of \$560,000.

Liquidity for the period from inception through December 31, 2004 has been mainly provided by sales of common stock through private placements and borrowing from affiliates. Management has taken actions directly related to the generation of product sales during calendar 2004 and anticipates that these efforts will be sufficient to provide reasonable resources to sustain its operations during 2005.

We anticipate that all working capital requirements for the current annual period will be satisfied from the operation of the newly acquired business and the sales of additional common shares through private placements.

### Payments Due by Period

The following table illustrates our outstanding debts and the terms of that debt as of December 31, 2004:

| Contractual Obligations | Total             | Less than 1<br>Year |
|-------------------------|-------------------|---------------------|
| Loans payable           | \$ 200,000        | \$ 200,000          |
| Due to related parties  | 560,000           | 560,000             |
| Operating leases        | 35,572            | 35,572              |
| Purchase obligations    | —                 | —                   |
| <b>Total</b>            | <b>\$ 795,572</b> | <b>\$ 795,572</b>   |

### Market Risk

We own market investment securities issued by various securities issuers. The issuers of these products retain all interest rate and default risk.

### Available Information

We maintain a corporate Internet website with the address [www.voipincorporated.com](http://www.voipincorporated.com). The contents of this website are not incorporated in or otherwise to be regarded as part of this report. We file reports with the Securities and Exchange Commission, or SEC, which are available on our website free of charge. These reports include Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, current reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, the SEC maintains a website

(www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

**ITEM 7. FINANCIAL STATEMENTS**

The financial statements required by this item begin at Page F-1 hereof.

**ITEM 8A. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures

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As required by Rule 13a-15(b) under the Exchange Act, as of the end of the period covered by this Annual Report, our management conducted an evaluation with the participation of our Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our management, with the participation of the Certifying Officers, also conducted an evaluation of our Company's internal control over financial reporting and identified three control deficiencies, which in combination resulted in a material weakness.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process or report external financial data 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. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of a company's annual or interim financial statements will not be prevented or detected. The control deficiencies identified by our management and the Certifying Officers that existed at December 31, 2004, which in combination resulted in a material weakness were: (a) misstatements in amounts reported for a consolidated subsidiary, and (b) insufficient personnel resources with appropriate accounting expertise.

Based on this evaluation and in accordance with the requirements of Auditing Standard No. 2 of the Public Company Accounting Oversight Board, our Certifying Officers conclude that the Company's disclosure controls and procedures were ineffective as of December 31, 2004.

Our management, including the Certifying Officers, does not expect that our disclosure controls and procedures will prevent all errors and all improper conduct. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, a design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of improper conduct, if any, have been detected. These inherent limitations include the realities that judgments and decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more persons, or by management override of the control. Further, the design of any system of controls is also based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations and a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and, that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Our management, including the Certifying Officers, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, and have concluded that the Company had the following control deficiencies that, when combined, resulted in a material weakness:

- (a) In March 2006, during their review and analysis of 2005 results and financial condition in connection with the preparation of the 2005 financial statements and the 2005 Form 10-KSB, our senior financial management discovered certain overstatements of the revenues, expenses and receivables reported, and understatement of net loss, for our consolidated subsidiary DTNet. Based upon an assessment of the impact of the adjustments to our financial results arising from this matter, we have restated the financial information presented in this Form 10-KSB/A for the period ended December 31, 2004. Adjustments to reduce: (a) the overstatements of revenues and receivables; (b) the overstatement of cost of goods sold; and (c) the understatement of net loss, aggregated \$791,200, \$498,123, and \$462,618, respectively, for the year ended December 31, 2004.

- (b) During the preparation of the financial statements for the period ended September 30, 2005, the Company discovered that it did not recognize in its 2004 financial statements the full amount of compensation expense that should have been recognized on warrants issued to employees, or the compensation expense for the vested portion of approximately 4,000,000 stock options issued to employees, during the three months ended September 30, 2004, in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The compensation expense that was not recognized relating to these options and warrants was \$1,384,763. The Company therefore restated its related 2004 financial information, as filed in its Quarterly Report on Form 10-QSB/A filed May 11, 2006 for the period ended September 30, 2004, and in its amendment to its Annual Report on Form 10-KSB/A filed November 23, 2005 for year ended December 31, 2004, to correct this misstatement.
- (c) The Company does not have sufficient personnel resources at corporate headquarters with appropriate accounting expertise or experience in financial reporting for public companies. Management, with the participation of the Certifying Officers, determined that the potential magnitude of a misstatement arising from this deficiency is more than inconsequential to the annual and/or interim financial statements.

Management has concluded that the above deficiencies when combined together have resulted in a material weakness in its internal control over financial reporting because the quantitative effect of any errors resulting from these deficiencies when taken together could result in a material misstatement of the Company's interim and annual financial reports. Based on this evaluation and in accordance with the requirements of Auditing Standard No. 2 of the Public Company Accounting Oversight Board, the Chief Executive Officer and Chief Financial Officer concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2004.

