

Edgar Filing: VOIP INC - Form 8-K/A

VOIP INC  
Form 8-K/A  
August 16, 2005

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

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): May 31, 2005

VOIP, INC.

-----  
(Exact name of registrant as specified in its charter)

Texas	000-28985	75-2785941
-----	-----	-----
(State of Incorporation)	(Commission File No.)	(IRS Employer Identification No.)

12330 SW 53rd Street, Suite 712, Ft. Lauderdale, Florida 33330

-----  
(Address of principal executive offices, including zip code)

(954) 434-2000

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets

Registrant filed a Form 8K on June 6, 2005, describing in Item 1.01 the merger of Volo Acquisition Corp., a wholly-owned subsidiary of the Company with and into Caerus, Inc ("Caerus"). Pursuant to Item 9.01(a)(4) of Form 8-K,

## Edgar Filing: VOIP INC - Form 8-K/A

financial statements of the acquired businesses and financial statements are being filed by amendment hereby. This Amendment should be read in conjunction with the Form 8-K filed on June 6, 2005.

Item 9.01. Financial Statements and Exhibits

### INDEX

Independent Auditor's Report.....	3
Consolidated Financial Statements:	
Balance Sheets.....	4
Statements of Operations.....	5
Statements of Changes in Stockholders' Equity (Deficit).....	6
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9
Unaudited Pro Forma Consolidated Balance Sheets and Statements of Operations.....	20

2

### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Caerus, Inc.  
Altamonte Springs, Florida

We have audited the accompanying consolidated balance sheets of Caerus, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the year ended December 31, 2004 and for period May 15, 2002 (date of inception) through December 31, 2003. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Caerus, Inc. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the year ended December 31, 2004 and for the period May 15, 2002 (date of inception) through December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations, has a working capital deficit, and has significant unresolved litigation as discussed in Note 8 to the financial statements. These

Edgar Filing: VOIP INC - Form 8-K/A

matters, among other things, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans related to these matters are also discussed in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moore Stephen Lovelace, P.A.

Certified Public Accountants

Orlando, Florida  
July 25, 2005

3

CAERUS, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

	Unaudited June 30 2005	December 31, 2004
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 26,041	\$ 19,414
Restricted cash	60,000	60,224
Accounts receivable	276,533	2,098,598
Note receivable - related party	--	--
Supplies, deposits and prepaid expenses	202,602	70,999
	-----	-----
TOTAL CURRENT ASSETS	565,176	2,249,235
	-----	-----
PROPERTY AND EQUIPMENT		
Telecommunications equipment and computers	9,064,542	6,390,973
Furniture and fixtures	62,537	61,960
Leasehold improvements	165,447	163,808
Purchased and developed software	473,228	473,228
	-----	-----
	9,765,754	7,089,969
Less accumulated depreciation and amortization	(1,504,371)	(824,580)
	-----	-----
NET PROPERTY AND EQUIPMENT	8,261,383	6,265,389
	-----	-----
OTHER ASSETS		
Goodwill	29,674,557	
Deferred loan origination costs, net	218,696	285,075
Lease deposit and other	28,959	28,959
	-----	-----
TOTAL ASSETS	\$ 38,748,771	\$ 8,828,658
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Edgar Filing: VOIP INC - Form 8-K/A

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 11,105,741	\$ 7,137,293
Note payable	5,130,818	6,006,899
Due to parent company	3,331,933	
Convertible notes payable - related party	--	1,830,000
Deferred revenue and customer deposits	542,750	38,750
	-----	-----
TOTAL CURRENT LIABILITIES	20,111,242	15,012,942
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - \$.01 par value; 50,000,000 shares authorized; 14,940,508 and 11,948,367 shares issued and outstanding, respectively	--	149,405
Preferred stock - \$.01 par value; 25,000,000 shares authorized; -0- shares issued and outstanding	--	--
Additional paid-in capital	35,288,343	4,618,253
Accumulated deficit	(16,650,814)	(10,951,942)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	18,637,529	(6,184,284)
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 38,748,771	\$ 8,828,658
	=====	=====

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

4

Caerus, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Unaudited Six months ended June 30, 2005	Year ended December 31, 2004	Developme Stage May 15, 20 through December 3 2003
	-----	-----	-----
SALES	\$ 7,284,244	\$ 14,379,365	\$ 1,191,
COST OF SALES	9,143,457	15,765,201	900,
	-----	-----	-----
GROSS PROFIT (LOSS)	(1,859,213)	(1,385,836)	290,
	-----	-----	-----
OPERATING EXPENSES			
Equipment and computer expenses	301,131	603,189	97,
Office expenses	90,820	228,108	206,
Labor-related expenses	1,339,355	2,973,070	1,214,
Professional fees	527,614	814,243	400,
Marketing	139,445	217,835	16,
Litigation settlement	--	326,205	
Rent, utilities and security	96,402	246,545	355,
Taxes and licenses	74,613	55,527	25,
Travel, lodging and entertainment	88,838	163,555	90,

