VOIP INC
Form 10QSB/A
July 07, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB/A

(Amendment No. 1)

(Mark one)

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

Or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from _________ to ________

Commission File Number: 000-28985

VoIP, Inc.
(Exact name of small business issuer as specified in its charter)

Texas	75-2785941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

151 So. Wymore Rd, Suite 3000, Altamonte Springs, FL 32714
(Address of principal executive offices)

(407) 389-3232
(Issuer's telephone number)

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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:
November 2, 2005: 59,650,842.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act).
Yes o No x

Explanatory Note

VoIP, Inc. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2005 (the "September 30, 2005 10-QSB"), which was originally filed on November 21, 2005. This Amendment No. 1 is being filed to restate the Company's financial statements for the three and nine months ended September 30, 2005, which were misstated, resulting in overstated revenues, expenses, receivables and inventory, and net loss.

These misstatements were discovered by 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 consolidated financial statements. These misstatements occurred primarily 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. In addition, the Company discovered that it had misclassified the sale of equipment in the third quarter of 2005 as revenue and related cost of sales, instead of as non-operating income. The Company has therefore decided to restate its consolidated financial statements for the three and nine months ended September 30, 2005 to correct these misstatements.

This Amendment No. 1 also restates the Company's consolidated balance sheet as of December 31, 2004, to reflect the Company’s Amendment No. 2 to its Annual Report on Form 10-KSB/A, filed on May 11, 2006. In addition, this Amendment No. 1 restates the Company’s consolidated statements of operation for the three and nine months ended September 30, 2004, and the Company’s consolidated statement of cash flows for the nine months ended September 30, 2004, to reflect the Company’s Amendment No. 2 to its Quarterly Report on Form 10-QSB/A for the quarterly period ended September 30, 2004, filed on May 11, 2006.

This Amendment No. 1 revises (i) Part I, Item 1. Financial Statements to provide the restated financial statements and notes thereto for the three and nine months ended September 30, 2005; (ii) Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations to reflect the restated results of operations for this same period; (iii) Part I, Item 3. Controls and Procedures to report management's assessment of the Company's disclosure controls as of the date of the filing of this Amendment; 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 be dated as of a current date as required by Rule 12b-15 of the Exchange Act.

This Amendment No. 1 does not reflect events occurring after the original filing of the Company’s September 30, 2005 10-QSB, and does not update or modify the disclosures therein in any way other than as required to reflect the amendments described above.

VoIP, Inc.

Form 10-QSB/A for the Quarter ended September 30, 2005

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VoIP, Inc.
Consolidated Balance Sheets

	September 30, 2005 (Unaudited and Restated)	December 31, 2004 (As Restated)
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,238,873	$ 1,141,137
Accounts receivable, net of allowance of $113,817 and $136,795, respectively	704,451	166,239
Due from related parties	-	245,402
Inventory	405,728	324,185
Assets from discontinued operations	-	412,419
Other current assets	364,929	-
Total current assets	4,713,981	2,289,382
Property and equipment, net	8,352,155	419,868
Goodwill and other intangibles	29,996,814	6,923,854
Other assets	272,434	23,580
TOTAL ASSETS	$ 43,335,384	$ 9,656,684
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 9,009,315	$ 1,148,833
Loans payable	6,245,818	200,000
Convertible notes payable	815,991	-
Notes payable to related parties	994,626	560,000
Other current liabilities	2,058,630	103,031
Total current liabilities	19,124,380	2,011,864
Convertible notes payable - long term	611,934	-
Other debt	164,631	-
Total liabilities	19,900,945	2,011,864
Shareholders' equity		
Common stock - $0.001 par value; 100,000,000 shares authorized; 56,588,004 and 24,258,982 issued and outstanding, respectively	56,588	24,259
Additional paid in capital	43,698,121	14,107,328
Accumulated deficit	(20,320,270)	(6,486,767)

Total shareholders' equity		23,434,439		7,644,820
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	43,335,384	$	9,656,684

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

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VoIP, Inc.
Consolidated Statements of Operations (Unaudited)

	Nine Months Ended September 30		Three Months Ended September 30	
	2005 (As Restated)	**2004 (As Restated)**	**2005 (As Restated)**	**2004 (As Restated)**
Revenues	$ 5,598,154	$ 718,481	$ 2,285,912	$ 633,183
Cost of sales	5,714,393	620,404	3,109,387	561,481
Gross profit (loss)	(116,239)	98,077	(823,475)	71,702
Operating expenses:				
Compensation and benefits	4,427,858	5,223,599	2,636,126	5,125,899
Commissions and fees to third parties	2,456,588	57,416	1,383,826	57,416
Advertising and marketing	482,050	115,180	133,635	88,289
Professional and legal	1,178,639	238,527	489,806	128,012
Depreciation and amortization	1,821,214	38,315	1,253,779	22,604
Other	3,557,099	503,757	2,227,538	297,218
Total operating expenses	13,923,448	6,176,794	8,124,710	5,719,438
Loss from operations	(14,039,687)	(6,078,717)	(8,948,185)	(5,647,736)
Gain on sale of fixed assets	206,184	-	206,184	-
Provision for income taxes	-	-	-	-
Net loss	$ (13,833,503)	$ (6,078,717)	$ (8,742,001)	$ (5,647,736)
Loss per weighted average share of common stock outstanding - basic and fully diluted	$ (0.39)	$ (0.55)	$ (0.18)	$ (0.29)
Weighted average number of shares of common stock outstanding - basic and fully diluted	35,918,087	10,989,990	49,665,036	19,642,390

