

VOIP INC
Form DEF 14A
February 12, 2007
SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant x

Filed by a party other than the Registrant o

Check the appropriate box:

Preliminary Proxy Statement

o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material pursuant to § 240.14a-12

VoIP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

VoIP, Inc.
151 So. Wymore Rd., Suite 3000
Altamonte Springs, Florida 32714

Notice of Annual Meeting of Shareholders
to be held on March 16, 2007

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of VoIP, Inc., a Texas corporation (the "Company"), will be held on March 16, 2007, at 10:00 a.m., Eastern Standard Time, at the Holiday Inn, 230 W. State Road 436, Altamonte Springs Florida 32714 for the purpose of considering and voting upon the following matters:

1. To approve the election of Anthony Cataldo, Gary Post, Stuart Kosh, and Nicholas A. Iannuzzi, Jr. to the board of directors of the Company to serve for 2007 and until their successors are elected and qualified;
2. To approve the VoIP, Inc. 2006 Equity Incentive Plan;
3. To approve the Amended and Restated Articles of Incorporation of the Company to authorize 25,000,000 shares of preferred stock (which approval does not extend to the approval of any issuances of preferred stock);
4. To approve the Amended and Restated Articles of Incorporation of the Company to increase the number of authorized shares of common stock that the Company is authorized to issue to 400,000,000 shares of common stock (which approval does not extend to the approval of the issuance of any shares of common stock);
5. To consider and act on a proposal to approve the selection of Berkovits, Lago & Company, LLP as the Company's independent auditors for 2006; and
6. To transact such other business as may properly come before the annual meeting and any adjournment or adjournments of the meeting.

The proxies will not be used to vote to adjourn the meeting in order to continue to solicit votes to approve the matters to be voted on. Our board of directors has no knowledge of any other business to be transacted at the annual meeting.

Our board of directors has fixed the close of business on January 16, 2007 as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting and at any adjournment or adjournments of the meeting. Our stock transfer books will remain open.

A copy of our Annual Report on Form 10-KSB, including Amendment No. 2 related thereto, for the fiscal year ended December 31, 2005, and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006, which contains consolidated financial statements and other information of interest to shareholders, accompanies this notice and the enclosed Proxy Statement.

All shareholders are cordially invited to attend the annual meeting.

By Order of the Board of Directors

Robert V. Staats,
Secretary

Altamonte Springs, Florida

February 9, 2007

Your vote is very important. Whether or not you plan to attend the annual meeting, in order to ensure representation of your shares, please promptly complete, date and sign the enclosed proxy card and return it in the accompanying envelope or follow the instructions provided for voting by phone or via the Internet, if applicable. No postage need be affixed if the proxy card is mailed in the United States.

VoIP, INC.
151 So. Wymore Rd., Suite 3000
Altamonte Springs, Florida 32714

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MARCH 16, 2007

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SUMMARY

The Company

VoIP, Inc.

151 So. Wymore Rd., Suite 3000
Altamonte Springs, FL 32714
(407) 389-3232

We are an emerging global provider of advanced communications services utilizing Voice over Internet Protocol (“VoIP”) technology. Internet Protocol telephony is the real time transmission of voice communications in the form of digitized “packets” of information over the Internet or a private network, similar to the way in which e-mail and other data is transmitted. VoIP services allow consumers and businesses to communicate at reduced costs compared to legacy telephony networks. For more information on the Company, see our 2005 Annual Report on Form 10-KSB, as amended, which accompanies this Proxy Statement.

INFORMATION ABOUT SOLICITATION AND VOTING

Solicitation

This Proxy Statement is furnished in connection with the solicitation of proxies by the board of directors of VoIP, Inc. (the “Company”) for use at the Annual Meeting of Shareholders to be held on March 16, 2007 at 10:00 a.m., Eastern Time, at the Holiday Inn, 230 W. State Road 436, Altamonte Springs, Florida 32714 and at any adjournment or adjournments of the annual meeting.

The notice of meeting, this Proxy Statement, the enclosed proxy card, our Form 10-Q for the quarter ended September 30, 2006 and our annual report to shareholders for the year ended December 31, 2005 which includes a copy of our Annual Report on Form 10-KSB for the same fiscal year, as amended, as filed with the Securities and Exchange Commission (the “SEC”), including financial statements and schedules, but excluding exhibits, are first being sent or given to shareholders on or about February 16, 2007. **We will, upon written request of any shareholder who has not otherwise received a copy of our annual report on Form 10-KSB for the fiscal year ended December 31, 2005, furnish without charge a copy of that annual report on Form 10-KSB (including amendments thereto), including financial statements and financial statement schedules, but excluding exhibits, as filed with the SEC. Please address your request to VoIP, Inc., 151 So. Wymore Rd., Suite 3000, Altamonte Springs, FL 32714, Attention: Robert Staats, Chief Accounting Officer. Exhibits will be provided upon written request and payment of an appropriate processing fee.**

INFORMATION ABOUT THE ANNUAL MEETING

WHEN IS THE ANNUAL MEETING?

March 16, 2007, 10:00 a.m. Eastern Standard Time

WHERE WILL THE ANNUAL MEETING BE HELD?

The meeting will be held at the Holiday Inn 230 W. State Road 436, Altamonte, Springs, Florida 32714.

WHAT ITEMS WILL BE VOTED UPON AT THE ANNUAL MEETING?

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At the annual meeting and any adjournment or adjournments of the annual meeting, our shareholders will be asked to consider and vote upon the following matters:

1. To approve the election of Anthony Cataldo, Gary Post, Stuart Kosh and Nicholas A. Iannuzzi, Jr. to the board of directors of the Company to serve for 2007 and until their successors are elected and qualified;
2. To approve the VoIP, Inc. 2006 Equity Incentive Plan;
3. To approve the Amended and Restated Articles of Incorporation of the Company to authorize 25,000,000 shares of preferred stock (which approval does not extend to the approval of any issuances of shares of preferred stock);
4. To approve the Amended and Restated Articles of Incorporation of the Company to increase the number of authorized shares of common stock that the Company is authorized to issue to 400,000,000 shares of common stock (which approval does not extend to the approval of any issuance of any shares of common stock); and

5. To consider and act on a proposal to approve the selection of Berkovits, Lago & Company, LLP as the Company's independent auditors for 2006; and

6. To transact such other business as may properly come before the annual meeting and any adjournment or adjournments of the meeting.

The proxies will not be used to vote to adjourn the meeting in order to continue to solicit votes to approve the matters to be voted on.

WHO CAN VOTE?

Only holders of record of our common stock at the close of business on January 16, 2007 will be entitled to notice of and to vote at the annual meeting and any adjournments of the annual meeting. You are entitled to one vote for each share of common stock held on that date. On January 16, 2007, there were 99,943,034 shares of our common stock outstanding and entitled to vote.

YOUR BOARD OF DIRECTORS HAS APPROVED EACH OF THE PROPOSALS SET FORTH HEREIN.

HOW DO I VOTE BY PROXY?

You may vote your shares by mail by marking, signing and dating the enclosed proxy card as promptly as possible and returning it in the enclosed postage-paid envelope. Proxies should not be sent by the stockholder to the Company, but to Securities Transfer Corporation, P.O. Box 701629, Dallas, Texas 75370. A pre-addressed, postage-paid envelope is provided for this purpose.

For each item of business, you may vote "FOR" or "AGAINST" or you may "ABSTAIN" from voting.

If you return your signed proxy card but do not specify how you want to vote your shares, we will vote them:

- "FOR" the election of the four directors to serve for 2007 and until their successors are elected and qualified;
- "FOR" the approval of the Company's 2006 Equity Incentive Plan;
- "FOR" the approval of the Amended and Restated Articles of Incorporation of the Company to authorize 25,000,000 shares of preferred stock (which approval does not extend to the approval of any issuances of shares of preferred stock);
- "FOR" the approval of the Amended and Restated Articles of Incorporation of the Company to increase the number of shares of common stock that the Company is authorized to issue to 400,000,000 shares of common stock (which approval does not extend to the approval of any issuances of shares of common or preferred stock); and
- "FOR" the approval of the selection of Berkovits, Lago & Company, LLP as the Company's independent auditors for 2006.

If any matters other than those set forth above are properly brought before the annual meeting, the individuals named in your proxy card may vote your shares in accordance with their best judgment.

HOW DO I CHANGE OR REVOKE MY PROXY?

You can change or revoke your proxy at any time before it is voted at the special meeting by:

1. Submitting another proxy by mail with a more recent date than that of the proxy first given;
2. Sending written notice of revocation to VoIP, Inc. 151 So. Wymore Road, Suite 3000, Alamonte Spring, Florida 32714: Attention Robert Staats; or
3. Attending the annual meeting and voting in person. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting.

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WHAT CONSTITUTES A "QUORUM" FOR THE SPECIAL MEETING?

The holders of a majority of the issued and outstanding shares of the Company's common stock entitled to vote at the annual meeting present or represented by proxy, constitutes a quorum. A quorum is necessary to conduct business at the annual meeting. You will be considered part of the quorum if you have voted by proxy. Abstentions, broker non-votes and votes withheld from director nominees count as "shares present" at the annual meeting for purposes of determining a quorum. However, abstentions, withholding of a vote and broker non-votes do not count in the voting results. A broker non-vote occurs when a broker or other nominee who holds shares for another does not vote on a particular item because the broker or nominee does not have discretionary authority for that item and has not received instructions from the owner of the shares.

HOW MANY VOTES ARE REQUIRED?

On January 16, 2007, the record date for determination of shareholders entitled to vote at the annual meeting, there were outstanding and entitled to vote 99,943,034 shares of our common stock. The holders of a majority of our common stock issued and outstanding and entitled to vote at the annual meeting will constitute a quorum for the transaction of business at the annual meeting. Common stock represented in person or by proxy, including abstentions and broker non-votes with respect to one or more of the matters presented for shareholder approval, will be counted for purposes of determining whether a quorum exists at the annual meeting. When we refer to "broker non-votes," we mean common stock held in "street name" by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote the common stock as to a particular matter.

- The election of Anthony Cataldo, Gary Post, Stuart Kosh, and Nicholas A. Iannuzzi, Jr to the board of directors for 2007 will require an affirmative vote of the majority of the votes cast in person or by proxy, provided that a quorum is present at the annual meeting. Therefore, an abstention or withholding of a vote will not be counted for the purpose of determining whether the requisite vote has been obtained and will have no effect on the outcome of the vote.
- The adoption of the 2006 Equity Incentive Plan will require an affirmative vote of the majority of the votes cast in person or by proxy, provided that a quorum is present at the annual meeting. Therefore, an abstention or withholding of a vote will not be counted for the purpose of determining whether the requisite vote has been obtained and will have no effect on the outcome of the vote.
- The proposal to approve the selection of Berkovits, Lago & Company, LLP as the Company's independent auditors for 2006 will require the majority of the votes cast in person or by proxy, provided that a quorum is present at the annual meeting. Therefore, an abstention or withholding of a vote will not be counted for the purpose of determining whether the requisite vote has been obtained and will have no effect on the outcome of the vote.
- The proposal to approve the Amended and Restated Articles of Incorporation to authorize 25,000,000 shares of preferred stock (which approval does not extend to the approval of any issuances of shares of preferred stock) and the proposal to approve the Amended and Restated Articles of Incorporation to increase the number of authorized shares of the Company's common stock to 400,000,000 shares (which approval does not extend to the approval of any issuance of shares of common stock) require the affirmative vote of at least a majority of the Company's outstanding shares of Common Stock. Therefore, any abstentions, "broker non-votes" (shares held by brokers or nominees as to which they have no discretionary authority to vote on a particular matter and have received no instructions from the beneficial owners or persons entitled to vote thereon), or other limited proxies will have the effect of a vote against the proposals to approve the Amended and Restated Articles of Incorporation.

Broker non-votes with respect to a particular matter will not be counted as votes in favor of that matter and will not be counted as votes cast on that matter. Accordingly, broker non-votes will have no effect on the matters specified in the notice of meeting.

DISSENTER'S RIGHT OF APPRAISAL.

No action will be taken in connection with the proposal described in this Proxy Statement for which Texas law, our Articles of Incorporation or Bylaws provide a right of a shareholder to dissent and obtain appraisal of or payment for such shareholder's shares.

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HOUSEHOLDING OF PROXY MATERIALS.

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” Proxy Statements and annual reports. This means that only one copy of this Proxy Statement or our annual report may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy of either document to you if you call or write us at the following address or phone number: VoIP, Inc., 151 So. Wymore Rd., Suite 3000, Altamonte Springs, FL 32714, phone: (407) 389-3232, Attention: Robert Staats. If you want to receive separate copies of our annual report and Proxy Statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

SHAREHOLDER PROPOSALS FOR THE ANNUAL MEETING IN 2008.

Written notice of proposals of shareholders submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), for consideration at our annual meeting of shareholders in 2008 must be received by us within a reasonable time before the Company begins to print and mail the Proxy Statement in order to be considered timely for purposes of Rule 14a-8 under the Exchange Act. The persons designated in our proxy card will be granted discretionary authority with respect to any shareholder proposal with respect to which we do not receive timely notice. Shareholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in our proxy materials for our annual meeting of shareholders in 2008 must be received by our corporate secretary at our principal offices by December 31, 2007.

OTHER MATTERS.

Our board of directors knows of no other business which will be presented for consideration at the annual meeting other than those matters described above. However, if any other business should come before the annual meeting, it is the intention of the person named in the enclosed proxy card to vote, or otherwise act, in accordance with his best judgment on such matters.

WHO PAYS FOR THE SOLICITATION OF PROXIES?

We will bear the costs of soliciting proxies. In addition to solicitations by mail, our directors, officers and employees may, without additional remuneration, solicit proxies by telephone, facsimile and personal interviews. We will reimburse these persons for their reasonable expenses in connection with any of these solicitations. In addition, we will request brokerage houses, custodians, nominees and fiduciaries to forward copies of the proxy materials to those persons for whom they hold shares and request instructions for voting the proxies, and we will reimburse brokerage houses and other persons for their reasonable expenses in connection with this distribution.

**PROPOSAL NO. ONE:
APPROVAL OF THE ELECTION OF DIRECTORS**

(ITEM ONE ON THE PROXY CARD)

Our board of directors presently consists of three directors. After the annual meeting, we expect that our board of directors will consist of four directors elected annually for a one year term. The persons named in the enclosed proxy will vote to elect as directors Mr. Anthony Cataldo, Mr. Gary Post, Mr. Stuart Kosh and Mr. Nicholas A. Iannuzzi, Jr., unless the proxy is marked otherwise. The directors will be elected at the upcoming annual meeting and will serve until the annual meeting of shareholders to be held in fiscal year 2008 and until their respective successors have been elected and qualified.

Each of the nominees has indicated his willingness to serve if elected. However, if any nominee should be unable to serve, the person acting under the proxy may vote the proxy for a substitute nominee. Our board of directors has no reason to believe that any nominee will be unable to serve if elected.