Edgar Filing: VOIP INC - Form 8-K/A

Depreciation and amortization	746,170	641,172	183,
Asset impairment charge	--	299,122	
	-----	-----	-----
TOTAL EXPENSES	3,404,388	6,568,571	2,590,
	-----	-----	-----
LOSS FROM OPERATIONS	(5,263,601)	(7,954,407)	(2,299,
OTHER EXPENSES			
Interest expense, net	(440,284)	(657,238)	(19,
Other expense, net	5,013	50	(21,
	-----	-----	-----
NET LOSS	\$ (5,698,872)	\$ (8,611,595)	\$ (2,340,
	=====	=====	=====

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

5

Caerus, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

For The Year Ended December 31, 2004, and  
The Period May 15, 2002 (Date of Inception) Through December 31, 2003

	Common Stock \$.01 Par Value		Additional Paid-In Capital	Accu De
	Shares	Amount		
	-----	-----	-----	-----
BALANCE - MAY 15, 2002	--	\$ --	\$ --	\$
ISSUANCE OF FOUNDER STOCK	5,400,000	54,000	--	
SALE OF COMMON STOCK	6,186,592	61,866	2,721,909	
ISSUANCE OF COMMON STOCK FOR SERVICES	150,000	1,500	81,750	
ISSUANCE OF COMMON STOCK FOR PROPERTY AND EQUIPMENT	211,775	2,118	148,525	
NET LOSS	--	--	--	(2,
	-----	-----	-----	-----
BALANCE - DECEMBER 31, 2003	11,948,367	119,484	2,952,184	(2,

Edgar Filing: VOIP INC - Form 8-K/A

ISSUANCE OF COMMON STOCK	712,071	7,121	273,139	
ISSUANCE OF COMMON STOCK FOR DEBT	2,280,070	22,800	1,097,200	
ISSUANCE OF STOCK WARRANTS IN CONNECTION WITH SECURED NOTE PAYABLE	--	--	218,813	
EMPLOYEE STOCK OPTIONS - COMPENSATION EXPENSE RECOGNIZED	--	--	76,917	
NET LOSS	--	--	--	(8,
BALANCE - DECEMBER 31, 2004	14,940,508	\$ 149,405	\$ 4,618,253	\$ (10,
	=====	=====	=====	=====

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

6

Caerus, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
(Unaudited)

For The Six Months Ended June 30, 2005

	Common Stock \$.01 Par Value		Preferred Stock \$.01 Par Value		Additi Paid Capi
	Shares	Amount	Shares	Amount	
Balance - December 31, 2004	14,940,508	\$ 149,405	--	\$ --	\$ 4,61
Issuance of preferred stock for cash			511,750	5,118	81
Conversion of common stock to preferred stock	(7,289,445)	(72,894)	5,944,669	59,447	1
Employee stock options - compensation expense recognized					2
Exchange of common stock, options and warrants in conjunction with the Merger Agreement with VoIP, Inc.	(7,651,063)	(76,511)	(6,456,419)	(64,565)	14
Recognition of goodwill in conjunction with the Merger Agreement with VoIP, Inc.					29,67

Edgar Filing: VOIP INC - Form 8-K/A

Net loss

Balance - June 30, 2005	-----	-----	-----	-----	-----
	--	\$ --	--	\$ --	\$35,28
	=====	=====	=====	=====	=====

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

7

Caerus, Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited Six months ended June 30, 2005	Year ended December 31, 2004	Deve S May th Dece
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (5,698,872)	\$ (8,611,595)	\$ (2
Adjustments to reconcile net loss to net cash used in operating activities:			
Litigation settlement		326,205	
Depreciation and amortization	679,791	641,172	
Asset impairment charge		299,122	
Amortization of deferred loan fees	66,379	56,613	
Stock issued to Founder		--	
Stock issued for services		--	
Expense related to employee stock options	27,328	76,917	
Forgiveness of related-party loan		415,323	
Changes in:			
Restricted cash	224	(60,028)	
Accounts receivable	1,822,065	(2,066,281)	(
Supplies, deposits and prepaid expenses	(131,603)	279,200	(
Other assets		36,041	
Accounts payable and accrued expenses	3,968,448	6,685,199	
Deferred revenue	504,000	(21,826)	
	-----	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	1,237,760	(1,943,938)	(2,
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	(2,675,785)	(5,890,661)	(1,
Additions to related-party loan		(235,349)	(
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(2,675,785)	(6,126,010)	(1,
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advances from parent	3,331,933		
Repayment of convertible notes payable - related party	(1,830,000)		

