VOIP INC
Form 10KSB/A
October 27, 2006

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

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

(Mark One)

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

For the fiscal year ended December 31, 2005

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

For the transition period ____________to____________

Commission file number 000-28985

VOIP, INC.
(Name of small business issuer in its charter)

Texas (State or other jurisdiction of incorporation or organization)	75-2785941 (I.R.S. Employer Identification No.)
151 South Wymore Rd, Suite 3000 Altamonte Springs, Florida (Address of principal executive offices)	32714 (Zip Code)

Issuer's telephone number, including area code: (407) 389-3232

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

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

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

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

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

Indicate by a check mark whether the registrant is a shell company (as defined by Rule12b-2 of the Exchange Act).
YES o NOx

The issuer's revenues for its most recent fiscal year were $ 15,507,145.

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the issuer, based on the average bid and asked price of such stock, was $90,522,977 at March 22, 2006. At March 22, 2006, the registrant had outstanding 68,838,766 shares of par value $.001 common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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

---

Explanatory Note

VoIP, Inc. (the "Company") is filing this Amendment No. 2 to its Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 (the "2005 10-KSB"), which was originally filed on April 17, 2006 and first amended on June 6, 2006. This Amendment No. 2 is being filed to include in the 2005 10-KSB the re-audited financial statements of WQN, Inc., which was acquired by the Company on October 5, 2005.

This Amendment does not reflect events occurring after the filing of the 2005 10-KSB, and does not update or modify the disclosures therein in any way other than as required to reflect the amendments described above.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company begin at Page F-1 hereof.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
VoIP, Inc. and Subsidiaries
Ft. Lauderdale, Florida

We have audited the accompanying consolidated balance sheets of VoIP, Inc. and Subsidiaries ("the Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of VoIP, Inc. and Subsidiaries ("the Company") as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note K to the financial statements, the Company's dependence on outside financing, lack of sufficient working capital, and recurring losses raise substantial doubt about the Company's ability to continue as a going concern. Management's plans are described in Note K to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Berkovits, Lago & Company, LLP

Fort Lauderdale, Florida
April 12, 2006

VoIP, Inc.
Consolidated Balance Sheets

	December 31 2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,228,745	$ 1,141,137
Accounts receivable, net of allowance of $177,489 and $136,795 respectively	1,320,062	166,239
Due from related parties	161,530	245,402
Inventory	797,074	324,185
Assets from discontinued operations less valuation allowance of $392,000 in 2005	-	412,419
Other current assets	936,520	-
Total current assets	6,443,931	2,289,382
Property and equipment, net	10,155,507	419,868
Goodwill and other intangible assets	39,441,372	6,923,854
Other assets	349,205	23,579
TOTAL ASSETS	$ 56,390,015	$ 9,656,683
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 13,304,915	$ 1,148,833
Loans payable	4,685,236	200,000
Convertible notes payable	3,399,798	-
Advances from investors	3,000,000	-
Due to related parties	1,572,894	560,000
Other current liabilities	956,004	103,030
Total current liabilities	26,918,847	2,011,863
Other liabilities	245,248	-
TOTAL LIABILITIES	27,164,095	2,011,863
Shareholders' equity:		
Common stock - $0.001 par value; 100,000,000 shares authorized; 61,523,397 and 24,258,982 shares issued and outstanding, respectively	61,523	24,259
Additional paid-in capital	63,964,497	14,107,328
Accumulated deficit	(34,800,100)	(6,486,768)
Total shareholders' equity	29,225,920	7,644,820

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	56,390,015	$	9,656,683

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

F-2

VoIP Inc.
Consolidated Statements of Operations

	Year Ended December 31 2005		Year Ended December 31 2004	
Revenues	$	15,507,145	$	1,828,193
Cost of sales		16,331,663		1,372,146
Gross profit (loss)		(824,518)		456,047
Operating expenses				
Compensation and related expenses		7,730,795		4,254,477
Commissions and fees to third parties		4,949,612		407,498
Professional and legal		1,868,263		430,432
Depreciation and amortization		3,140,401		82,832
General and administrative expenses		4,193,987		1,288,239
Impairment of goodwill		4,173,452		-
Loss from operations		(26,881,028)		(6,007,431)
Interest expense		1,638,489		-
Gain on sale of fixed assets		(206,184)		-
Net loss before discontinued operations		(28,313,333)		(6,007,431)
Income from discontinued operations, net of income taxes		-		145,311
Net loss	$	(28,313,333)	$	(5,862,120)
Basic and diluted loss per share:				
Loss before discontinued operations	$	(0.67)	$	(0.41)
Income from discontinued operations, net of income taxes		-		0.01
Net loss per share	$	(0.67)	$	(0.40)
Weighted average number of shares outstanding		42,022,906		14,597,312