Current Members of the Board

The Board of Directors

Each member of our board of directors, including the nominees for election as director, have provided the following information: age; all positions or offices, including committee memberships held; length of service as a director of the Company; principal occupation and business experience for at least the past five years; and the names of other public reporting companies of which the director serves as a director.

The members of our board of directors are identified below.

Name	Age	Position with Company	Director Since
Anthony Cataldo	55	Chairman and Chief Executive Officer	September 2006
Gary Post	58	Director	May 2006
Stuart Kosh	50	Director	January 2006

There are no family relationships among any of our directors, nominees for director and executive officers.

Nominees for Election to the Board of Directors

The nominees for election to our board are listed below.

Anthony J. Cataldo, age 55, became our Chief Executive Officer and Chairman in September 2006. During the past five (5) years, Mr. Cataldo has served as non-executive chairman of the board of directors of BrandPartners Group, Inc. (OTC BB:BPTR), a provider of integrated products and services dedicated to providing financial services and traditional retail clients with turn-key environmental solutions from October 2003 through August 2006. Mr. Cataldo also served as non-executive co-chairman of the board of MultiCell Technologies, Inc. (OTC BB: MUCL), a supplier of functional, non-tumorigenic immortalized human hepatocytes from February 2005 through July 2006. Mr. Cataldo has also served as executive chairman of Calypte Biomedical Corporation (AMEX: HIV), a publicly traded biotechnology company, involved in the development and sale of urine based HIV-1 screening tests from May 2002

through November 2004. Prior to that, Mr. Cataldo served as the Chief Executive Officer and Chairman of the Board of Directors of Miracle Entertainment, Inc., a Canadian film production company, from May 1999 through May 2002 where he was the executive producer or producer of several motion pictures. From August 1995 to December 1998, Mr. Cataldo served as President and Chairman of the Board of Senetek, PLC (OTC BB:SNTKY), a publicly traded biotechnology company involved in age-related therapies.

Gary Post, age 58, became our President, Chief Executive Officer and Chairman in May 2006 and served in this capacity until September 2006. Mr. Post continues to serve on our board of directors. Since 1999, Mr. Post has been a Managing Director and investment Principal of Ambient Advisors, LLC (“Ambient”), a venture investment and management company. In his capacity as Managing Director at Ambient, Mr. Post has acted as an interim Chief Executive Officer and/or a director for two private early- to mid-stage companies in which Ambient had invested since April 2002, and at OPMI Funding, Inc., a company that acquired in July 2002 the assets of Opticon Medical, Inc., a public medical device company. Since March 2006, he has also been a director of Oxis International, Inc. (OXIS:BB). Prior to Ambient, he served as First Vice President at Drexel Burnham Lambert; Vice President at Kidder Peabody; Managing Director at Houlihan, Lokey, Howard and Zukin; and Director of Research and Consultant at McKinsey & Company. Mr. Post holds an MBA from the UCLA Graduate School of Management and an AB in Economics from Stanford University.

Stuart Kosh, age 50, moved to Florida in 1978 to join his father and brother at Kosh Ophthalmic, Inc., a wholesale optical laboratory with annual sales of \$15 million, where he managed 100 employees. In 1998, the company was sold to Essilor of America, and Mr. Kosh maintains his position as General Manager. His leadership roles have included involvement with the Big Brothers Big Sisters Program of Broward County as a mentor to needy youth. For the past 15 years, Mr. Kosh has been involved with the National Multiple Sclerosis Society. He has served on its board and chairs its annual golf tournament fundraiser. Presently he is serving on the Temple Dor Dorim Board of Directors.

Nicholas A. Iannuzzi, Jr., age 40, is a partner in the law firm of Rothenberg, Estner, Orsi, Arone and Grumbach, LLP of Wellesley, Massachusetts, where he has worked since 2002. From 1997 to 2002, Mr. Iannuzzi maintained his own law practice in Boston, Massachusetts. Mr. Iannuzzi specializes in the areas of corporate and contract law, civil litigation and real estate. He serves as general counsel to numerous corporations and has advised his clients on various business matters and transactions, including major acquisitions and sales of businesses. Mr. Iannuzzi is a graduate of Boston College and received his J.D. from the Suffolk University Law School.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" APPROVAL OF THE PROPOSAL TO ELECT ALL OF THE NOMINEES TO THE BOARD OF DIRECTORS.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS' MATTERS

Board of Directors and Committee Meetings; Committees of the Board

During the fiscal year ended December 31, 2004 and through October 2005, Mr. Steven Ivester was the sole director of the Company; consequently, formal board and committee meetings were not held during that time. One formal meeting of the board of directors was held in December 2005. During the fiscal year ending December 31, 2006, there were six board meetings.

Because Mr. Ivester was the only director of the Company, he performed the functions of the audit committee. Mr. Ivester was not an "audit committee financial expert," as defined by the SEC. Upon identification of the requisite number of suitable candidates, the Company plans to establish an audit committee of independent directors. During the fiscal years ended December 31, 2004 and 2005, the Company did not have a standing compensation or nominating committee. Existing board of directors members participate in the selection of director nominees, with the general objective of achieving a balance of experience, knowledge, integrity and capability on the board. A nominating committee is not considered necessary due to the small size of the company and of our board.

Upon election of the nominees for director, the Company plans to establish a compensation committee consisting of two or more independent directors. The compensation committee will operate pursuant to a written charter. Upon the election of the nominees for director, the Company plans to establish an audit committee consisting of two or more independent directors. The audit committee will operate pursuant to a written charter.

We do not presently have a policy with respect to attendance by the directors at the annual meetings of shareholders.

Procedures for Director Nominations

Neither our Articles of Incorporation nor our Bylaws contain any procedures whereby shareholders may recommend nominees for director. We do not pay and do not anticipate paying any fees to third parties for identifying or evaluating candidates for director.

Communications with Directors

Our board of directors does not provide a formal process by which shareholders may send communications to the board of directors. The Company does not at this time anticipate instituting such a process. However, shareholders may communicate with us or request information at any time by contacting Robert Staats, Chief Accounting Officer, at (407) 389-3232.

Compensation of Directors

In connection with their service on our board of directors, each non-employee director elected by the shareholders will receive 300,000 shares of our common stock per year. Also, each non-employee director receives \$2,500 per board meeting or board committee meeting attended either by telephone or personally.

Code of Ethics

At the board of directors meeting following the annual meeting, it is anticipated that we will adopt a Code of Business Conduct and Ethics, within the meaning of Item 406(b) of Regulation S-K that applies to the Company's directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Upon adoption, a complete copy of the proposed Code of Ethics will be posted at our website at www.voipincorporated.com under "Investor Info." Any amendments to, or waivers of, the Code of Ethics will be promptly disclosed on our website.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Beneficial Ownership

The following table sets forth information as of February 5, 2007, except as otherwise noted, with respect to the beneficial ownership of our common stock and is based on 99,943,034 shares of common stock issued and outstanding as of February 5, 2007:

- Each person known by the Company to own beneficially more than five percent of our outstanding common stock;
- Each director and prospective director of the Company;
- The Company's Chief Executive Officer and each person who serves as an executive officer of the Company; and
- All executive officers and directors of the Company as a group.

The number of shares beneficially owned by each shareholder is determined under rules promulgated by the SEC. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and any shares as to which the individual has the right to acquire beneficial ownership within 60 days, except as otherwise noted, through the exercise or conversion of any stock option, warrant, preferred stock or other right. The inclusion in the following table of those shares, however, does not constitute an admission that the named shareholder is a direct or indirect beneficial owner of those shares. Unless otherwise indicated, to our knowledge based upon information produced by the persons and entities named in the table, each person or entity named in the table has sole voting power and investment power, or shares voting and/or investment power with his or her spouse, with respect to all shares of capital stock listed as owned by that person or entity.

The address for each of our officers and directors is c/o VoIP, Inc., 151 South Wymore Road, Suite 3000, Altamonte Springs, Florida 32714.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (1)	Ownership of Common Stock (1,2)
WQN, Inc. (3) 14911 Quorum Drive, Suite 140 Dallas, Texas 75240	20,949,241	18.2%
Nicholas Iannuzzi**	7,355	*
Stuart Kosh (4)	2,009,727	2.0%
Shawn Lewis (5)	7,035,857	6.9%
Gary Post (6)	3,300,000	3.2%
Robert Staats (7)	275,000	*
Anthony Cataldo (5)	-	*
All directors and executive officers as a group (5 persons) (8)	12,620,584	11.9%

* Less than one percent.

** Director nominee.

- (1) The Company has issued 99,943,034 shares of common stock; and a total of 100,000,000 shares are authorized. Additional assumed issuances of common stock resulting from the exercise of options and/or warrants and/or the conversion of debt are subject to the authorized limit.
- (2) Based upon 99,943,034 shares of common stock issued and outstanding as of February 5, 2007.
- (3) Consists of 5,787,429 shares of common stock and 15,161,812 shares issuable upon conversion of a convertible promissory note. Conversion shares were calculated by dividing (i) the sum of the note principal of \$3,700,000 and interest at 6% from 1/3/06 through 2/5/07 by (ii) the effective common share conversion price of \$0.26 per share.
- (4) Consists of (a) 1,347,227 shares of common stock; (b) currently exercisable options to purchase 156,250 shares of common stock; and (c) warrants to purchase 506,250 shares of common stock.
- (5) As previously disclosed, on September 14, 2006, VoIP, Inc. ("the Company") entered into employment agreements with Anthony J. Cataldo, the Company's Chairman and Chief Executive Officer, and Shawn Lewis, the Company's Chief Operating and Technology Officer. These agreements provided for, among other things, the award of 10,000,000 stock options each to Messrs. Cataldo and Lewis upon sufficient underlying shares of common stock being authorized and available. The options were to be exercisable to purchase 10,000,000 shares of the Company's common stock each for Messrs. Cataldo and Lewis at an exercise price of \$0.01 per share for a period of five (5) years. The options were to contain a cashless exercise provision and cost free piggyback registration rights with respect to the common stock underlying the options. Messrs. Cataldo and Lewis were also to receive sufficient additional options under the same terms to assure that they have the right to exercise options to maintain a minimum of 5% and 8% beneficial ownership, respectively, of the Company's issued and outstanding common stock.

A number of the Company's current financing agreements contain "favored nations" provisions that require convertible debt conversion prices and stock warrant exercise prices to be repriced (reduced) in the event that, among other things, options are granted at exercise prices less than the Company's quoted common stock market price at grant date. However, these favored nations repricing provisions are not triggered upon issuing employee stock grants. Accordingly, in lieu of the stock options to be granted to Messrs. Cataldo and Lewis, the Board of Directors on January 24, 2007 resolved to issue stock grants for 10,000,000 common shares each, subject to sufficient increased shares of common stock being authorized and available for issuance, which will require shareholder approval. The stock grants are to have the same 5% and 8% anti-dilution provisions and piggyback registration rights as the options were to have.

Accordingly, these shares are not included with the shares, if any, reported as beneficially owned herein.

- (6) Consists of (a) 300,000 shares of common stock; and (b) warrants to purchase 3,000,000 shares of common stock.
- (7) Consists of warrants to purchase 125,000 shares of common stock and currently exercisable options to purchase 150,000 shares of common stock.
- (8) Represents the combined beneficial ownership as of February 5, 2007, of the executive officers and the Company's three directors (a total of five persons).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and holders of more than 10% of our common stock to file with the SEC reports of their ownership and changes in ownership of our securities. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. To our knowledge, based solely on a review of the copies of such reports and written representations that no other reports were required, we believe that all filing requirements applicable to our officers, directors and greater than 10% shareholders were satisfied during the years ended December 31, 2005, except as noted below:

Seventeen (17) Forms 4 required under Section 16(a) were filed late by Mr. Steven Ivester, and Mr. Ivester noted in reports filed by him that he had realized certain “short swing profits,” all of which have been repaid to the Company. Two Forms 4 were filed late by Mr. Bill Burbank; one Form 4 was filed late by Mr. David Sasnett; and one Form 4 was filed late by Mr. John Todd. In addition, Forms 3 were filed late by each of Mr. Gary Post, Mr. David Ahn, Mr. Robert Staats, Mr. Bill Burbank, Mr. David Sasnett, and WQN, Inc.

MANAGEMENT**Executive Officers of the Registrant**

The following table sets forth information concerning our executive officers and directors as of the periods set forth below:

Name	Age	Position with Company	Dates
Anthony Cataldo	55	Chairman and Chief Executive Officer	September 2006 to present
Shawn M. Lewis	38	Chief Operating Officer; Chief Technology Officer	May 2005 to present
Robert V. Staats	52	Chief Accounting Officer	May 2006 to present

Anthony J Cataldo. Please see Mr. Cataldo's biography on page 5.

Shawn M. Lewis oversees all of our technological and engineering activities. Mr. Lewis founded and was the President and CEO of Caerus, Inc. and its three subsidiaries, Volo Communications, Inc., Caerus Networks, Inc., and Caerus Billing & Mediation, Inc. from 2001 to 2005. We acquired Caerus, Inc. in May 2005 at which time Mr. Lewis became our Chief Technology Officer. Mr. Lewis also became our Chief Operating Officer in July 2006. Prior to Caerus, Mr. Lewis co-founded XCOM Technologies, a competitive local exchange carrier, where he served in an executive capacity and led the development of patents for the first softswitch and SS7 Media Gateway. XCOM Technologies was sold to Level 3 in 1998. His next venture, set-top box vendor River Delta, was sold to Motorola. His most recent venture, Caerus, Inc., empowers carriers and service providers to begin selling advanced Voice over Internet Protocol related services. In 2004, Mr. Lewis pled guilty to a felony drug possession offense and received probation. Mr. Lewis was recently engaged in a Chapter 11 bankruptcy in Orlando, Florida.

Robert V. Staats has been the Director of Finance of the Company's Caerus, Inc. unit since June 2005 and became our Chief Accounting Officer in May 2006. Mr. Staats brings 30 years of financial management experience to the Company including during the past six years, CFO or Controller responsibilities at three startup telecommunications companies (including the Company). From 1996 to 2000, Mr. Staats was the Director, Finance with the telecommunications company Electric Lightwave, Inc. Before that at PacifiCorp (then a \$3.4 billion company) he was Director of Financial Reporting and Accounting, responsible for consolidated financial statements and SEC reporting. Mr. Staats also has five years' experience with KPMG Peat Marwick. He graduated with high honors from the University of Washington with a bachelor's degree in Accounting and is a member of the Washington Society of Certified Public Accountants and the American Society of Certified Public Accountants. Mr. Staats was recently engaged in a Chapter 13 bankruptcy in Orlando, Florida.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The objectives of our compensation program are as follows:

- reward performance that drives substantial increases in shareholder value, as evidenced through both future operating profits and increased market price of our common shares; and
- attract, hire and retain well qualified executives given our competitive industry, startup nature, and risk profile.