## Edgar Filing: VOIP INC - Form 8-K/A

Proceeds from borrowings		8,900,000	
Repayment of note payable	(876,081)	(993,101)	
Proceeds from issuance of common stock		280,260	
Proceeds from issuance of preferred stock	818,800		
Payments for loan origination costs		(122,875)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,444,652	8,064,284	3,
NET CHANGE IN CASH	6,627	(5,664)	
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	19,414	25,078	
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 26,041	\$ 19,414	\$

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

8

Caerus, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Year Ended December 31, 2004 and  
For The Period May 15, 2002 (Date of Inception)  
Through December 31, 2003

#### NOTE 1 - DESCRIPTION OF BUSINESS

Caerus, Inc. and subsidiaries (collectively referred to as the "Company") were incorporated on May 15, 2002 and are wholesale providers of advanced telecommunications technologies and services to carriers and service providers, including Inter Exchange Carriers ("IXCs"), Competitive Local Exchange Carriers ("CLECs"), Internet Service Providers, Cable Operators and Enhanced Voice and Data Service Providers. Through its wholesale-only model, the Company has positioned itself as a "carrier's carrier" and offers protocol-agnostic packet switched technologies to address the gap between traditional communications and "next generation" platforms.

During the period May 15, 2002 (date of inception) to December 31, 2003, the Company was in the process of developing its resources, enhancing its proprietary technology, building a nationwide network with five physical interconnection points (cities), working with potential customers on testing its network, and attracting key engineering professionals; accordingly, the Company was considered to be a development stage enterprise. In January 2004, the Company became fully operational and management determined that the Company was no longer in a development stage.

The Company offers a comprehensive suite of Internet Protocol ("IP")-based broadband packet voice services, IP and Time Division Multiplexing ("TDM") origination/termination services, IP PBX-hosted services, and unified messaging services that include enhanced voice and data solutions. The suite of services is complemented by a Service Creation Environment that enables the Company to develop custom applications and features "on the fly" for its customers.



## Edgar Filing: VOIP INC - Form 8-K/A

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The Company has incurred significant losses and negative cash flows from operations since its inception. Additionally, the Company has a working capital deficit of \$12,763,707 and an accumulated deficit of \$10,951,942 at December 31, 2004. Management continues to undertake steps as part of a plan to attempt to improve liquidity and operating results with the goal of sustaining Company operations. These steps include seeking (a) to increase high-margin sales; and (b) to control overhead costs and operating expenses. Management plans, in this regard, to continue the implementation of a stabilized and fully operational network, adding recurring-revenue customers, attracting an experienced management team capable of building a profitable company, and securing funding to meet current obligations.

9

There can be no assurance that the Company can successfully accomplish these steps. Accordingly, the Company's ability to continue as a going concern is uncertain and dependent upon continuing to achieve improved operating results and cash flows or obtaining additional financing. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Cash and Cash Equivalents

For financial presentation purposes, the Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

#### Restricted Cash and Letters of Credit

Certain cash is restricted to support standby letters of credit which, in turn, support operating license bonds required by several states' regulatory agencies. These standby letters of credit are generally in force for one year with automatic one-year extensions. Maximum draws available to the beneficiary as of December 31, 2004 were \$60,000. If the Company was required to obtain replacement standby letters of credit as of December 31, 2004 for those currently outstanding, it is the Company's opinion that the replacement costs would not significantly vary from the present fee structure.

#### Accounts Receivable

Accounts receivable result from the sale of the Company's services, net of estimated allowances. The Company estimates an allowance for doubtful accounts based on a specific-identification basis. The Company had no allowance for doubtful accounts as of December 31, 2004 and 2003.

#### Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are calculated on a straight-line basis over the assets' useful lives, which range from three to ten years. Leasehold improvements are amortized over the estimated useful lives of the improvements, or the term of the lease, if shorter.

## Edgar Filing: VOIP INC - Form 8-K/A

Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized. Upon the sale or other disposition of property, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized in operations.

10

Under the Statement of Position ("SOP") 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," the Company expenses computer software costs related to internal-use software that is incurred in the preliminary project stage. When the capitalization criteria of SOP 98-1 have been met, costs of developing or obtaining internal-use computer software are capitalized. The Company capitalized approximately \$772,350 of costs incurred for internally developed software during the period from inception through December 31, 2004. Amortization of internal-use software over a 5-year estimated useful life commenced upon the software being placed in service beginning January 1, 2004. Amortization of internal-use software for the periods ended December 31, 2004 and 2003 was approximately \$77,000 and \$-0-, respectively. During 2004, the Company suspended a number of software development projects and, accordingly, recognized a related asset impairment charge of \$299,122 in 2004.