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

VoIP, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30	
	2005 (As Restated)	**2004 (As Restated)**
Cash flows from operating activities:		
Net loss	$ (13,833,503)	$ (6,078,717)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,821,214	2,964
Compensation, interest, and other expenses for stock and warrants issued and vesting stock options	5,364,394	5,248,929
Provision for bad debt	113,816	-
Provision for assets of discontinued operations	392,000	-
Changes in operating assets and liabilities net of assets and liabilities acquired:		
Accounts receivable	(454,610)	292,001
Inventory	(81,543)	(37,580)
Other current assets	267,966	(76,760)
Accounts payable and accrued expenses	(1,501,711)	(223,618)
Other current liabilities	(1,091,580)	87,949
Net cash used in operating activities	(9,003,557)	(784,832)
Cash flows from investing activities:		
Cash from acquisitions	-	104,862
Purchases of property and equipment	(176,875)	(43,550)
Purchase of other assets	-	(13,092)
Net cash provided by (used in) investing activities	(176,875)	48,220
Cash flows from financing activities:		
Proceeds from issuance of notes payable	3,730,339	-
Payments of notes payable	(722,797)	-
Due to affiliates	-	(151,166)
Net proceeds under capital leases	195,863	-
Proceeds from sales of common stock	8,074,763	1,121,803
Net cash flow provided by financing activities	11,278,168	970,637
Net increase in cash and cash equivalents	2,097,736	234,025
Cash and cash equivalents at beginning of period	1,141,137	3,499
Cash and cash equivalents at end of period	$ 3,238,873	$ 237,524
Non-cash investing and financing activities:		
Goodwill and intangible assets recorded on acquisition	$ (24,101,000)	$ -
Issuance of common stock and warrants on acquisition	$ 13,819,119	$ -
Issuance of stock for debt conversion	$ 1,996,478	$ -

Net liabilities assumed on acquisition, net of cash	$	8,285,403	$	-

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

VoIP, Inc.

Notes to Consolidated Financial Statements

NOTE A - ORGANIZATION AND DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

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. (“eGlobalphone”) and VOIP Solutions, Inc. (“VoIP Solutions”).

On April 13, 2004 the Company changed its name to VoIP, Inc. and began to develop and manufacture internet protocol telephony customer premise equipment, and provide voice over the internet subscriber based telephony services and long range WiFi technology solutions for residential and enterprise customers including multimedia applications. The Company acquired VCG Technologies, Inc., doing business as DTNet Technologies (“DTNet”), a hardware supplier in June 2004. VoIP Americas, Inc., a VoIP related company (“VoIPAmericas”), was acquired in September 2004.

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 have been classified as discontinued operations on the accompanying consolidated financial statements.

On May 31, 2005 the Company acquired 100% of Caerus, Inc. (“Caerus”) and its wholly-owned subsidiaries Volo Communications, Inc. (“Volo”), Caerus Networks, Inc., and Caerus Billing, Inc. in exchange for 16.9 million of the Company's common shares. In October 2005, the Company purchased substantially all of the assets of WQN Inc.'s ("WQN") voice over Internet protocol business.

The Company is an emerging global provider of advanced communications services utilizing VoIP technology. VoIP telephony is the real time transmission of voice communications in the form of digitized "packets" of information over the Internet or a private network, similar to the way in which e-mail and other data is transmitted. VoIP services are expected to allow consumers and businesses to communicate in the future at dramatically reduced costs compared to traditional telephony networks.

The Company owns its network and its technology and offers the ability to provide complete product and service solutions, including wholesale carrier services for call routing and termination, outsourced customer service and hardware fulfillment. The Company is a certified Competitive Local Exchange Carrier (CLEC) and Interexchange Carrier (IXC). The Company provides a portfolio of advanced telecommunications technologies, enhanced service solutions, and broadband products to the VoIP industry. Customers include RBOCs, CLECs, IXCs, wireless carriers, resellers, internet service providers, cable multiple system operators and other providers of telephony services in the United States and various countries around the world.

The Company's operations consist of one segment.

The financial information presented herein should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004. The accompanying consolidated financial statements for the three and nine months ended September 30, 2005 and 2004 are unaudited but, in the opinion of management, include all adjustments (which are of normal and recurring in nature) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year. Therefore, the results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of operating results to be expected for the full year or future interim periods.

Significant accounting policies are detailed in the Company's annual report on Form 10-KSB for the year ended December 31, 2004.

All intercompany accounts and transactions have been eliminated in consolidation.

NOTE B - RESTATEMENT OF FINANCIAL STATEMENTS

On March 22, 2006, the Company concluded that its consolidated financial statements for the three and nine months ended September 30, 2005 were misstated, resulting in overstated revenues, expenses, receivables, inventory, and net loss. These misstatements were discovered by 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. Misstatements occurred primarily in the financial statements of the Company 's consolidated subsidiary DTNet. The Company also incorrectly classified the sale of equipment as revenue and cost of sales, instead of other income. The Company therefore restated its consolidated financial statements for the three and nine months ended September 30, 2005 to correct these misstatements. Adjustments to reduce (i) the overstatement of receivables (including amounts due from related parties); (ii) the overstatement of inventory; (iii) the overstatement of revenues; (iv) the overstatement of cost of sales; and (v) the overstatement of net loss, aggregated $259,806, $155,517, $854,678, $543,656, and $47,227, respectively, for the nine months ended September 30, 2005.