The compensation level of our Chief Executive Officer (“CEO”) and our Chief Operating Officer (“COO”) in general is higher than other Company executives, and reflects the CEO’s and COO’s unique position and incentive to positively affect our future operating performance and shareholder value. Our CEO’s and COO’s compensation is heavily weighted toward equity compensation, primarily through stock grants, to provide a relatively strong personal economic incentive for these executives to increase the market price of our common shares. Specific salary and bonus levels, as well as the amount and timing of equity incentive grants, are determined informally and judgmentally, on an individual-case basis, taking into consideration each executive’s unique talents and experience as they relate to the needs of the Company. Specific Company performance measures as they may relate to the timing and amount of executive compensation have not yet been developed. Executive compensation is primarily paid or granted pursuant to each executive’s formal compensation agreement, but relatively small discretionary cash compensation is awarded at times on an individual-case basis. Compensation adjustments are made occasionally based on changes in an executive’s level of responsibility or on changed local and specific executive employment market conditions.

Our current employment agreements with our CEO, COO and Chief Accounting Officer (“CAO”) contain provisions for lump sum payments in the event their employment is involuntarily terminated without defined cause. In addition, our

CEO's employment agreement contains a provision for a lump sum payment in the event his employment is voluntarily terminated for good cause, as defined. For our CEO and COO, these lump sum payments would equal any earned but unpaid salary and bonus, unearned and unpaid bonus to the end of the contract term, plus the greater of unearned and unpaid salary to the end on the contract term or six months of salary. For our CAO, this lump sum payment would equal \$75,000.

While our executives are involved in negotiating their own employment agreements, such agreements are approved by our board of directors.

As previously disclosed, on September 14, 2006, VoIP, Inc. ("the Company") entered into employment agreements with Anthony J. Cataldo, the Company's Chairman and Chief Executive Officer, and Shawn Lewis, the Company's Chief Operating and Technology Officer. These agreements provided for, among other things, the award of 10,000,000 stock options each to Messrs. Cataldo and Lewis upon sufficient underlying shares of common stock being authorized and available. The options were to be exercisable to purchase 10,000,000 shares of the Company's common stock each for Messrs. Cataldo and Lewis at an exercise price of \$0.01 per share for a period of five (5) years. The options were to contain a cashless exercise provision and cost free piggyback registration rights with respect to the common stock underlying the options. Messrs. Cataldo and Lewis were also to receive sufficient additional options under the same terms to assure that they have the right to exercise options to maintain a minimum of 5% and 8% beneficial ownership, respectively, of the Company's issued and outstanding common stock.

A number of the Company's current financing agreements contain "favored nations" provisions that require convertible debt conversion prices and stock warrant exercise prices to be repriced (reduced) in the event that, among other things, options are granted at exercise prices less than the Company's quoted common stock market price at grant date. However, these favored nations repricing provisions are not triggered upon issuing employee stock grants. Accordingly, in lieu of the stock options to be granted to Messrs. Cataldo and Lewis, the Board of Directors on January 24, 2007 resolved to issue stock grants for 10,000,000 common shares each, subject to sufficient increased shares of common stock being authorized and available for issuance, which will require shareholder approval. The stock grants are to have the same 5% and 8% anti-dilution provisions and piggyback registration rights as the options were to have.

The following table sets forth information with respect to the compensation for the year ended December 31, 2006 of our principal executive officers and principal financial officers during 2006, and each person who served as an executive officer of our Company as of December 31, 2006.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards ⁽¹⁾	All Other Compensation	Total
Anthony Cataldo ⁽²⁾ <i>Chairman and Chief Executive Officer</i> <i>(Principal Executive Officer)</i>	2006	\$ 83,333	\$ 23,750	\$ -	\$ -	\$ 6,000	\$ 113,083
Shawn M. Lewis ⁽³⁾ <i>Chief Operating Officer;</i> <i>Chief Technology Officer</i>	2006	214,584	64,808	1,080,000	-	35,429	1,394,821
Robert V. Staats ⁽⁴⁾ <i>Chief Accounting Officer</i> <i>(Principal Financial Officer)</i>	2006	132,597	5,692	-	133,000	-	271,289

Gary Post ⁽⁵⁾ <i>Former President, Chief Executive Officer and Chairman</i> ⁽⁶⁾	2006	72,668	-	300,000	930,000	241,672	1,544,340
Michael Adler <i>Former Chairman and Chief Executive Officer</i> ⁽⁷⁾	2006	60,923	-	-	-	-	60,923
David Sasnett <i>Former Chief Financial Officer</i> ⁽⁸⁾	2006	54,375	-	-	-	-	54,375

- (1) Includes awards of stock warrants where applicable. Values are computed in accordance with Statement of Financial Accounting Standards number 123R.
- (2) Mr. Cataldo's 2006 salary and bonus represent the contractual monthly amounts (\$20,833 and \$5,000, respectively) earned since September 2006, plus a discretionary bonus of \$3,750. All Other Compensation represents Mr. Cataldo's monthly vehicle allowance since September 2006. Mr. Cataldo's employment agreement is effective through September 2009, and will thereafter automatically renew for successive one-year periods unless either party provides a 90-day notice of termination. See Compensation Discussion and Analysis for a description of certain stock options and stock grants pertaining to Mr. Cataldo. Since those stock options were not granted, they are not reflected in the Summary Compensation Table.
- (3) Mr. Lewis' 2006 salary and bonus represent his contractual monthly amounts (\$20,833 and \$5,000, respectively, since September 2006) earned, plus a discretionary bonus of \$4,808. On November 8, 2006, Mr. Lewis was granted options to purchase 3,000,000 common shares at \$0.36 per share (closing market price at the grant date). On November 9, 2006, the Company settled Mr. Lewis' claims against the Company for alleged breaches of his employment agreement, and for nonregistration of the Company's common shares he holds pursuant to the Caerus merger agreement dated May 31, 2005, for \$1,080,000. Also on November 9, 2006, Mr. Lewis exercised his options to purchase 3,000,000 common shares, and the \$1,080,000 proceeds were credited toward the settlement of his claims. All Other Compensation represents Mr. Lewis' \$1,500 monthly vehicle allowance since July 2006, plus discretionary expense reimbursement treated as compensation. Mr. Lewis' employment agreement is effective through September 2009. See Compensation Discussion and Analysis for a description of certain stock options and stock grants pertaining to Mr. Lewis. Since those stock options were not granted, they are not reflected in the Summary Compensation Table.
- (4) Mr. Staats' 2006 salary (\$11,667 per month at December 31, 2006, increasing to \$12,917 in January 2007) represents his contractual monthly amounts earned. His bonus amount was discretionary. Mr. Staats' employment agreement also provides for the award of 100,000 options and 100,000 warrants, subject to approval by the Company's Board of Directors. The options and warrants will each be exercisable to purchase 100,000 shares of the Company's common stock at \$1.02 a share until May 2011, and were valued at a combined \$133,000 in May 2006. Mr. Staats' employment agreement is effective through May 2009, and will thereafter automatically renew for successive one-year periods unless terminated at least 90 days prior to the expiration of each current existing twelve-month period. Mr. Staats may terminate his employment agreement upon 30 days' prior notice.
- (5) Mr. Post's 2006 salary represents his contractual monthly amount earned from May to September 2006. Subject to approval by the Company's board of directors, Mr. Post's employment agreement provides for the issuance of 300,000 common shares, then valued at \$300,000. Mr. Post's employment agreement also provided for the award

of options and warrants to purchase a total of 3,000,000 shares of the Company's common stock at \$1.00 a share until May 2011. On December 12, 2006 these options and warrants were converted to warrants to purchase 3,000,000 of the Company's common shares at \$0.475 per share, exercisable until December 2016. These new warrants were valued at \$930,000. Mr. Post's employment agreement also provides for certain post-employment compensation totaling approximately \$241,672, listed under All Other Compensation.

- (6) Mr. Post resigned his position as President, Chief Executive Officer and Chairman in September, 2006.
- (7) Mr. Adler resigned his position as Chairman and Chief Executive Officer in May 2006.
- (8) Mr. Sasnett resigned his position as Chief Financial Officer in May 2006.

Outstanding Equity Awards at Fiscal Year-End

Name and Principal Position	Option and Warrant Awards		Option or Warrant Exercise Price	Option or Warrant Expiration Date
	Number of Securities Underlying Unexercised Options and Warrants Exercisable	Unexercisable		
Anthony Cataldo ⁽¹⁾ <i>Chairman and Chief Executive Officer (Principal Executive Officer)</i>				
Shawn M. Lewis ⁽²⁾ <i>Chief Operating Officer; Chief Technology Officer</i>				
Robert V. Staats <i>Chief Accounting Officer</i>	190,625 62,500	59,375 ⁽⁹⁾ 38,500 ⁽⁹⁾	\$ 1.02 \$ 1.12	5/17/11 6/3/10
Gary Post ⁽³⁾ <i>Former President, Chief Executive Officer and Chairman</i> ⁽⁶⁾	3,000,000	-	\$ 0.475	12/12/16
Michael Adler ⁽⁴⁾ <i>Former Chairman and Chief Executive Officer</i> ⁽⁷⁾	500,000 500,000	- -	\$ 1.56 \$ 1.50	10/18/10 10/18/10
David Sasnett ⁽⁵⁾ <i>Former Chief Financial Officer</i> ⁽⁸⁾	450,000		\$ 1.53	10/18/10

(1) See Compensation Discussion and Analysis for a description of certain stock options and stock grants pertaining to Mr. Cataldo. Since those stock options were not granted, they are not reflected in the Outstanding Equity Awards at Fiscal Year-End table.

(2) See Compensation Discussion and Analysis for a description of certain stock options and stock grants pertaining to Mr. Lewis. Since those stock options were never granted, they are not reflected in the Outstanding Equity Awards at Fiscal Year-End table.

(3) Mr. Post's employment agreement provided for the award of options and warrants to purchase a total of 3,000,000 shares of the Company's common stock at \$1.00 a share until May 2011. On December 12, 2006 these options and warrants were converted to warrants to purchase 3,000,000 of the Company's common shares at \$0.475 per share, exercisable until December 2016.

(4) Mr. Adler's options and warrants were issued in 2005 in conjunction with his employment agreement.

(5) Mr. Sasnett's warrants were issued in 2005 in conjunction with his employment agreement.

- (6) Mr. Post resigned his position as President, Chief Executive Officer and Chairman in September, 2006.
- (7) Mr. Adler resigned his position as Chairman and Chief Executive Officer in May, 2006.
- (8) Mr. Sasnett resigned his position as Chief Financial Officer in May, 2006.
- (9) Mr. Staats' remaining 59,375 and 38,500 options vest ratably until May 2009 and June 2008, respectively.

Option Exercises and Stock Vested

Name and Principal Position	Option Awards ⁽¹⁾		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Anthony Cataldo <i>Chairman and Chief Executive Officer (Principal Executive Officer)</i>	-	\$ -	-	\$ -
Shawn M. Lewis ⁽²⁾ <i>Chief Operating Officer; Chief Technology Officer</i>	3,000,000	\$ -	-	\$ -
Robert V. Staats <i>Chief Accounting Officer</i>	-	\$ -	-	\$ -
Gary Post ⁽³⁾ <i>Former President, Chief Executive Officer and Chairman ⁽⁴⁾</i>	-	\$ -	300,000	\$ 300,000
Michael Adler <i>Former Chairman and Chief Executive Officer ⁽⁵⁾</i>	-	\$ -	-	\$ -
David Sasnett <i>Former Chief Financial Officer ⁽⁶⁾</i>	-	\$ -	-	\$ -

(1) Includes awards of stock warrants, where applicable. Values are computed in accordance with Statement of Financial Accounting Standards No. 123R.

(2) On November 8, 2006, Mr. Lewis was granted options to purchase 3,000,000 common shares at \$0.36 per share (closing market price at the grant date). On November 9, 2006, the Company settled Mr. Lewis' claims against the Company for alleged breaches of his employment agreement, and for nonregistration of the Company's common shares he holds pursuant to the Caerus merger agreement dated May 31, 2005, for \$1,080,000. Also on November 9, 2006, Mr. Lewis exercised his options to purchase 3,000,000 common shares, and the \$1,080,000 proceeds were credited toward the settlement of his claims.

(3) Subject to approval by the Company's board of directors, Mr. Post's employment agreement provides for the issuance of 300,000 common shares, then valued at \$300,000.

(4) Mr. Post resigned his position as President, Chief Executive Officer and Chairman in September, 2006.

(5) Mr. Adler resigned his position as Chairman and Chief Executive Officer in May, 2006.

(6) Mr. Sasnett resigned his position as Chief Financial Officer in May, 2006.

Director Compensation

Name of Director	Stock Awards
Anthony Cataldo	\$ -
Gary Post ⁽¹⁾	\$ 105,000
Stuart Kosh ⁽¹⁾	\$ 105,000

⁽¹⁾ On December 12, 2006 non-employee directors were each awarded 300,000 of the Company's common shares, subject to sufficient authorized shares being approved by shareholders, as annual board member compensation. The fair value of the stock awards was based on the Company's closing common stock price of \$0.35 per share on the grant date.

The Company's current Stock Option Plan (the "2004 Option Plan") provides for the grant to eligible employees and directors of options for the purchase of common stock. The 2004 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 2004 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.

The board of directors administers and interprets the 2004 Option Plan and is authorized to grant options thereunder to all eligible employees of the Company, including officers. The board of directors designates the optionees, the number of shares subject to the options and the terms and conditions of each option. Each option granted under the 2004 Option Plan must be exercised, if at all, during a period established in the grant which may not exceed 10 years from the later of the date of grant or the date first exercisable. An optionee may not transfer or assign any option granted and may not exercise any options after a specified period subsequent to the termination of the optionee's employment with the Company.

The board of directors is proposing a new equity incentive plan. See PROPOSAL NO. TWO.

Employment, Change of Control and Severance Arrangements

In September 2006, we entered into an employment agreement with Mr. Cataldo, our Chairman and Chief Executive Officer. The Agreement is for a term of three (3) years and provides for, among other things: (i) annual base compensation to Mr. Cataldo of \$250,000, (ii) a monthly vehicle allowance of \$1,500, and (iii) a quarterly bonus of \$15,000. The agreement also provided for the award of 10,000,000 stock options to Mr. Cataldo upon sufficient underlying shares of common stock being authorized and available. The options were to be exercisable to purchase 10,000,000 shares of the Company's common stock at an exercise price of \$0.01 per share for a period of five (5) years. The options were to contain a cashless exercise provision and cost free piggyback registration rights with respect to the common stock underlying the options. Mr. Cataldo was also to receive sufficient additional options under the same terms to assure that he has the right to exercise options to maintain a minimum of 5% beneficial ownership of the Company's issued and outstanding common stock. A number of the Company's current financing agreements contain "favored nations" provisions that require convertible debt conversion prices and stock warrant exercise prices to be repriced (reduced) in the event that, among other things, options are granted at exercise prices

less than the Company's quoted common stock market price at grant date. However, these favored nations repricing provisions are not triggered upon issuing employee stock grants. Accordingly, in lieu of the stock options to be granted to Mr. Cataldo, the Board of Directors on January 24, 2007 resolved to issue stock grants for 10,000,000 common shares, subject to sufficient increased shares of common stock being authorized and available for issuance, which will require shareholder approval. The stock grants are to have the same 5% anti-dilution provision and piggyback registration rights as the options were to have.

