RENAISSANCERE HOLDINGS LTD
Form 8-K
February 24, 2016

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): February 19, 2016

RenaissanceRe Holdings Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	001-14428	98-0141974
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
Renaissance House, 12 Crow Lane, Pembroke, Bermuda		HM 19
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code: (441) 295-4513

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

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Item 5.02. Departure of Directors or Certain Officers; Election of Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(b) On February 19, 2016, RenaissanceRe Holdings Ltd. (the Company) announced that (i) Nicholas L. Trivisonno will retire from the Company s Board of Directors (the Board) in conjunction with the Company s Annual General Meeting of Shareholders in May 2016 (the Annual Meeting) and (ii) that Carol P. Sanders has been nominated by the Board to fill the vacancy created by Mr. Trivisonno s retirement. Ms. Sanders s election is subject to the approval of the Company s shareholders at the Annual Meeting.

The Company s press release, issued February 19, 2016, announcing the retirement of Mr. Trivisonno and the nomination of Ms. Sanders, is attached as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 8.01. Other Events.

The disclosure set forth in Item 5.02 above is hereby incorporated by reference.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

99.1 Copy of the Company s press release issued February 19, 2016

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SIGNATURES

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

	RenaissanceRe Holdings Ltd.
February 23, 2016	*By: /s/ Stephen H. Weinstein*
	Name: Stephen H. Weinstein
	Title: SVP, Group General Counsel and Corporate Secretary

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Exhibit Index

Exhibit No.	**Description**
99.1	Press release dated February 19, 2016

-- Inventory 187,451 -- Assets from discontinued operations 412,419 259,459 Other current assets 43,702 -- ------------ ------------ Total Current Assets 2,848,250 259,459 ------------ ------------ Property and equipment, net 419,868 -- Intangibles 6,923,854 -- Other assets 23,580 -- ------------ ------------ TOTAL ASSETS $ 10,215,552 $ 259,459 ============ ============ LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable and accrued expenses $ 1,224,974 $ -- Bank loans and note payable 760,000 -- Liabilities from discontinued operations -- 151,167 Other current liabilities 123,140 -- ------------ ------------ Total Liabilities 2,108,114 151,167 ------------ ------------ Shareholders' equity: Common stock - $0.001 par value 100,000,000 shares authorized 24,258,982 and 1,730,939 issued and outstanding, respectively 24,259 1,731 Additional paid-in capital 12,722,565 731,208 Accumulated deficit (4,639,386) (624,647) ------------ ------------ Total shareholders' equity 8,107,438 108,292 ------------ ------------ TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 10,215,552 $ 259,459 ============ ============ The accompanying notes are an integral part of these financial statements. F-3 VoIP Inc. Consolidated Statements of Operations For the Years Ended December 31, 2004 and 2003 Year ended Year ended December 31, December 31, 2004 2003 ------------ ------------ Revenues $ 2,619,393 $ -- Cost of Sales 1,870,269 -- ------------ ------------ Gross Profit 749,124 -- Operating expenses Compensation and related expenses 2,721,296 -- General and administrative expenses 2,187,878 -- ------------ ------------ Loss from operations (4,160,050) -- Provision for income taxes -- -- Net loss before discontinued operations (4,160,050) -- Income (Loss) from discontinued operations 145,311 (352,968) ------------ ------------ Net Loss (4,014,739) (352,968) ============ ============ Basic and diluted loss per share: Loss before discontinued operations $ (0.28) $ -- Income from discontinued operations net of income taxes $ 0.01 $ (0.20) ------------ ------------ Total $ (0.27) $ (0.20) ============ ============ Weighted average number of shares outstanding 14,597,312 1,730,939 ============ ============ The accompanying notes are an integral part of these financial statements. F-4 VoIP, Inc. Consolidated Statements of Changes in Shareholders' Equity Years Ended December 31, 2004 and 2003 Additional Common Stock Common Stock Paid- Accumulated Shares Amount in Capital Deficit Total ----------- ----------- ----------- ----------- ----------- Balance as of December 31, 2002 1,730,939 $ 1,731 $ 731,208 $ (271,679) $ 461,260 Loss for the for the year -- -- -- (352,968) (352,968) ----------- ----------- ----------- ----------- ----------- Balance as of December 31, 2003 1,730,939 1,731 731,208 (624,647) 108,292 ----------- ----------- ----------- ----------- ----------- Common stock issued 12,500,000 12,500 -- -- 12,500 Common Stock issued for services received 568,235 568 342,432 -- 343,000 Common stock issued to investors for cash received 5,520,566 5,521 3,610,598 -- 3,616,119 Common stock issued for services 339,242 339 150,827 -- 151,166 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 -- -- 1,936,000 -- 1,936,000 Warrants issued for intellectual property 100,000 100 105,000 -- 105,100 Loss for the year -- -- -- (4,014,739) (4,014,739) ----------- ----------- ----------- ----------- ----------- Balance December 31, 2004 24,258,982 $ 24,259 $12,722,565 $(4,639,386) $ 8,107,438 =========== =========== =========== =========== =========== The accompanying notes are an integral part of these financial statements. F-5 VoIP Inc. Consolidated Statements of Cash Flows Years ended December 31, 2004 and 2003 Year ended Year ended December 31, December 31, 2004 2003 ----------- ----------- Cash flows from operating activities: Continuing operations: Net loss $(4,160,050) $ -- Adjustments to reconcile net loss to net cash used in operating activities -- -- Depreciation 82,832 -- Provision for bad debt 136,795 -- Common shares issued for services 494,166 -- Warrants issued to employees 1,936,000 -- Shares issued for intellectual property 105,000 -- Changes in operating assets and liabilities net of assets and liabilities acquired: Accounts receivable (555,007) -- Due from related parties (245,402) -- Inventory 144,913 -- Other current assets 8,531 -- Accounts payable (296,305) -- Other current liabilities (315,587) -- ----------- ----------- Net cash used in continuing operating activities (2,664,114) -- ----------- ----------- Discontinued operations: Income (loss) from discontinued operations 145,311

(352,968) Changes in assets, liabilities, and net results (408,000) 274,262 ----------- ----------- Net cash used in discontinued operating activities (262,689) (78,706) ----------- ----------- Net used in operating activities (2,926,803) (78,706) ----------- ----------- Cash flows from investing activities Continuing operations: Cash from acquisitions 104,872 -- Purchase of property and equipment (157,881) -- Cash for intellectual property (50,000) -- Purchase of other assets (21,100) -- ----------- ----------- Net cash used in continuing investing activities (124,109) -- ----------- ----------- Discontinued operations: Cash from affiliates -- 82,196 ----------- ----------- Net cash provided by discontinued investing activities -- 82,196 ----------- ----------- Net cash provided by (used in) investing activities (124,109) 82,196 ----------- ----------- Cash flows from financing activities: Proceeds from issuance of notes payable 560,000 -- Proceeds from sales of common stock 3,628,618 -- ----------- ----------- Net cash provided by investing activities 4,188,618 -- Net increase in cash 1,137,706 3,490 Cash at beginning of year 3,499 9 ----------- ----------- Cash at end of year $ 1,141,205 $ 3,499 =========== =========== Non-cash investing and financing activities: Common stock issued for services $ 494,166 $ -- =========== =========== Warrants issued to employees $ 1,936,000 $ -- =========== =========== Shares issued for intellectual property $ 105,000 $ -- =========== =========== The accompanying notes are an integral part of these financial statements. F-6 VoIP, Inc. Notes to Financial Statements Note A - Organization and Description of Business The Company was incorporated on August 3, 1998 under its original name of Millennia Tea Masters, Inc. under the laws of the State of Texas. The Company began operations in October 1998 with its initial order of imported teas from Sri Lanka. On February 27, 2004 the Company entered into a stock purchase agreement that provided for the sale of 12,500,000 shares of its common stock in exchange for $12,500 and a commitment by the purchaser to contribute the assets of two start-up companies in the telecommunications business, eGlobalphone, Inc. and VOIP Solutions, Inc. into the Company. On April 13, 2004 the Company changed its name to VoIP, Inc. and began to develop and manufacture innovative IP telephony customer premise equipment, provide premium voice over the internet subscriber based telephony services and state of the art long range WiFi technology solutions, for residential and enterprise customers, including multimedia applications. During December 2004 the Company decided to exit the tea import business in order to focus its efforts and resources in the "Voice over Internet Protocol" (VoIP) telecommunications industry. In connection with the decision the Company sold its imported tea inventory and began to wind down its tea import operations. The assets, liabilities, and results of operations of the imported tea business have been classified as discontinued operations on the accompanying consolidated financial statements. The Company offers quality Voice over IP (VoIP) based solutions offering residential and business customers more user friendly and affordable ways to communicate. VoIP, Inc. also manufactures products and provides services to Internet Service Providers, Telecommunication Service Providers and Cable Operators in strategic countries around the world. VoIP, Inc., through its subsidiaries, provides a comprehensive portfolio of IP multimedia-based solutions ranging from subscriber based voice services, to SIP based infrastructure design and deployment, to broadband customer premise equipment design and implementation services, as well as engineering design, manufacturing and distribution of wireless broadband technology. The Company's operations consist of one segment. Note B - Summary of Significant Accounting Policies Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, eGlobalphone, Inc., VoIP Solutions, Inc., DTNet Technologies, Inc., and VoIP Americas, Inc. from their respective dates of acquisition. All significant inter-company 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. F-7 Accounts Receivable Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the reserve method based on its assessment of the current status of the individual receivables and after using reasonable collection efforts. As of December 31, 2004 the balance of the allowance for uncollectible accounts amounted to $136,795. There was no allowance as of December 31, 2003. Inventory Inventory consists of finished goods and is valued at the lower of cost or market using the first-in, first-out method. Advertising expenses Advertising and marketing expenses are charged to operations as incurred. Income Taxes The Company and its subsidiaries file consolidated federal and state income tax returns. The Company has adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes. Earnings (loss) per share Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted-average number of shares of common stock outstanding. The calculation of fully diluted earnings (loss) per share assumes the dilutive effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method. Fair Value of Financial Instruments The carrying amount of cash, accounts receivable, accounts payable and notes payable, as applicable, approximates fair value due to the short term nature of these items and/or the current interest rates payable in relation to current market conditions. Revenue Recognition Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable. The recognition of revenues from Internet telephony services are deferred for new subscribers of eGlobalphone and Voipsolutions until it deems that the customer has accepted the service. Subsequent revenues are recognized at the beginning of each customer's month. Property, plant, and equipment Property, plant, and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight line method. The useful life of assets ranges from three to five years. The leasehold improvements are amortized over the life of the related lease. Business combinations The Company accounts for business combinations in accordance with Statement of Financial Accounting Standard No. 141 Business Combinations ("SFAS No. 141"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). This pronouncement also requires that the intangible assets with estimated useful lives be amortized over their respective estimated useful lives. F-8 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. Recent accounting pronouncements In November 2004, FASB issued Statement No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." Statement No. 151 requires that abnormal amounts of costs, including idle facility expense, freight, handling costs and spoilage, should be recognized as current period charges. The provisions of this Statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements. In December 2004, FASB issued Statement No. 153, "Exchanges of Nonmonetary Assets - an amendment of Accounting Principles Board ("APB") Opinion No. 29." Statement No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have a commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements. In December 2004, FASB issued Statement No. 123R, "Share-Based Payment." Statement No. 123R revises Statement No. 123, supersedes APB Opinion No. 25 and amends Statement No. 95. Statement No. 123R requires the cost of employee services received in exchange for an award of equity instruments be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of this Statement are effective for public entities that do not file as small business issuers as of the beginning of the first interim period or annual reporting period that begins after