In addition, during the preparation of the financial statements for the quarter ended September 30, 2005, the Company discovered that it did not recognize in its consolidated 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" ("SFAS No. 123"). The compensation expense that was not recognized relating to these options and warrants was $1,384,763 in 2004. The Company therefore restated its consolidated financial statements for the year ended December 31, 2004 to correct these misstatements.

The following tables set forth the impact of these restatements on certain amounts previously reported in our consolidated financial statements as of and for the three and nine months ended September 30, 2005 and 2004, and as of December 31, 2004.

Balance Sheet Data	**As of September 30, 2005**		**As of December 31, 2004**	
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Accounts receivable	$ 704,451	$ 704,451	$ 818,071	$ 166,239
Due from related parties	259,806	-	245,402	245,402
Inventory	561,245	405,728	187,451	324,185
Other current assets	364,929	364,929	43,702	-
Accounts payable and accrued expenses	9,009,315	9,009,315	1,224,974	1,148,833
Other current liabilities	2,058,630	2,058,630	123,140	103,031
Accumulated deficit	(19,904,879)	(20,320,270)	(6,024,149)	(6,486,767)

Statement of Operations Data	**Nine Months Ended September 30, 2005**		**Three Months Ended September 30, 2005**	
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Revenue	$ 6,452,832	$ 5,598,154	$ 2,535,912	$ 2,285,912
Cost of sales	6,258,049	5,714,393	3,153,203	3,109,387
Operating expenses	14,075,513	13,923,448	8,230,002	8,124,710
Loss from operations	(13,880,730)	(14,039,687)	(8,847,293)	(8,948,185)
Gain on sale of fixed assets	-	206,184	-	206,184
Net loss	(13,880,730)	(13,833,503)	(8,847,293)	(8,742,001)
Net loss per common share	(0.39)	(0.39)	(0.18)	(0.18)

	Nine Months Ended September 30, 2004		**Three Months Ended September 30, 2004**	
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Revenue	$ 1,015,065	$ 718,481	$ 929,767	$ 633,183
Cost of sales	737,904	620,404	678,981	561,481
Operating expenses	4,357,346	6,176,794	3,759,365	5,719,438

Loss from operations	(4,080,185)	(6,078,717)	(3,508,579)	(5,647,736)
Net loss	(4,080,185)	(6,078,717)	(3,508,579)	(5,647,736)
Net loss per common share	(0.31)	(0.55)	(0.18)	(0.29)

NOTE C - LIQUIDITY

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern.

The Company has incurred operating losses and negative cash flows from operations since inception of its business in 2004 and has been dependent on issuances of debt and equity instruments to fund its operations and capital expenditures.

At September 30, 2005 the Company's contractual obligations for debt, leases and capital expenditures totaled approximately $9.5 million. Included in this amount is approximately $5.1 million due on a loan from a lending institution. The Company is not in compliance with certain covenants under the loan agreement for this debt and also owes amounts in arrears on this loan of approximately $280,000. To date the lending institution has not declared a default on this loan.

The Company will need to raise additional debt or equity capital to provide the funds necessary to restructure or repay its $5.1 million loan, meet its other contractual commitments, and continue its operations. The Company is actively seeking to raise this additional capital but may not be successful in obtaining further debt or equity financing. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE D - ACQUISITION OF CAERUS, INC.

On May 31, 2005 the Company acquired 100 percent of Caerus and its wholly owned subsidiaries Volo, Caerus Networks, Inc., and Caerus Billing, Inc. in exchange for 16.9 million of the Company's common shares. The acquisition was accounted for as a business combination in accordance with Statement of Financial Accounting Standard No. 141 "Business Combinations" ("SFAS No. 141").

The purchase price was allocated to the identifiable net assets acquired including the identifiable intangible assets based on their estimated fair market values at the date of acquisition. The goodwill, intangible assets and property recorded for the acquisition of Caerus represent the fair market value of liabilities as of the date of acquisition, plus $13,819,118 which represents the value of the Company's common stock and options issued pursuant to the acquisition, plus acquisition-related costs. The common stock issued to acquire Caerus was valued at the closing market price of the stock on the date of the acquisition, less a 25% discount due to restrictions on the shares. The amortizable lives of the intangible assets recorded for Caerus range from one to nine years.

The fair market value of the assets acquired on May 31, 2005 is as follows:

		Fair Value of Assets Acquired
Cash	$	66,485
Accounts receivable		285,578
Deposits		108,500
Other current assets		156,659
Property and equipment, net		8,451,763
Other assets		271,609
Accounts payable		(9,382,323)
Note payable		(6,960,818)
Customer deposits		(1,026,750)
Other current liabilities		(2,252,703)
Subtotal		(10,282,000)
Intangible assets		13,800,000
Goodwill		10,301,000
Subtotal		24,101,000
Purchase price	$	13,819,000

NOTE E - GOODWILL AND OTHER INTANGIBLE ASSETS

a) As of September 30, 2005 goodwill consisted of the following:

	Amount
Acquisition of Caerus	$ 10,301,000
Acquisition of DTNet	5,210,553
Acquisition of VoipAmericas	1,408,301
Subtotal	16,919,854

b) As of September 30, 2005 intangible assets consisted of the following:

Intangibles with finite lives:	Useful Life Years	Amount
Technology - Caerus	4.0	$ 6,000,000
Customer relationships - Caerus	6.0	5,800,000
Trade names - Caerus	9.0	1,300,000
Non-compete agreements - Caerus	1.0	500,000
Carrier licenses - Caerus	Unamortized	200,000
Subtotal		13,800,000
Less: accumulated amortization		1,028,040
Subtotal		12,771,960
Intangibles with undeterminable lives:		
Intellectual property		305,000
Subtotal		13,076,960
Total		$ 29,996,814

The goodwill on the acquisition of 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 its acquisition.