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In May 2006, we entered into an employment agreement with Mr. Lewis, the Company's Chief Technology Officer. This agreement was modified in July 2006 to add the title Chief Operating Officer, and the initial term was extended to December 31, 2007 (unless terminated earlier pursuant to its terms). Mr. Lewis receives an annual salary of \$200,000, a monthly car allowance of \$1,500, and is eligible to participate in the Company's various benefit plans that are available to other executive officers of the Company. Mr. Lewis is also eligible to receive performance-based stock options under the Company's stock option plan, based on the Company's profitability and other measures as determined by the board of directors and Mr. Lewis. Mr. Lewis will be entitled to receive severance payments if his employment is terminated in certain circumstances, including in connection with a change of control of the Company. The employment agreement contains customary confidentiality and non-competition covenants. In September 2006, we entered into an amended employment agreement with Mr. Lewis, whereby the term of Mr. Lewis' agreement was extended for a period of three (3) years from the effective date of the Amended Agreement, and provided for an increase in annual base compensation from \$200,000 to \$250,000. The agreement also provided for the award of 10,000,000 stock options to Mr. Lewis upon sufficient underlying shares of common stock being authorized and available. The options were to be exercisable to purchase 10,000,000 shares of the Company's common stock at an exercise price of \$0.01 per share for a period of five (5) years. The options were to contain a cashless exercise provision and cost free piggyback registration rights with respect to the common stock underlying the options. Mr. Lewis was also to receive sufficient additional options under the same terms to assure that he has the right to exercise options to maintain a minimum of 8% beneficial ownership of the Company's issued and outstanding common stock. A number of the Company's current financing agreements contain "favored nations" provisions that require convertible debt conversion prices and stock warrant exercise prices to be repriced (reduced) in the event that, among other things, options are granted at exercise prices less than the Company's quoted common stock market price at grant date. However, these favored nations repricing provisions are not triggered upon issuing employee stock grants. Accordingly, in lieu of the stock options to be granted to Mr. Lewis, the Board of Directors on January 24, 2007 resolved to issue stock grants for 10,000,000 common shares, subject to sufficient increased shares of common stock being authorized and available for issuance, which will require shareholder approval. The stock grants are to have the same 8% anti-dilution provision and piggyback registration rights as the options were to have.

In May 2006 we entered into an employment agreement with Gary Post who became our President, Chief Executive Officer and Chairman and served in this capacity until September 2006. During his employment with the Company Mr. Post served under an employment agreement. The employment agreement was for a term of three years (unless terminated earlier pursuant to its terms) and provided for a salary of \$16,667 per month through December 31, 2006, increasing to \$18,000 per month on January 1, 2007. Upon execution of the agreement, Mr. Post was issued 300,000 shares of restricted common stock, warrants to purchase 1,500,000 shares of the Company's common stock at a purchase price of \$1.00 per share, and non-qualified stock options to purchase 1,500,000 shares at \$1.00 per share. On December 12, 2006 these options and warrants were converted to warrants to purchase 3,000,000 of the Company's common shares at \$0.475 per share, exercisable until December 2016.

In May 2006 we entered into an employment agreement with Robert Staats who became our Chief Accounting Officer. The agreement is for a term of three years (unless terminated earlier pursuant to its terms). Mr. Staats receives a salary of \$11,667 per month through December 31, 2006, increasing to \$12,917 per month on January 1, 2007. Upon execution of the agreement, Mr. Staats was issued options to purchase 100,000 shares of the Company's common stock at a purchase price equal to \$1.02 per share, and 150,000 warrants issued ratably over the six months following execution of the agreement at prices equal to the closing price of the common stock at the end of each such month. Mr. Staats will also be able to receive option grants on a yearly basis, as determined by the board of directors. Mr. Staats is eligible to participate in the Company's various benefit plans that are available to other executive officers of the Company.

In May 2006, we entered into an employment agreement with David Ahn who became our Vice President - Corporate Planning. Mr. Ahn's employment with us was terminated in September 2006. The employment agreement was for a

term of three years (unless terminated earlier pursuant to its terms). The employment agreement also provided that Mr. Ahn would receive a salary of \$8,500 per month through December 31, 2006, increasing to \$10,000 per month beginning January 1, 2007. Upon execution of the agreement, Mr. Ahn was issued warrants to purchase 500,000 shares of the Company's common stock and options to purchase 500,000 shares of the Company's common stock at a purchase price equal to \$1.00 per share. On December 12, 2006 these options and warrants were converted to warrants to purchase 500,000 of the Company's common shares at \$0.475 per share, exercisable until December 2016.

Steven Ivester resigned from his position as our Chief Executive Officer on October 18, 2005 and on that date entered into a three-year consulting agreement with our Company, whereby Mr. Ivester provided general business strategy, financing and product development advice. This agreement provided for the payment of fees and a car allowance totaling \$230,000 annually. This agreement was terminated in September 2006. Mr. Ivester was entitled to receive a lump sum payment of any amounts due on the unexpired term of this agreement if the agreement was terminated under certain circumstances.

On October 18, 2005, we entered into an employment agreement with Mr. Adler, who became our Chief Executive Officer and served in this capacity until May 2006. This agreement, which has been terminated, was for a term of three years (unless terminated earlier pursuant to its terms). Upon execution of the agreement, Mr. Adler was issued 500,000 shares of restricted common stock and warrants to purchase 500,000 shares of common stock, at a price of \$1.50 per share. In addition, Mr. Adler was granted non-qualified stock options to purchase 500,000 shares of common stock at an exercise price of \$1.56.

On October 18, 2005, we entered into an employment agreement with Mr. Sasnett, who became our Chief Financial Officer and served in this capacity until May 2006. This agreement, which has since been terminated, was for a term of three years (unless terminated earlier pursuant to its terms). The agreement provided that Mr. Sasnett was to receive a salary of \$10,416.66 per month through December 31, 2005, and would receive a salary of \$12,083.33 per month during the year ending December 31, 2006, \$13,750 per month during the year ending December 31, 2007 and \$15,416.67 per month during the year ending December 31, 2008, provided the agreement is in effect. Upon execution of the agreement, Mr. Sasnett was granted non-qualified stock options to purchase 300,000 shares of common stock, at an exercise price of \$1.53 per share. Mr. Sasnett was issued warrants to purchase 300,000 shares of common stock, at an exercise price of \$1.53 per share and was granted additional warrants to purchase an aggregate of 150,000 shares of common stock, at a price of \$1.53 per share, in six monthly increments beginning in November 2005.

On October 18, 2005, we entered into an employment agreement with Mr. Burbank, pursuant to which he served as our Chief Operating Officer. Mr. Burbank resigned as our Chief Operating Officer in January 2006. This agreement was for a term of three years (unless terminated earlier pursuant to its terms) and provided for a salary of \$12,500.00 per month through December 31, 2005, and \$15,000.00 per month thereafter. Upon execution of the agreement, Mr. Burbank was issued 500,000 shares of restricted common stock and issued warrants to purchase 500,000 shares of common stock at a purchase price of \$1.50.

On November 22, 2005, we entered into an employment agreement with Mr. Bibee, who became our President. Mr. Bibee resigned as our President in May 2006. This agreement was for a term of three years (unless terminated earlier pursuant to its terms). Mr. Bibee received a salary of \$13,750.00 per month through December 31, 2005 and received an annual salary of \$180,000 thereafter. Upon execution of the agreement, Mr. Bibee was granted non-qualified stock options to purchase 500,000 shares of common stock at an exercise price of \$1.56 and was issued warrants to purchase 1,000,000 shares of the Company's common stock, at a price of \$1.50 per share. Mr. Bibee will be entitled to receive severance payments if his employment is terminated in certain circumstances.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS

In October 2005, the Company purchased all of the assets of WQN, Inc. Mr. Adler, our former chairman and chief executive officer, was the Chief Executive Officer of WQN, Inc. and owns approximately 37% of WQN's outstanding common stock. In connection with the transaction, the Company, through an acquisition subsidiary, purchased the assets for a purchase price consisting of (1) a note in the principal amount of \$3,700,000 (the "Note"), (2) 1,250,000 shares of the Company's restricted common stock and (3) a warrant to purchase 5,000,000 shares of the Company's common stock at an exercise price of \$ 0.001 per share (the "Warrant"). The Note accrues interest at the rate of 6% per annum. In addition, the Company issued WQN, Inc. an additional 500,000 shares of restricted common stock relating to the difference between the amount of accounts receivable transferred in the transaction and the accounts payable. The Note is convertible into common stock or preferred stock (at such time that a series of preferred stock is established). If a series of preferred stock is established, the Note will automatically convert into preferred stock. However, the Note is convertible, at the option of WQN, Inc., into common stock. The Warrant was exercised for common stock. Pursuant to the asset purchase agreement between the Company and WQN, the Company is required to hold a meeting of its shareholders in order to authorize a class of preferred stock that can be used to satisfy the conversion features of the Note.

As of December 31, 2004 the Company owed a shareholder \$560,000 under a note payable bearing interest at 3.75% and maturing December 31, 2005. The Company owed Steven Ivester \$1,000,000 as of December 31, 2005 under a note payable bearing interest at 3.75% and maturing December 31, 2005. The loan to Mr. Ivester was repaid by the Company in January 2006.

The Company and Mr. Ivester entered into a consulting agreement on October 18, 2005, which the Company terminated in September 2006. Pursuant to the consulting agreement, Mr. Ivester provided general business strategy, financing and product development advice. Mr. Ivester received \$200,000 per year for his services under the consulting agreement, as well as a \$2,500 per month vehicle allowance. Mr. Ivester was eligible to receive bonuses and participate in the Company's stock option plan, as determined by the board of directors.

Please see "Employment, Change of Control and Severance Arrangements" above for a discussion of arrangements and or employment agreements with our current and former executive officers.

Promoters

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. However, as of October 23, 2006, Mr. Ivester currently beneficially owns less than five percent of the Company's issued and outstanding shares of common stock.

On May 25, 2004 (but effective for all purposes as of April 15, 2004), the Company completed the acquisition of two Florida-based subsidiaries, eGlobalphone, Inc. and VoIP Solutions, Inc., both Florida corporations.

On August 4, 2004, the Company issued warrants to purchase 2,200,000 shares of common stock for an exercise price of \$1.00 per share to each of John Todd and Clive Raines. Mr. Todd's warrants were exchanged for \$40,000 and 250,000 shares in a net cashless exercise in February 2005, and Mr. Raines' warrants were exchanged for 1,000,000 shares of common stock on September 16, 2005.

Messrs. Ivester, Todd and Raines may be considered to be “promoters” of the Company, although Messrs. Ivester, Todd and Raines are no longer associated with the Company.

STOCK PERFORMANCE GRAPH

The following graph shows a comparison from December 31, 2003 through December 31, 2005 of cumulative total return for common stock, the Hemscott Index, and the Hemscott Group Index. Such returns are based on historical results and are not intended to suggest future performance data. Data for the Hemscott Index and the Hemscott Group Index assume the reinvestment of dividends. We have never paid dividends on our common stock, and have no present plans to do so.

**PROPOSAL NO. TWO:
TO APPROVE THE COMPANY'S
2006 EQUITY INCENTIVE PLAN
(ITEM TWO ON THE PROXY CARD)**

General

On December 7, 2005, our board of directors approved, subject to shareholder approval, the Company's 2006 Equity Incentive Plan (the "2006 Plan"). The 2006 Plan provides that key employees, consultants and non-employee directors of the Company or an affiliate ("eligible participants") may be granted: (1) options to acquire shares of the Company's common stock, (2) shares of restricted common stock (3) stock appreciation rights, (4) performance-based awards, (5) "Dividend Equivalents," and (6) other stock-based awards (collectively, "Awards"). The 2006 Plan will permit eligible participants to acquire a proprietary interest in the growth and performance of the Company. The purposes of the 2006 Plan are to (1) increase the incentive of its participants to contribute to the Company's success and prosperity, thus enhancing shareholder value, and (2) provide the Company with a proven means to attract and retain exceptionally qualified individuals upon whom, in large measure, the sustained progress, growth and profitability of the Company depend.

The Company is seeking shareholder approval for the future issuance of options under the 2006 Plan to allow its participants to acquire up to 10,000,000 shares of the Company's common stock.

The 2006 Plan is included in this Proxy Statement as Appendix A, and reference is made to Appendix A for a full description of the terms of the 2006 Plan.

Description of the 2006 Plan

The following summary describes the principal provisions of the 2006 Plan. The summary does not purport to be complete and is qualified in its entirety by the full text of the 2006 Plan attached as Appendix A to this Proxy Statement.

The total number of shares of common stock that may be subject to Awards under the 2006 Plan will not exceed 10,000,000 shares (subject to customary adjustments as provided in the 2006 Plan). Such number of shares is subject to adjustment by the committee, which the Board will establish, if the Plan is approved by the Company's stockholders, to administer the 2006 Plan (the "Committee"), in the event of a recapitalization, stock split, stock dividend or similar corporate transaction. Such shares may be either authorized or unissued shares or shares held in treasury.

The 2006 Plan is generally designed to meet the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), in order to preserve the Company's ability to take compensation expense deductions in connection with the exercise of options granted and the vesting of performance-based restricted stock under the 2006 Plan in certain circumstances. Under Code Section 162(m), a publicly held corporation is not permitted to take a federal income tax deduction for compensation recognized by certain executive officers in any year in excess of \$1,000,000 unless such compensation meets the shareholder approval and other requirements of Code Section 162(m).

The 2006 Plan is administered by the Committee, which must be comprised of not less than two individuals appointed by the board of directors, each of whom is (1) to the extent required by Rule 16b-3 and the Exchange Act, a "non-employee director," and (2) to the extent required by Code Section 162(m), an "outside director." We anticipate that two of the prospective directors will constitute the Committee, which may make such rules and regulations and establish such procedures for the administration of the 2006 Plan as it deems advisable.

The Committee may grant Awards under the 2006 Plan to eligible participants. The Company estimates that there are currently approximately 60 employees and service providers who are eligible participants. The Committee has the discretion, in accordance with the provisions of the 2006 Plan, to determine the terms of the Award, to whom an Award is granted and the number of shares of stock subject to the Award, subject to a maximum grant to an eligible participant in any year of 200,000 option shares and 200,000 shares of restricted stock that are intended to be “performance based” compensation under Code Section 162(m) (subject to customary adjustments as provided in the 2006 Plan), with any unused portion of the limitation available to be carried forward.

Stock Options

An option granted under the 2006 Plan may be an incentive stock option (an “ISO”) or may be a non-qualified stock option (a “Non-ISO”), as determined at the time of grant. In certain circumstances, the grant of Non-ISOs, as opposed to ISOs, can result in federal income tax advantages to the Company, as described below.