June 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements. Stock Based Compensation The Company applies the fair value method of Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123") in accounting for its stock options. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The fair value for each option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The fair value of all vested options granted has been charged to salaries, wages, and benefits in accordance with SFAS No. 123. F-9 Note C - Property and Equipment, net As of December 31, 2004 property and equipment consists of the following: Office Equipment $ 519,810 Furniture & Fixtures 56,748 Vehicles 4,769 Leasehold Improvements 4,562 --------- Total 585,889 Less accumulated depreciation (166,021) --------- Total $ 419,868 ========= Depreciation expense for 2004 amounted to $82,832. There was no depreciation expense for 2003. Note D - Intangibles As of December 31, 2004 intangibles consist of the following: Goodwill-acquisition of DTNet Technologies, Inc. $5,210,553 Goodwill-acquisition of Voipamericas, Inc. 1,408,301 Intellectual property 305,000 ---------- Total $6,923,854 ========== The goodwill on the acquisition of DTNet Technologies, Inc. (DTNet) represents the fair market value of DTNet liabilities as of the date of the acquisition plus $4,750,000 which represents the market value of 2,500,000 shares of Company stock issued pursuant to 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 pursuant to this acquisition. Intellectual property is carried at cost which is comprised of $50,000 paid in cash in 2004, $150,000 due in the first quarter of 2005, and the value assigned to 100,000 Company common shares and 400,000 warrants issued pursuant to this transaction. The valuation of the shares was $1.05 while the value was $105,000. The value of the warrants was determined using the Black-Scholes model calculated as of October 14, 2004. As these warrants were not "in the money", these warrants have been assigned a value of zero. This model uses the annualized deviation calculation and utilizes industry averages as a comparison for adequate statistical results in the valuation. This is a standard financial model that considers the statistical annual volatility of the market changes in a stock price. (See Note H) Intellectual property consists of the following: a) all rights of the Company of Record in the telephone numbers 1(800)TALKTIME, 1(888)TALKTIME, AND 1(877)TALKTIME.COM b) all rights to the URL's (domain names) 800TALKTIME.COM, 1800TALKTIME.COM, and 1-800-TALKTIME.COM c) all rights to U.S. Trademark Registration No. 2,209,316 directed to the mark 1-800-TALKTIME and the goodwill associated therewith. Note E - Accounts Payables and Accrued Expenses As of December 31, 2004 Accounts Payables and accrued expenses consist of the following: Account Payables Trade $ 988,815 Accrued Expenses 233,711 Other 2,448 ---------- Total $1,224,974 F-10 Note F - Bank Loans and Note Payable As of December 31, 2004 bank loans and note payable consists of the following: a) Bank Loan: Revolving Line of Credit $187,000 Promissory Note 13,000 -------- Sub-total 200,000 b) Note Payable 560,000 Total $760,000 ======== a) The revolving line of credit with the Bank of Tampa is interest only payable at prime plus 1.0% monthly. The promissory note is payable in monthly installments of approximately $6,200 including interest at a rate of 7.5%. The loans are collateralized by receivables, inventory and equipment. Both balances were fully paid in January 2005. b) In December 2004 the Company issued a note payable to a shareholder in the amount of $560,000 at an interest rate of 3.75% with a maturity date of December 2005. As mentioned in Note K on January 6, 2005, the Company issued another note payable amounting to $1,040,000 to the same shareholder under the same terms and conditions as the previous one. Note G - Acquisitions On May 25, 2004 (but effective for all purposes as of April 15, 2004), the Company completed the acquisition of two Florida-based entities, (eGlobalphone, Inc. and VoIP Solutions, Inc.). Contribution of these start-up companies was the basis for the original decision to issue a controlling block of shares of common stock to Mr. Ivester. eGlobalphone, Inc. and VoIP Solutions Inc. are both Florida corporations. In June 2004, the Company acquired DTNet Technologies, Inc. a Florida Corporation. The acquisition was financed through the issuance of 2,500,000 shares of the Company's common stock with a value of $4,750,000 in exchange for all issued and outstanding shares of DTNet common stock. In September 2004, VoIP Inc. closed the acquisition of VoIP Americas, a Florida corporation. The acquisition was financed through the issuance of 1,000,000 shares of the Company's restricted common stock with the value of $1,100,000 in exchange for all issues and outstanding shares of VoIP Americas. Note H - Warrants On August 4th, 2004, the Company issued 4,400,000 warrants to two executives to acquire 2,200,000 Company common shares at $1.00 each. The compensation expenses of $1,936,000, is in the accompanying Consolidated Statement of Operations. A summary of the Company's warrants as of December, 31 2004 is presented below: 2004 ----------------------- Weighted average exercise Warrants price --------- --------- Warrants outstanding at beginning or year -- Granted to two company officers 4,400,000 $ 1.00 Granted to a third party 400,000 $ 1.75 Expired -- Exercised -- --------- --------- Warrants outstanding at end of year 4,800,000 $ 1.06 --------- --------- The value of warrants issued to the Company officers and the value of the 400,000 warrants granted to the third party was estimated using the Black-Scholes option pricing model with the following assumptions; risk free rate 3.35%, no dividend yield, expected life of five years and volatility of 175% and 152%, respectively. F-11 Note I - Commitments The Company is obligated under non-cancelable operating leases for its office facilities and two apartments used by its employees. Future minimum lease payments under the Company's non-cancelable operating leases as of December 31, 2004 are as follows: Year ending Dec 31 ----------------- 2005 $ 52,772 2006 15,155 -------- $ 67,927 Note J - Related Party Transactions As of December 31, 2004 the due from related party consists in the following: DTNet, Inc. (*) $134,317 DTNet International (*) 119,974 Mozart Communication 21,794 Com Laser 5,850 Due to related parties (36,533) ------- $245,402 ======== * The above entities are related to a shareholder of the Company. These advances are unsecured, due upon demand and are non-interest bearing. Note K - Income Taxes The components of the Company's consolidated income tax provision are as follows: Year ended December 31, 2004 2003 ----------- ----------- Current Benefits $(1,365,000) (119,000) Valuation allowance 1,365,000 119,000 ----------- ----------- Total -- -- =========== =========== 2004 2003 ----------- ----------- Long-term deferred tax assets arising from net operatiing loss carry forward $(1,485,000) $ (119,000) Valuation allowance 1,485,000 119,000 ----------- ----------- Total -- -- =========== =========== F-12 The reconciliation of income tax provision at statutory rate to the reported income tax expense is as follows: Year ended December 31, 2004 2003 ----------- ----------- Computed at statutory rate 34% 34% State tax net of federal benefits -- -- Valuation allowance (34%) (34%) ----------- ----------- Total -- -- =========== =========== At December 31, 2004 and December 31, 2003 deferred tax assets are related solely to the Company's net operating loss carry forward of approximately $4,014,739 and $303,000, respectively, which have been reduced by a valuation allowance. If these carry forwards are not utilized, they will begin to expire in 2018. Note L - Stockholders' Equity On February 27, 2004, the Company issued and sold 12,500,000 shares of common stock to Steven Ivester in exchange for cash of $12,500 and his agreement to contribute the intellectual property rights and related assets of two start-up companies formed to engage in the telecommunications industry. The shares issued represented approximately 88% of the shares outstanding after the exchange, as a result of which Mr. Ivester became the controlling shareholder of the Company. On April 1, 2004, the Company issued 142,902 shares to two accredited investors in satisfaction of accounts payable totaling $71,421. In May 2004, the Company issued 1,143,250 shares to twenty-two individual accredited investors. In May 2004, the Company issued 168,235 shares to one individual accredited investor in exchange for services. On May 10, 2004, the Company issued 67,300 shares to fourteen individual accredited investors at a price of $3.00 per share. On May 19, 2004, the Company issued 196,340 shares to two accredited investors in satisfaction of accounts payable totaling $79,745. On June 25, 2004, the Company closed the acquisition of DTNet Technologies, Inc. ("DTNet") a Florida corporation. The acquisition was effective through the issuance of 2,500,000 shares of VoIP, Inc. restricted common stock in exchange for all issued and outstanding shares of DTNet common stock. In July 2004, the Company issued 668,688 shares to six individual existing accredited investors. Also effective July 2004, registrant issued 41,688 shares to four accredited individual investors. On August 4, 2004, the Company issued 4,400,000 warrants to two executives to acquire 4,400,000 shares at $1.00 per share. As explained in Note N, subsequent events, in February 2005, 2,200,000 warrants were exchanged for restricted shares. In August 2004, the Company issued 50,000 shares to one individual accredited investor in satisfaction of accounts payable totaling $50,000. In August 2004, the Company issued 653,319 shares to forty-six individual accredited investors. F-13 In September 2004, the Company issued 38,461 shares to one accredited investor. On September 1st, 2004, VoIP Inc. closed the acquisition of VoIP Americas, a Florida corporation. The acquisition took the form of an exchange of 1,000,000 shares of VoIP restricted common stock in exchange for all the issued and outstanding shares of VoIP Americas common stock. In October 2004, the Company issued 251,831 shares to twelve accredited investors. In October 2004, the Company issued 100,000 shares to one individual accredited investor. In November 2004, the Company issued 2,249,500 shares to five accredited investors. In November 2004, the Company issued 318,500 shares to twelve accredited investors. n December 2004, the Company issued 79,659 shares to five accredited investors. In December 2004, the Company issued 400,000 shares to sixteen accredited investors. Note M - Discontinued Operations In December 2004, the Company decided to exit the tea business and sold all its tea inventory, therefore, those transactions have been presented as discontinued operations for the year ended December 31, 2004, and 2003. Assets, liabilities, and results of the discontinued tea operations of the Millennia Tea Master division are as follows: Assets from the discontinued operation: 2004 2003 --------- --------- Cash $ 4,419 $ 3,499 Notes receivable from purchaser of tea (non-interest bearing due in four equal installments through December 31, 2005) 408,000 -- Tea inventory at net realizable value -- 251,534 Other assets -- 4,425 -------- -------- Total $ 412,419 $ 259,458 ========= ========= 2004 2003 --------- --------- Liabilities from discontinued operations: Due to related parties -- 151,167 --------- --------- Total $ -- $ 151,167 ========= ========= F-14 Results from discontinued operations: 2004 2003 --------- --------- Revenues $ 408,613 $ 8,678 Cost of sales 263,302 11,213 --------- --------- Gross profit 145,311 (2,535) Other expenses -- 350,423 --------- --------- Income (loss) from discontinued operations $ 145,311 $(352,958) ========= ========= Note N - Subsequent Events On January 6, 2005, the Company issued a Note Payable to its controlling shareholder in the amount of $1,040,000 at an interest rate of 3.75%, maturing in December 2005. On January 26, 2005, the Company filed a Form S-8 registration statement in connection with the Company's Stock Option Plan. The plan provides for the grant to eligible employees and directors of options for the purchase of Common Stock. The Option Plan covers, in the aggregate, a maximum of 4,000,000 shares of Common Stock and provides for the granting of both incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986) and nonqualified stock options (options which do not meet the requirements of Section 422). Under the Option Plan, the exercise price may not be less than the fair market value of the Common Stock on the date of the grant of the option. On February 14, 2005, an officer exercised a Stock Purchase Warrant to purchase 2,200,000 shares of VoIP, Inc. common stock by surrendering such Warrant, and, based upon an agreement with the Company, receiving in return 750,000 shares of restricted common stock in a net exercise. On February 23, 2005, VoIP, Inc. and its subsidiary eGlobalPhone, Inc. executed an Asset Purchase Agreement for the purchase of certain intellectual property rights associated with the trade names TALKTIME and TALKTIME.COM. In exchange for the rights, the Registrant issued 100,000 shares of restricted common stock, warrants to purchase 400,000 shares at $1.70 per share, and agreed to pay $200,000 cash. Negotiations started during the last quarter of 2004, therefore all the cash, shares issued, and commitments were recorded in that period. F-15 VoIP Inc. Consolidated Balance Sheet March 31, 2005 (Unaudited) Mar. 31, 2005 ------------ ASSETS Current Assets: Cash and cash equivalents $ 925,534 Accounts receivable, net of allowance of $98,197 and $136,795, respectively 1,234,173 Due from related parties 245,402 Inventory 965,181 Assets from discontinued operations 392,000 Other current assets 232,168 ------------ Total Current Assets 3,994,458 Property and equipment, net 421,240 Intangibles 6,923,854 Other assets 80,816 ------------ TOTAL ASSETS $ 11,420,368 ============ LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable and accrued expenses $ 1,491,035 Notes payable 1,209,334 Other current liabilities 65,196 ------------ Total current liabilities 2,765,565 ------------ Shareholders' equity: Common stock - $0.001 par value 100,000,000 shares authorized 26,378,132 and 24,258,982 issued and outstanding, respectively 26,379 Additional paid-in capital 14,775,107 Accumulated deficit (6,146,683) ------------ Total shareholders' equity 8,654,803 ------------ TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 11,420,368 ============ The accompanying notes are an integral part of these consolidated financial statements. F-16 VoIP Inc. Consolidated Statements of Operations For Three Months Ended March 31, 2005 and 2004 (Unaudited) (Unaudited) Three Months Three Months Ended March 31, Ended March 31, 2005 2004 ------------ ------------ Revenues $ 2,007,147 $ -- Cost of Sales 1,800,935 -- ------------ ------------ Gross Profit 206,212 -- Operating expenses Compensation and related expenses 815,370 -- General and administrative expenses 898,139 22,324 ------------ ------------ Loss from operations (1,507,297) (22,324) Provision for income taxes -- -- ------------ ------------ Net loss $ (1,507,297) $ (22,324) ============ ============ Basic and diluted loss per share: $ (0.06) $ (0.01) Weighted average number of shares outstanding 25,705,857 1,730,939 ============ ============ The accompanying notes are an integral part of these consolidated financial statements. F-17 VoIP Inc. Consolidated Statements of Cash Flows Three Months ended March 31, 2005 and 2004 (Unaudited) (Unaudited) Three Months Three Months Ended March 31, Ended March 31, 2005 2004 ----------- ----------- Cash flows from operating activities Net loss $(1,507,297) $ (22,324) Adjustments to reconcile net loss to net cash used in operating activities Depreciation 47,980 -- Common shares issued for services 28,325 -- Stock option plan 108,713 -- Common shares exchanged for warrants 239,500 -- Changes in operating assets and liabilities: net of assets and liabilities acquired: Accounts receivable (416,102) -- Assets from discontinued operations 20,419 -- Inventory (777,730) (233) Other current assets (188,466) (3,750) Accounts payable 266,061 10,308 Other current liabilities (57,944) -- ----------- ----------- Net cash used in operating activities (2,236,541)