The goodwill on the acquisition of VoipAmericas 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 $200,000 paid in cash and the value assigned to 100,000 Company common shares and 400,000 warrants issued pursuant to this transaction.

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 1-800-TALKTIME and the goodwill associated therewith.

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NOTE F - LOANS PAYABLE

As of September 30, 2005 loans payable consist of the following:

a. Note Payable to Shareholder	$ 994,626
b. Note Payable	1,000,000
c. Note Payable - Other	115,000
d. Note Payable to Lending Institution	5,130,818
	$ 7,240,444

a. Represents the balance due a shareholder at an interest rate of 3.75% with a maturity date of December 31, 2005.

b. On August 5, 2005 the Company received an advance for $1,000,000 related to the asset acquisition performed on October 6, 2005 (see NOTE K).

c. Represents 50% of a note issued pursuant to a subscription agreement. On October 20, 2005 the investor completed 100% of the agreement by investing an additional $115,000, and converted the $230,000 principal balance of this note into 287,500 shares of common stock.

d. Represents the balance of a loan payable to a lending institution. 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 Caerus' assets, as well as rights to preferred stock warrants. The Company is in violation of certain requirements of the debt facility. Accordingly, the full amount of the note at September 30, 2005 has been classified as current. No default on this loan has been declared by the lender.

NOTE G - CONVERTIBLE NOTES PAYABLE

Convertible notes payable represent notes issued pursuant to a subscription agreement, immediately convertible at the option of the note holders into 1,784,895 shares of the Company’s common stock. The notes are repayable beginning in October 2005 in equal monthly installments of $67,999 in principal and $5,440 in interest. In connection with these notes the note holders also received warrants to purchase 829,448 shares of common stock at $1.60 per share and 829,448 shares of common stock at $1.43 per share. The fair market value of these warrants as calculated using the Black-Scholes pricing model is $1,356,620 and this amount has been expensed as a financing cost during the three months ended September 30, 2005 due to the fact that the related notes are convertible at any time into common stock.

The subscription agreement for these notes also gave the note holders the option to purchase, within five business days following the effective date of a Company registration statement, an additional $1,427,925 in convertible notes on the same terms as those for the convertible notes outstanding at September 30, 2005. In October 2005 a Company registration statement was declared effective and the note holders purchased the additional $1,427,925 in convertible notes. Warrants were issued in connection with these notes to purchase 829,448 shares of stock at $1.60 per share and 829,448 shares of stock at $1.65 per share.

NOTE H - LITIGATION

On April 8, 2005, Volo Communications, Inc. ("Volo") (a wholly-owned subsidiary of Caerus) 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 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, and threatening to terminate all services to Volo within 5 days. By this action 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 direct, indirect, and punitive damages in an amount to be determined at trial.

On August 1, 2005, MCI moved to strike most of Volo's and Caerus' affirmative defenses and demand for attorney's fees, and to dismiss Caerus' counterclaims. On October 6, 2005, the Court denied the motions in part, granted them in part with leave to amend, and deferred ruling on the motions in part. On October 13, 2005, Volo and Caerus filed amended affirmative defenses, and Caerus filed amended counterclaims.

This litigation is in the discovery stage. The Company is currently unable to assess the likelihood of a favorable or unfavorable outcome.

NOTE I - OTHER DEBT

During the quarter ended September 30, 2005 the Company refinanced certain telecommunications equipment with capital leases. At September 30, 2005 the related future minimum lease payments under these capital leases were as follows:

Fiscal		
2006	$	58,003
2007		58,003
2008		58,003
2009		58,003
2010		44,059
Subtotal		276,071
Less imputed interest necessary to reduce the net minimum lease payments to their estimated present value		(80,208)
Total obligation at September 30,2005		195,863
Less current portion		(31,232)
Noncurrent portion	$	164,631

NOTE J - STOCK BASED COMPENSATION

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 activity in this 2004 Option Plan for the nine months ended September 30, 2005 is as follows:

	Number		Price Range		Wtd. Avg. Exercise price
Options outstanding at December 31, 2004	3,650,000	$	0.85-$1.56	$	1.14
Options returned to the plan due to employee terminations	(600,000)	$	0.85-$1.10	$	0.95
Options granted	325,000	$	1.01-$1.17	$	1.12
Options outstanding at September 30, 2005	3,375,000	$	0.85-$1.56	$	1.17

The Company recorded compensation expense of $263,806 and $645,590 for the three months ended September 30, 2005 and 2004, respectively, and $409,569 and $786,215 for the nine months ended September 30, 2005 and 2004, respectively, in connection with options granted under the 2004 Stock Option Plan.

During the three months ended September 30, 2004 the Company issued to two employees warrants to purchase 4,400,000 shares of common stock for $1.00 per share. The Company recognized $2,217,600 (the estimated fair market value of the warrants) in compensation expense in connection with the issuance of these warrants during the three months ended September 30, 2004. During the three months ended March 31, 2005 the Company issued 750,000 shares of common stock in exchange for 2,200,000 of these warrants and recognized additional compensation expense of $239,500 for the excess of the fair market value of the common stock issued over the fair market value of the warrants received. During the three months ended September 30, 2005 the Company issued 1,275,630 shares of common stock for the remaining 2,200,000 warrants and recognized additional compensation expense of $1,328,801 for the excess of the fair market value of the stock issued over the fair market value of warrants received.