#### Remediation Steps to Address Control Deficiencies

The Company is in the process of addressing the identified material weakness by remediating the control deficiencies in the Company's internal control over financial reporting which comprise this material weakness as follows:

- (a) In March 2006 the Company's Board of Directors retained counsel to conduct a thorough investigation of the accounting misstatements of the Company's DTNet subsidiary. Such counsel, in turn, retained an independent forensic accounting firm to assist its investigation. Based on this investigation, the Company's Board of Directors and management have concluded that these intentional overstatements of revenues, expenses and receivables were limited to the unauthorized actions of two individuals. One of these individuals was employed at corporate headquarters and the other was employed at DTNet's headquarters. The individual employed at corporate headquarters resigned shortly after the initiation of the investigation and the Company terminated the employment of the other individual immediately following the receipt of the preliminary findings of the investigation in early April 2006. On April 19, 2006 the Company sold DTNet to a former officer of the Company.
- (b) The Company continues to seek to improve its in-house accounting resources. During the fourth quarter of 2005 the Company hired a new CFO with significant accounting and public company experience. During the first quarter of 2006, the Company did not hire any new accounting personnel, However, the Company significantly supplemented its internal accounting resources during these three months by using independent accounting and financial consulting firms. Management expects to continue to use such third parties until such time as the Company is able to hire sufficient in-house accounting expertise. In April 2006 the Company promoted the former Finance Director of one of its recently acquired subsidiaries to the position of Corporate Controller. This individual has significant financial experience (including five years with the audit department of the accounting firm of KPMG Peat Marwick), has served as the CFO and/or controller of various companies (including a public registrant), and is a Certified Public Accountant.

Changes in Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART III**

**ITEM 13. EXHIBITS**

(a) The following documents are filed as part of this Annual Report on Form 10-KSB/A:

1. Financial Statements: The financial statements filed as part of this report are listed in the "Index to Financial Statements" on Page F-1 hereof.

2. Exhibits required to be filed by Item 601 of Regulation 10-KSB

31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer under 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer under 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**VOIP, INC.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
VoIP, Inc. and Subsidiaries  
Fort Lauderdale, Florida

We have audited the accompanying consolidated balance sheet of VoIP, Inc. and Subsidiaries (“the Company”) as of December 31, 2004, and the related consolidated statements of operations, shareholders’ equity, and cash flows for the year ended December 31, 2004. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the consolidated financial position of VoIP, Inc. and its Subsidiaries, as of December 31, 2004, and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the consolidated financial statements, the accompanying consolidated balance sheet and related consolidated statements of operations, shareholders’ equity and cash flows have been restated to reflect the accounting for certain stock warrants and options awarded to employees during 2004, as well as misstatements which occurred in the financial statements of the Company’s consolidated subsidiary doing business as DTNet Technologies.

/s/ Berkovits, Lago & Company, LLP

Fort Lauderdale, Florida  
March 16, 2005 except for  
Note B as to which the date  
is May 8, 2006

**TSCHOPP, WHITCOMB & ORR, P.A.**  
2600 Maitland Center Parkway, Suite 330  
Maitland, FL 32751

**Report of Independent Certified Public Accountants**

Board of Directors and Stockholder  
Millennia Tea Masters, Inc.

We have audited the accompanying balance sheet of Millennia Tea Masters, Inc. as of December 31, 2003 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Millennia Tea Masters, Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced limited sales and incurred cumulative operating losses since its inception through December 31, 2003. The Company has been dependent upon the proceeds from the sales of common stock and advances from related parties to provide working capital. This situation raises a 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.

*/s/ Tschopp, Whitcomb & Orr, P.A.*

*January 30, 2004*  
*Maitland, Florida*

**VoIP Inc.**  
**Consolidated Balance Sheets**

|  | December 31, 2004<br>(As Restated) | December 31, 2003 |
|--|------------------------------------|-------------------|
| <b>ASSETS</b>  |                                    |                   |
| Current assets:  |                                    |                   |
| Cash and cash equivalents  | \$ 1,141,137                       | \$ —              |
| Accounts receivable, net of allowance of \$136,795   | 166,239                            | —                 |
| Due from related parties   | 245,402                            | —                 |
| Inventory  | 324,185                            | —                 |
| Assets from discontinued operations  | 412,419                            | 259,459           |
| <b>Total current assets</b>  | <b>2,289,382</b>                   | <b>259,459</b>    |
| Property and equipment, net  | 419,868                            | —                 |
| Goowill and other intangibles  | 6,923,854                          | —                 |
| Other assets   | 23,580                             | —                 |
| <b>TOTAL ASSETS</b>  | <b>\$ 9,656,684</b>                | <b>\$ 259,459</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                    |                   |
| Current liabilities:   |                                    |                   |
| Accounts payable and accrued expenses  | \$ 1,148,833                       | \$ —              |
| Loans payable  | 200,000                            | —                 |
| Due to related parties   | 560,000                            | —                 |
| Liabilities from discontinued operations   | —                                  | 151,167           |
| Other current liabilities  | 103,031                            | —                 |
| <b>Total liabilities</b>   | <b>2,011,864</b>                   | <b>151,167</b>    |
| Shareholders' equity:  |                                    |                   |
| Common stock - \$0.001 par value<br>100,000,000 shares authorized<br>24,258,982 and 1,730,939 issued<br>and outstanding respectively | 24,259                             | 1,731             |
| Additional paid-in capital   | 14,107,328                         | 731,208           |
| Accumulated deficit  | (6,486,767)                        | (624,647)         |
| <b>Total shareholders' equity</b>  | <b>7,644,820</b>                   | <b>108,292</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$ 9,656,684</b>                | <b>\$ 259,459</b> |