(15,999) ----------- ----------- Cash flows from investing activities Purchase of property and equipment (49,352) -- Purchase of other assets (57,236) -- ----------- ----------- Net cash used in investing activities (106,588) -- ----------- ----------- Cash flows from financing activities Proceeds from issuance of notes payable 1,040,000 -- Payments on notes payables (590,667) -- Proceeds from sales of common stock 1,678,125 12,500 ----------- ----------- Net cash provided by financing activities 2,127,458 12,500 Change in cash and cash equivalents (215,671) (3,499) Cash and cash equivalents at beginning of period 1,141,205 3,499 ----------- ----------- Cash and cash equivalents at end of period $ 925,534 $ -- =========== =========== Supplemental disclosure of cash flow information: Cash paid during the period for interest $ 13,088 $ -- =========== =========== The accompanying notes are an integral part of these consolidated financial statements. F-18 VoIP, Inc. Notes to Financial Statements Note A - Organization and Description of Business The Company was incorporated on August 3, 1998 under its original name of Millennia Tea Masters, Inc. under the laws of the State of Texas. On February 27, 2004 the Company entered into a stock purchase agreement that provided for the sale of 12,500,000 shares of its common stock in exchange for $12,500 and a commitment by the purchaser to contribute the assets of two start-up companies in the telecommunications business, eGlobalphone, Inc. and VOIP Solutions, Inc. On April 13, 2004 the Company changed its name to VoIP, Inc. and began to develop and manufacture innovative IP telephony customer premise equipment, provide premium voice over the internet subscriber based telephony services and state of the art long range WiFi technology solutions, for residential and enterprise customers, including multimedia applications. During December 2004 the Company decided to exit the tea import business in order to focus its efforts and resources in the "Voice over Internet Protocol" (VoIP) telecommunications industry. In connection with the decision, the Company sold its imported tea inventory and began to wind down its tea import operations. The assets, liabilities, and results of operations of the imported tea business have been classified as discontinued operations on the accompanying consolidated financial statements. The Company offers quality Voice over IP (VoIP) based solutions offering residential and business customers more user friendly and affordable ways to communicate. VoIP, Inc. also manufactures products and provides services to Internet Service Providers, Telecommunication Service Providers and Cable Operators in strategic countries around the world. VoIP, Inc., through its subsidiaries, provides a comprehensive portfolio of IP multimedia-based solutions ranging from subscriber based voice services, to SIP based infrastructure design and deployment, to broadband customer premise equipment design and implementation services, as well as engineering design, manufacturing and distribution of wireless broadband technology. The Company's operations consist of one segment. Note B - Summary of Significant Accounting Policies Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, eGlobalphone, Inc., VoIP Solutions, Inc., DTNet Technologies, Inc., and VoIP Americas, Inc. from their respective dates of acquisition. All significant inter-company balances and transactions have been eliminated in consolidation. Unaudited Consolidated Interim Financial Statements The accompanying consolidated financial statements for the three months ended March 31, 2005 and 2004 are unaudited but, in the opinion of management, include all necessary adjustments (consisting of normal, recurring in nature) for a fair presentation of the financial position, results of operations and cash flow 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 months ended March 31, 2005 are not necessarily indicative of operating results to be expected for a full year. 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. F-19 Cash and cash equivalents For purposes of reporting cash flows, the Company considers all cash on hand, in banks, including amounts in book overdraft positions, certificates of deposit and other highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash and cash equivalents. Cash overdraft positions may occur from time to time due to the timing of making bank deposits and releasing checks, in accordance with the Company's cash management policies. Accounts Receivable Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the reserve method based on its assessment of the current status of the individual receivables and after using reasonable collection efforts. As of March 31, 2005 the balance of the allowance for uncollectible accounts amounted to $98,197. There was an allowance of $136,795 as of December 31, 2004. Inventory Inventory consists of finished goods and is valued at the lower of cost or market using the first-in, first-out method. Advertising expenses Advertising and marketing expenses are charged to operations as incurred. Income Taxes Income taxes - The Company and its subsidiaries file consolidated federal and state income tax returns. The Company has adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes. Earnings (loss) per share Basic earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted-average number of shares of common stock outstanding. The calculation of fully diluted earnings (loss) per share assumes the dilutive effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method. Fair Value of Financial Instruments The carrying amount of cash, accounts receivable, accounts payable and notes payable, as applicable, approximates fair value due to the short term nature of these items and/or the current interest rates payable in relation to current market conditions. Revenue Recognition Revenue from product sales is recognized when persuasive evidence of an arrangement exists, delivery to customer has occurred, the sales price is fixed and determinable, and collectibility of the related receivable is probable. The recognition of revenues from Internet telephony services are deferred for new subscribers of eGlobalphone and VoIP Solutions until it deems that the customer has accepted the service. Subsequent revenues are recognized at the beginning of each customer's month. Property, plant, and equipment Property, plant, and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight line method. The useful life of assets ranges from three to five years. The leasehold improvements are amortized over the life of the related lease. Business combinations The Company accounts for business combinations in accordance with Statement of Financial Accounting Standard No. 141 Business Combinations ("SFAS No. 141"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). This pronouncement also requires that the intangible assets with estimated useful lives be amortized over their respective estimated useful lives. F-20 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. Note C - Intangibles As of March 31, 2005 intangibles consist of the following: Goodwill - acquisition of DTNet Technologies, Inc. $5,210,553 Goodwill - acquisition of Voipamericas, Inc. 1,408,301 Intellectual property 305,000 ---------- Total $6,923,854 ========== The goodwill on the acquisition of DTNet Technologies, Inc. (DTNet) represents the fair market value of DTNet liabilities as of the date of the acquisition plus $4,750,000 which represents the market value of 2,500,000 shares of Company stock issued pursuant to 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 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. The valuation of the shares was $1.05 while the value was $105,000. The value of the warrants was determined using the Black-Scholes model calculated as of October 14, 2004. This model uses the annualized deviation calculation and utilized industry averages as a comparison for adequate statistical results in the valuation. This is a standard financial model that considers the statistical annual volatility of the market changes in a stock price. Intellectual property consists of the following: a) all rights of the Company of Record in the telephone numbers 1(800)TALKTIME, 1(888)TALKTIME, AND 1(877)TALKTIME.COM b) all rights to the URL's (domain names) 800TALKTIME.COM, 1800TALKTIME.COM, and 1-800-TALKTIME.COM c) all rights to U.S. Trademark Registration No. 2,209,316 directed to the mark 1-800-TALKTIME and the goodwill associated therewith. Note D - Exchange of Warrants for Shares In February, 2005 an executive of the Company and the Company agreed to exchange his 2,200,000 warrants for 750,000 restricted shares of the Company. This created additional compensation of $239,500, shown in the compensation and related expenses in the consolidated statement of operations, which is the difference between the market price on the date of exchange and the value on the date of the issuance of the warrants. Note E - Stock Option Plan On January 26, 2005, the Company filed Form S-8 registration statement in connection with the Company's Stock Option Plan. The plan provides for the grant to eligible employees, consultants, and directors of options for the purchase of Common Stock. The Option Plan covers, in the aggregate, a maximum of 4,000,000 shares of Common Stock and provides for the granting of both incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986) and nonqualified stock options (options which do not meet the requirements of Section 422). Under the Option Plan, the exercise price may not be less than the fair market value of the Common Stock on the date of the grant of the option. F-21 The vested options as of March 31, 2005 amounting to $108,713, are shown under the compensation and related expenses on the Consolidated Statement of Operation. Note F - Notes Payable In December 2004 the Company issued a note payable to a shareholder in the amount of $560,000 at an interest rate of 3.75% with a maturity date of December 2005. Additionally, on January 6, 2005, the Company issued another note payable amounting to $1,040,000 to the same shareholder under the same terms and conditions as the previous one. As of March 31, 2005 the balance for notes payable was $1,209,334. Note G - Subsequent Events On May 16, 2005, The Company announced that it has advanced $475,000 dollars and had signed a letter of intent to acquire Caerus, Inc. which includes all wholly-owned subsidiaries; Volo Communications, Inc., Caerus Networks Inc, and Caerus Billing, Inc. Under the proposed purchase terms, VoIP, Inc. will acquire 100% of the stock and assets of Caerus, Inc in exchange for the issuance of 15 million common shares of VoIP, Inc. F-22 VOIP, INC. AND SUBSIDIARIES UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS The Following unaudited pro forma condensed combined financial statements are derived from and should be read in conjunction with the historical consolidated financial statements and related notes of VOIP, INC. ("VOIP" or the "Company"), and CAERUS, INC. ("CAERUS"). On June 1, 2005, the Company, and Caerus announced the closing of the merger of Volo Acquisition Corp., a wholly-owned subsidiary of the Company with and into Caerus, with Caerus as the surviving corporation (the "Merger"). The Merger was completed pursuant to an Agreement and Plan of Merger (the "Merger Agreement'), executed on May 31, 2005. The unaudited pro forma condensed combined statements of operation for the three month periods ended March 31, 2005 and 2004, and the year ended December 31, 2004 give effect to the merger of Caerus and the Company with the conversion of all Caerus capital stock into 16,434,470 shares of common stock, par value $0.001, of the Company. The unaudited pro forma condensed combined statements of operations assume that the merger was consummated at the beginning of the respective period. The unaudited pro forma condensed combined balance sheet presents the combined financial position of the Company and Caerus as if the Merger was consummated on March 31, 2005. The unaudited pro forma condensed combined financial statements have been prepared based on currently available information and assumptions that are deemed appropriate by the Company's management. The pro forma information is for informational purposes only and is not intended to be indicative of the actual consolidated results that would have been reported had the transactions occurred on the dates indicated, nor does the information represent a forecast of the consolidated financial position at any future date or the combined financial results of the Company and Caerus for any future period. F-23 VOIP, INC. AND SUBSIDIARIES PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF MARCH 31, 2005 Unaudited VOIP, INC. CAERUS, INC. ELIM'S CONSOL ------------ ------------ ------------ ------------ ASSETS Current Assets: Cash and cash equivalents $ 925,534 $ 159,095 $ 1,084,629 Accounts receivable, net 1,234,173 544,229 1,778,402 Due from related parties 245,402 12,899 258,301 Inventory 965,181 8,120 973,301 Assets from discontinued operations 392,000 -- 392,000 Loan origination costs -- 251,886 251,886 Other current assets 232,168 201,548 433,716 ------------ ------------ ------------ ------------ Total Current Assets 3,994,458 1,177,777 -- 5,172,235 ------------ ------------ ------------ ------------ Property and equipment, net 421,240 8,521,464 8,942,704 Intangibles 6,923,854 9,000 27,946,359 a 34,879,213 Other assets 80,816 19,958 100,774 ------------ ------------ ------------ ------------ TOTAL ASSETS $ 11,420,368 $ 9,728,199 $ 27,946,359 $ 49,094,926 ============ ============ ============ ============ LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities: Accounts payable and accrued expenses $ 1,491,035 $ 10,748,526 $ 12,239,561 Bank loans and notes payable 1,209,334 5,486,707 6,696,041 Notes payable - related party 1,830,000 1,830,000 Liabilities from discontinued operations -- -- -- Other current liabilities 65,196 216,650 281,846 ------------ ------------ ------------ ------------ Total current liabilities 2,765,565 18,281,883 -- 21,047,448 ------------ ------------ ------------ ------------ Shareholders' equity: Common stock - $0.001 par value 26,379 149,405 (132,971)b 42,813 Preferred stock -- 55,998