### Deposits

Deposits consist primarily of an equipment deposit, a refundable office lease deposit and various other deposits outstanding with service providers.

### Deferred Revenue

Deferred revenue represents fees for services that have not yet met the criteria to be recognized as revenue.

### Revenue Recognition

Revenue is recognized when earned. Revenue related to long distance, carrier access service and certain other usage-driven charges are billed monthly in arrears, and the associated revenues are recognized during the month of service.

### Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financially reported amounts at each year-end, based on enacted laws and statutory rates applicable to the periods in which differences are expected to affect taxable income. As of December 31, 2004, the Company had a deferred tax asset of approximately \$3,000,000, the components of which consisted primarily of the Company's net losses, fixed asset depreciation and stock-based compensation. Also at December 31, 2004, the Company had a net operating loss carryforward of approximately \$11,000,000 for federal income tax purposes that will begin to expire in 2022, and that is subject to significant limitations based upon the occurrence of certain changes in ownership of the Company.

11

A valuation allowance is provided against the future benefits of deferred tax assets if it is determined that it is more likely than not that the future tax

## Edgar Filing: VOIP INC - Form 8-K/A

benefits associated with the deferred tax asset will not be realized. Due to recurring losses since inception and the resultant uncertainty of the realization of the tax loss carryforward, the Company has established a 100% valuation allowance against the carryforward benefit. Accordingly, no provision/benefit for income taxes has been included in these consolidated financial statements.

### Concentration of Credit Risk

Financial instruments that may subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company has investment policies and procedures that are reviewed periodically to minimize credit risk.

One customer represented approximately 98% and 90% of the Company's accounts receivable as of December 31, 2004 and 2003, respectively, and approximately 91% and 95% of the Company's revenues for the year ended December 31, 2004 and for the period May 15, 2002 (date of inception) through December 31, 2003, respectively. The loss of this customer would have a significant adverse affect on the Company's operations.

### Concentration of Supplier Risk

One supplier represented approximately 86% of the Company's accounts payable as of December 31, 2004, and approximately 94% of the Company's cost of sales for the year ended December 31, 2004 (see Note 8).

### Stock-based Compensation

The Company uses the fair value method of Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation" 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 minimum value method.

### Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates affect the carrying value of, among other things, internal-use software, cost of goods sold (see Note 7), the estimating of the fair value of the Company's common stock (see Note 3), and the evaluation of existing disputes and claims (see Notes 7 and 8).

### Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

NOTE 3 - CONVERTIBLE NOTES PAYABLE - RELATED PARTY

## Edgar Filing: VOIP INC - Form 8-K/A

During 2003, the Company issued two one-year convertible notes to a stockholder of the Company, \$1,050,000 and \$70,000 of which were funded in the periods ended December 31, 2003 and 2004, respectively. These notes accrued interest at 12% per annum, with all interest and principal due in September and December 2004. These notes, which had certain anti-dilution provisions and which were collateralized by substantially all of the assets of the Company, were converted into common stock in May 2004 (see Note 6) and the convertible notes were cancelled and the principal amount was satisfied in full.

The Company determined the conversion rates based upon its evaluation of the Company's common stock on the issuance dates. The Company's evaluations were based upon, among other things, peer company valuations, industry and market conditions, the Company's current financial position, terms and conditions of funding available to the Company at the time of issuance, etc.

During 2004, the Company issued two one-year convertible notes to a stockholder of the Company, totaling \$1,830,000. These notes accrue interest at 12% per annum, with monthly principal and interest payments originally scheduled through August and November 2004. Restrictive covenants pertaining to the note payable discussed in Note 4 to these financial statements precluded payment of scheduled principal and interest on these notes, therefore, these notes are currently due. However, the same covenants preclude payment until the note described in Note 4 to these financial statements is paid in full. These one-year notes are collateralized by substantially all of the assets of the Company (see Note 8).

Interest expense incurred with respect to these notes during the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, was \$122,223 and \$19,653, respectively.

Interest payments made with respect to these notes during the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, were \$42,560 and \$-0-, respectively.

### NOTE 4 - NOTE PAYABLE

In June 2004, the Company secured a \$15,000,000 debt facility and drew down the first \$7,000,000 tranche primarily for the purpose of funding network equipment purchases. These borrowings are repayable over a three-year period and bear interest at 12.5% per annum. Additional borrowings under this facility are contingent upon, among other things, the Company raising certain levels of additional equity financing. The loan agreement contains customary covenants and restrictions and provides the lender the right to a perfected first-priority, secured interest in all of the Company's assets, as well as rights to preferred stock warrants (see Notes 6 and 8).

13

Interest paid under this debt facility during the year ended December 31, 2004, was \$484,867.