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

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**VoIP Inc.**  
**Consolidated Statements of Operations**

|   | Year Ended December 31 |              |
|---|------------------------|--------------|
|   | 2004                   | 2003         |
|   | (As Restated)          |              |
| Revenues  | \$ 1,828,193           | \$ —         |
| Cost of sales   | 1,372,146              | —            |
| Gross profit  | 456,047                | —            |
| Operating expenses  |                        |              |
| Compensation and related expenses   | 4,106,059              | —            |
| General and administrative expenses   | 2,357,419              | —            |
| Loss from continuing operations before income taxes and discontinued operations | (6,007,431)            | —            |
| Provision for income taxes  | —                      | —            |
| Net loss before discontinued operations   | (6,007,431)            | —            |
| Income (loss) from discontinued operations, net of income taxes                 | 145,311                | (352,968)    |
| Net loss  | \$ (5,862,120)         | \$ (352,968) |
|   |                        |              |
| Basic and diluted loss per share:   |                        |              |
| Loss before discontinued operations   | \$ (0.41)              | \$ —         |
| Income (loss) from discontinued operations, net of income taxes                 | 0.01                   | (0.20)       |
| Net loss per share  | \$ (0.40)              | \$ (0.20)    |
| Weighted average number of shares outstanding                                   | 14,597,312             | 1,730,939    |

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

**VoIP, Inc.**  
**Consolidated Statements of Cash Flows**

|  | Year Ended December 31, |           |
|--|-------------------------|-----------|
|  | 2004                    | 2003      |
|  | (As Restated )          |           |
| Cash flows from operating activities:  |                         |           |
| Continuing operations:   |                         |           |
| Net loss from continuing operations  | \$ (6,007,431)          | \$ —      |
| Adjustments to reconcile net loss to net cash used in operating activities:        |                         |           |
| Depreciation   | 82,832                  | —         |
| Provision for bad debt   | 136,795                 | —         |
| Common shares issued for services  | 494,166                 | —         |
| Options and warrants issued for services and compensation                          | 3,320,763               | —         |
| Shares issued for intellectual property  | 105,100                 | —         |
| Changes in operating assets and liabilities, net of assets & liabilities acquired: |                         |           |
| Accounts receivable  | 96,825                  | —         |
| Due from related parties   | (245,402)               | —         |
| Inventory  | 8,179                   | —         |
| Other current assets   | 52,233                  | —         |
| Accounts payable   | (372,446)               | —         |
| Other current liabilities  | (335,696)               | —         |
| Net cash used in continuing operating activities                                   | (2,664,082)             | —         |
| Discontinued operations:   |                         |           |
| Income (loss) from discontinued operations   | 145,311                 | (352,968) |
| Changes in assets, liabilities, and net results                                    | (408,000)               | 274,262   |
| Net cash used in discontinued operating activities                                 | (262,689)               | (78,706)  |
| Net cash used in operating activities  | (2,926,771)             | (78,706)  |
| Cash flows from investing activities - continuing operators:                       |                         |           |
| Cash from acquisitions   | 104,872                 | —         |
| Purchase of property and equipment   | (157,881)               | —         |
| Cash for intellectual property   | (50,000)                | —         |
| Purchase of other assets   | (21,200)                | —         |
| Net cash used in continuing investing activities                                   | (124,209)               | —         |
| Discontinued operations:   |                         |           |
| Cash from affiliates   | —                       | 82,196    |
| Net cash provided by discontinued investing activities                             | —                       | 82,196    |
| Net cash provided by (used in) investing activities                                | (124,209)               | 82,196    |
| Cash flows from financing activities:  |                         |           |
| Proceeds from issuance of notes payable  | 560,000                 | —         |
| Proceeds from sales of common stock  | 3,628,618               | —         |
| Net cash provided by financing activities  | 4,188,618               | —         |

|  |              |          |
|--|--------------|----------|
| Net increase in cash                           | 1,137,638    | 3,490    |
| Cash and cash equivalents at beginning of year | 3,499        | 9        |
| Cash and cash equivalents at end of year       | \$ 1,141,137 | \$ 3,499 |