(55,998)b -- Additional paid-in capital 14,775,107 5,408,384 13,967,857 b 34,151,348 Accumulated deficit (6,146,683) (14,167,471) 14,167,471 b (6,146,683) ------------ ------------ ------------ ------------ Total shareholders' equity 8,654,803 (8,553,684) 27,946,359 28,047,478 ------------ ------------ ------------ ------------ TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY $ 11,420,368 $ 9,728,199 $ 27,946,359 $ 49,094,926 ============ ============ ============ ============ The accompanying notes are an integral part of these pro forma financial statements F-24 VOIP, INC. AND SUBSIDIARIES PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2005 Unaudited VOIP, INC. CAERUS, INC. ELIM'S CONSOL ------------ ------------ ------------ ------------ Revenues $ 2,007,147 $ 4,994,845 $ 7,001,992 Cost of Sales 1,800,935 6,357,717 8,158,652 ------------ ------------ ------------ ------------ Gross Profit (Loss) 206,212 (1,362,872) -- (1,156,660) ------------ ------------ ------------ ------------ Operating expenses Compensation and related expenses 815,370 826,703 1,642,073 General and administrative expenses 898,139 788,420 1,686,559 ------------ ------------ ------------ ------------ Loss from operations (1,507,297) (2,977,995) -- (4,485,292) Interest expense & other -- 237,534 237,534 ------------ ------------ ------------ ------------ Loss before income taxes (1,507,297) (3,215,529) -- (4,722,826) Provision for income taxes -- -- ------------ ------------ ------------ ------------ NET LOSS $ (1,507,297) $ (3,215,529) $ -- $ (4,722,826) ============ ============ ============ ============ Basic and diluted loss per share: $ (0.06) $ (0.20) $ (0.11) ============ ============ ============ Weighted average number of shares outstanding 25,705,857 16,434,470 42,140,327 ============ ============ ============ The accompanying notes are an integral part of these pro forma financial statements F-25 VOIP, INC. AND SUBSIDIARIES PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004 Unaudited VOIP, INC. CAERUS, INC. ELIM'S CONSOL ------------ ------------ ------------- ------------ Revenues $ 2,619,393 $ 14,379,365 $ -- $ 16,998,758 Cost of Sales Network and termination costs 1,870,269 15,103,149 -- 16,973,418 Testing and sales concessions -- 662,052 -- -- ------------ ------------ ------------- ------------ Gross Profit (Loss) 749,124 (1,385,836) -- 25,340 ------------ ------------ ------------- ------------ Operating expenses Compensation and related expenses 2,721,296 2,973,070 -- 5,694,366 General and administrative expenses 2,187,878 3,595,501 -- 5,783,379 ------------ ------------ ------------- ------------ Loss from operations (4,160,050) (7,954,407) -- (11,452,405) Interest & other expenses -- 657,188 -- 657,188 ------------ ------------ ------------- ------------ Loss from continuing operations before income taxes and discontinued operations (4,160,050) (8,611,595) -- (12,109,593) Provision for income taxes -- -- -- ------------ ------------ ------------- ------------ Net loss before discontinued operations (4,160,050) (8,611,595) -- (12,109,593) Income (Loss) from discontinued operations 145,311 -- 145,311 ------------ ------------ ------------- ------------ NET LOSS $ (4,014,739) $ (8,611,595) $ -- $(11,964,282) ============ ============ ============== ============ Basic and diluted loss per share: Loss before discontinued operations $ (0.28) $ (0.52) $ (0.39) Income from discontinued operations net of income taxes $ 0.01 $ -- $ 0.00 ------------ ------------ ------------ Total $ (0.28) $ (0.52) $ (0.39) ============ ============ ============ Weighted average number of shares outstanding 14,597,312 16,434,470 31,031,782 ============ ============ ============ The accompanying notes are an integral part of these pro forma financial statements F-26 VOIP, INC. AND SUBSIDIARIES PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 Unaudited VOIP, INC. CAERUS, INC. ELIM'S CONSOL ------------ ------------ ------------- ------------ Revenues $ -- $ 3,037,171 $ -- $ 3,037,171 Cost of Sales -- 2,647,678 -- 2,647,678 ------------ ------------ ------------- ------------ Gross Profit -- 389,493 -- 389,493 ------------ ------------ ------------- ------------ Operating expenses Compensation and related expenses -- 409,033 -- 409,033 General and administrative expenses 22,324 510,436 -- 532,760 ------------ ------------ ------------- ------------ Loss from operations (22,324) (529,976) -- (552,300) Interest expense & other -- 33,059 -- 33,059 ------------ ------------ ------------- ------------ Loss before income taxes (22,324) (563,035) -- (585,359) Provision for income taxes -- -- -- -- ------------ ------------ ------------- ------------ NET LOSS $ (22,324) $ (563,035) $ -- $ (585,359) ============ ============ ============== ============ Basic and diluted loss per share: $ (0.01) $ (0.03) $ (0.03) Weighted average number of shares outstanding 1,730,939 16,434,470 18,165,409 ============ ============ ============ The accompanying notes are an integral part of these pro forma financial statements F-27 VOIP, INC. AND SUBSIDIARIES NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (1) VOIP, INC. BASIS OF PRESENTATION Historical financial information for VOIP, INC. as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 and the year ended December 31, 2004 has been derived from VOIP, INC.'s historical statements. (2) CAERUS, INC. BASIS OF PRESENTATION Historical financial information for CAERUS, INC. as of March 31, 2005 and for the three months ended March 31, 2005 and 2004 and the year ended December 31, 2004 has been derived from CAERUS, INC.'s historical statements. (3) VOIP, INC. AND CAERUS, INC. MERGER On June 1, 2005, the Company, and Caerus, Inc. announced the closing of the merger of Volo Acquisition Corp., a wholly-owned subsidiary of the Company with and into Caerus, Inc. with Caerus, Inc. as the surviving corporation (the "Merger"). The Merger was completed pursuant to an Agreement and Plan of Merger (the "Merger Agreement'), executed on May 31, 2005 by the conversion of all Caerus, Inc. capital stock into 16,434,470 shares of common stock, par value $0.001, of the Company. (4) PRO FORMA BALANCE SHEET ADJUSTMENTS Following are brief descriptions of the pro forma adjustments to the balance sheet to reflect the merger of the Company and Caerus, Inc. A Goodwill is the excess of the purchase price, based on the market value of the 16,434,470 shares issued, over the book value of Caerus, Inc. on March 31, 2005. As listed in the following table: Total paid in VoIP, Inc stock and warrants 16,434,470 VoIP share market value - close of Market on May 31, 2005 $ 1.18 ----------- Total cost of Caerus, Inc. to VoIP, Inc. $19,392,675 Plus: Negative equity of Caerus, Inc. as of March 31, 2005 8,553,684 ----------- Goodwill $ 27,946,359 (7) =========== B Adjustments to eliminate Caerus, Inc. stockholders' equity accounts, and reflect new VoIP, Inc. common shares issued. (5) PRO FORMA STATEMENTS OF INCOME ADJUSTMENTS None were required. (6) SUBSEQUENT EVENTS On May 31, 2005 the Company consummated an Agreement and Plan of Merger ("Merger Agreement") with Caerus, Inc., whereby 100% of Caerus, Inc. common and preferred stock, stock options and warrants were exchanged for 16.9 million shares of common stock of VoIP. The goodwill on the acquisition of Caerus, Inc. represents the negative net asset value of Caerus as of the date of the acquisition plus $19,392,675 which represents the market value of the 16,434,470 Company's shares and warrants issued pursuant to this acquisition. (7) REEVALUATION OF ASSETS ACQUIRED AND LIABILITIES ASSUMED. The accompanying condensed combined balance sheet reflects goodwill of approximately $28 million (approximately 57% of total combined assets) resulting from the May 31, 2005 acquisition of Caerus, Inc. Accounting principles generally accepted in the United States require that assets acquired and liabilities assumed be recorded at their respective fair market value. Had an evaluation of assets acquired and liabilities assumed been conducted, it is probable that amounts reflected as goodwill could have been assigned to other identifiable assets and liabilities. Management is in the process of conducting an evaluation to determine the proper valuation of assets acquired and liabilities assumed in order to determine the proper carrying value of those items and the ultimate recovery of the remaining goodwill, if any. F-28 CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM To the Board of Directors VoIP, Inc. We consent to the inclusion in the Registration Statement on Form SB-2 of VoIP, Inc. (filed on August 12, 2005) of our report dated July 25, 2005 on our audit of the consolidated financial statements of Caerus, Inc. as of December 31, 2004 and 2003, and for the year ended December 31, 2004 and for the period May 15, 2002 (date of inception) through December 31, 2003. /s/ Moore Stephens Lovelace, P.A. Orlando, Florida August 12, 2005 F-29 REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS Board of Directors Caerus, Inc. Altamonte Springs, Florida We have audited the accompanying consolidated balance sheets of Caerus, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the year ended December 31, 2004 and for period May 15, 2002 (date of inception) through December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Caerus, Inc. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the year ended December 31, 2004 and for the period May 15, 2002 (date of inception) through December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations, has a working capital deficit, and has significant unresolved litigation as discussed in Note 8 to the financial statements. These matters, among other things, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans related to these matters are also discussed in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. /s/ Moore Stephens Lovelace, P.A. Certified Public Accountants Orlando, Florida July 25, 2005 F-30 CAERUS, INC. CONSOLIDATED BALANCE SHEETS December 31, 2004 and 2003 ASSETS 2004 2003 ------------ ------------ CURRENT ASSETS Cash and cash equivalents $ 19,414 $ 25,078 Restricted cash 60,224 196 Accounts receivable 2,098,598 358,522 Note receivable - related party -- 179,974 Supplies, deposits and prepaid expenses 70,999 350,199 ------------ ------------ TOTAL CURRENT ASSETS 2,249,235 913,969 ------------ ------------ PROPERTY AND EQUIPMENT Telecommunications equipment and computers 6,390,973 732,205 Furniture and fixtures 61,960 21,624 Leasehold improvements 163,808 146,358 Purchased and developed software 473,228 598,243 ------------ ------------ 7,089,969 1,498,430 Less accumulated depreciation and amortization (824,580) (183,408) ------------ ------------ NET PROPERTY AND EQUIPMENT 6,265,389 1,315,022 ------------ ------------ OTHER ASSETS Deferred loan origination costs, net 285,075 -- Lease deposit and other 28,959 65,000 ------------ ------------ TOTAL ASSETS $ 8,828,658 $ 2,293,991 ============ ============ LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) CURRENT LIABILITIES Accounts payable and accrued expenses $ 7,137,293 $ 452,094 Note payable 6,006,899 -- Convertible notes payable - related party 1,830,000 1,050,000 Deferred revenue and customer deposits 38,750 60,576 ------------ ------------ TOTAL CURRENT LIABILITIES 15,012,942 1,562,670 ------------ ------------ STOCKHOLDERS' EQUITY (DEFICIT) Common stock - $.01 par value; 50,000,000 shares authorized; 14,940,508 and 11,948,367 shares issued and outstanding, respectively 149,405 119,484 Preferred stock - $.01 par value; 25,000,000 shares authorized; -0- shares issued and outstanding -- -- Additional paid-in capital 4,618,253 2,952,184 Accumulated deficit (10,951,942) (2,340,347) ------------ ------------ TOTAL SHAREHOLDERS' EQUITY (DEFICIT) (6,184,284) 731,321 ------------ ------------ TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) $ 8,828,658 $ 2,293,991 ============ ============ F-31 CAERUS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS For The Year Ended December 31, 2004, and The Period May 15, 2002 (Date of Inception) Through December 31, 2003 2004 2002-2003 ------------ ------------ (Development Stage) SALES $ 14,379,365 $ 1,191,287 COST OF SALES Network and termination costs 15,103,149 900,681 Testing and sales concessions 662,052 -- ------------ ------------ TOTAL COST OF SALES 15,765,201 900,681 ------------ ------------ GROSS PROFIT (LOSS) (1,385,836) 290,606 ------------ ------------ OPERATING EXPENSES Equipment and computer expenses 603,189 97,068 Office expenses 228,108 206,215 Labor-related expenses 2,973,070 1,214,240 Professional fees 814,243 400,872 Marketing 217,835 16,689 Litigation settlement 326,205 -- Rent, utilities and security 246,545 355,481 Taxes and licenses 55,527 25,390 Travel, lodging and entertainment 163,555 90,928 Depreciation and amortization 641,172 183,409 Asset impairment charge 299,122 -- ------------ ------------ TOTAL EXPENSES 6,568,571 2,590,292 ------------ ------------ LOSS FROM OPERATIONS (7,954,407) (2,299,686) OTHER EXPENSES Interest expense, net (657,238) (19,654) Other expense, net 50 (21,007) ------------ ------------ NET LOSS $ (8,611,595) $ (2,340,347) ============ ============ F-32 CAERUS, INC. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE YEAR ENDED DECEMBER 31, 2004, AND THE PERIOD MAY 15, 2002 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2003 Common Stock $.01 Par Value Additional Total -------------------------- Paid-In Accumulated Stockholders' Shares Amount Capital Deficit Equity (Deficit) ------------ ------------ ------------ ------------ ------------ BALANCE - MAY 15, 2002 -- $ -- $ -- $ -- $ -- ISSUANCE OF FOUNDER STOCK 5,400,000 54,000 -- -- 54,000 SALE OF COMMON STOCK 6,186,592 61,866 2,721,909 -- 2,783,775 ISSUANCE OF COMMON STOCK FOR SERVICES 150,000 1,500 81,750 -- 83,250 ISSUANCE OF COMMON STOCK FOR PROPERTY AND EQUIPMENT 211,775 2,118 148,525 -- 150,643 ------------ NET LOSS -- -- -- (2,340,347) (2,340,347) ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2003 11,948,367 119,484 2,952,184 (2,340,347) 731,321 ISSUANCE OF COMMON STOCK 712,071 7,121 273,139 -- 280,260 ISSUANCE OF COMMON STOCK FOR DEBT 2,280,070 22,800 1,097,200 -- 1,120,000 ISSUANCE OF STOCK WARRANTS IN CONNECTION WITH SECURED NOTE PAYABLE -- -- 218,813 -- 218,813 EMPLOYEE STOCK OPTIONS - COMPENSATION EXPENSE RECOGNIZED -- -- 76,917 -- 76,917 NET LOSS -- -- -- (8,611,595) (8,611,595) ------------ ------------ ------------ ------------ ------------ BALANCE - DECEMBER 31, 2004 14,940,508 $ 149,405 $ 4,618,253 $(10,951,942) $ (6,184,284) ============ ============ ============ ============ ============ F-33 CAERUS,