NOTE K - SUBSEQUENT EVENTS

On October 6, 2005, the Company purchased substantially all of the assets of WQN relating to WQN's VoIP business. Such assets consist of WQN's properties and infrastructure for its services platform for both retail and wholesale voice over internet business. The acquired business currently provides (i) enhanced Internet-based and other telephony services under various brand names to individual consumers primarily seeking to make international calls; (ii) enhanced Internet-based and other telephony services to resellers, corporations and service providers under their brand names; (iii) and carrier transmission services whereby WQN sells excess capacity to other long-distance carriers.

Pursuant to the Asset Purchase Agreement, the Company purchased the assets for (1) a Convertible Promissory Note, in the principal amount of $3,700,000 and convertible into 3,557,692 shares of the Company's common stock, (2) 1,250,000 restricted shares of the Company's common stock, and (3) a warrant to purchase 5,000,000 shares of common stock for $0.001 per share. In addition, the Asset Purchase Agreement provides that, in the event that the accounts payable of WQN transferred to the Company in the Asset Purchase exceed the accounts receivable transferred to the Company in the Asset Purchase, WQN will pay the Company the difference. If WQN is required to pay such difference, the Company will issue additional shares of common stock at the rate of one share per dollar of such excess, up to 500,000 shares.

VOIP, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS

The following unaudited pro forma condensed combined statements of operations are derived from and should be read in conjunction with the historical consolidated financial statements and related notes of the Company and 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 statements of operations for the nine months ended September 30, 2005 and 2004, and the three months ended September 30, 2004, give effect to the merger with the conversion of all Caerus capital stock into 16,434,470 shares of common stock 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 statements of operations have been prepared based on currently available information and assumptions that we deem appropriate. 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.

Pro forma Condensed Combined Statement of Operations (Unaudited) Three Months Ended September 30, 2004

	VoIP, Inc. (Restated)	Caerus, Inc.	Adjustments	Consolidated
Revenues	$ 633,183	$ 2,950,825	$ -	$ 3,584,008
Cost of Sales	561,481	3,195,681	-	3,757,162
Gross Profit	71,702	(244,856)	-	(173,154)
Operating expenses	5,719,438	2,211,543	777,777	8,708,758
Loss from operations	(5,647,736)	(2,456,399)	(777,777)	(8,881,912)
Provision for income taxes	-	-	-	-
Net loss	$ (5,647,736)	$ (2,456,399)	$ (777,777)	$ (8,881,912)
Basic and diluted loss per share				$ (0.25)
Weighted average number of shares outstanding				36,076,860

The accompanying notes are an integral part of this pro forma condensed combined statement of operations.

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VoIP, Inc.

Pro forma Condensed Combined Statement of Operations (Unaudited) Nine Months Ended September 30, 2005

	VoIP, Inc. (As Restated)	Caerus, Inc.	Adjustments	Consolidated
Revenues	$ 2,845,603	$ 9,387,331	$ -	$ 12,232,934
Cost of Sales	2,451,757	11,740,551	-	14,192,308
Gross Profit	393,846	(2,353,220)	-	(1,959,374)
Operating expenses	10,510,616	6,513,422	1,296,295	18,320,333
Loss from operations	(10,116,770)	(8,866,642)	(1,296,295)	(20,279,707)
Gain on sale of fixed assets	206,184	-	-	206,184
Provision for income taxes	-	-	-	-
Net loss	$ (9,910,586)	$ (8,866,642)	$ (1,296,295)	$ (20,073,523)
Basic and diluted loss per share				$ (0.45)
Weighted average number of shares outstanding				45,048,348

The accompanying notes are an integral part of this pro forma condensed combined statement of operations.

VoIP, Inc.

Pro forma Condensed Combined Statement of Operations (Unaudited) Nine Months Ended September 30, 2004

	VoIP, Inc. (As Restated)	Caerus, Inc.	Adjustments	Consolidated
Revenues	$ 718,481	$ 8,320,450	$ -	$ 9,038,931
Cost of sales	620,404	8,544,273	-	9,164,677
Gross profit	98,077	(223,823)	-	(125,746)
Operating expenses	6,176,794	4,957,981	1,555,554	12,690,329
Loss from operations	(6,078,717)	(5,181,804)	(1,555,554)	(12,816,075)
Provision for income taxes	-	-	-	-
Net loss	$ (6,078,717)	$ (5,181,804)	$ (1,555,554)	$ (12,816,075)
Basic and diluted loss per share				$ (0.47)
Weighted average number of shares outstanding				27,424,460

The accompanying notes are an integral part of this pro forma condensed combined statement of operations.

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

(1) VoIP, Inc. Basis of Presentation

Financial information for the Company has been derived from the Company's historical financial statements.

(2) Caerus, Inc. Basis of Presentation

Financial information for Caerus has been derived from Caerus' historical financial statements.

(3) VoIP, Inc. and Caerus, Inc. Merger

On June 1, 2005, the Company and Caerus announced the closing of the Merger. The Merger was completed pursuant to the Merger Agreement by the conversion of all Caerus' capital stock into 16,434,470 shares of the Company's common stock. See NOTE D to the Company's Consolidated Financial Statements.