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

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**VoIP, Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2004 and 2003**  
**(As Restated for 2004)**

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Total       |
|---|------------------------|------------------------|----------------------------------|------------------------|-------------|
| Balance as of December 31, 2002                                       | 1,730,939              | \$ 1,731               | \$ 731,208                       | \$ (271,679)           | 461,260     |
| Loss for the year ended December 31, 2003                             | -                      | -                      | -                                | (352,968)              | (352,968)   |
| Balance as of December 31, 2003                                       | 1,730,939              | 1,731                  | 731,208                          | (624,647)              | 108,292     |
| Common stock issued   | 12,500,000             | 12,500                 | -                                | -                      | 12,500      |
| Common stock issued for services received                             | 568,235                | 568                    | 342,432                          | -                      | 343,000     |
| Common stock issued to investors for cash received                    | 5,520,566              | 5,521                  | 3,610,598                        | -                      | 3,616,119   |
| Common stock issued for services received                             | 339,242                | 339                    | 150,827                          | -                      | 151,166     |
| Common stock issued for acquisition of DTNet Technologies             | 2,500,000              | 2,500                  | 4,747,500                        | -                      | 4,750,000   |
| Common stock issued for acquisition of VoIPAmericas                   | 1,000,000              | 1,000                  | 1,099,000                        | -                      | 1,100,000   |
| Warrants issued to two company officers and stock option compensation | -                      | -                      | 3,320,763                        | -                      | 3,320,763   |
| Stock issued for intellectual property                                | 100,000                | 100                    | 105,000                          | -                      | 105,100     |
| Loss for the year ended December 31, 2004                             | -                      | -                      | -                                | (5,862,120)            | (5,862,120) |
| Balance as of December 31, 2004                                       | 24,258,982             | \$ 24,259              | \$ 14,107,328                    | \$ (6,486,767)         | 7,644,820   |

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



## **NOTE A - ORGANIZATION AND DESCRIPTION OF BUSINESS**

The Company was incorporated on August 3, 1998 under its original name of Millennia Tea Masters, Inc. under the laws of the State of Texas.

The Company began operations in October 1998 with its initial order of imported teas from Sri Lanka.

On February 27, 2004 the Company entered into a stock purchase agreement that provided for the sale of 12,500,000 shares of its common stock in exchange for \$12,500 and a commitment by the purchaser to contribute the assets of two start-up companies in the telecommunications business, eGlobalphone, Inc. and VOIP Solutions, Inc. into the Company.

On April 13, 2004 the Company changed its name to VoIP, Inc. and began to develop and manufacture innovative IP telephony customer premise equipment, provide premium voice over the internet subscriber based telephony services and state of the art long range WiFi technology solutions, for residential and enterprise customers, including multimedia applications.

During December 2004 the Company decided to exit the tea import business in order to focus its efforts and resources in the "Voice over Internet Protocol" (VoIP) telecommunications industry. In connection with the decision, the Company sold its imported tea inventory and began to wind down its tea import operations. The assets, liabilities, and results of operations of the imported tea business has been classified as discontinued operations on the accompanying consolidated financial statements.

The Company offers quality Voice over IP (VoIP) based solutions offering residential and business customers more user friendly and affordable ways to communicate. VoIP, Inc. also manufactures products and provides services to Internet Service Providers, Telecommunication Service Providers and Cable Operators in strategic countries around the world. VoIP, Inc., through its subsidiaries, provides a comprehensive portfolio of IP multimedia-based solutions ranging from subscriber based voice services, to SIP based infrastructure design and deployment, to broadband customer premise equipment design and implementation services, as well as engineering design, manufacturing and distribution of wireless broadband technology.

The Company's operations consist of one segment.

## **NOTE B - RESTATEMENT OF FINANCIAL STATEMENTS**

The Company accounts for options and warrants issued to employees in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." During the preparation of the financial statements for the quarterly period ended September 30, 2005 the Company discovered that it did not recognize in its 2004 financial statements the full amount of compensation expense that should have been recognized on warrants issued to employees in 2004 or the compensation expense for the vested portion of approximately 4,000,000 stock options issued to employees during the year ended December 31, 2004. The compensation expense that was not recognized relating to these options and warrants was \$1,384,763 (see Notes I, L and O). The Company therefore decided that it would be appropriate to restate its financial statements for the year ended December 31, 2004.

On March 22, 2006, the Company concluded that its consolidated financial statements for the year ended December 31, 2004 were further misstated, resulting in overstated revenues, expenses, receivables and payables, and understated net loss. These misstatements were discovered by the senior financial management personnel that commenced their employment with the Company in the fourth quarter of 2005 during their review and analysis in connection with the preparation of the 2005 annual financial statements. The misstatements occurred in the financial statements of the Company's consolidated subsidiary doing business as DTNet Technologies, which was acquired in June 2004. The

Company therefore restated its 2004 consolidated financial statements to correct these misstatements. Adjustments to reduce: (a) the overstatements of revenues and receivables; (b) the overstatement of cost of goods sold; and (c) the understatement of net loss, aggregated \$791,200, \$498,123, and \$462,618, respectively, for the year ended December 31, 2004.