The Company is currently in violation of several of the restrictive covenants in this debt facility. Although no default has been asserted against the Company, under the provisions of the facility, the lender has the right to call the related note payable due. Accordingly, the full amount of the note at December 31, 2004 has been classified as current.

### NOTE 5 - NOTE RECEIVABLE - RELATED PARTY

During the period May 15, 2002 (date of inception) through December 31, 2004, the Company advanced \$415,323 to an officer of the Company. In 2005, these

## Edgar Filing: VOIP INC - Form 8-K/A

advances were characterized as compensation and were forgiven; accordingly, their carrying value was reduced to zero at December 31, 2004. In addition, the Company agreed to pay the related federal income tax withholding of approximately \$104,000 on behalf of the related party, which was accrued at December 31, 2004.

### NOTE 6 - STOCKHOLDERS' EQUITY

In June 2002, the Company increased its authorized shares to 100,000 shares of \$0.01 par value common stock. In July 2002, the Company increased its authorized shares to 3,000,000 shares of \$0.01 par value common stock and approved a 2-for-1 common stock split. In October 2002, the Company increased its authorized shares to 6,000,000 shares of \$0.01 par value common stock. In July 2003, the Company approved an additional 3-for-1 common stock split and an increase in the authorized shares of common stock to 18,000,000. The Articles of Amendment for this amendment were not filed with the state of Delaware until 2004. The accompanying consolidated financial statements and related notes present all of these amendments as if they were effected for all periods presented.

In 2002, 5,400,000 shares of common stock were issued to the founder of the Company. These shares were recorded at their par value.

In 2002, the Company issued 150,000 shares of its common stock for legal services provided to the Company, which were recorded at their estimated fair value of \$83,250.

14

During the period May 15, 2002 (date of inception) through December 31, 2003, the Company issued 5,965,957 shares of its common stock and received net proceeds of \$2,783,775. Offering costs related to these sales consisted of the issuance of an additional 220,635 shares of the Company's common stock.

During the period May 15, 2002 (date of inception) through December 31, 2003, the Company issued 211,775 shares of its common stock in consideration for leasehold improvements and equipment, of which 190,211 of the shares were issued to the founder of the Company. These shares were recorded at their estimated fair value of \$150,643.

In May 2004, \$1,120,000 of convertible notes payable to a shareholder were converted into 2,280,070 shares of common stock.

In May and August 2004, the Company issued 500,000 and 212,071 shares of its common stock for cash of \$100,000 and \$180,260, respectively.

In May 2004, the Company authorized the issuance of up to 25,000,000 shares of \$.01 par value preferred stock, the terms of which will be decided upon by the Company's Board of Directors.

In August 2004, the Company approved increasing the authorized common stock to 50,000,000 shares. However, the related state filing has yet to be effected.

### Rights to Convert to Preferred Stock

At December 31, 2004, related parties held 12,989,445 shares of common stock that had the right to be converted into preferred shares; however, as of December 31, 2004, no shares of preferred stock had been issued by the Company (see Note 8).

## Edgar Filing: VOIP INC - Form 8-K/A

### Stock Options

During October 2004, the Board approved the Company's 2004 Stock Option Plan (the "Plan"), whereby 4,000,000 shares of the Company's common stock were reserved for issuance under the Plan to selected directors, officers, employees and consultants of the Company. As of December 31, 2004, options to purchase 2,164,969 shares of common stock for \$0.85 per share were issued and outstanding under the Plan. These options expire ten years from the date of issuance. They vest from 36 to 48 months of employment following the date of option issuance. These options had an estimated fair value of \$330,599 at the date of grant, using the minimum-value method with the following assumptions:

Expected life (in years)	10.0
Risk-free interest rate	2.0%
Dividend yield	0.0%

Related 2004 compensation expense was \$76,917, determined by amortizing the options' estimated fair value at grant date over their vesting period. The weighted average remaining contractual life of the options outstanding at December 31, 2004 was 9.8 years (see Note 8). The Company had no stock options outstanding at December 31, 2003.

15

### Stock Warrants

In 2004, the Company granted a series of warrants to purchase shares of preferred stock, the specific terms of which had yet to be determined, at an exercise price of \$0.85 per share, in conjunction with the long-term note payable issuance (see Note 4). These warrants expire at the earlier of ten years from their issuance date, or five years after a potential initial public securities offering. At the warrant holder's election, these warrants may be exercised on a non-cash basis whereby the warrant holder uses the surplus of the preferred stock's then-fair market value per share over the \$0.85 exercise price as payment for the preferred stock purchased under these warrants.