The exercise price for options may not be less than the fair market value of the stock on the date of the grant of the options. The 2006 Plan provides that optionees may pay the exercise price (1) in cash; (2) by delivery to the Company of shares of the Company's common stock owned by the participant; (3) with other securities; (4) with other Awards; (5) with other property; or (6) in any combination of the above, in each case on such other terms and conditions as may be acceptable to the Committee (which may include payment in installments or on a deferred basis).

An option granted under the 2006 Plan may not be exercised later than the date specified by the Committee, which will be a maximum of ten years from the date of the grant.

Restricted Stock

The Committee may award "restricted" shares of the Company's common stock and restricted stock units, which are grants of common stock or Awards designated in shares of restricted stock that are subject to risk of forfeiture or other restrictions. Shares of restricted stock and restricted stock units will be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to receive any dividend or other right or property), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise, as the Committee may deem appropriate.

Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) for any reason during the applicable restriction period, all shares of restricted stock and all restricted stock units still, in either case, subject to restriction, shall be forfeited and reacquired by the Company; provided, however, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to shares of restricted stock or restricted stock units.

Stock Appreciation Rights

The Committee is authorized to grant eligible participants stock appreciation rights. A stock appreciation right gives the recipient a right to receive, upon exercise of the stock appreciation right, the excess of (1) the fair market value (as determined by the Committee) of one share of common stock on the date of exercise or, if the Committee determines in the case of any such right other than one related to any ISO, at any time during a specified period before or after the date of exercise over (2) the grant price of the right, as specified by the Committee. The grant price, term, methods of exercise, methods of settlement, and any other terms and conditions of any stock appreciation right are determined by the Committee. The Committee may impose such conditions or restrictions on the exercise of any stock appreciation right as it may deem appropriate.

Performance Awards

The Committee is authorized to grant performance awards to eligible participants. A performance award granted under the 2006 Plan (1) may be denominated or payable in cash, shares of common stock (including, without limitation, restricted stock), other securities, other Awards, or other property; and (2) confer on the recipient rights valued as determined by the Committee and payable to, or exercisable by, the recipient, in whole or in part, upon the achievement of such performance goals during such performance periods as the Committee shall establish. The performance goals to be achieved during any performance period, the length of any performance period, the amount of any performance award granted, and the amount of any payment or transfer to be made pursuant to any performance award shall be determined by the Committee. The goals established by the Committee will be based on any one or combination of the following: earnings per share, return on equity, return on assets, total shareholder return, net operating income, cash flow, revenue, economic value added, increase in the price of the Company's common stock, cash flow return on investment, or any other measure the Committee deems appropriate. Partial achievement of the goal(s) may result in a payment or vesting corresponding to the degree of achievement.

Dividend Equivalents

The Committee is authorized to grant Awards under which the recipients are entitled to receive payments equivalent to dividends or interest with respect to a number of shares of common stock determined by the Committee, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares of common stock or otherwise reinvested. Such Awards may have such terms and conditions as the Committee determines.

Other Stock-Based Awards

The Committee is also authorized to grant other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of common stock (including, without limitation, securities convertible into shares of common stock) as are deemed by the Committee to be consistent with the purposes of the 2006 Plan. The Committee determines the terms and conditions of such Awards.

Miscellaneous

Awards granted under the 2006 Plan generally are not transferable, except that the Committee may, in its sole discretion and subject to certain limitations, permit the transfer of Non-ISOs at the time of grant or thereafter for estate planning purposes. No Awards may be granted under the 2006 Plan after December 7, 2015. The Company will not be able to issue any shares of common stock under the 2006 Plan unless it has enough authorized common stock to do so.

The number of Awards that may be granted under the 2006 Plan to executive officers is not determinable at this time.

New Plan Benefits

Name and Position/Group	Dollar Value (\$)	Number of Units
Anthony Cataldo	(1) (2)	(1) (2)
Shawn M. Lewis Chief Technology Officer, Chief Operating Officer	(1) (2)	(1) (2)
Robert Staats Chief Accounting Officer	(1) (2)	(1) (2)

- (1) The granting of Awards is discretionary, and we cannot now determine the number or type of Awards we will grant in the future to our executive officers. We expect that from time to time, in our discretion, we will grant Awards to our executive officers under the 2006 Plan under such terms consistent with the plan as we deem appropriate at the time of those grants.
- (2) All of these options will be granted with an exercise price equal to the fair market value of our common stock on the date of grant.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THE PROPOSAL TO APPROVE THE COMPANY'S 2006 EQUITY INCENTIVE PLAN.

**PROPOSAL NO. THREE:
TO APPROVE THE COMPANY'S AMENDED AND RESTATED
ARTICLES OF INCORPORATION TO AUTHORIZE
25,000,000 SHARES OF PREFERRED STOCK**

On December 7, 2005, the Company's board of directors unanimously approved and recommended for adoption by the shareholders the Amended and Restated Articles of Incorporation (the "Amended and Restated Articles"), the text of which is attached to this proxy statement as Appendix B. The following proposal is to approve the Amended and Restated Articles to authorize 25,000,000 shares of "blank check" preferred stock, but does not approve any issuance of any shares of common or preferred stock. Such shares issued or to be issued have previously been authorized by action of the board of directors, and no shareholder approval for such issuances is required or being sought.

As of February 5, 2007, there were 100,000,000 shares of our common stock authorized, of which 99,943,034 shares were issued and outstanding. The Company does not have any authorized shares of preferred stock.

The Amended and Restated Articles would authorize 25,000,000 shares of preferred stock. The board of directors would have the authority to issue classes or series of preferred stock in the future having such designations, rights, preferences and relative, participating, option or other special rights of the shares of each such class or series, including such things as voting rights, dividend rights, conversion rights, redemption rights, and other restrictions and features.

A copy of the Amended and Restated Articles is included as Appendix B to this proxy statement, and reference is made to Appendix B for a full description of the terms and provisions of the authorized preferred stock. If this proposal is approved by the Company's stockholders, the Company will as soon as practicable after the meeting file the Amended and Restated Articles of Incorporation with the Secretary of State of the State of Texas. Upon filing the Amended and Restated Articles, the Company will also file a Certificate of Designations, Rights and Preferences (the "Certificates of Designation") to create a Series A Convertible Preferred Stock (the "Series A Preferred"), consisting of 2,000,000 shares of Series A Preferred.

The Series A Preferred will feature a 5% cumulative dividend, a liquidation preference in the event the Company is dissolved, a right of the Company to redeem after August 1, 2008 if the price of the common stock closes above \$2.00 per share for 20 consecutive trading days, and each share of Series A Preferred will be convertible into 9.43 common shares. The Series A Preferred will have no voting rights.

The board of directors believes that the proposal to authorize 25,000,000 shares of preferred stock is in the best interests of the Company and its shareholders.

On August 3, 2005, the Company and WQN, Inc. ("WQN") executed an Asset Purchase Agreement, pursuant to which, among other things, VoIP Acquisition Company, a wholly-owned subsidiary of the Company ("Acquisition Subsidiary"), purchased substantially all of the assets of WQN relating to WQN's "voice over internet protocol" business. This transaction closed in October 2005.

The terms and conditions of the Asset Purchase Agreement were the result of arm's-length negotiations between representatives of WQN, Inc. and representatives of the Company. The following is a summary of the terms of the Asset Purchase Agreement that we believe are material. However, the description does not contain all of the terms of the Asset Purchase Agreement and is qualified in its entirety by reference to the copy of the Asset Purchase Agreement attached as Appendix C to this proxy statement and incorporated herein by reference. You are urged to read the Asset Purchase Agreement in its entirety.

The Company purchased WQN, Inc.'s assets pursuant to an asset purchase agreement (the "Asset Purchase Agreement") for a purchase price consisting of (1) a convertible promissory note in the principal amount of \$3,700,000 (the "Note"), (2) 1,250,000 shares of the Company's restricted common stock, and (3) a warrant (the "Warrant") to purchase 5,000,000 shares of common stock at a price of \$.001 per share. In addition, in connection with the closing of the

Acquisition, the Company issued WQN, Inc. 500,000 shares of restricted common stock relating to the difference between the amount of accounts receivable transferred in the Acquisition and the accounts payable.

The Note

The aggregate outstanding principal amount of the Note, together with interest of 6% per annum, will (a) automatically convert into shares of Series A Preferred if the proposal to approve the Amended and Restated Articles is approved and the Company files the Amended and Restated Articles and the Certificate of Designation with the Secretary of State of Texas, or (b) at WQN's option, convert into shares of common stock at an original conversion price of \$1.06 per share. WQN received "favored nations" rights such that for future securities offerings by the Company at prices per share less than this conversion price, in defined instances this common stock conversion price would be adjusted to the lower offering price. In addition, the conversion amount is subject to adjustment for any stock splits, combinations, stock dividends or mergers, consolidations or sales of the Company's assets. As a result of our Section 3(a)(10) agreements (as described in Proposal No. four) and the favored nations provision discussed above, the Note's common stock conversion rate was effectively reduced to \$0.26 per share. If the Note is converted into shares of Series A Preferred, the number of shares of Series A Preferred into which the Note shall be converted will be equal to the number of common shares convertible or converted hereunder, divided by 9.43. WQN will pay no further consideration if it converts one share of Series A convertible preferred stock into 9.43 shares of the Company's common stock. The Note in the principal amount of \$3,700,000 plus interest is currently convertible into approximately 15,161,812 common shares. Upon the establishment of Series A Preferred, the Company will automatically convert the Note into approximately 1,607,827 shares of Series A Preferred.

The Warrant

The Warrant was exercisable at any time after its issuance until August 1, 2010 for up to 5,000,000 shares of the Company's common stock at an exercise price of \$0.001 per share. The Warrant was exercised in January 2006.

Registration Rights

The 1,250,000 shares of the Company's common stock that WQN, Inc. received at closing and all shares issuable upon conversion of securities or exercise of warrants are restricted stock and not freely tradable. Pursuant to the Asset Purchase Agreement, WQN, Inc. was granted "piggy-back" registration rights on these shares, together with any shares which WQN, Inc. has the right to obtain through exercise or conversion of the Note or the Warrant or otherwise; provided, however, that at any time after WQN, Inc. has sold 1,250,000 shares pursuant to any such registration, the maximum number of shares that it may sell pursuant to any subsequent registration request shall not exceed 500,000 shares in any calendar quarter. Additionally, the shares WQN, Inc. requests to be registered will be subject to cut-back, if in the opinion of the Company's managing underwriter, if any, for such offering, the inclusion of the shares requested to be registered, when added to the securities being registered by the Company or the selling security holder(s) in the offering, would exceed the maximum amount of the Company's securities that can be marketed without otherwise materially and adversely affecting the entire offering.

Price Guarantee

WQN, Inc. was entitled to receive an additional amount of the Company's common stock if the value of the Company's common stock (1) held by WQN, Inc., (2) issuable upon exercise of the Warrant or conversion of the Note or the Company's preferred stock received upon exercise of the Note, based on the 20 trading-day average of the Company's common stock on May 26, 2006 or (3) thereafter sold by WQN, Inc. is less than \$5,000,000. To the extent the aggregate value so determined was less than \$5,000,000, the Company and Mr. Steven Ivester, the Company's former Chief Executive Officer and then-largest shareholder, would have issued to WQN, Inc. additional shares of the Company's common stock equal to the difference of such shortfall, using the same price per share on which the value of the Company's common stock was determined above. The Company would have been responsible for issuing 60% of the additional shares, and Steven Ivester would have been responsible for transferring the balance from his personal holdings. Based on an average of the Company's quoted common stock closing price for each of the 20 trading days preceding May 26, 2006, the aggregate market value of WQN, Inc.'s holdings, as previously defined, exceeded \$5,000,000. Therefore, no Company shares were issued or need to be issued under this provision.

Interest of Certain Persons in the Amended and Restated Articles

Mr. Michael Adler was the Chief Executive Officer of WQN, Inc. and became the Chief Executive Officer and a director of the Company in October 2005. Mr. Adler resigned as the Company's Chief Executive Officer in May 2006 and is no longer on its board. Mr. Adler serves on the board of directors of WQN, Inc. and is the holder of approximately 37% of the outstanding common stock of WQN, Inc.

INFORMATION ABOUT THE COMPANY

For detailed information on the Company, please see our Annual Report on Form 10-KSB for the year ended December 31, 2005, as amended, which is incorporated by reference into this proxy statement, a copy of which accompanies this proxy statement.

INFORMATION ABOUT WQN, INC.

Prior to the Acquisition, WQN, Inc. was a VOIP telephony company providing international long distance services. VOIP enables voice communications over the Internet by compressing voice into data packets that can be efficiently transmitted over data networks and then converted back into voice at the receiving end. Customers use the VOIP services platform to make and receive calls using their home phone, business phone, personal computer and mobile phone. The acquired business currently includes the provision of enhanced Internet-based and other telephony services under various brand names to individual consumers primarily seeking to make international calls as well as the provision of enhanced Internet-based and other telephony services to resellers, corporations and service providers under their brand names and carrier transmission services whereby we sell our excess capacity to other long-distance carriers.

Below are the key products and services acquired by the Company from WQN, Inc.

Products

RocketVoIP

The acquired proprietary next generation VOIP technology service is marketed under the brand name RocketVoIP. With RocketVoIP, subscribers can use their broadband service to make and receive unlimited domestic and international calls using a home phone, mobile phone or personal computer. RocketVoIP has unique features and advantages over competing products that include:

- Unlimited local, long distance and international calling to 50 countries, for a low monthly fee;
- The ability to use a mobile phone to access WQN, Inc.'s network for high quality unlimited international calls;
 - Free in-network calling;
- Free features including Caller-ID, Call-Waiting, Call-Forwarding, 3-Way Calling, Voice Mail, and more; and
- A total calling solution enabling travelers to make and receive phone calls from anywhere in the world using a personal computer and high-speed Internet access, including Wi-Fi hotspots.

Easy Talk

The EasyTalk service offers competitively priced long distance services, which allow customers to speak to the party they are calling by the pressing of two designated buttons from the dial pad of the customer's phone. Customers are not required to switch their long distance service to use EasyTalk. The EasyTalk service offers many features including:

- Pinless dialing;

- Can be used from registered home, office and mobile phones;
- Access to personal on-line account management tools which enables customers to view their call history and purchase information 24 hours a day;
 - Recharge their accounts on-line or through our Interactive VoiceResponse System (IVR);
 - Update, modify and change their account information including credit card details; and
- Communicate with customer service representatives by email, live chat or by calling a customer service number.

My800online.com

The My800online.com service offers toll-free personal 800 numbers that can be routed to any home, office or cell phone in the world. It allows small businesses to create a virtual office telephone and lets international companies provide their U.S. based customers a toll-free number that will ring anywhere in the world. The My800online service offers many features including:

- No monthly fees or contracts;
- International call forwarding;
- The ability to recharge the number on-line at any time; and
- Access to personal on-line account management tools which enables customers to view account balance and call history 24 hours a day.