The following table sets forth the impact of these restatements on certain amounts previously reported in our consolidated financial statements for the three and nine months ended September 30, 2004:

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Balance Sheet Data

|                            | As of December 31, 2004 |             |
|----------------------------|-------------------------|-------------|
|                            | As Originally Reported  | As Restated |
| Accounts receivable        | \$ 818,071              | \$ 166,239  |
| Inventory                  | 187,451                 | 324,185     |
| Accounts payable           | 1,224,974               | 1,148,833   |
| Additional paid-in capital | 12,722,565              | 14,107,328  |
| Accumulated deficit        | (4,639,386)             | (6,486,767) |

Statement of Operations Data

|   | Year Ended December 31, 2004 |              |
|---|------------------------------|--------------|
|   | As Originally Reported       | As Restated  |
| Revenue   | \$ 2,619,393                 | \$ 1,828,193 |
| Cost of goods sold  | 1,870,269                    | 1,372,146    |
| Compensation and related expenses   | 2,721,296                    | 4,106,059    |
| General and administrative expenses   | 2,187,878                    | 2,357,419    |
| Loss from continuing operations before income taxes and discontinued operations | (4,160,050)                  | (6,007,431)  |
| Net loss  | (4,014,739)                  | (5,862,120)  |
| Net loss per share  | (0.27)                       | (0.40)       |

**NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, eGlobalphone, Inc. ("eGlobal"), VoIP Solutions, Inc., VCG Technologies d/b/a DTNet Technologies ("DTNet"), Inc., and Vox Consulting d/b/a/VoIP Americas, Inc. ("VoIP Americas") from their respective dates of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Cash and cash equivalents**

For purposes of reporting cash flows, the Company considers all cash on hand, in banks, including amounts in book overdraft positions, certificates of deposit and other highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash and cash equivalents. Cash overdraft positions may occur from time to time due to the timing of making bank deposits and releasing checks, in accordance with the Company's cash management policies.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the reserve method based on its assessment of the current status of the individual receivables and after using reasonable collection efforts. As of December 31, 2004 the balance of the allowance for uncollectible accounts amounted to \$136,795. There was no allowance as of December 31, 2003.

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### **Inventory**

Inventory consists of finished goods and is valued at the lower of cost or market using the first-in, first-out method.

### **Advertising expenses**

Advertising and marketing expenses are charged to operations as incurred.

### **Income Taxes**

Income taxes - The Company and its subsidiaries file consolidated federal and state income tax returns. The Company has adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes.

### **Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted-average number of shares of common stock outstanding. The calculation of fully diluted earnings (loss) per share assumes the diluted effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. Common stock equivalents represent the diluted effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method.

### **Fair Value of Financial Instruments**

The carrying amount of cash, accounts receivable, accounts payable and notes payable, as applicable, approximates fair value due to the short term nature of these items and/or the current interest rates payable in relation to current market conditions.

### **Revenue Recognition**

Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable.

The recognition of revenues from Internet telephony services are deferred for new subscribers of eGlobalphone and Voipsolutions until it deems that the customer has accepted the service. Subsequent revenues are recognized at the beginning of each customer's month.

### **Property, plant, and equipment**

Property, plant, and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight line method. The useful life of assets ranges from three to five years. The leasehold improvements are amortized over the life of the related lease.

### **Business combinations**

The Company accounts for business combinations in accordance with Statement of Financial Accounting Standard No. 141 Business Combinations ("SFAS No. 141"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the

respective fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). This pronouncement also requires that the intangible assets with estimated useful lives be amortized over their respective estimated useful lives.

**Impairment of long-lived assets**

The Company reviews the recoverability of its long-lived assets, such as plant, equipment and intangibles when events or changes in circumstances occur that indicate that the carrying value of the asset group may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

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**Recent accounting pronouncements**

In November 2004, FASB issued Statement No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." Statement No. 151 requires that abnormal amounts of costs, including idle facility expense, freight, handling costs and spoilage, should be recognized as current period charges. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements.

In December 2004, FASB issued Statement No. 153, "Exchanges of Nonmonetary Assets - an amendment of Accounting Principles Board ("APB") Opinion No. 29." Statement No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have a commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements.

In December 2004, FASB issued Statement No. 123R, "Share-Based Payment." Statement No. 123R revises Statement No. 123, supersedes APB Opinion No. 25 and amends Statement No. 95. Statement No. 123R requires the cost of employee services received in exchange for an award of equity instruments be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of this Statement are effective for public entities that do not file as small business issuers as of the beginning of the first interim period or annual reporting period that begins after June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements.