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

F-3

VoIP, Inc.
Consolidated Statements of Cash Flows

	Year Ended December 31 2005	2004
Cash flows from operating activities:		
Continuing operations:		
Net loss	$ (28,313,333)	$ (6,007,431)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,140,401	82,832
Goodwill impairment	4,173,452	-
Amortization of debt discounts	416,175	-
Common shares issued for services	3,380,474	599,166
Options and warrants issued for services and compensation	2,181,350	3,320,763
Changes in operating assets and liabilities, net of assets & liabilities acquired:		
Accounts receivable	(17,368)	233,620
Due from related parties	83,872	(245,402)
Inventory	100,080	8,179
Other current assets	(582,685)	52,233
Accounts payable	(4,549,404)	(372,446)
Due to related parties	812,894	-
Other current liabilities	852,974	(335,696)
Net cash used in continuing operating activities	(18,321,118)	(2,664,182)
Discontinued operations:		
Income (loss) from discontinued operations	-	145,311
Changes in assets, liabilities, and net results	412,419	(408,000)
Net cash provided by (used in) discontinued operating activities	412,419	(262,689)
Net cash used in operating activities	(17,908,699)	(2,926,871)
Cash flows from investing activities:		
Cash from acquisitions	-	104,872
Purchase of property and equipment	(2,566,122)	(157,881)
Acquisition of Caerus and WQN (Note K)	(1,290,727)	-
Purchase of other assets	267,940	(71,100)
Net cash used in investing activities	(3,588,909)	(124,109)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	9,616,104	560,000
Proceeds from sales of common stock	11,719,614	3,628,618
Issuance of stock for note conversions	2,465,286	-
Repayment of notes payable	(215,788)	-
Net cash provided by financing activities	23,585,216	4,188,618
Net increase in cash	2,087,608	1,137,638
Cash and cash equivalents at beginning of year	1,141,137	3,499

Cash and cash equivalents at end of year	$	3,228,745	$	1,141,137

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

VoIP, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2005 and 2004

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance as of December 31, 2003	1,730,939	$ 1,731	$ 731,208	$ (624,647)	$ 108,292
Common stock issued	12,500,000	12,500	-	-	12,500
Common stock issued to investors for cash received	5,520,566	5,521	3,610,598	-	3,616,119
Common stock issued for services	907,477	907	493,259	-	494,166
Common Stock issued for acquisition of DTNet Tech.	2,500,000	2,500	4,747,500	-	4,750,000
Common Stock issued for acquisition of VoipAmericas	1,000,000	1,000	1,099,000	-	1,100,000
Warrants issued to two company officers	-	-	3,320,763	-	3,320,763
Warrants issued for intellectual property	100,000	100	105,000	-	105,100
Loss for the year	-	-	-	(5,862,120)	(5,862,120)
Balance December 31, 2004	24,258,982	24,259	14,107,328	(6,486,767)	7,644,820
Common Stock issued for services	2,994,592	2,995	3,377,479	-	3,380,474
Common stock issued to investors for cash received	6,740,038	6,740	8,022,598	-	8,029,338
Common stock issued for cash received, pursuant to exercise of warrants	3,292,778	3,293	3,919,360	-	3,922,653
Common stock issued for debt conversions	4,054,536	4,054	2,461,232	-	2,465,286
Common Stock issued for acquisition of Caerus, Inc.	18,932,471	18,932	19,956,068	-	19,975,000
Options issued for acquisition of Caerus, Inc.	-	-	355,000	-	355,000
Common Stock issued for acquisition of WQN	1,250,000	1,250	1,298,250	-	1,299,500
Value of warrants issued for acquisition of WQN	-	-	5,200,000	-	5,200,000
Value of warrants and conversion features of debt issued	-	-	3,085,832	-	3,085,832
Stock compensation - amortization	-	-	242,101		242,101
Option and warrant compensation - amortization	-	-	1,939,249	-	1,939,249
Loss for the year	-	-	-	(28,313,333)	(28,313,333)
Balance December 31, 2005	61,523,397	$ 61,523	$ 63,964,497	$ (34,800,100)	$ 29,225,920

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

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. In February 2004 the Company exchanged 12,500,000 shares for the common stock of two start-up telecommunication businesses, eGlobalphone, Inc. and VoIP Solutions, Inc. The Company changed its name to VoIP, Inc. in April 2004 and acquired VCS Technologies, Inc. d/b/a DT Net Technologies, a hardware supplier, and VoIP Americas, Inc., a VoIP related company, in June and September, respectively, of 2004. The Company decided to exit its former tea business in December 2004 and focus its efforts and resources in the Voice over Internet Protocol telecommunications industry. In May 2005 the Company acquired Caerus, Inc., a VoIP carrier and service provider. In October 2005 the Company purchased substantially all of the assets of WQN Inc.'s voice over internet protocol business.