(4) Adjustments

Adjustments to the pro forma statements of operations represent amortization of certain intangible assets recorded in connection with the acquisition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward-Looking Information

This Quarterly Report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Company or management as well as assumptions made by and information currently available to the Company or management. When used in this document, the words "anticipate," "believe," "estimate," "expect" and "intend" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the current view of the Company regarding future events and are subject to certain risks, uncertainties and assumptions, including the risks and uncertainties noted. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. In each instance, forward-looking information should be considered in light of the accompanying meaningful cautionary statements herein.

Restatement of Financial Statements

On March 22, 2006, we concluded that our consolidated financial statements for the three and nine months ended September 30, 2005 were misstated, resulting in overstated revenues, expenses, receivables and inventory, and net loss. These misstatements were discovered by 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. Misstatements occurred primarily in the financial statements of our consolidated subsidiary DTNet. The Company also incorrectly classified the sale of equipment as revenue and cost of sales, instead of other income. We therefore restated our consolidated financial statements for the three and nine months ended September 30, 2005 to correct these misstatements. Adjustments to reduce (i) the overstatement of receivables (including amounts due from related parties); (ii) the overstatement of inventory; (iii) the overstatement of revenues; (iv) the overstatement of cost of sales: and (v) the overstatement of net loss, aggregated $259,806, $155,517, $854,678, $543,656 and $47,227, respectively, for the nine months ended September 30, 2005.

In addition, during the preparation of the financial statements for the quarter ended September 30, 2005, we discovered that we did not recognize in our consolidated 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 SFAS No. 123. The compensation expense that was not recognized relating to these options and warrants was $1,384,763 in 2004. We therefore restated our consolidated financial statements for the year ended December 31, 2004 to correct these misstatements.

The following tables set forth the impact of these restatements on certain amounts previously reported in our consolidated financial statements as of and for the three and nine months ended September 30, 2005 and 2004, and as of December 31, 2004.

	As of September 30, 2005		As of December 31, 2004	
Balance Sheet Data	As Previously Reported	As Restated	As Previously Reported	As Restated
Accounts receivable	$ 704,451	$ 704,451	$ 818,071	$ 166,239
Due from related parties	259,806	-	245,402	245,402
Inventory	561,245	405,728	187,451	324,185
Other current assets	364,929	364,929	43,702	-

Accounts payable and accrued expenses	9,009,315	9,009,315	1,224,974	1,148,833
Other current liabilities	2,058,630	2,058,630	123,140	103,031
Accumulated deficit	(19,904,879)	(20,320,270)	(6,024,149)	(6,486,767)

	Nine Months Ended September 30, 2005		Three Months Ended September 30, 2005	
Statement of Operations Data	**As Previously Reported**	**As Restated**	**As Previously Reported**	**As Restated**
Revenue	$ 6,452,832	$ 5,598,154	$ 2,535,912	$ 2,285,912
Cost of sales	6,258,049	5,714,393	3,153,203	3,109,387
Operating expenses	14,075,513	13,923,448	8,230,002	8,124,710
Loss from operations	(13,880,730)	(14,039,687)	(8,847,293)	(8,948,185)
Gain on sale of fixed assets	-	206,184	-	206,184
Net loss	(13,880,730)	(13,833,503)	(8,847,293)	(8,742,001)

	Nine Months Ended September 30, 2004		Three Months Ended September 30, 2004	
	As Previously Reported	**As Restated**	**As Previously Reported**	**As Restated**
Revenue	$ 1,015,065	$ 718,481	$ 929,767	$ 633,183
Cost of sales	737,904	620,404	678,981	561,481
Operating expenses	4,357,346	6,176,794	3,759,365	5,719,438
Loss from operations	(4,080,185)	(6,078,717)	(3,508,579)	(5,647,736)
Net loss	(4,080,185)	(6,078,717)	(3,508,579)	(5,647,736)
Net loss per common share	(0.31)	(0.55)	(0.18)	(0.29)

For a discussion of the impact of these restatements on current management's evaluation of disclosure controls and procedures, the separate Board of Directors of the Company (the "Board") investigation of these misstatements, and the steps we are taking to address concerns associated with these misstatements, see Item 3, "Controls and Procedures."

We completed the acquisition of Caerus on May 31, 2005. Caerus, a VoIP carrier and service provider, provides us with important technology, including the Voice One network, intellectual capital and VoIP expertise, VoIP enhanced service solutions and key customers and business relationships.

The following unaudited pro forma combined financial information has been prepared assuming the Caerus acquisition occurred as of the first day of each period reported.

	Nine Months Ended September 30		Three Months Ended
	2005	2004	September 30, 2004
Revenues	$ 12,232,934	$ 9,038,931	$ 3,584,008
Net loss	(20,073,523)	(12,816,075)	(8,881,912)
Loss per share	(0.45)	(0.47)	(0.25)

As discussed in the following paragraphs the addition of Caerus impacts the comparability of our results of operations for the three and nine months ended September 30, 2005 to our results for the corresponding periods of 2004.

Comparison of Three Months Ended September 30, 2005 and 2004

Our restated net loss for the three months ended September 30, 2005 was $8,742,001 ($0.18 per share), as compared to a restated net loss of $5,647,736 ($0.29 per share) for the three months ended September 30, 2004.