**Stock Based Compensation**

The Company applies the fair value method of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") in accounting for its stock options. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The fair value for each option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The fair value of all vested options granted has been charged to salaries, wages, and benefits in accordance with SFAS No. 123.

**NOTE D - PROPERTY AND EQUIPMENT, NET**

As of December 31, 2004 property and equipment consists of the following:

|                               | 2004       |
|-------------------------------|------------|
| Equipment                     | \$ 519,810 |
| Furniture & Fixtures          | 56,748     |
| Vehicles                      | 4,769      |
| Leasehold improvements        | 4,562      |
| Total                         | 585,889    |
| Less accumulated depreciation | (166,021)  |
| Total                         | \$ 419,868 |

Depreciation expense for 2004 amounted to \$82,832. There was no depreciation expense for 2003.

**NOTE E - INTANGIBLE ASSETS**

As of December 31, 2004 intangible assets consist of the following:

|  |              |
|--|--------------|
| Goodwill-acquisition of DTNet Technologies, Inc. | \$ 5,210,553 |
| Goodwill-acquisition of Voipamericas, Inc.       | 1,408,301    |
| Intellectual property                            | 305,000      |
| Total  | \$ 6,923,854 |

The goodwill on the acquisition of DTNet Technologies, Inc. ("DTNet") represents the fair market value of DTNet liabilities as of the date of the acquisition plus \$4,750,000 which represents the market value of 2,500,000 shares of Company stock issued pursuant to this acquisition.

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The goodwill on the acquisition of VoipAmericas, Inc. (VoIP Americas) represents the fair market value of VoipAmericas liabilities as of the date of the acquisition plus \$1,100,000 which represents the market value of 1,000,000 shares of the Company's stock issued pursuant to this acquisition.

Intellectual property is carried at cost which is comprised of \$50,000 paid in cash in 2004, \$150,000 due in the first quarter of 2005, and the value assigned to 100,000 Company common shares and 400,000 warrants issued pursuant to this transaction. The valuation of the shares was \$1.05 while the value was \$105,000. The value of the warrants was determined using the Black-Scholes model calculated as of October 14, 2004. As these warrants were not "in the money", these warrants have been assigned a value of zero. This model uses the annualized deviation calculation and utilizes industry averages as a comparison for adequate statistical results in the valuation. This is a standard financial model that considers the statistical annual volatility of the market changes in a stock price. (See Note H)

Intellectual property consists of the following:

- a) all rights of the Company of Record in the telephone numbers 1(800)TALKTIME, 1(888)TALKTIME, and 1(877)TALKTIME.COM
- b) all rights to the URL's (domain names) 800TALKTIME.COM, 1800TALKTIME.COM, and 1-800-TALKTIME.COM
- c) all rights to U.S. Trademark Registration No. 2,209,316 directed to the mark 1-800-TALKTIME and the goodwill associated therewith.

#### **NOTE F - ACCOUNTS PAYABLES AND ACCRUED EXPENSES**

As of December 31, 2004 accounts payables and accrued expenses consist of the following:

|                        | 2004<br>(As Restated) |
|------------------------|-----------------------|
| Accounts payable-trade | \$ 912,674            |
| Accrued expenses       | 233,711               |
| Other                  | 2,448                 |
| Total                  | \$ 1,148,833          |

#### **NOTE G - BANK LOANS AND NOTE PAYABLE**

As of December 31, 2004 loans payable consist of: (i) a \$187,000 balance of a revolving line of credit with the Bank of Tampa, with interest only payable at prime plus 1.0% monthly; and (ii) a \$13,000 promissory note, payable in monthly installments of approximately \$6,200 including interest at a rate of 7.5%. These loans are collateralized by receivables, inventory and equipment. Both balances were fully paid in January 2005.

#### **NOTE H - ACQUISITIONS**

On May 25, 2004 (but effective for all purposes as of April 15, 2004), the Company completed the acquisition of two Florida-based entities, (eGlobalphone, Inc. and VoIP Solutions, Inc.). Contribution of these start-up companies was the basis for the original decision to issue a controlling block of shares of common stock to Mr. Ivester. eGlobalphone, Inc. and VoIP Solutions Inc. are both Florida corporations.

In June 2004, the Company acquired DTNet Technologies, Inc. a Florida Corporation. The acquisition was financed through the issuance of 2,500,000 shares of the Company's common stock with a value of \$4,750,000 in exchange for

all issued and outstanding shares of DTNet common stock.

In September 2004, the Company closed the acquisition of VoIP Americas, a Florida corporation. The acquisition was financed through the issuance of 1,000,000 shares of the Company's restricted common stock with the value of \$1,100,000 in exchange for all issues and outstanding shares of VoIP Americas.

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**NOTE I - WARRANTS**

On August 4th, 2004, the Company issued 4,400,000 warrants to two executives to acquire 2,200,000 Company common shares at \$1.00 each. The compensation expenses of \$2,217,600 is in the accompanying Consolidated Statement of Operations.