INC. CONSOLIDATED STATEMENTS OF CASH FLOWS For The Year Ended December 31, 2004, and The Period May 15, 2002 (Date of Inception) Through December 31, 2003 2004 2002-2003 ----------- ----------- (Development Stage) CASH FLOWS FROM OPERATING ACTIVITIES Net loss $(8,611,595) $(2,340,347) Adjustments to reconcile net loss to net cash used in operating activities: Litigation settlement 326,205 -- Depreciation and amortization 641,172 183,408 Asset impairment charge 299,122 -- Amortization of deferred loan fees 56,613 -- Stock issued to Founder -- 54,000 Stock issued for services -- 83,250 Expense related to employee stock options 76,917 -- Forgiveness of related-party loan 415,323 -- Changes in: Restricted cash (60,028) (196) Accounts receivable (2,066,281) (358,522) Supplies, deposits and prepaid expenses 279,200 (415,199) Other assets 36,041 -- Accounts payable and accrued expenses 6,685,199 452,094 Deferred revenue (21,826) 60,576 ----------- ----------- NET CASH USED IN OPERATING ACTIVITIES (1,943,938) (2,280,936) ----------- ----------- CASH FLOWS FROM INVESTING ACTIVITIES Additions to property and equipment (5,890,661) (1,347,787) Additions to related-party loan (235,349) (179,974) ----------- ----------- NET CASH USED IN INVESTING ACTIVITIES (6,126,010) (1,527,761) ----------- ----------- CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from borrowings 8,900,000 1,050,000 Repayment of note payable (993,101) -- Proceeds from issuance of common stock 280,260 2,783,775 Payments for loan origination costs (122,875) -- ----------- ----------- NET CASH PROVIDED BY FINANCING ACTIVITIES 8,064,284 3,833,775 ----------- ----------- NET CHANGE IN CASH (5,664) 25,078 CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD 25,078 -- ----------- ----------- CASH AND CASH EQUIVALENTS - END OF PERIOD $ 19,414 $ 25,078 =========== =========== F-34 CAERUS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004 AND FOR THE PERIOD MAY 15, 2002 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2003 NOTE 1 - DESCRIPTION OF BUSINESS Caerus, Inc. and subsidiaries (collectively referred to as the "Company") were incorporated on May 15, 2002 and are wholesale providers of advanced telecommunications technologies and services to carriers and service providers, including Inter Exchange Carriers ("IXCs"), Competitive Local Exchange Carriers ("CLECs"), Internet Service Providers, Cable Operators and Enhanced Voice and Data Service Providers. Through its wholesale-only model, the Company has positioned itself as a "carrier's carrier" and offers protocol-agnostic packet switched technologies to address the gap between traditional communications and "next generation" platforms. During the period May 15, 2002 (date of inception) to December 31, 2003, the Company was in the process of developing its resources, enhancing its proprietary technology, building a nationwide network with five physical interconnection points (cities), working with potential customers on testing its network, and attracting key engineering professionals; accordingly, the Company was considered to be a development stage enterprise. In January 2004, the Company became fully operational and management determined that the Company was no longer in a development stage. The Company offers a comprehensive suite of Internet Protocol ("IP")-based broadband packet voice services, IP and Time Division Multiplexing ("TDM") origination/termination services, IP PBX-hosted services, and unified messaging services that include enhanced voice and data solutions. The suite of services is complemented by a Service Creation Environment that enables the Company to develop custom applications and features "on the fly" for its customers. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company has incurred significant losses and negative cash flows from operations since its inception. Additionally, the Company has a working capital deficit of $12,763,707 and an accumulated deficit of $10,951,942 at December 31, 2004. Management continues to undertake steps as part of a plan to attempt to improve liquidity and operating results with the goal of sustaining Company operations. These steps include seeking (a) to increase high-margin sales; and (b) to control overhead costs and operating expenses. Management plans, in this regard, to continue the implementation of a stabilized and fully operational network, adding recurring-revenue customers, attracting an experienced management team capable of building a profitable company, and securing funding to meet current obligations. F-35 NOTE 1 - DESCRIPTION OF BUSINESS (CONTINUED) There can be no assurance that the Company can successfully accomplish these steps. Accordingly, the Company's ability to continue as a going concern is uncertain and dependent upon continuing to achieve improved operating results and cash flows or obtaining additional financing. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business. NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CASH AND CASH EQUIVALENTS For financial presentation purposes, the Company considers short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. RESTRICTED CASH AND LETTERS OF CREDIT Certain cash is restricted to support standby letters of credit which, in turn, support operating license bonds required by several states' regulatory agencies. These standby letters of credit are generally in force for one year with automatic one-year extensions. Maximum draws available to the beneficiary as of December 31, 2004 were $60,000. If the Company was required to obtain replacement standby letters of credit as of December 31, 2004 for those currently outstanding, it is the Company's opinion that the replacement costs would not significantly vary from the present fee structure. ACCOUNTS RECEIVABLE Accounts receivable result from the sale of the Company's services, net of estimated allowances. The Company estimates an allowance for doubtful accounts based on a specific-identification basis. The Company had no allowance for doubtful accounts as of December 31, 2004 and 2003. PROPERTY AND EQUIPMENT Property and equipment are recorded at cost. Depreciation and amortization are calculated on a straight-line basis over the assets' useful lives, which range from three to ten years. Leasehold improvements are amortized over the estimated useful lives of the improvements, or the term of the lease, if shorter. Maintenance and repairs are expensed as incurred, while renewals and betterments are capitalized. Upon the sale or other disposition of property, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized in operations. F-36 NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) PROPERTY AND EQUIPMENT (CONTINUED) Under the Statement of Position ("SOP") 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use," the Company expenses computer software costs related to internal-use software that is incurred in the preliminary project stage. When the capitalization criteria of SOP 98-1 have been met, costs of developing or obtaining internal-use computer software are capitalized. The Company capitalized approximately $772,350 of costs incurred for internally developed software during the period from inception through December 31, 2004. Amortization of internal-use software over a 5-year estimated useful life commenced upon the software being placed in service beginning January 1, 2004. Amortization of internal-use software for the periods ended December 31, 2004 and 2003 was approximately $77,000 and $-0-, respectively. During 2004, the Company suspended a number of software development projects and, accordingly, recognized a related asset impairment charge of $299,122 in 2004. DEPOSITS Deposits consist primarily of an equipment deposit, a refundable office lease deposit and various other deposits outstanding with service providers. DEFERRED REVENUE Deferred revenue represents fees for services that have not yet met the criteria to be recognized as revenue. REVENUE RECOGNITION Revenue is recognized when earned. Revenue related to long distance, carrier access service and certain other usage-driven charges are billed monthly in arrears, and the associated revenues are recognized during the month of service. INCOME TAXES The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financially reported amounts at each year-end, based on enacted laws and statutory rates applicable to the periods in which differences are expected to affect taxable income. As of December 31, 2004, the Company had a deferred tax asset of approximately $3,000,000, the components of which consisted primarily of the Company's net losses, fixed asset depreciation and stock-based compensation. Also at December 31, 2004, the Company had a net operating loss carryforward of approximately $11,000,000 for federal income tax purposes that will begin to expire in 2022, and that is subject to significant limitations based upon the occurrence of certain changes in ownership of the Company. F-37 NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) INCOME TAXES (CONTINUED) A valuation allowance is provided against the future benefits of deferred tax assets if it is determined that it is more likely than not that the future tax benefits associated with the deferred tax asset will not be realized. Due to recurring losses since inception and the resultant uncertainty of the realization of the tax loss carryforward, the Company has established a 100% valuation allowance against the carryforward benefit. Accordingly, no provision/benefit for income taxes has been included in these consolidated financial statements. CONCENTRATION OF CREDIT RISK Financial instruments that may subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company has investment policies and procedures that are reviewed periodically to minimize credit risk. One customer represented approximately 98% and 90% of the Company's accounts receivable as of December 31, 2004 and 2003, respectively, and approximately 91% and 95% of the Company's revenues for the year ended December 31, 2004 and for the period May 15, 2002 (date of inception) through December 31, 2003, respectively. The loss of this customer would have a significant adverse affect on the Company's operations. CONCENTRATION OF SUPPLIER RISK One supplier represented approximately 86% of the Company's accounts payable as of December 31, 2004, and approximately 94% of the Company's cost of sales for the year ended December 31, 2004 (see Note 8). STOCK-BASED COMPENSATION The Company uses the fair value method of Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensation" in accounting for its stock options. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. The fair value for each option granted is estimated on the date of the grant using the minimum value method. ESTIMATES The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates affect the carrying value of, among other things, internal-use software, cost of goods sold (see Note 7), the estimating of the fair value of the Company's common stock (see Note 3), and the evaluation of existing disputes and claims (see Notes 7 and 8). F-38 NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) RECLASSIFICATIONS Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. NOTE 3 - CONVERTIBLE NOTES PAYABLE - RELATED PARTY During 2003, the Company issued two one-year convertible notes to a stockholder of the Company, $1,050,000 and $70,000 of which were funded in the periods ended December 31, 2003 and 2004, respectively. These notes accrued interest at 12% per annum, with all interest and principal due in September and December 2004. These notes, which had certain anti-dilution provisions and which were collateralized by substantially all of the assets of the Company, were converted into common stock in May 2004 (see Note 6) and the convertible notes were cancelled and the principal amount was satisfied in full. The Company determined the conversion rates based upon its evaluation of the Company's common stock on the issuance dates. The Company's evaluations were based upon, among other things, peer company valuations, industry and market conditions, the Company's current financial position, terms and conditions of funding available to the Company at the time of issuance, etc. During 2004, the Company issued two one-year convertible notes to a stockholder of the Company, totaling $1,830,000. These notes accrue interest at 12% per annum, with monthly principal and interest payments originally scheduled through August and November 2004. Restrictive covenants pertaining to the note payable discussed in Note 4 to these financial statements precluded payment of scheduled principal and interest on these notes, therefore, these notes are currently due. However, the same covenants preclude payment until the note described in Note 4 to these financial statements is paid in full. These one-year notes are collateralized by substantially all of the assets of the Company (see Note 8). Interest expense incurred with respect to these notes during the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, was $122,223 and $19,653, respectively. Interest payments made with respect to these notes during the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, were $42,560 and $-0-, respectively. F-39 NOTE 4 - NOTE PAYABLE In June 2004, the Company secured a $15,000,000 debt facility and drew down the first $7,000,000 traunch primarily for the purpose of funding network equipment purchases. These borrowings are repayable over a three-year period and bear interest at 12.5% per annum. Additional borrowings under this facility are contingent upon, among other things, the Company raising certain levels of additional equity financing. The loan agreement contains customary covenants and restrictions and provides the lender the right to a perfected first-priority, secured interest in all of the Company's assets, as well as rights to preferred stock warrants (see Notes 6 and 8). Interest paid under this debt facility during the year ended December 31, 2004, was $484,867. The Company is currently in violation of several of the restrictive covenants in this debt facility. Under its provisions, the lender has the right to call the related note payable due. Accordingly, the full amount of the note at December 31, 2004 has been classified as current. NOTE 5 - NOTE RECEIVABLE - RELATED PARTY During the period May 15, 2002 (date of inception) through December 31, 2004, the Company advanced $415,323 to an officer of the Company. In 2005, these advances were characterized as compensation and were forgiven; accordingly, their carrying value was reduced to zero at December 31, 2004. In addition, the Company agreed to pay the related federal income tax withholding of approximately $104,000 on behalf of the related party, which was accrued at December 31, 2004. NOTE 6 - STOCKHOLDERS' EQUITY In June 2002, the Company increased its authorized shares to 100,000 shares of $0.01 par value common stock. In July 2002, the Company increased its authorized shares to 3,000,000 shares of $0.01 par value common stock and approved a 2-for-1 common stock split. In October 2002, the Company increased its authorized shares to 6,000,000 shares of $0.01 par value common stock. In July 2003, the Company approved an additional 3-for-1 common stock split and an increase in the authorized shares of common stock to 18,000,000. The Articles of Amendment for this amendment were not filed with the state of Delaware until 2004. The accompanying consolidated financial statements and related notes present all of these amendments as if they were effected for all periods presented. In 2002, 5,400,000 shares of common stock were issued to the founder of the Company. These shares were recorded at their par value. In 2002, the Company issued 150,000 shares of its common stock for legal services provided to the Company, which were recorded at their estimated fair value of $83,250. F-40 NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED) During the period May 15, 2002 (date of inception) through December 31, 2003, the Company issued 5,965,957 shares of its common stock and received net proceeds of $2,783,775. Offering costs related to these sales consisted of the issuance of an additional 220,635 shares of the Company's common stock. During the period May 15, 2002 (date of inception) through December 31, 2003, the Company issued 211,775 shares of its common stock in consideration for leasehold improvements and equipment, of which 190,211 of the shares were issued to the founder of the Company. These shares were recorded at their estimated fair value of $150,643. In May 2004, $1,120,000 of convertible notes payable to a shareholder were converted into 2,280,070 shares of common stock. In May and August 2004, the Company issued 500,000 and 212,071 shares of its common stock for cash of $100,000 and $180,260, respectively. In May 2004, the Company authorized the issuance of up to 25,000,000 shares of $.01 par value preferred stock, the terms of which will be decided upon by the Company's Board of Directors. In August 2004, the Company approved increasing the authorized common stock to 50,000,000 shares. However, the related state filing has yet to be effected. RIGHTS TO CONVERT TO PREFERRED STOCK At December 31, 2004, related parties held 12,989,445 shares of common stock that had the right to be converted into preferred shares; however, as of December 31, 2004, no shares of preferred stock had been issued by the Company (see Note 8). STOCK OPTIONS During October 2004, the Board approved the Company's 2004 Stock Option Plan (the "Plan"), whereby 4,000,000 shares of the Company's common stock were reserved for issuance under the Plan to selected directors, officers, employees and consultants of the Company. As of December 31, 2004, options to purchase 2,164,969 shares of common stock for $0.85 per share were issued and outstanding under the Plan. These options expire ten years from the date of issuance. They vest from 36 to 48 months of employment following the date of option issuance. These options had an estimated fair value of $330,599 at the date of grant, using the minimum-value method with the following assumptions: Expected life (in years) 10.0 Risk-free interest rate 2.0% Dividend yield 0.0% F-41 NOTE 6 - STOCKHOLDERS' EQUITY (CONTINUED) STOCK OPTIONS (CONTINUED) Related 2004 compensation expense was $76,917, determined by amortizing the options' estimated fair value at grant date over their vesting period. The weighted average remaining contractual life of the options outstanding at December 31, 2004 was 9.8 years (see Note 8). The Company had no stock options outstanding at December 31, 2003. STOCK WARRANTS In 2004, the Company granted a series of warrants to purchase shares of preferred stock, the specific terms of which had yet to be determined, at an exercise price of $0.85 per share, in conjunction with the long-term note payable issuance (see Note 4). These warrants expire at the earlier of ten years from their issuance date, or five years after a potential initial public securities offering. At the warrant holder's election, these warrants may be exercised on a non-cash basis whereby the warrant holder uses the surplus of the preferred stock's then-fair market value per share over the $0.85 exercise price as payment for the preferred stock purchased under these warrants. These warrants had estimated fair values totaling $218,813 at their grant dates, recognized as additional paid-in capital and deferred loan origination costs. Additional information pertaining to these warrants issued and outstanding at December 31, 2004 is as follows: DATE GRANTED SHARES --------------------------- ------------------ June, 2004 1,235,294 August, 2004 766,020 October, 2004 383,010 ------------------ Total Issued and Outstanding 2,384,324 ================== Also in conjunction with the long-term note payable issuance (see Note 4), the Company granted warrants to purchase up to $1.0 million of common or preferred stock that may be issued in conjunction with any future securities offering of at least $5.0 million, upon the same price and conditions as afforded to third-party investors in said potential securities offering. In August 2004, the Company issued warrants to purchase 150,000 shares of common stock to a former employee whose employment was terminated in June 2004. Such warrants are exercisable at $0.85 per share, and expire on June 26, 2006. The Company had no stock warrants outstanding at December 31, 2003. F-42 NOTE 7 - OTHER COMMITMENTS AND CONTINGENCIES OPERATING LEASES In August 2002, the Company entered into an operating lease for office space, which expires in February 2008. Approximate minimum future lease payments due under this operating lease, are as follows: YEAR ENDING DECEMBER 31, AMOUNT ---------------