These warrants had estimated fair values totaling \$218,813 at their grant dates, recognized as additional paid-in capital and deferred loan origination costs, using the minimum-value method with the following assumptions:

Expected life (in years)	10.0
Risk-free interest rate	2.0%
Dividend yield	0.0%

Additional information pertaining to these warrants issued and outstanding at December 31, 2004 is as follows:

Date Granted	Shares
June, 2004	1,235,294
August, 2004	766,020
October, 2004	383,010
Total Issued and Outstanding	2,384,324

Also in conjunction with the long-term note payable issuance (see Note 4), the Company granted warrants to purchase up to \$1.0 million of common or preferred

## Edgar Filing: VOIP INC - Form 8-K/A

stock that may be issued in conjunction with any future securities offering of at least \$5.0 million, upon the same price and conditions as afforded to third-party investors in said potential securities offering.

In August 2004, the Company issued warrants to purchase 150,000 shares of common stock to a former employee whose employment was terminated in June 2004. Such warrants are exercisable at \$0.85 per share, and expire on June 26, 2006. The Company had no stock warrants outstanding at December 31, 2003.

16

### NOTE 7 - OTHER COMMITMENTS AND CONTINGENCIES

#### Operating Leases

In August 2002, the Company entered into an operating lease for office space, which expires in February 2008. Approximate minimum future lease payments due under this operating lease, are as follows:

Year Ending December 31, -----	Amount -----
2005	\$196,000
2006	\$202,000
2007	\$208,000
2008	\$ 35,000

During the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, \$172,700 and \$234,000, respectively, were charged to operations for rent expense related to this operating lease.

#### Legal and Regulatory Proceedings

The Company's 100%-owned subsidiary, Volo Communications, Inc., settled its breach of contract dispute related to a 2003 "take or pay" sales contract with the Company. In connection with this settlement, the Company wrote off its previously recorded account receivable of \$326,205 in 2004.

#### Vendor Dispute

Certain transport and termination costs incurred by the Company are recorded at vendor invoice amount less any amounts that have been formally disputed, for which the Company expects to receive a credit. Disputed amounts are based upon management's detailed review of vendor call records and contract provisions; accordingly, the recorded transport and termination costs represent management's estimates of what is ultimately due and payable. During the year ended December 31, 2004, and the period May 15, 2002 (date of inception) through December 31, 2003, \$4,500,000 and \$2,500,000, respectively, of one vendor's charges were formally disputed. As of December 31, 2004, approximately \$4,759,000 remained in dispute and are, therefore, not included in the accompanying financial statements (see Note 8). Differences between the disputed amounts and final settlements, if any, are reported in operations in the year of settlement.

#### Other

Telecommunications industry revenues are subject to statutory and regulatory changes, interpretations of contracts, etc., all of which could materially affect our revenues. Generally, our customers have sixty days from the invoice date to dispute any billed charges. Management reviews all billings for compliance with applicable rules, regulations and contract terms and believes

## Edgar Filing: VOIP INC - Form 8-K/A

that it is in compliance therewith; accordingly, no allowance has been recorded in the accompanying financial statements for potential disputed charges.

17

### NOTE 8 - SUBSEQUENT EVENTS

#### Capital Stock Transactions

In February 2005, the Company issued 511,750 shares of Series B preferred stock for \$818,800 cash. In May 2005, 7,289,445 shares of common stock were converted into 5,944,669 shares of Series A preferred stock. Both Series A and Series B preferred stock are convertible into common stock, and they carry voting rights equal to the equivalent number of common shares into which they are convertible. Also, both Series A and Series B preferred stock contain equal and ratable dividend and liquidation preferences over common stock.

#### Litigation

On April 8, 2005, Volo Communications, Inc. ("Volo") (a wholly-owned subsidiary of Caerus, Inc.) filed suit against MCI Worldcom Network Services, Inc. d/b/a UUNET ("MCI"). Volo alleges that MCI engaged in a pattern and practice of over-billing Volo for the telecommunications services it provided pursuant to the parties' Services Agreement, and that MCI refused to negotiate such overcharges in good faith. Volo also seeks damages arising out of MCI's alleged fraudulent practice of submitting false bills by, among other things, re-routing long distance calls over local trunks to avoid access charges, and then billing Volo for access charges that were never incurred. On April 4, 2005, MCI declared Volo in default of its obligations under the Services Agreement, claiming that Volo owes a past due amount of \$8,365,980 through March, 2005, and threatening to terminate all services to Volo within 5 days. On April 12, 2005, MCI terminated all services to Volo. By these actions, Volo alleges claims for (1) breach of contract; (2) fraud in the inducement; (3) primary estoppel; and (4) deceptive and unfair trade practices. Volo also seeks a declaratory judgment that (1) MCI is in breach of the Services Agreement; (2) \$8,365,980 billed by MCI is not "due and payable" under that agreement; and (3) MCI's default letter to Volo is in violation of the Services Agreement. Volo seeks direct, indirect and punitive damages in an amount to be determined at trial.