A summary of the Company's warrants as of December 31, 2004 is presented below:

|   | Warrants  | Weighted average<br>exercise price |
|---|-----------|------------------------------------|
| Warrants outstanding at beginning or year | —         | —                                  |
| Granted to company officers               | 4,400,000 | \$ 1.00                            |
| Granted to third parties                  | 2,400,000 | 2.58                               |
| Expired                                   | —         | —                                  |
| Exercised                                 | —         | —                                  |
| Warrants outstanding at end of year       | 6,800,000 | \$ 1.59                            |

**NOTE J - COMMITMENTS**

The Company is obligated under non-cancelable operating leases for its office facilities and two apartments used by its employees. Future minimum lease payments under the Company's non-cancelable operating lease as of December 31, 2004 are as follows:

Year ending December 31:

|       |           |
|-------|-----------|
| 2005  | \$ 52,772 |
| 2006  | 15,155    |
| Total | \$ 67,927 |

**NOTE K - DUE FROM RELATED PARTIES**

As of December 31, 2004 the amount due from related parties consists of the following:

|                      | 2004       |
|----------------------|------------|
| DTNet, Inc.          | \$ 134,317 |
| DTNet International  | 119,974    |
| Mozart Communication | 21,794     |
| Com Laser            | 5,850      |
| Other                | (36,533)   |
| Total                | \$ 245,402 |

The above entities are related to a shareholder of the Company. These advances are unsecured, due upon demand and are non-interest bearing.

**NOTE L - INCOME TAXES**

The components of the Company's consolidated income tax provision are as follows:



|  | Year ended December 31, |              |
|--|-------------------------|--------------|
|  | 2004                    | 2003         |
|  | (As Restated)           |              |
| Current benefit  | \$ (1,993,121)          | \$ (119,000) |
| Valuation allowance  | 1,993,121               | 119,000      |
| Total  | \$ —                    | \$ —         |
| Long-term deferred tax assets arising from net operating loss carryforward | \$ (2,113,121)          | \$ (119,000) |
| Valuation allowance  | 2,113,121               | 119,000      |
| Total  | \$ —                    | \$ —         |

The reconciliation of income tax provision at statutory rate to the reported income tax expense is as follows:

|                                   | Year ended December 31, |       |
|-----------------------------------|-------------------------|-------|
|                                   | 2004                    | 2003  |
| Computed at statutory rate        | 34%                     | 34%   |
| State tax net of federal benefits | —                       | —     |
| Valuation allowance               | (34%)                   | (34%) |
| Total                             | —                       | —     |

At December 31, 2004 and December 31, 2003 deferred tax assets are related solely to the Company's net operating loss carry forward of approximately \$4,172,029 and \$303,000, respectively, which have been reduced by a valuation allowance. If these carry forwards are not utilized, they will begin to expire in 2018.

#### NOTE M - DISCONTINUED OPERATIONS

In December 2004, the Company decided to exit the tea business and sold all of its tea inventory. Therefore, those transactions have been presented as discontinued operations for the years ended December 31, 2004 and 2003.

Assets, liabilities, and results of the discontinued tea operations of the Millennium Tea Master division are as follows:

|  | 2004          | 2003       |
|--|---------------|------------|
|  | (As Restated) |            |
| Assets from discontinued operations:   |               |            |
| Cash   | \$ 4,419      | \$ 3,499   |
| Notes receivable from purchaser of tea (non-interest bearing due in four equal installments through December 31, 2005) | 408,000       | —          |
| Tea inventory at net realizable value  | —             | 251,534    |
| Other assets   | —             | 4,426      |
| Total  | \$ 412,419    | \$ 259,459 |
| Liabilities from discontinued operations:  |               |            |
| Due to related parties   | \$ —          | \$ 151,167 |
| Total  | \$ —          | \$ 151,167 |

|  |    |         |              |
|--|----|---------|--------------|
| <b>Results from discontinued operations:</b> |    |         |              |
| Revenues                                     | \$ | 408,613 | \$ 8,678     |
| Cost of sales                                |    | 263,302 | 11,213       |
| Gross Profit                                 |    | 145,311 | (2,535)      |
| Other expenses                               |    | —       | 350,433      |
| Income (loss) from discontinued operations   | \$ | 145,311 | \$ (352,968) |

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**NOTE N - STOCK OPTIONS**

A total of 4,000,000 shares of common stock have been reserved for issuance under the Company's 2004 Employee Stock Option Plan. The Company accounts for the fair value of its grants under its 2004 Stock Option Plan in accordance with SFAS No. 123. The compensation cost that has been charged against income for the 2004 Option Plan was approximately \$1,117,000 in 2004. The activity in this 2004 Option Plan for the year ended December 31, 2004 is as follows:

|  | Number    | Exercise Price<br>Range | Weighted<br>Average<br>Exercise Price |
|--|-----------|-------------------------|---------------------------------------|
| Options outstanding at December 31, 2003                       | —         |                         |                                       |
| Options granted  | 4,000,000 | \$ 0.85 - \$1.56        | \$ 1.14                               |
| Options returned to the plan due to employee terminations      | (350,000) | \$ 1.10                 | 1.10                                  |
| Options outstanding at December 31, 2004                       | 3,650,000 | \$ 0.85 - \$1.56        | \$ 1.14                               |
| Options exercisable at year end                                |           | 903,750                 |                                       |
| Weighted-average fair value of options granted during the year |           | \$ 0.82                 |                                       |