Restated revenues for the current quarter totaled $2,285,912, an increase of approximately $1.7 million over the restated revenues for the three months ended September 30, 2004. Routing and termination services revenues amounted to $2,103,770 and $237,176, for the three months ended September 30, 2005 and 2004, respectively. The increase in these revenues is attributable to the addition of Caerus' Voice One Network. These additional revenues from our network were offset by a $664,535 decrease in our revenues from VoIP hardware sales. One customer accounted for 92% of our revenues during the three months ended September 30, 2005.

Our restated gross loss for the three months ended September 30, 2005 was $823,475, as compared to a restated gross profit of $71,702 for the same period in 2004. The decline in gross profit for this quarter is principally attributable to the costs we incurred to operate our network and the fees paid to third-party carriers to terminate calls on our behalf. Our combined operating costs and third party fees exceeded the revenues generated by the current level of traffic on our network.

We incurred operating expenses of $8,124,710 and $5,719,438 for the three months ended September 30, 2005 and 2004, respectively. The additional operating expenses for 2005 reflect in part the expansion of our operations due to our recent acquisition of Caerus. The $3.6 million rise in operating expenses is comprised primarily of additional commissions and fees paid to third parties (primarily relating to our capital raising efforts) of approximately $1.3 million and increases in professional and legal fees ($361,794), depreciation ($333,332), amortization of intangible assets ($897,843) and other expenses ($1,960,320). Other expenses for 2005 include interest and financing costs of approximately $1.5 million for our debt issuances.

In the three months ended September 30, 2005, we sold computer equipment that we were no longer utilizing, for a net gain of $206,184.

Comparison of Nine Months Ended September 30, 2005 and 2004

Our restated net loss for the nine months ended September 30, 2005 was $13,833,503 ($0.39 per share), as compared to a restated loss of $6,078,717 ($0.55 per share) for the nine months ended September 30, 2004.

Restated revenues for the current nine months totaled $5,598,154, an increase of approximately $4.9 million over that restated for the nine months ended September 30, 2004. Revenues generated by Caerus' Voice One Network for routing and termination services amounted to $2,752,551 for the nine months ended September 30, 2005. The remainder of the revenue increase is due to growth in hardware sales and international service termination. One customer accounted for 49% of our sales during the nine months ended September 30, 2005.

Our restated gross loss for the nine months ended September 30, 2005 was $116,239, as compared to a gross profit of $98,077 for the same period in 2004. The decline in gross profit for this nine month period principally reflects our network operating costs and the fees we paid to third-party carriers to terminate calls on our behalf. These combined operating costs and third party fees exceeded the revenues generated by the level of traffic on our network.

We incurred restated operating expenses of $13,923,448 and $6,176,794 for the nine months ended September 30, 2005 and 2004, respectively. The additional operating expenses for 2005 reflect in part the expansion of our operations due to our recent acquisition of Caerus. The $7.7 million dollar rise in operating expenses is comprised of added professional and legal fees ($940,112), depreciation ($598,762), amortization of intangible assets ($1,184,137), additional commissions and fees of approximately $2.4 million paid to third parties in connection with our capital raising efforts, and increased other expenses ($3,053,343) offset by a decrease in compensation ($795,741). The increase of other expenses reflects provisions for bad debts and discontinued assets of $604,000, and interest and finance costs of approximately $1.6 million for our debt issuances.

In the nine months ended September 30, 2005, we sold computer equipment that we were no longer utilizing, for a net gain of $206,184.

Restated total assets at September 30, 2005 were $43,335,384, up $33,678,700 from December 31, 2004. This increase in assets (which includes additions to property of almost $7.9 million) and the corresponding increase in accounts payable and other current liabilities are almost entirely related to the acquisition of Caerus on May 31, 2005. We recorded significant amounts of goodwill and intangible assets in connection with the acquisition of Caerus and for the acquisition of DTNet. Goodwill and intangible assets comprised 69% of our total assets at September 30, 2005. We expect to record additional amounts of goodwill and intangible assets in connection with our WQN, Inc. acquisition, which was completed on October 6, 2005.

Under SFAS 142 we are required to periodically evaluate the carrying value of our goodwill and intangible assets. If in the future such carrying values exceed fair market value, we will be required to record an impairment charge in our statement of operations. Such an impairment charge could have a significant adverse impact on both our operating results and stock price.

Outlook for Remainder of 2005

As discussed in Note K to the accompanying Consolidated Financial Statements we acquired the assets of WQN, Inc.'s VoIP business in October 2005. WQN reported revenues, gross profit, and an operating loss of approximately $15.6 million, $650,000, and $2.1 million, respectively, for the six months ended June 30, 2005.

We anticipate revenue growth during the fourth quarter of 2005 due to the addition of WQN's customers. However, we also expect to report a net loss and negative cash flows from operations for the three months ending December 31, 2005.

Liquidity and Capital Resources

Cash and cash equivalents increased by $2,097,736 for the nine months ended September 30, 2005 to $3,238,873. Our operating activities for the nine months ended September 30, 2005 used approximately $9.0 million in cash. We funded our operating activities principally through issuances of notes payable that generated proceeds of $3,007,542 (net of repayments) and sales of common stock in private transactions that provided $8,074,763. In total our financing activities provided us with net cash of $11,278,168 for the nine months ended September 30, 2005.

Since inception of our Voice over Internet Protocol business in 2004 we have never been profitable. We have experienced negative cash flows from operations, and have been dependent on the issuance of debt, issuances of common stock in exchange for services and as compensation, and sales of common stock in private transactions to support our operations.