Virtual Prepaid Calling Cards

The Company uses the assets acquired from WQN, Inc. in part to sell virtual prepaid calling cards over the Internet. These are virtual, because no physical card is issued. The virtual calling cards give the Company the flexibility of promptly changing the rates and features to respond to changing consumer demand, rather than having an inventory of physical cards with set features that cannot be changed until all are recalled or used. This also allows the Company to offer and test several different types of virtual calling cards with varying pricing features, thus providing a greater selection to its customers.

The system functions as follows: A potential customer accesses our Website, follows the prompts to enter their credit card information to purchase the virtual calling card, we verify the credit card within seconds, and we electronically issue a personal identification number, or PIN, and a toll-free number to the customer when the electronic purchase transaction is completed. Once sold, the virtual calling card can be used immediately to make international and domestic long distance calls. The customer dials the toll-free number and enters the PIN and the telephone number the customer seeks to reach. The enhanced services platform determines whether the virtual calling card is valid and the number of call minutes remaining on it, based on the rate for the country being called. The platform completes the call and reduces the available credit balance on the virtual calling card at the conclusion of the call.

Resale of Virtual Calling Cards

The Company also buys virtual calling cards processed through other companies' platforms including prepaid long distance and wireless. We buy them at a discount and sell them to our customers on our Websites as our virtual cards. The Company sells these virtual cards for calls from the United States to other countries where it has not established

its own Internet network and where its negotiated rates with international long distance carriers are not as favorable and to offer other telecom products and services not available on the platform, such as prepaid wireless.

Retail Telephony Websites

The Company acquired various Websites from WQN, Inc. to allow it to target several U.S. niches that make international long distance calls. The Websites are accessible 24 hours per day, seven days a week, so the Company is not constrained by the hours a retail store would be open for business. The Websites may also be reached from the customer's home or office. The customer is not required to physically travel to another location to make a purchase and receive delivery. Online purchasing and delivery will also allow the Company to deliver a broad selection of products to customers worldwide in rural or other locations that do not have convenient access to physical stores. The acquired Websites include the following:

Website Address

www.wqn.com
 www.rocketVOIP.com
 www.my800online.com
 www.valucomonline.com
 www.valumaxonline.com
 www.card2asia.com
 www.supertel.com
 www.metrotelcom.net
 www.wqnwireless.com
 www.rocketmobile.net

Website Description

EasyTalk service and Corporate website
 RocketVOIP service
 Personal 800 service
 High-end Indian consumers
 Indian market
 Indian market
 Iranian market (1)
 Iranian market (1)
 Prepaid wireless plans
 International calling for mobile phone users

(1) These Websites target U.S.-based customers who call persons in Iran. As such, we take calls placed in the United States and deliver the calls to non-Iranian telecommunications carriers who in turn use other carriers that are unknown to us to terminate or complete the calls within Iran. We do not have any facilities in Iran nor do we have any employees working there. For the year ended December 31, 2005, our consolidated revenue was \$15,507,145. The revenue associated with call termination to Iran is approximately \$35,000 per month, all of which is generated from calls originating in the United States. Because the revenue received from terminating calls to Iran is such a small percentage of our consolidated revenue, and given that this revenue is generated entirely from our operations based in the United States from callers in the United States, we consider the revenue received from these calls to be immaterial, both quantitatively and qualitatively.

The Websites have been designed around industry standard architectures to reduce downtime in the event of outages or catastrophic occurrences. The Websites' operations staff consists of systems administrators, who manage, monitor and operate the Websites. The continued uninterrupted operation of the Websites is essential to the acquired business, and it will be the job of the site operations staff to ensure, to the greatest extent possible, the reliability of the Websites. The network is built around a redundant, high availability backbone. In order to achieve maximum redundancy, the network has several connections to the Internet.

Wholesale Services

The wholesale services that the Company conducts using WQN, Inc.'s assets consist of the following:

Distribution of Telephony Products

The Company distributes telephony services, which primarily consist of prepaid calling cards through a network of over 90 private distributors. The Company sells the product or service to a distributor at a discount who then resells the product or service to a retail outlet. Through this network the Company estimates it will sell products to over 10,000 retail outlets, of which more than 5,000 retail outlets are located in Southern California, which gives the Company access to various large ethnic communities seeking to make international phone calls. A significant portion

of the distribution business will consist of prepaid calling cards used to call from the United States to Mexico. Through this network, the Company also distributes our products in the Dallas, Houston, Chicago, New York City, Newark, and Miami markets. The Company uses this network to sell our proprietary VOIP products.

Platform Services

The Company sells the acquired Internet-based and other telephony services to resellers, corporations, and service providers who then resell the service under their own brand name. Many of these resellers are smaller companies that purchase virtual calling cards from us and then resell the products from their own Websites.

Services Platform and Network

Access

Access to the proprietary VOIP network and enhanced services platform is available by several methods. Customers can access the network from anywhere in the world through their high speed Internet connection using a broadband phone (which the Company supplies to RocketVOIP customers) and the soft phone, which is a downloadable software that enables customers to make PC-to-Phone calls. Customers can also access our network from the United States and Canada using toll-free and local access numbers.

Our Enhanced Services Platform

The Company acquired WQN, Inc.'s centrally managed, enhanced services platform, consisting of reliable and flexible data management, monitoring control and billing systems which support all of our products and services. Key elements include customer provisioning, customer access, fraud control, network security, call routing, call monitoring, call reliability and detailed call records. The enhanced services platform is a specialized telephone switch, soft switch, and software. It is connected to the Websites and databases acquired from WQN, Inc. and to its network of outgoing and incoming telephone lines and Internet lines. It sets up all customer account information when services are purchased and immediately activates the services so it can be used at the time of purchase. Programmed into the platform is a lowest cost routing matrix. This matrix automatically routes each call over the route most economical to the Company. This means it will select the international carrier with the lowest rate or the Internet if the Company has a gateway in the call destination country.

Proprietary Technology

The Company acquired WQN, Inc.'s proprietary customer software that permits a customer to purchase retail telephony services from the acquired Websites using a credit card and to have the services delivered while on the Websites for immediate use by the customer. Proprietary customer software also allows customers access to our platform using their high speed Internet connection to initiate and receive calls, and various proprietary credit and fraud management applications aid the Company in checking credit and limiting fraudulent transactions.

SELECTED FINANCIAL DATA

The following table sets forth selected historical financial data as of and for each of the years ended December 31, 2001, 2002, 2003, 2004, and 2005 and the nine months ended September 30, 2005 and 2006. The related financial data as of December 31, 2004 and 2005 and for the years then ended are derived from our consolidated financial statements which have been audited by Berkovits, Lago & Company, LLP, independent auditors, and their report is included elsewhere in this proxy. The selected financial data as of December 31, 2003 and for the year then ended are derived from our consolidated financial statements which have been audited by Tschopp, Whitcomb & Orr, P.A., independent auditors, and their report is included elsewhere in this proxy. The selected financial data as of and for the nine months ended September 30, 2005 and 2006 are derived from our unaudited consolidated financial statements. The following financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing in our annual report to shareholders.

	Years Ended December 31,					Nine Months Ended September 30,	
	2001 ⁽²⁾	2002 ⁽²⁾	2003 ⁽²⁾	2004 ⁽²⁾	2005 ⁽²⁾	2005	2006
Revenues	\$ -	\$ -	\$ -	\$ 1,020,285	\$ 13,878,097	\$ 4,337,717	\$ 25,220,303
Gross profit (loss)	-	-	-	265,687	(1,196,624)	(299,652)	136,121
Operating expenses	-	-	-	5,573,575	21,159,717	13,297,337	25,215,592
Loss from continuing operations	\$ -	\$ -	\$ -	\$ (5,307,888)	\$ (23,788,646)	\$ (13,617,347)	\$ (30,343,179)
Net loss	\$ (61,634)	\$ (61,926)	\$ (352,968)	\$ (5,862,120)	\$ (28,313,333)	\$ (13,833,503)	\$ (31,311,440)
Net loss per share:							
Loss from continuing operations	\$ -	\$ -	\$ -	\$ (0.36)	\$ (0.57)	\$ (0.38)	\$ (0.43)
Net loss	\$ (0.04)	\$ (0.04)	\$ (0.20)	\$ (0.40)	\$ (0.67)	\$ (0.39)	\$ (0.45)
Summary cash flow data:							
Net cash used in operating activities	\$ -	\$ -	\$ (78,706)	\$ (3,330,574)	\$ (17,301,611)	\$ (8,642,847)	\$ (10,998,391)
Net cash provided by (used in) investing activities	52,902	73,849	82,196	479,594	(4,395,997)	(737,585)	(104,724)
Net cash provided by financing activities	-	-	-	3,988,618	23,785,216	11,478,168	8,425,119
Balance sheet data (at period end) cash	1,656	9	3,499	1,141,137	3,228,745	3,238,873	550,749
Property and equipment	-	-	-	389,528	10,141,872	8,309,161	7,090,973
Goodwill and other intangible assets	-	-	-	1,713,301	38,404,271	29,996,814	35,894,985
Total assets	532,897	530,230	259,459	8,672,548	56,244,161	43,118,352	44,974,923
Long term obligations	-	-	-	-	245,248	776,565	236,974
Total liabilities	9,711	68,970	151,167	1,027,727	27,018,241	19,683,913	36,902,188
Total shareholders' equity	523,186	461,260	108,292	7,644,821	29,225,920	23,434,439	8,072,735
Book value per share	\$ 0.34	\$ 0.30	\$ 0.06	\$ 0.32	\$ 0.48	\$ 0.50	\$ 0.11

Cash dividends per share (1)	\$	- \$	- \$	- \$	- \$	- \$	- \$	-
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(1) No cash dividends have been paid or declared.

(2) Operations relating to Millennia Tea Masters and DTNet Technologies were discontinued in 2004 and 2006, respectively. Operating results prior to these events were reclassified as discontinued operations

SELECTED UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The selected unaudited pro forma combined financial information should not be relied upon as being indicative of future results that may be achieved. The following selected unaudited pro forma combined financial information has been derived from, and should be read in conjunction with, the Unaudited Pro Forma Consolidated Statement of Operations and Unaudited Pro Forma Consolidated Balance Sheet included in our annual report to shareholders.

The following table summarizes information for WQN, Inc. on an historical, pro forma combined basis. The following information should be read in conjunction with the audited consolidated financial statements of the Company and WQN, Inc., the unaudited interim consolidated financial statements of the Company, the selected historical consolidated financial data of the Company and WQN, Inc., and the unaudited pro forma combined financial statements included in our annual report to shareholders elsewhere or incorporated by reference in this proxy statement. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the Acquisition had been consummated as of the beginning of the periods presented, nor is it necessarily indicative of the future operating results or financial position of the combined companies.

	Years Ended December 31,					Nine Months Ended	
	2001 ⁽²⁾	2002 ⁽²⁾	2003 ⁽²⁾	2004 ⁽²⁾	2005 ⁽²⁾	2005	2006
Revenues	\$ -	\$ -	\$ -	\$ 1,020,285	\$ 13,878,097	\$ 4,337,717	\$ 25,220,303
Gross profit (loss)	-	-	-	265,687	(1,196,624)	(299,652)	136,121
Operating expenses	-	-	-	5,573,575	21,159,717	13,297,337	25,215,592
Loss from continuing operations	\$ -	\$ -	\$ -	\$ (5,307,888)	\$ (23,788,646)	\$ (13,617,347)	\$ (30,343,179)
Net loss	\$ (61,634)	\$ (61,926)	\$ (352,968)	\$ (5,862,120)	\$ (28,313,333)	\$ (13,833,503)	\$ (31,311,440)
Net loss per share:							
Loss from continuing operations	\$ -	\$ -	\$ -	\$ (0.36)	\$ (0.57)	\$ (0.38)	\$ (0.43)
Net loss	\$ (0.04)	\$ (0.04)	\$ (0.20)	\$ (0.40)	\$ (0.67)	\$ (0.39)	\$ (0.45)
Summary cash flow data:							
Net cash used in operating activities	\$ -	\$ -	\$ (78,706)	\$ (3,330,574)	\$ (17,301,611)	\$ (8,642,847)	\$ (10,998,391)
Net cash provided by (used in) investing activities	52,902	73,849	82,196	479,594	(4,395,997)	(737,585)	(104,724)
Net cash provided by financing activities	-	-	-	3,988,618	23,785,216	11,478,168	8,425,119
Balance Sheet Data (at period end)							
Cash	1,656	9	3,499	1,141,137	3,228,745	3,238,873	550,749
Property and equipment	-	-	-	389,528	10,141,872	8,309,161	7,090,973
Goodwill and other intangible assets	-	-	-	1,713,301	38,404,271	29,996,814	35,894,985
Total assets	532,897	530,230	259,459	8,672,548	56,244,161	43,118,352	44,974,923
Long term obligations	-	-	-	-	245,248	776,565	236,974

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Total liabilities	9,711	68,970	151,167	1,027,727	27,018,241	19,683,913	36,902,188
Total shareholders' equity	523,186	461,260	108,292	7,644,821	29,225,920	23,434,439	8,072,735
Book value per share	\$ 0.34	\$ 0.30	\$ 0.06	\$ 0.32	\$ 0.48	\$ 0.50	\$ 0.11
Cash dividends per share (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) No cash dividends have been paid or declared.

(2) Operations relating to Millennia Tea Masters and DTNet Technologies were discontinued in 2004 and 2006, respectively. Operating results prior to these events were reclassified as discontinued operations

SELECTED QUARTERLY FINANCIAL DATA

You should read the following table presenting our quarterly results of operations in conjunction with our consolidated financial statements and related notes contained elsewhere in our annual report to shareholders. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. You should also keep in mind, as you read the following tables, that our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

The following table presents our unaudited quarterly results of operations for the eleven quarters ended September 30, 2006. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our financial position and operating results for the quarters presented.

	Mar 31, 2004	Jun 30, 2004	Sep 30, 2004	Dec 31, 2004	Mar 31, 2005	Quarter Ended		Dec 31, 2005	Mar
						Jun 30, 2005	Sep 30, 2005		20
	(Unaudited)								
Revenues	\$ -	\$ 39,945	\$ 333,309	\$ 647,031	\$ 1,006,111	\$ 1,589,857	\$ 1,776,155	\$ 9,505,974	\$ 9,9
Gross profit									
(loss)	-	11,379	(24,615)	278,924	8,222	528,602	(922,381)	(811,067)	(6
Income (loss)									
from continuing									
operations	(22,324)	(417,024)	(5,499,670)	631,130	(1,559,518)	(3,482,529)	(8,833,168)	(9,913,430)	(13,8
Net income									
(loss)	(22,324)	(408,658)	(5,647,736)	216,598	(1,555,398)	(3,536,104)	(8,742,001)	(14,479,830)	(14,7
Per share:									
Net loss									
from continuing									
operations	\$ (0.01)\$	(0.03)\$	(0.28)\$	(0.01)\$	(0.06)\$	(0.12)\$	(0.18)\$	(0.67)\$	
Net loss	\$ (0.01)\$	(0.03)\$	(0.29)\$	0.02 \$	(0.06)\$	(0.12)\$	(0.18)\$	(0.67)\$	

- (1) These quarterly results reflect the merger in May 2005 of Caerus and the acquisition in October 2005 of the VoIP-related assets of WQN.
- (2) The results for the quarter ended September 30, 2004 include expenses of \$4.9 million related to the issuance of stock warrants.
- (3) Operations relating to Millennium Tea Masters and DTNet Technologies were discontinued in 2004 and 2006, respectively. Operating results prior to these events were reclassified as discontinued operations.