**NOTE O - STOCKHOLDERS' EQUITY**

On February 27, 2004, the Company issued and sold 12,500,000 shares of common stock to Steven Ivester in exchange for cash of \$12,500 and his agreement to contribute the intellectual property rights and related assets of two start-up companies formed to engage in the telecommunications industry. The shares issued represented approximately 88% of the shares outstanding after the exchange, as a result of which Mr. Ivester became the controlling shareholder of the Company.

On April 1, 2004, the Company issued 142,902 shares to two accredited investors in satisfaction of accounts payable totaling \$71,421.

In May 2004, the Company issue 1,143,250 shares to twenty-two individual accredited investors.

In May 2004, the Company issued 168,235 shares to one individual accredited investor in exchange for services.

In May, 2004, the Company issued 67,300 shares to fourteen individual accredited investors at a price of \$3.00 per share.

On May 19, 2004, the Company issued 196,340 shares to two accredited investors in satisfaction of accounts payable totaling \$79,745.

On June 25, 2004, the Company closed the acquisition of DTNet Technologies, Inc. ("DTNet") a Florida corporation. The acquisition was effective through the issuance of 2,500,000 shares of VoIP, Inc. restricted common stock in exchange for all issued and outstanding shares of DTNet common stock.

In July 2004, the Company issued 668,688 shares to six individual existing accredited investors. Also effective July 2004, registrant issued 41,688 shares to four accredited individual investors.

On August 4, 2004, the Company issued 4,400,000 warrants to two executives to acquire 4,400,000 shares at \$1.00 per share. As explained in Note J, subsequent events, in February 2005, 2,200,000 of warrants were exchanged for restricted shares.

In August 2004, the Company issued 50,000 shares to one individual accredited investor in satisfaction of accounts payable totaling \$50,000.

In August 2004, the Company issued 653,319 shares to forty-six individual accredited investors.

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In September 2004, the Company issued 38,461 shares to one accredited investor.

On September 1st, 2004, the Company closed the acquisition of VoIP Americas, a Florida corporation. The acquisition took the form of an exchange of 1,000,000 shares of VoIP restricted common stock in exchange the all issued and outstanding shares of VoIP Americas common stock.

In October 2004, the Company issued 251,831 shares to twelve accredited investors.

In October 2004, the Company issued 100,000 shares to one individual accredited investor.

In November 2004, the Company issued of 2,249,500 to five accredited investors.

In November 2004, the Company issued 318,500 shares to twelve accredited investors.

In December 2004, the Company issued 79,659 shares to five accredited investors.

In December 2004, the Company issued 400,000 shares to sixteen accredited investors.

#### **NOTE P - SUBSEQUENT EVENTS**

On January 6, 2005, the Company issued a Note Payable to its controlling shareholder in the amount of \$1,040,000 at an interest rate of 3.75%, maturing in December 2005.

On January 26, 2005, the Company filed a Form S-8 registration statement in connection with the Company's Stock Option Plan. The plan provides for the grant to eligible employees and directors of options for the purchase of Common Stock. The Option Plan covers, in the aggregate, a maximum of 4,000,000 shares of Common Stock and provides for the granting of both incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986) and nonqualified stock options (options which do not meet the requirements of Section 422). Under the Option Plan, the exercise price may not be less than the fair market value of the Common Stock on the date of the grant of the option.

On February 14, 2005, an officer exercised a Stock Purchase Warrant to purchase 2,200,000 shares of VoIP, Inc. common stock by surrendering such Warrant, and, based upon an agreement with the Company, receiving in return 750,000 shares of restricted common stock in a net exercise.

On February 23, 2005, VoIP, Inc. and its subsidiary eGlobalPhone, Inc. executed an Asset Purchase Agreement for the purchase of certain intellectual property rights associated with the trade names TALKTIME and TALKTIME.COM. In exchange for the rights, the Registrant issued 100,000 shares of restricted common stock, warrants to purchase 400,000 shares at \$1.70 per share, and agreed to pay \$200,000 cash. Negotiations started during the last quarter of 2004, therefore all the cash disbursements, liabilities, shares issued, and commitments were recorded in that period.

**SIGNATURES**

Pursuant to the requirements of the Securities Act, the Company has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fort Lauderdale, State of Florida, on May 11, 2006.

**VOIP, INC.**

By: /s/ B. Michael Adler

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B. Michael Adler  
Chief Executive Officer