------------ 2005 $ 196,000 2006 $ 202,000 2007 $ 208,000 2008 $ 35,000 During the year ended December 31, 2004 and the period May 15, 2002 (date of inception) through December 31, 2003, $172,700 and $234,000, respectively, were charged to operations for rent expense related to this operating lease. LEGAL AND REGULATORY PROCEEDINGS The Company's 100%-owned subsidiary, Volo Communications, Inc., settled its breach of contract dispute related to a 2003 "take or pay" sales contract with the Company. In connection with this settlement, the Company wrote off its previously recorded account receivable of $326,205 in 2004. VENDOR DISPUTE Certain transport and termination costs incurred by the Company are recorded at vendor invoice amount less any amounts that have been formally disputed, for which the Company expects to receive a credit. Disputed amounts are based upon management's detailed review of vendor call records and contract provisions; accordingly, the recorded transport and termination costs represent management's estimates of what is ultimately due and payable. During the year ended December 31, 2004, and the period May 15, 2002 (date of inception) through December 31, 2003, $4,500,000 and $2,500,000, respectively, of one vendor's charges were formally disputed. As of December 31, 2004, approximately $4,759,000 remained in dispute and are, therefore, not included in the accompanying financial statements (see Note 8). Differences between the disputed amounts and final settlements, if any, are reported in operations in the year of settlement. OTHER Telecommunications industry revenues are subject to statutory and regulatory changes, interpretations of contracts, etc., all of which could materially affect our revenues. Generally, our customers have sixty days from the invoice date to dispute any billed charges. Management reviews all billings for compliance with applicable rules, regulations and contract terms and believes that it is in compliance therewith; accordingly, no allowance has been recorded in the accompanying financial statements for potential disputed charges. F-43 NOTE 8 - SUBSEQUENT EVENTS CAPITAL STOCK TRANSACTIONS In February 2005, the Company issued 511,750 shares of Series B preferred stock for $818,800 cash. In May 2005, 7,289,445 shares of common stock were converted into 5,944,669 shares of Series A preferred stock. Both Series A and Series B preferred stock are convertible into common stock, and they carry voting rights equal to the equivalent number of common shares into which they are convertible. Also, both Series A and Series B preferred stock contain equal and ratable dividend and liquidation preferences over common stock. LITIGATION On April 8, 2005, Volo Communications, Inc. ("Volo") (a wholly-owned subsidiary of Caerus, Inc.) filed suit against MCI Worldcom Network Services, Inc. d/b/a UUNET ("MCI"). Volo alleges that MCI engaged in a pattern and practice of over-billing Volo for the telecommunications services it provided pursuant to the parties' Services Agreement, and that MCI refused to negotiate such overcharges in good faith. Volo also seeks damages arising out of MCI's alleged fraudulent practice of submitting false bills by, among other things, re-routing long distance calls over local trunks to avoid access charges, and then billing Volo for access charges that were never incurred. On April 4, 2005, MCI declared Volo in default of its obligations under the Services Agreement, claiming that Volo owes a past due amount of $8,365,980 through March, 2005, and threatening to terminate all services to Volo within 5 days. On April 12, 2005, MCI terminated all services to Volo. By these actions, Volo alleges claims for (1) breach of contract; (2) fraud in the inducement; (3) primary estoppel; and (4) deceptive and unfair trade practices. Volo also seeks a declaratory judgment that (1) MCI is in breach of the Services Agreement; (2) $8,365,980 billed by MCI is not "due and payable" under that agreement; and (3) MCI's default letter to Volo is in violation of the Services Agreement. Volo seeks direct, indirect and punitive damages in an amount to be determined at trial. On May 26, 2005, MCI filed an Answer, Affirmative Defenses, Counterclaim and Third-Party Complaint naming Caerus, Inc. as a third-party defendant. MCI asserts a breach of contract claim against Volo, a breach of guarantee claim against Caerus, Inc., and a claim for unjust enrichment against both parties, seeking an amount to be determined at trial. On July 11, 2005, Volo and Caerus, Inc. answered the counterclaim and third-party complaint, and filed a third-party counterclaim against MCI for declaratory judgment, fraud in the inducement, and breach of implied duty of good faith and fair dealing. Volo and Caerus, Inc. seek damages in an amount to be determined at trial. MCI has filed a motion to strike certain of Caerus' affirmative defenses and a motion to dismiss Caerus' counterclaims. Discovery should commence shortly. While management is optimistic about the outcome of this litigation, it is currently unable to assess the ultimate likelihood of a favorable or unfavorable outcome; accordingly, no related provision or liability has been made in the accompanying financial statements. F-44 NOTE 8 - SUBSEQUENT EVENTS (CONTINUED) MERGER On May 31, 2005, the Company consummated an Agreement and Plan of Merger ("Merger Agreement") with VoIP, Inc. ("VoIP") (OTCBB:VOII.OB), whereby 100% of Caerus, Inc.'s common and preferred stock, stock options and warrants were exchanged for the common stock of a wholly-owned subsidiary of VoIP. The VoIP subsidiary's name was then changed to Caerus, Inc. Also in conjunction with this merger, the holder of the $1,830,000 notes payable at December 31, 2004 referred to in Note 3 agreed to exchange those notes plus accrued interest for an equivalent number of shares of VoIP common stock valued at $1.23 per share. F-45 YOU MAY RELY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR THE SALE OF COMMON SHARES MEANS THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AFTER THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY OUR COMMON SHARES IN ANY CIRCUMSTANCES UNDER WHICH THE OFFER OR SOLICITATION IS UNLAWFUL. ---------------------- TABLE OF CONTENTS HEADING PAGE ------- ---- Prospectus Summary 2 Risk Factors 6 Use of Proceeds 15 Dividend Policy and Market Data 15 Business and Properties 16 Management's Discussion and Analysis of Financial Condition and Results of Operations 25 Management 36 Principal Shareholders 43 Description of Securities 44 Plan of Distribution 48 Investor Suitability Requirement 49 Legal Matters 51 Experts 51 Available Information 51 Index to Financial Statements F-1 Until __________, 2005 (90 days from the date of this Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions. UP TO 15,372,245 SHARES COMMON STOCK PER SHARE VOIP, INC. ------------------ P R O S P E C T U S ------------------ ______________, 2004 PART II INFORMATION NOT REQUIRED TO BE IN PROSPECTUS ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS The Registrant's Articles of Incorporation provide that no director of the Registrant will be personally liable to the Registrant or any of its shareholders for monetary damages arising from the director's breach of fiduciary duty as a director, with certain limited exceptions. Pursuant to the Texas Business Corporation Act (the "Act"), every Texas corporation has the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation or is or was serving in such a capacity at the request of the corporation for another corporation, partnership, joint venture, trust or other enterprise, against any and all expenses, judgments, fines and amounts paid in settlement and reasonably incurred in connection with such action, suit or proceeding. The power to indemnify applies only if such person acted in good faith and in a manner such person reasonably believed to be in the best interests, or not opposed to the best interests, of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense and settlement expenses and not to any satisfaction of a judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct unless the court, in its discretion, believes that in light of all the circumstances indemnification should apply. The Registrant's Articles of Incorporation contain provisions authorizing it to indemnify its officers and directors to the fullest extent permitted by the Act. ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION The estimated expenses of the registration, all of which will be paid by the Company, are as follows: SEC Filing Fee $ 2005 Printing Expenses Accounting Fees and Expenses Legal Fees and Expenses Blue Sky Fees and Expenses ------- TOTAL $ 2005 ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES Common stock - Registrant has sold and issued the shares of common stock described below within the past three years that were not registered under the Act. Effective July 2004, registrant issued 668,688 shares to six individual existing accredited investors. Also effective July 2004, registrant issued 41,688 shares to four accredited individual investors. Effective August 2004, registrant issued 50,000 shares to one individual accredited investor in satisfaction of accounts payable totaling $50,000. Effective August 2004, registrant issued 653,319 shares to 46 individual accredited investors. Effective September 10th, 2004, registrant issued 1,000,000 shares to acquire all issues and outstanding shares of Voipamericas Inc., common stock. Effective September 2004, registrant issued 38,461 shares to one accredited investor. II-1 On November 11, 2004, Registrant issued and sold 1,937,500 shares of common stock, for a purchase price of $0.80 per share, to four accredited investors in a private placement pursuant to Rule 506 of SEC Regulation D, for aggregate proceeds of $1,550,000 (net proceeds of approximately $1,400,000 to Registrant). The investors also received five-year warrants to purchase a total of 589,250 shares for an exercise price of $1.75 per share, and thirty-day warrants to purchase 968,750 shares for an exercise price of $1.20 per share. On November 17, 2004, Registrant issued and sold 312,500 shares of common stock, for a purchase price of $0.80 per share, to one additional accredited investor in a private placement pursuant to Rule 506 of SEC Regulation D, for aggregate proceeds of $250,000 (net proceeds of approximately $225,000 to Registrant). The investor also received five-year warrants to purchase a total of 75,000 shares for an exercise price of $1.75 per share, and thirty-day warrants to purchase 125,000 shares for an exercise price of $1.20 per share. Effective January 2005, registrant issued 187,500 shares of common stock for cash of $328,125. Effective January 2005, registrant issued 312,500 shares of common stock for cash of $375,000. Effective February 2005, registrant issued 812,500 shares of common stock for cash of $975,000. Effective February 2005, registrant issued 750,000 shares of common stock for exchanging warrants issued in August 2004. Effective March 2005, registrant issued 56,650 shares of common stock for services provided to the company. Effective April 2005, registrant issued 166,250 shares of common stock for cash of $125,000. Effective May 2005, registrant issued 93,750 shares of common stock for cash of $75,000. Effective June 2005, registrant issued 1,196,875 shares of common stock for cash of $949,500. Effective June 2005, registrant issued 1,440,000 shares of common stock for services provided to the company. Effective June 2005, registrant issued 16,434,470 shares of common stock for the acquisition of Caerus, Inc. and its subsidiaries. Effective June 2005, registrant issued 1,623,153 shares of common stock for a subsidiary debt conversion. On July 5, 2005, Registrant issued and sold $2,855,381 principal amount of Convertible Notes to five accredited investors, for a purchase price of $2,483,346. All such shares were issued pursuant to exemptions provided by Section 4(2) of the Securities Act of 1933 and Regulation D. Item 27. Exhibits (b) Exhibits (3) 2.1 Stock Contribution Agreement dated May 25, 2004, between Registrant and Steven Ivester (11) 2.2 Agreement and Plan of Merger with Caerus, Inc. dated as of May 31, 2005 (12) 2.3 Asset Purchase Agreement dated as of August 3, 2005, by and between VoIP, Inc. Acquisition Company and WQN, Inc. (1) 3.1.1 Articles of Incorporation (3) 3.1.2 Amendment of Articles of Incorporation (1) 3.2 Bylaws (3) 4.1 Specimen Stock Certificate (14) 5.1 Opinion of Andrews Kurth LLP (3) 10.1 2004 Stock Option Plan (2) 10.2 Stock Purchase Agreement dated February 27, 2004 between Registrant and Steven Ivester (4) 10.3 Stock Purchase Agreement dated June 25, 2004 among Registrant, DTNet Technologies and Marc Moore II-2 (5) 10.4 Stock Purchase Agreement among Carlos Rivas, Albert Rodriguz, Registrant and Vox Consulting Group Inc. (6) 10.5.1 Subscription Agreement (6) 10.5.2 Form of Class A Warrant (6) 10.5.3 Form of Class B Warrant (7) 10.6.1 Stock Purchase Warrant issued to Ivano Angelaftri (7) 10.6.2 Stock Purchase Warrant issued to Ebony Finance (8) 10.7 Net Exercise Agreement with John Todd (9) 10.8 Asset Purchase Agreement dated February 23, 2005 (10) 10.9.1 Subscription Agreement (10) 10.9.2 Form of Class C Warrant (10) 10.9.3 Form of Class D Warrant (10) 10.9.4 Form of Convertible Note (10) 10.9.5 Security Agreement (10) 10.9.6 Security and Pledge Agreement (10) 10.9.7 Guaranty 10.10 Caerus, Inc. Merger Documents dated May 31, 2005: (11) 10.10.1 Option Exchange Agreement (11) 10.10.2 Registration Rights Agreement (11) 10.10.3 Exchange Agreement (11) 10.10.4 Registration Rights Agreement (11) 10.10.5 Consent and Waiver Agreement (11) 10.10.6 Guaranty (11) 10.10.7 Security Agreement (11) 10.10.8 Employment Agreement 10.11 WQN, Inc. Documents dated August 3, 2005: (12) 10.11.1 Warrant (12) 10.11.2 Security Agreement between VoIP, Inc. and WQN, Inc. (12) 10.11.3 Consent, Waiver and Acknowledgement by and among Cedar Boulevard Lease Funding, Inc., VoIP, Inc. and certain subsidiaries of VoIP, Inc. (12) 10.11.4 Third Amendment to Subordinated Loan and Security Agreement by and among Cedar Boulevard Lease Funding, Inc., VoIP, Inc. and certain subsidiaries of VoIP, Inc. (12) 10.11.5 Security Agreement between Cedar Boulevard Lease Funding, Inc. and VoIP Acquisition Company (12) 10.11.6 Guaranty between Cedar Boulevard Lease Funding, Inc. and VoIP Acquisition Company Promissory Note (13) 15.1 Report of Independent Registered Public Accounting Firm regarding unauditer interim financial information (13) 21.1 Subsidiaries of the Registrant (13) 23.1 Consent of Tschopp, Whitcomb and Orr (13) 23.2 Consent of Berkovits Lago & Company, LLP (14) 23.3 Consent of Andrews Kurth LLP (13) 23.4 Consent from Moore Stephens Lovelace, P.A. (1) Filed as exhibits to Registrant's Form 10SB filed January 19, 2000 (2) Filed as exhibit to Form 8-K filed March 3, 2004 (3) Filed as exhibit to Form 8-K filed June 9, 2004 (4) Filed as exhibit to Form 8-K filed July 7, 2001 (5) Filed as exhibit to Form 8-K filed September 16,2004 (6) Filed as exhibit to form 8-K filed November 17, 2004 (7) Filed as exhibit to form 8-K filed December 15, 2004 (8) Filed as exhibit to form 8-K filed February 16, 2005 (9) Filed as exhibit to form 8-K filed March 1, 2005 (10) Filed as exhibit to form 8-K filed June 6, 2005 (11) Filed as exhibit to form 8-K filed July 11, 2005 (12) Filed as exhibit to form 8-K filed August 9, 2005 (13) Filed herewith (14) To be filed by amendment II-3 ITEM 28. UNDERTAKINGS The undersigned Registrant hereby undertakes as follows: (a) (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to: (i) Include any prospectus required by

Section 10(a)(3) of the Securities Act; (ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and (iii) Include any additional or changed material information on the plan of distribution. (2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered and the offering of the securities at that time to be the initial bona fide offering. (3) File a post-effective amendment to remove from registration any of the securities being registered that remain unsold at the end of the offering. II-4 SIGNATURES In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Fort Lauderdale, State of Florida, on August 12, 2005. VOIP, INC. By: /s/ Steven Ivester ---------------------------------- Steven Ivester, President and Chief Executive Officer POWER OF ATTORNEY In accordance with requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated: SIGNATURE TITLE DATE /s/ Steven Ivester Chairman, Chief Executive Officer, August 12, 2005 ---------------------------- Director, and President Steven Ivester /s/ Osvaldo Pitters Chief Financial Officer August 12, 2005 ---------------------------- Osvaldo Pitters II-5