THE ACQUISITION

The acquisition of WQN:

- substantially enhanced our international VOIP business;
- the Acquisition provided us with an additional 60,000 retail customers using various VOIP services that could be integrated onto our VoiceOne network;
- the average margin at the time on the \$30 million in revenue from WQN was 3%, primarily because of outsourced network cost and the lack of network ownership, and by moving that traffic to our Voice One(R) proprietary

technology network, we anticipated increasing our margins.

- the customer service personnel that we acquired enable us to provide additional services to our service providers.

Background of the Acquisition

On April 4, 2005, Mr. Michael Adler (then CEO of WQN, Inc.) met with Mr. Ivester (then CEO of VoIP, Inc.) to discuss a possible strategic relationship or acquisition transaction between WQN, Inc. and the Company.

On April 12, 2005, Mr. Adler and Victor Grijalva, WQN, Inc.'s then Chief Financial Officer, met with Bill Burbank (then Chief Operating Officer of VoIP, Inc.) and Mr. Ivester to further discuss the possibility of a business transaction between the Company and WQN, Inc. and presented an overview of WQN, Inc. and WQN's VOIP business.

On April 14, 2005, the Company presented a formal, non-binding letter of intent to WQN, Inc. for the purchase of WQN's VOIP business.

On June 14, 2005, Mr. Adler received an email from Mr. Ivester regarding his understanding of the proposed deal terms.

On July 8, 2005, the Company sent WQN, Inc. the initial draft of the Asset Purchase Agreement from our legal counsel.

On July 21, 2005, Mr. Adler and Mr. Jones of WQN, Inc. and Mr. Kropp of Ladenburg Thalmann & Co. Inc. ("Ladenburg") visited the Company's offices in Orlando, Florida and conducted an investigation of the Company's Orlando operations, its management and its business.

On July 26, 2005, WQN, Inc. formally engaged Ladenburg as financial advisor and to issue a fairness opinion in connection with WQN, Inc.'s proposed sale of its VOIP business to the Company.

On August 3, 2005, the parties executed the Asset Purchase Agreement.

On August 9, 2005, each of the Company and WQN, Inc. filed a Current Report on Form 8-K with the SEC, disclosing the execution of the Asset Purchase Agreement.

On October 5, 2005, each of the Company and WQN, Inc. filed a Current Report on Form 8-K with the SEC, disclosing the closing of the Acquisition.

Steven Ivester, our former Chief Executive Officer, was the Company's sole director during the time that the WQN acquisition transaction occurred. Mr. Ivester is no longer affiliated with the Company. In October 2006, Mr. Ivester commenced an action against the Company in the Circuit Court of the 17th Judicial Circuit in and for Broward County, Florida. In this action, Mr. Ivester alleges that on or about November 16, 2005, the Company executed and delivered a promissory note to Mr. Ivester and that the Company failed to pay the amounts due on the note, and that the Company owes Mr. Ivester \$302,472.57 with interest since September 12, 2006 on the note. Mr. Ivester's action also alleges breach of contract. Specifically, Mr. Ivester alleges that on or about October 18, 2005, the Company and Mr. Ivester entered into a consulting services agreement, which provides for him to be indemnified by the Company for all expenses including reasonable attorneys fees incurred or paid by Mr. Ivester in connection with any action or proceeding, suit or investigation arising out of or relating to the performance by Mr. Ivester of his services pursuant to the consulting agreement. Mr. Ivester's action alleges that he was sued by a certain individual and that despite his demand for reimbursement and indemnification of his attorneys' fees incurred in said action related to such person's claims against the Company, the Company has failed and refused to indemnify Mr. Ivester for his attorneys' fees. Mr. Ivester's action also alleges that under the consulting agreement he was to be paid \$200,000 annually in equal bi-monthly installments; however, Mr. Ivester alleges, the Company has failed to pay him installment wages due on September 15, 2006 in the amount of \$7,692.31, as well as other monetary obligations under the consulting agreement. Mr. Ivester's action also alleges that as a result of the Company's breach of the consulting agreement, he

was entitled to notify the Company of his termination of the consulting agreement, which he alleges he did and as a result Mr. Ivester alleges that the compensation payable pursuant to consulting agreement was effectively accelerated and all compensation due under the consulting agreement became due and owing, but Mr. Ivester alleges the Company has repudiated its obligations under the consulting agreement. Mr. Ivester's action requests a judgment against the Company for an award of costs, attorney's fees and such further and other relief as deemed just and proper.

The Company has filed an Answer, Affirmative Defenses and Counterclaim to Mr. Ivester's action. The Company's answer denies Mr. Ivester's allegations and asserts its own defenses. The Company's counterclaim asserts that Mr. Ivester breached the fiduciary duty he owed the Company while he was its chief executive officer. The Company's Answer, requests that the court dismiss Mr. Ivester's complaint with prejudice and award the Company its reasonable attorneys' fees, grant the Company a judgment in its favor on its counterclaim and award the Company such other and further relief as the court deems necessary.

As a result of the lawsuit involving Mr. Ivester, we do not believe that it is appropriate to discuss the acquisition of WQN with him at this time, and because Mr. Ivester was the Company's sole director at the time of the WQN acquisition the Company cannot further describe the negotiations leading to and the reasons for the WQN acquisition.

Regulatory Approvals

The Acquisition was not subject to the approval of any state or federal regulatory agency or governmental body.

Conditions to the Closing of the Acquisition

The closing of the Acquisition was subject to certain customary conditions such as (1) the accuracy of certain representations and warranties in the Asset Purchase Agreement, (2) the performance of a number of covenants, (3) the absence of certain legal actions or proceedings prohibiting consummation of any of the transactions contemplated by the Asset Purchase Agreement, (4) WQN, Inc. having received approval of the Asset Purchase Agreement from its shareholders representing a majority of the shares eligible to vote and present in person or by proxy at its annual meeting, (5) all governmental consents having been received, (6) the Company having received the consent of each of (a) Cedar Boulevard Lease Funding, LLC and (b) the requisite investors in financing transactions consummated on July 5, 2005, and (7) the Company's internal controls being reasonably satisfactory to WQN, Inc. The Company's obligation to close was also subject to certain third party consents having been received and no material adverse change or effect having occurred on the part of WQN, Inc.

The Purchased Assets and Assumed Liabilities

The assets transferred to the Company were substantially all of WQN, Inc.'s assets comprising its VOIP business, including, without limitation, all of WQN, Inc.'s right, title and interest of WQN, Inc. in and to (but not including certain excluded assets): (1) all intellectual property (and rights associated therewith), including patents, patent applications, trademarks, service marks, proprietary rights in trade names (other than the name "WQN, Inc."), brand names, Internet domain names, trade dress, labels, logos, slogans and other indications of origin, and copyrighted works, (2) all rights, benefits and interests in and to all assigned licenses (other than "shrink-wrap" and other "off the shelf" software licenses), leases, contracts, agreements, commitments and undertakings, (3) all assigned deposits and prepaid assets, (4) cash in the amount of \$1,000,000, (5) all tangible personal property, (6) all inventories, (7) all accounts receivable, (8) all transferable governmental authorizations and all pending applications therefor or renewals thereof, (9) all data and records related to WQN, Inc.'s VOIP operations, (10) all intangible rights and property, including going concern value, goodwill, websites, URL listings, telephone, telecopy and e-mail addresses and listings, (11) all insurance benefits arising from or relating to the assets or the assumed liabilities prior to the effective time of the sale, and (12) all claims of WQN, Inc. against third parties relating to the assets.

Liabilities assumed by the Company in connection with the Acquisition consisted of approximately \$1,227,500 in accounts payable and \$167,000 in accrued liabilities, as adjusted on the closing date of the Acquisition. The Asset Purchase Agreement provided that WQN, Inc.'s accounts receivable conveyed to the Company as part of the assets, net of the allowance for doubtful accounts, must have equaled or exceeded WQN, Inc.'s accounts payable which were assumed by the Company as of the closing date. To the extent that the accounts receivable were less than WQN, Inc.'s accounts payable assumed by the Company, WQN, Inc. was obligated to pay to the Company the difference. Because WQN, Inc. was required to pay this excess amount, the Company issued to WQN, Inc. 500,000 shares of the Company's common stock.

Representations and Warranties

The Asset Purchase Agreement contained various representations and warranties of WQN, Inc. including, among others, representations and warranties related to: corporate organization and similar corporate matters; authorization and enforceability; non-contravention of WQN, Inc.'s certificate of incorporation or by-laws, and non-violation of laws and binding agreements; consents and approvals, compliance with certain laws of the Office of Foreign Asset Control; the timeliness and accuracy of SEC filings; the accuracy of financial statements contained in the SEC filings; the purchased assets (including good and marketable title thereto); absence of certain changes since March 31, 2005; absence of litigation; condition and title to assets and properties; taxes and tax returns; intellectual property; employee benefits; accounts receivable; absence of brokers; solvency; and investment intent.

The Asset Purchase Agreement contained various representations and warranties of the Company and the Acquisition Subsidiary, including among others, representations and warranties related to: corporate organization and similar corporate matters; authorization and enforceability; non-contravention of either the Acquisition Subsidiary's or the Company's certificate of incorporation or by-laws and non-violation of laws; consents and approvals; licenses and permits; absence of brokers; absence of litigation; the timeliness and accuracy of SEC filings; the absence of related party transactions; the absence of any other registration rights; and outstanding indebtedness.

The representations and warranties survive the closing until 12 months after the closing date or, in respect of intellectual property and employee benefits representations, until after the expiration of the applicable statutes of limitations, or, in respect of organization and authority and title to the purchased assets, indefinitely.

Bridge Loan

Concurrently with the execution of the Asset Purchase Agreement, on August 3, 2005, WQN, Inc. had advanced to the Company \$1,000,000, pursuant to a promissory note (the "Bridge Note"). The Bridge Note was cancelled upon completion of the transaction. In connection with the Bridge Note, the Company had issued to WQN, Inc. a warrant (the "Bridge Warrant") to purchase 625,000 shares of common stock, at an exercise price of \$1.37 per share. The Bridge Warrant also was cancelled in connection with the completion of the Acquisition.

Agreement Not to Compete

With certain limitations, WQN, Inc. has agreed that, for a period of five full years after the closing of the Acquisition, it will not, directly or indirectly, (1) engage in a competing business anywhere in the United States, Latin America, Europe, India, Iran or Japan where WQN, Inc.'s VOIP business was conducted, whether such engagement is as owner, partner, agent, consultant or shareholder (except as the holder of not more than one percent of the outstanding shares of a publicly held corporation and as a holder in investment fund vehicles, in which WQN, Inc. does not hold a controlling interest, or does not hold a position on the governing body thereof) or (2) solicit the employment of or hire any person who is an employee or independent contractor of the Purchaser or its subsidiaries.

Transition; Transition Services

WQN, Inc. agreed not to take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of WQN, Inc. from maintaining the same business relationships with the Company after the closing of the Acquisition as it maintained with WQN, Inc. prior to the closing. WQN, Inc. agreed to refer all customer inquiries relating to the business of WQN, Inc. to the Company from and after the closing of the Acquisition. The Company was entitled to access to WQN, Inc.'s offices, for a period of up to 180 days from the closing date, at a rate of \$5,000 per month during each such month when such offices were actually utilized.

Board Observer; Board Member

WQN, Inc. will have board observation rights for so long as it holds 10% or more of the Company's outstanding common stock (or securities exercisable for, or convertible into, 10% or more of the Company's outstanding common stock). The observer will be entitled to attend all meetings of the board of directors of the Acquisition Subsidiary and receive the same information and materials as the other members of the board of directors in connection with such meetings; provided, that the observer may be excluded from all or part of any meeting (and may not receive materials) in order to preserve attorney client privilege, confidential information or trade secrets.

The Company agreed to nominate Mr. B. Michael Adler for election to, and use its best effort to cause Mr. Adler to be elected to, the board of directors of the Company at the annual meeting of shareholders. Mr. Adler became the Chairman of the Company's board. Mr. Adler served on the Company's board until May 2006.

Indemnification

WQN, Inc. has agreed to indemnify and hold harmless the Acquisition Subsidiary and the Company and their affiliates, parents, shareholders, subsidiaries, officers, directors, employees, agents, successors and assigns from and against all losses, liabilities, damages or deficiencies (including interest, penalties, judgments, costs of preparation and investigation, and attorneys' fees) (collectively, "Losses") arising out of or due to (1) the liabilities or the assets that were excluded from the Acquisition, (2) the breach or failure to perform any covenant, undertaking, agreement or other obligation of WQN, Inc., (3) the breach of any representation of WQN, Inc., (4) any and all environmental liabilities relating to the acquired assets incurred prior to the closing date, (5) any failure of WQN, Inc. to comply with the laws of any jurisdiction relating to bulk transfers that may apply in connection with the sale and transfer of the assets to Purchaser, (6) any and all liabilities for taxes of WQN, Inc. or its respective affiliates for all taxable periods or portions thereof ending on or before the closing date, (7) any and all liabilities for taxes of any person under Treas. Reg. Section 1.1502-6(a) (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract or otherwise, or (8) any and all gains, transfer, sales, use, bulk sales, recording, registration, documentary, stamp, and other taxes that may result from, or be incurred in connection with, the transactions contemplated by the Asset Purchase Agreement.

The Company and the Acquisition Subsidiary agreed to indemnify and hold harmless WQN, Inc., and its affiliates, parents, shareholders, subsidiaries, officers, directors, members, managers, employees, agents, successors and assigns from and against any and all Losses arising out of or due to: (1) the use of the assets after the closing date, (2) the breach of or failure to perform any covenant, undertaking, agreement or other obligation of the Acquisition Subsidiary, (3) the breach of any representation of the Acquisition, (4) any and all environmental liabilities relating to the acquired assets incurred after the closing date, or (5) liabilities for taxes of the Acquisition Subsidiary for all taxable periods or portions thereof ending on or after the closing date.

No indemnification is available to any indemnified party for Losses until the aggregate amount of such Losses exceeds \$200,000, and then to the full extent of such Losses in excess of \$200,000 not to exceed \$4,000,000.

Agreement to hold a Meeting of Shareholders.

Pursuant to the Asset Purchase Agreement, the Company was to hold a meeting of its shareholders by December 4, 2005 in order to, among other things, authorize a class of preferred stock that can be used to satisfy the conversion feature of the Note.

Expenses

Each party paid its own fees and expenses in respect of the Acquisition.

Accounting Treatment of the Acquisition

The Acquisition was accounted for using the purchase method of accounting.