On May 26, 2005, MCI filed an Answer, Affirmative Defenses, Counterclaim and Third-Party Complaint naming Caerus, Inc. as a third-party defendant. MCI asserts a breach of contract claim against Volo, a breach of guarantee claim against Caerus, Inc., and a claim for unjust enrichment against both parties, seeking an amount to be determined at trial. On July 11, 2005, Volo and Caerus, Inc. answered the counterclaim and third-party complaint, and filed a third-party counterclaim against MCI for declaratory judgment, fraud in the inducement, and breach of implied duty of good faith and fair dealing. Volo and Caerus, Inc. seek damages in an amount to be determined at trial. MCI has filed a motion to strike certain of Caerus' affirmative defenses and a motion to dismiss Caerus' counterclaims. Discovery should commence shortly. While management is optimistic about the outcome of this litigation, it is currently unable to assess the ultimate likelihood of a favorable or unfavorable outcome; accordingly, no related provision or liability has been made in the accompanying financial statements.

18

#### Merger



Edgar Filing: VOIP INC - Form 8-K/A

On May 31, 2005, the Company consummated an Agreement and Plan of Merger ("Merger Agreement") with VoIP, Inc. ("VoIP") (OTCBB:VOII.OB), whereby 100% of Caerus, Inc.'s common and preferred stock, stock options and warrants were exchanged for the common stock of a wholly-owned subsidiary of VoIP. The VoIP subsidiary's name was then changed to Caerus, Inc. Also in conjunction with this merger, the holder of the \$1,830,000 notes payable at December 31, 2004 referred to in Note 3 agreed to exchange those notes plus accrued interest for an equivalent number of shares of VoIP common stock valued at \$1.23 per share.

VOIP, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS

The Following unaudited pro forma condensed combined statement of operation is derived from and should be read in conjunction with the historical consolidated financial statements and related notes of VoIP, INC. ("VoIP" or the "Company"), and Caerus, Inc. ("Caerus"). On June 1, 2005, the Company, and Caerus announced the closing of the merger of Volo Acquisition Corp., a wholly-owned subsidiary of the Company with and into Caerus, with Caerus as the surviving corporation (the "Merger"). The Merger was completed pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), executed on May 31, 2005.

The unaudited pro forma condensed combined balance sheet presents the combined financial position of the Company and Caerus as if the merger was consummated on December 31, 2004.

The unaudited pro forma condensed statement of operations for the six months ended June 30, 2005 gives effect to the merger of Caerus and the Company with the conversion of all Caerus capital stock into 16,434,470 shares of common stock, par value \$0.001, of the Company.

The unaudited pro forma condensed combined statements of operations assume that the Merger was consummated at the beginning of the respective period.

The unaudited pro forma condensed combined statement of operations have been prepared based on currently available information and assumptions that are deemed appropriate by the Company's management. The pro forma information is for informational purposes only and is not intended to be indicative of the actual consolidated results that would have been reported had the transactions occurred on the dates indicated, nor does the information represent a forecast of the consolidated financial position at any future date or the combined financial results of the Company and Caerus for any future period.

VoIP Inc.  
Unaudited Proforma Consolidated Balance Sheet  
December 31, 2004

-----

VoIP, Inc. Caerus, Inc. Elim's

-----

ASSETS

Edgar Filing: VOIP INC - Form 8-K/A

Current Assets:			
Cash and cash equivalents	\$ 1,141,205	\$ 79,638	
Accounts receivable, net	818,071	2,098,598	
Due from related parties	245,402	--	
Inventory	187,451	--	
Assets from discontinued operations	412,419	--	
Other current assets	43,702	70,999	
	-----	-----	-----
Total Current Assets	2,848,250	2,249,235	--
	-----	-----	-----
Property and equipment, net	419,868	6,265,389	
Intangibles / Goodwill	6,923,854	--	25,576,952
Other assets	23,580	314,034	
	-----	-----	-----
TOTAL ASSETS	\$ 10,215,552	\$ 8,828,658	\$ 25,576,952
	=====	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Accounts payable and accrued expenses	\$ 1,224,974	\$ 7,137,293	
Bank loans and notes payable	760,000	6,006,899	
Notes payable - related party	--	1,830,000	
Liabilities from discontinued operations	--	--	
Other current liabilities	123,140	38,750	
	-----	-----	-----
Total Liabilities	2,108,114	15,012,942	--
	-----	-----	-----
Shareholders' equity:			
Common stock - \$0.001 par value	24,259	149,405	(132,972)
Additional paid-in capital	12,722,565	4,618,253	14,757,982
Accumulated deficit	(4,639,386)	(10,951,942)	10,951,942
	-----	-----	-----
Total shareholders' equity	8,107,438	(6,184,284)	25,576,952
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 10,215,552	\$ 8,828,658	\$ 25,576,952
	=====	=====	=====