At September 30, 2005 our contractual obligations totaled approximately $9.5 million. Included in this amount is an outstanding balance of approximately $5.1 million on a loan from a lending institution. We are not in compliance with

certain covenants of the agreement for this loan, and we owe principal, interest and costs in arrears on this loan of $280,000. To date our lender has not declared a default under this loan agreement.

We anticipate that we will continue to experience negative cash flows from operations. We expect we will need to raise additional debt or equity capital to provide the funds necessary to repay or restructure our $5.1 million loan, meet our other current contractual obligations and continue our operations. We are actively seeking to raise this additional capital and believe such capital will be available to us. However, we may not be successful in obtaining further equity or debt financing for our business.

Capital Expenditure Commitments

We have outstanding commitments to purchase capital equipment of approximately $2.0 million. We anticipate financing these purchases with leasing facilities.

Payments Due by Period

The following table illustrates our outstanding debt and the terms of that debt as of September 30, 2005:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years
Convertible Notes	$ 1,427,925	$ 815,991	$ 611,934	$ -
Loans Payable	7,240,444	7,240,444	-	-
Operating Leases	594,905	149,905	445,000	-
Long-Term Liabilities	195,864	31,233	164,631	-
Purchase Obligaitons	-	-	-	-
	$ 9,459,138	$ 8,237,573	$ 1,221,565	$ -

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ITEM 3. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, as of the end of the period covered by this Quarterly Report, our management conducted an evaluation with the participation of our Chief Executive Officer and Chief Accounting Officer (collectively, the “Certifying Officers”) regarding the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules13a-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 our 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 our 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, as of September 30, 2005. The control deficiencies identified by our management and the Certifying Officers, 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 concluded that our disclosure controls and procedures were ineffective as of September 30, 2005.

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. Our 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 our assets that could have a material effect on the financial statements.

Our management, including the Certifying Officers, assessed the effectiveness of our internal control over financial reporting as of September 30, 2005, and have concluded that we had the following control deficiencies as of September 30, 2005 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 Company's 2005 consolidated financial statements and the 2005 Annual Report on Form 10-KSB, our senior financial management discovered certain overstatements of the revenues, expenses, receivables, and net loss, primarily for our consolidated subsidiary DTNet. The Company also incorrectly classified the sale of equipment as revenue and cost of sales, instead of other income. Based upon an assessment of the impact of the adjustments to our financial results arising from these matters, we have restated the financial information presented in this Form 10-QSB/A for the period ended September 30, 2005. Adjustments to reduce (i) the overstatement of receivables (including amounts due from related parties); (ii) the overstatement of inventory; (iii) the overstatement of revenues; (iv) the overstatement of costs of sales; and (v) the overstatement of net loss, aggregated $259,806, $155,517, $854,678, $543,656 and $47,227, respectively, for the nine months ended September 30, 2005.

(b) During the preparation of the financial statements for the period ended September 30, 2005, we discovered that we did not recognize in our 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 SFAS No. 123. The compensation expense that was not recognized relating to these options and warrants was $1,384,763 for the three months ended September 30, 2004. We therefore restated our consolidated financial statements for the year ended December 31, 2004 to correct these misstatements.

(c) We do not have sufficient personnel resources with appropriate accounting expertise or experience in financial reporting for public companies. Our 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 of financial reporting because the quantitative effect of any errors resulting from these deficiencies when taken together could result in a material misstatement of our 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 Certifying Officers concluded that we did not maintain effective internal control over financial reporting as of September 30, 2005 based on the criteria in the Internal Control - Integrated Framework.

Remediation Steps to Address Control Deficiencies

We are in the process of addressing the identified material weakness by remediating the control deficiencies in our internal control over financial reporting which comprise this material weakness as follows:

(a) In March 2006, our Board retained counsel to conduct a thorough investigation of the accounting misstatements of our DTNet subsidiary. Such counsel, in turn, retained an independent forensic accounting firm to assist its investigation. Based on this investigation, our Board 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 we terminated the employment of the other individual immediately following the receipt of the preliminary findings of the investigation in early April 2006. We changed the individual responsible for the day-to-day management of DTNet, relocated its accounting to our corporate offices and increased our analysis of this subsidiary's transactions. In April 2006, the Company sold this subsidiary to its former Chief Operating Officer.

(b) We continue to seek to improve our in-house accounting resources. During the fourth quarter of 2005 we hired a new CFO with significant accounting and public company experience. During the first quarter of 2006 we did not hire any new accounting personnel. However, we significantly supplemented our internal accounting resources during these three months by using independent accounting and financial consulting firms. We expect to continue to use such third parties until such time as we are able to hire sufficient in-house accounting expertise. In April 2006, we promoted the former Finance Director of one of our 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, controller, and/or financial reporting director of various companies (including a public registrant), and is a Certified Public Accountant. In May 2006, in conjunction with the resignation of the Company's Chief Financial Officer, the Corporate Controller was elected Chief Accounting Officer, pending a search to replace the Chief Financial Officer position.

Changes in Control over Financial Reporting

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

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS

31.1 Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by CEO pursuant to 18 USC Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by CFO pursuant to 18 USC Section 1350 as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this Quarterly Report on Form 10-QSB/A for the period ended September 30, 2005 to be signed on its behalf by the undersigned, thereunto duly authorized.

VoIP, INC.

Date: July 7, 2006

/s/ *Gary Post*

Gary Post
Chief Executive Officer

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