The Company is not in compliance with the terms of the Note

The Company has not made the scheduled payments on the note, and WQN has agreed to subordinate its repayment claim to all other convertible note holders. At September 30, 2006 the Company was in violation of certain requirements of this note; including the requirement to hold a meeting by December 4, 2005 to, among other things, authorize a class of preferred stock that can be used to satisfy the conversion feature of the Note. While WQN has not declared the Note in default, the full amount of the note at September 30, 2006 has been classified as current. In the event that WQN declares the Note in default, the outstanding principal amount of \$3,700,000 and interest then due, which as of December 31, 2006 was \$203,500 and all other amounts payable under the Note, will immediately become due and payable upon demand of WQN.

Shareholder Approval Required to Consummate the Acquisition

Approval of the holders of the common stock of WQN, Inc. was required in order for WQN, Inc. to enter into and consummate the Acquisition. WQN, Inc.'s shareholders approved the Acquisition on October 4, 2005.

The Company's Board recommends approving the proposed Amended and restated Articles of Incorporation to authorize 25,000,000 shares of Preferred Stock. Approval of this proposal will enable the Company to designate 2,000,000 shares of its preferred stock as Series A which will enable it to issue such shares of Series A Preferred Stock to WQN in connection with its contractual obligations. The approval will also provide the Company with additional shares of preferred stock which would be available for issuance and the board of directors would have the flexibility to act in a timely manner to take advantage of favorable market conditions and other opportunities with respect to stock splits, stock dividends, financing acquisitions and other corporate business, subject to any applicable laws or regulations. Such availability of an increased number of authorized shares and the ability to issue preferred stock will eliminate the delays and expense involved in first conducting a special meeting of shareholders in order to approve an amendment to the Company's Articles of Incorporation to increase the number of shares it is authorized to issue.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE “FOR” APPROVAL OF AMENDING THE COMPANY'S CERTIFICATE OF INCORPORATION TO AUTHORIZE 25,000,000 SHARES OF PREFERRED STOCK (WHICH APPROVAL DOES NOT EXTEND TO THE APPROVAL OF THE ISSUANCE OF ANY SHARES)

**PROPOSAL No. FOUR:
TO APPROVE THE COMPANY'S AMENDED AND RESTATED
ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF SHARES OF
COMMON STOCK THAT THE COMPANY IS AUTHORIZED TO ISSUE TO
400,000,000 SHARES OF COMMON STOCK
(ITEM 4 ON THE PROXY CARD)**

General

The Company's board of directors unanimously approved and recommended for adoption by the shareholders the Amended and Restated Articles of Incorporation (the "Amended and Restated Articles"), the text of which is attached to this Proxy Statement as Appendix D. The following proposal is to approve the Amended and Restated Articles, but does not approve any issuance of shares of common stock, and no shareholder approval for such issuances is required or being sought.

Background and Reasons for the Proposed Amended and Restated Articles

As of February 5, 2007, there were 100,000,000 shares of our common stock authorized, of which, 99,943,034 shares were issued and outstanding. Therefore, the Company has insufficient shares of common stock available for future issuance, or for the exercise of current stock options and warrants, or for the conversion of convertible debt securities.

The Amended and Restated Articles would increase the number of shares of the Company's common stock that it is authorized to issue to 400,000,000 shares of common stock and would enable the Company to comply with its contractual obligations including those described below. A copy of the Amended and Restated Articles of Incorporation is included as Appendix D to this Proxy Statement.

As discussed above, the Company executed an asset purchase agreement with WQN pursuant to which it acquired substantially all of the assets of WQN relating to WQN's "Voice over Internet Protocol" business. For a discussion of the acquisition of WQN, please see Proposal No. Three. Approving the Amended and Restated Articles of Incorporation will enable the Company to issue common stock to WQN as may be required pursuant to the asset purchase agreement.

In connection with a private placement memorandum dated May 20, 2005, we issued 2,242,500 shares of our common stock for \$0.80 per share, and warrants to purchase 2,207,751 common shares at prices from \$1.60 to \$2.23 per share. As required by the subscription agreements, a portion of these shares was registered with the SEC in October 2005, but that registration became ineffective in July 2006. Until a registration statement covering all related shares and warrants is declared effective by the SEC, or the underlying shares and warrants are eligible for sales under Rule 144, we are liable for liquidated damages, requiring the issuance of new common shares at the rate of 10% of the unregistered shares per month, currently amounting to 1,218,500 common shares owing. All underlying shares and warrants are currently eligible for sale under Rule 144, so additional liquidated damages are not accruing.

In July and October 2005 we issued and sold \$3,085,832 in principal amount of convertible notes to accredited investors at a discount, receiving net proceeds of \$2,520,320. These notes are immediately convertible at the option of the note holders into shares of our common stock, at an original conversion rate of \$0.80 per share. These investors also received five-year warrants to purchase 964,322 shares of our common stock for \$1.37612 per share, five-year warrants to purchase 964,322 shares of our common stock for \$1.6503 per share, and one-year warrants to purchase 1,928,644 shares of our common stock for \$1.60 per share. The investors also received "favored nations" rights such that for future securities offerings by the Company at a price per share less than the above conversion rate or warrant exercise prices, the investors' conversion rate and warrant exercise price would be adjusted to the lower offering price. The principal balance of these notes is currently \$488,543. In May 2006, we repriced these warrants to \$0.78 per

share, at which time these warrants were exercised, resulting in net proceeds to the Company of \$2,720,120. We then issued warrants to the investors to purchase a like number of shares for \$0.80. As a result of our September 2006 Section 3(a)(10) agreement described below, and the favored nations provision discussed above, the notes' conversion rate (retroactive to the original note principal balances) and the exercise price of outstanding warrants were effectively reduced to \$0.26 per share. We are required to file registration statements to register up to 200% of the shares issuable upon conversion of these notes, and all of the shares issuable upon exercise of the warrants issued in connection with these notes.

In November 2005, we issued 1,375,000 shares of our common stock for \$0.80 per share, and warrants to purchase 2,225,000 common shares at \$0.26 per share. (This conversion rate is less than the original conversion rate, due to the note's favored nations provision affected by the Section 3(a)(10) agreement described in Note R to our consolidated financial statements contained on page 17 of our September 30, 2006 Quarterly Report on Form 10-Q.) We also agreed to register a total of 5,850,000 common shares and warrants related to this and a related agreement by January 17, 2006.

In January and February 2006, we issued and sold \$11,959,666 in principal amount of convertible notes to accredited investors at a discount, receiving net proceeds of \$9,816,662. These notes are immediately convertible at the option of the note holders into shares of our common stock at an original conversion rate of \$1.318 per share. These investors also received five-year warrants to purchase 4,537,052 shares of our common stock for \$1.45889 per share, and one-year warrants to purchase 4,537,052 shares of our common stock for \$1.5915 per share. The investors also received "favored nations" rights such that for future securities offerings by the Company at a price per share less than the above conversion rate or warrant exercise prices, the investor's conversion rate and warrant exercise price would be adjusted to the lower offering price. The principal balance of the notes is currently \$8,353,102. As a result of the Section 3(a)(10) agreement and the favored nations provision discussed below, the notes' conversion rate (retroactive to the original note principal balances) was effectively reduced to \$0.26 per share. As a result of the October 2006 financing discussed below and the favored nations provision discussed above, the outstanding warrants were effectively re-priced to \$0.28 per share. We are required to file registration statements to register up to 120% of the shares issuable upon conversion of these notes, and all of the shares issuable upon exercise of the warrants issued in connection with these notes.

In September 2006, the parties to the January and February 2006 note sales commenced an action against the Company in the Circuit Court of the Twelfth Judicial Circuit, Sarasota County, Florida alleging breach of the notes (the "First Note Action"). In September 2006, the parties to the July and October 2005 note sales commenced an action against the Company in the Circuit Court of the Twelfth Judicial Circuit, Sarasota County, Florida alleging that the Company was in breach of the notes (the "Second Note Action").

The parties to the First Note Action and the Company entered into a Settlement Agreement and Release in September 2006. The material terms of the Settlement and Release are:

- The amount due and owing under the Notes shall be reset to the principal amount due under the Notes in the amount of \$8,318,284, together with interest due under the Notes in the amount of \$207,957.09, and liquidated damages provided in the Notes in the amount of \$374,322.77, for a total amount of \$9,781,719.
- The plaintiffs agreed to surrender \$4,940,000 of the Notes Claims, on a pro rata basis, to the Company in exchange for 19,000,000 shares of the Company's common stock, par value \$0.001 per share, through the issuance of freely trading securities issued pursuant to Section 3(a)(10) of the Act.
- Four of the plaintiffs agreed to surrender their Warrant Claims to the Company in exchange for 2,500,000 shares of the Company's common stock, par value \$0.001 per share, through the issuance of freely trading securities issued pursuant to Section 3(a)(10) of the Act.
- The plaintiffs agreed to retain the balance of their Notes Claims and the Company agreed to reset the conversion rate for the remaining balance under the Notes to \$0.26 per share, which shall retain all rights.
- The Company agreed to reduce the exercise price of the un-exercised warrants purchased by the plaintiffs in connection with the Notes to \$0.475.
- The Company agreed to amend its Certificate of Incorporation and take all steps necessary, including obtaining shareholder approval, to authorize at least an additional 18,621,997 shares of common stock, as well as sufficient shares to cover the un-exercised warrants issued to the plaintiffs under the Notes and hold such shares in reserve for the plaintiffs' benefit in connection with the balance by the Investors herein on or before November 30, 2006.
- The plaintiffs agreed that none of the plaintiffs shall sell more than its pro-rata allocation of thirty percent (30%) of the daily trading volume in the Company's common stock, provided however, any Investor may cumulate the daily trading volume in any given calendar week to compute their leak-out amount; provided further, that the aforementioned cumulative trading volume resets every Monday. This Investors' Leak-Out provision does not apply to any sale of the Company's common stock at a price above \$0.75 per share.
- With respect to the balance of the claims retained by the plaintiffs under the Notes, the plaintiffs retained all rights granted to them in Notes that were not specifically waived in settlement agreement.
- The Company and the plaintiffs agreed to execute a mutual release upon the plaintiffs' receipt of the shares issued pursuant to Section 3(a)(10).

The parties to the Second Note Action entered into a Settlement and Release in September 2006. The material terms of the Settlement and Release are:

The amount due and owing under the Notes shall be reset to the principal amount due under the Notes in the amount of \$911,781, together with interest due under the Notes in the amount of \$34,192 and liquidated damages provided in the Notes in the amount of \$41,030, for a total amount of \$987,003.

The plaintiffs agreed to surrender \$498,460 of the Notes Claims, on a pro rata basis, to the Company in exchange for 1,917,153 shares of the Company's common stock, par value \$0.001 per share, through the issuance of freely trading securities issued pursuant to Section 3(a)(10) of the Act.

- The plaintiffs agreed to retain the balance of their Notes Claims, and the Company agreed to reset the conversion rate for the remaining balance under the Notes to \$0.26 per share, which shall retain all rights.
- The Company agreed to amend its Certificate of Incorporation and take all steps necessary, including obtaining shareholder approval, to authorize at least an additional 1,879,011 shares of common stock and hold such shares in reserve for plaintiffs' benefit in connection with the balance of the Notes retained by plaintiffs herein on or before November 30, 2006.
- The plaintiffs agreed that none of the plaintiffs shall sell more than their pro-rata allocation of thirty percent (30%) of the daily trading volume in the Company's common stock, provided however, any Investor may cumulate the daily trading volume in any given calendar week to compute their leak-out amount; provided further, that the aforementioned cumulative trading volume resets every Monday. This Leak-Out provision does not apply to any sale of the Company's common stock at a price above \$0.75 per share.
- With respect to the balance of the claims retained by the plaintiffs under the Notes, the plaintiffs retained all rights granted to them in Notes that were not specifically waived in the Settlement Agreement.

- The Company and the plaintiffs agreed to execute a mutual release upon the Investors' receipt of the
- shares issued pursuant to Section 3(a)(10).

In September 2006, in connection with employment agreements, our Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") were each awarded options to purchase 10,000,000 shares of the Company's common stock at \$0.01 per share, subject to board of directors approval. Further, our CEO and COO are entitled to receive additional options with similar terms, in sufficient quantity to allow them to maintain a beneficial ownership of 5% and 8%, respectively, of the Company's outstanding common stock. On October 8, 2006, our COO was granted options to purchase 3,000,000 shares of the Company's common stock at \$0.36 per share under our 2004 Stock Option Plan. On October 9, 2006, we settled claims the COO had against the Company for alleged breaches of his employment agreement, and for nonregistration of the Company's common shares he holds pursuant to the Caerus merger agreement dated May 31, 2005, for \$1,080,000. Also on October 9, 2006, the COO exercised his options to purchase 964,782 common shares, and the proceeds were credited toward the settlement of his claims.

On October 17, 2006, we issued and sold \$2,905,875 in secured convertible notes to twelve accredited investors, for a net purchase price of \$2,324,700 (after a 20% original issue discount) in a private placement, receiving net proceeds of approximately \$1,436,900 (before closing costs of \$308,735). The investors also received five-year warrants to purchase a total of 10,378,125 shares of our common stock at an exercise price of \$0.407 per share. The note holders may at their election convert all or part of these convertible notes into shares of the Company's common stock at the conversion rate of \$0.28 per share, subject to adjustment as provided in the notes. We are required to file registration statements to register 130% of the shares issuable upon conversion of these notes, and all of the shares issuable upon exercise of the warrants issued in connection with these notes.

During November 2006 through January 2007, we executed fourteen (14) promissory notes (the "Notes") in the aggregate principal amount of \$1,666,667. Additionally, we agreed to issue certain of the Note holders five (5) year warrants to purchase available shares of the Company's common stock exercisable at \$0.475 per share, with the warrants containing a cashless exercise provision. The number of warrants that a Note holder will receive will be determined based upon the amount due under the Note (including interest) as of the repayment date of the Note, divided by the exercise price of the warrant.

On January 31, 2007, one of our lenders assigned a secured note payable previously issued by the Company to a group of accredited investors. The principal amount of the secured note at the time of its assignment was \$1,917,581. The secured note's terms were also amended to allow conversion of any unpaid principal balance into the Company's common stock at \$0.26 per share subject to sufficient authorized common shares, subject to adjustment as provided in the amended note agreement.

As a result of these and other transactions, 132,741,268 common shares are currently issuable upon the conversion of all convertible debt, and the exercise of all options and warrants. We are also contractually obligated to reserve an additional 38,326,739 shares from our authorized common shares. In addition, we are contractually obligated and plan to issue 12,696,153 common shares upon approval of our proposed increase in our authorized common shares. The following table specifies, for each listed obligation, the common shares issuable upon the conversion of all convertible debt and the exercise of all options and warrants, additional reservation requirements, and planned common share issuances upon approval of our proposed increase in our authorized common shares.

Additional Common Stock Issuable Upon Conversion/Exercise ¹				Additional Reservation Requirements ²			Current	Minimum
Convertible				Convertible			Obligations To Issue	Additional Authorized Shares
Notes	Warrants	Options	Subtotal	Notes	Options	Subtotal	Shares ³	Required

May 2005 private
placement

- 2,207,751 -