The accompanying notes are an integral part of these pro forma financial statements

VoIP Inc.  
 Unaudited Proforma Consolidated Statement of Operations  
 For the Year Ended December 31, 2004

-----  
 VoIP, Inc.      Caerus, Inc.      Elim's  
 -----

Edgar Filing: VOIP INC - Form 8-K/A

Revenues	\$ 2,619,393	\$ 14,379,365		\$
Cost of Sales	1,870,269	15,103,149		
Gross Profit (Loss)	749,124	(723,784)	--	
Operating expenses				
Compensation and related expenses	2,721,296	2,973,070		
General and administrative expenses	2,187,878	4,347,875		
Loss from operations	(4,160,050)	(8,044,729)	--	
Interest & other expenses	--	566,866		
Loss from continuing operations before income taxes and discontinued operations	(4,160,050)	(8,611,595)	--	
Provision for income taxes	--	--		
Net loss before discontinued operations	(4,160,050)	(8,611,595)	--	
Income (Loss) from discontinued operations	145,311	--		
Net Loss	\$ (4,014,739)	\$ (8,611,595)	\$ --	\$ (

The accompanying notes are an integral part of these pro forma financial statements

22

VoIP Inc.  
 Unaudited Proforma Consolidated Statement of Operations  
 For the Six Months Ended June 30, 2005

	VoIP, Inc.	Caerus, Inc.	Elim's	
Revenues	\$ 3,267,421	\$ 7,284,244		\$
Cost of Sales	2,439,304	9,143,457		
Gross Profit (Loss)	828,117	(1,859,213)	--	
Operating expenses	4,647,148	3,839,659		
Loss from operations	(3,819,031)	(5,698,872)	--	

Edgar Filing: VOIP INC - Form 8-K/A

	-----	-----	-----	-----
Loss before income taxes	(3,819,031)	(5,698,872)	--	
Provision for income taxes	--	--		
Net Loss	\$ (3,819,031)	\$ (5,698,872)	\$ --	\$
	=====	=====	=====	=====
Basic and diluted loss per share:				\$
				==
Weighted average number of shares outstanding				==

The accompanying notes are an integral part of these pro forma financial statements

23

VOIP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED  
FINANCIAL STATEMENTS

(1) VOIP, INC. BASIS OF PRESENTATION

Historical financial information for VoIP, INC. as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 and the year ended December 31, 2004 has been derived from VoIP, Inc.'s historical statements.

CAERUS, INC. BASIS OF PRESENTATION

Historical financial information for Caerus, Inc. as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 and the year ended December 31, 2004 has been derived from Caerus, Inc.'s historical statements.

(2) VOIP, INC. AND CAERUS, INC. MERGER

On June 1, 2005, the Company, and Caerus, Inc. announced the closing of the merger of Volo Acquisition Corp., a wholly-owned subsidiary of the Company with and into Caerus, Inc. with Caerus, Inc. as the surviving corporation (the "Merger"). The Merger was completed pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), executed on May 31, 2005 by the conversion of all Caerus, Inc. capital stock into 16,434,470 shares of common stock, par value \$0.001, of the Company.

(3) PRO FORMA BALANCE SHEET ADJUSTMENTS

Following are brief descriptions of the pro forma adjustments to the balance sheet to reflect the merger of the Company and Caerus, Inc.

## Edgar Filing: VOIP INC - Form 8-K/A

A Goodwill is the excess of the purchase price, based on the market value of the 16,434,470 shares issued, over the book value of Caerus, Inc. on May 31, 2005. As listed in the following table:

Total paid in VoIP, Inc stock and warrants	16,434,470
VoIP share market value - close of Market on May 31, 2005	\$ 1.18
	-----
Total cost of Caerus, Inc. to VoIP, Inc.	\$19,392,675
Plus: Negative equity of Caerus, Inc. as of May 31, 2005	10,281,881
	-----
Goodwill	\$29,674,557
	=====

B Adjustments to eliminate Caerus, Inc. stockholders' equity accounts, and reflect new VoIP, Inc. common shares issued.

(4) PRO FORMA STATEMENTS OF INCOME ADJUSTMENTS None were required.

(5) ACQUISITION APPRAISAL

The Company is in the process of obtaining a professional appraisal of the Caerus, Inc. acquisition. The acquisition created Goodwill in the amount of \$29,674,557. If the appraisal indicates that amount would best be allocated between Goodwill, other intangible assets and/or paid in capital the appropriate adjustment will be made.

24

### SIGNATURES

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

Date: August 16, 2005

VoIP, INC.  
(Registrant)

By: /s/ Steven Ivester

-----  
Steven Ivester  
President and Chief Executive Officer

25