The Company is an emerging global provider of advanced communications services utilizing Voice over Internet Protocol (VoIP) technology. Internet Protocol 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. Current and targeted customers include RBOCs, CLECs, IXCs, wireless carriers, resellers, internet service providers, cable multiple system operators and other providers of telephony services.

The Company's operations consist of three segments, as follows: Telecommunication Services, Hardware Sales and Calling Cards.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Caerus, Inc., eGlobalphone, Inc., VoIP Solutions, Inc., DTNet Technologies, and VoIP Americas, Inc. from their respective dates of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and cash equivalents

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of the individual receivables and after using reasonable collection efforts. As of December 31, 2005 and 2004 the balance of the allowance for uncollectible accounts amounted to $177,489 and $136,795 respectively.

Inventory

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

Convertible Debt

Convertible debt with beneficial conversion features, whereby the conversion feature is “in the money” are accounted for in accordance with guidance supplied by Emerging Issues Task Force (“EITF”) No. 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF No. 00-27 "Application of Issue 98-5 to Certain Convertible Instruments." The relative fair value of the warrants and the Beneficial Conversion Feature has been recorded as a discount against the debt and is amortized over the term of the debt.

Income Taxes

The Company follows Statement of Financial Accounting Standards No. 109 “Accounting for Income Taxes” (“SFAS No. 109”). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. If it is more likely than not that some portion of a deferred tax asset will not be realized, a valuation allowance is recognized

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted-average number of shares of common stock outstanding. The calculation of fully diluted earnings per share assumes the dilutive effect of all potential outstanding common shares attributable to outstanding options, warrants, and convertible notes. Potential outstanding shares are not included in the computation of fully diluted loss per share as their effect is anti-dilutive.

Fair Value of Financial Instruments

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

Revenue Recognition

Revenues are primarily derived from fees charged to terminate voice services over the Company’s network and from monthly recurring charges associated with internet services and from sales of hardware product and calling cards.

Variable revenue is earned based on the number of minutes during a call and is recognized upon completion of a call. Revenue for each customer is calculated from information received through the Company’s network switches. The Company tracks the information received from the switch and analyzes the call detail records and applies the respective revenue rate for each call.

Fixed revenue is earned from monthly recurring services provided to customers that are fixed and recurring in nature, and are connected for a specified period of time. Revenue recognition commences after the provisioning, testing, and acceptance of the service by the customer. Revenues are recognized as the services are provided and continue until the expiration of the contract or until cancellation of the service by the customer.

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

Property, Plant, and Equipment

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

Business Combinations

The Company accounts for business combinations in accordance with Statement of Financial Accounting Standard No. 141, “Business Combinations” (SFAS No. 141). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (SFAS No. 142). This pronouncement also requires that the intangible assets with estimated useful lives be amortized over their respective estimated useful lives.

Impairment of Long-Lived Assets

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

Goodwill and Other Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," the Company tests its goodwill and intangible assets for impairment at least annually by comparing the fair values of these assets to their carrying values, and the Company may be required to record impairment charges for these assets if in the future their carrying values exceed their fair values. During the year ended December 31, 2005 the Company recorded an impairment charge of $4,173,452 relating to goodwill recorded as a result of a prior acquisition. The Company may be required to record additional impairment charges in the future.

Stock Based Compensation

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

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

Recent Accounting Pronouncements

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

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

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections or SFAS 154, which supersedes APB Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 changes the requirements for the accounting for and reporting of changes in accounting principle. The statement requires the retroactive application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. SFAS 154 does not change the guidance for reporting the correction of an error in previously issued financial statements or the change in an accounting estimate. SFAS 154 is effective for accounting changes and corrections or errors made in fiscal years beginning after December 15, 2005. We do not expect the adoption of SFAS 154 to have a material impact on our consolidated results of operations or financial condition.

NOTE C - BUSINESS SEGMENT INFORMATION

The Company has three reportable segments: telecommunication services, hardware sales, and calling cards. The telecommunications services segment terminates wholesale and retail, local and long distance calls placed on our network. Such termination is either on our network or through other telecommunication providers. This segment is also in the early stages of implementing wholesale VOIP services. The hardware sales segment supplies broadband components and VOIP hardware to broadband service providers. The calling card segment sells prepaid telephone calling cards that we purchase from other carriers through a network of private distributors located primarily in southern California.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Information about operations by business segment, as of and for the years ended December 31, 2005 and 2004, is as follows:

2005	Telecommunication Services	Hardware Sales	Calling Cards	Corporate and Eliminations	Consolidated
Revenues	$ 8,198,587	$ 2,376,329	$ 4,932,229	$ -	$ 15,507,145
Interest expense	$ 560,351	$ -	$ -	$ 1,078,138	$ 1,638,489
Depreciation and amortization	$ 2,916,380	$ 161,047	$ -	$ 62,974	$ 3,140,401
Net income (loss)	$ (9,247,515)	$ (4,674,514			