VOIP INC
Form 10KSB/A
November 23, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB/A
(Amendment No. 1)
(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period ____________to____________

Commission file number 000-28985

VOIP, INC.

(Name of small business issuer in its charter)

Texas	75-2785941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12330 SW 53rd Street, Suite 712 Ft. Lauderdale, Florida (Address of principal executive offices)	33330 (Zip Code)

Issuer's telephone number, including area code: (954) 434-2000

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES |X| NO |_|

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

The issuer's revenues for its most recent fiscal year were: $2,619,393.

The aggregate market value of the voting common stock held by non-affiliates of the issuer, based on the average bid and asked price of such stock, was $98,248,877 at December 31, 2004.

At March 18, 2005, the registrant had outstanding 26,378,132 shares of par value $.001 common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one): Yes |_| No |X|

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Explanatory Note

VoIP, Inc. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "2004 10-KSB"), which was originally filed on March 30, 2005. This Amendment is being filed to restate the Company's 2004 financial statements to include approximately $1.4 million in compensation expense relating to warrants and options issued to employees during 2004. This Amendment No. 1 amends (i) Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Plan of Operation to reflect the restated results of operations for 2004; (ii) Part II, Item 8 - Financial Statements to provide the restated financial statements and notes thereto for 2004; (iii) Part II Item 8A - Controls and Procedures - Evaluation of Disclosure Controls and Procedures to report management's assessment of the Company's disclosure controls as of the date of the filing of this Amendment No. 1; and (iv) the certifications required under Rules 13a-15 and 15d-15(e) of the Securities Exchange Act, as amended, (the "Exchange Act") so that they be dated as of a current date as required by Rule 12b-15 of the Exchange Act.

This Amendment No. 1 does not reflect events occurring after the filing of the 2004 10-KSB, and does not update or modify the disclosures therein in any way other than as required to reflect the amendments described above.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND PLAN OF OPERATION

The information presented in this section should be read in conjunction with the information contained in the financial statements, including the notes thereto, and the other financial statements appearing elsewhere in this report.

General

The following discussion should be read in conjunction with the Consolidated Financial Statements and the notes thereto and the other financial information appearing elsewhere in this Prospectus. Certain statements contained in this Prospectus and other written material and oral statements made from time to time by us do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" that provide current expectations or forecasts of future events. Such statements are typically characterized by terminology such as "believe," "anticipate," "should," "intend," "plan," "will," "expect," "estimate," "project," "strategy" and similar expressions. Our forward-looking statements generally relate to the prospects for future sales of our products, the success of our marketing activities, and the success of our strategic corporate relationships. These statements are based upon assumptions and assessments made by our management in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors our management believes to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including the following: our ability to achieve profitable operations and to maintain sufficient cash to operate its business and meet its liquidity requirements; our ability to obtain financing, if required, on terms acceptable to it, if at all; the success of our research and development activities; competitive developments affecting our current products; our ability to successfully attract strategic partners and to market both new and existing products; exposure to lawsuits and regulatory proceedings; our ability to protect our intellectual property; governmental laws and regulations affecting operations; our ability to identify and complete diversification opportunities; and the impact of acquisitions, divestitures, restructurings, product withdrawals and other unusual items. A further list and description of these risks, uncertainties and other matters can be found elsewhere in this Prospectus. Except as required by applicable law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Restatement of 2004 Financial Statements

We account for options and warrants issued to employees in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." During the preparation of the financial statements for the quarterly period ended September 30, 2005 we discovered that we did not recognize in our 2004 financial statements the full amount of compensation expense that should have been recognized on warrants issued to employees in 2004 or the compensation expense for the 4,000,000 stock options issued to employees in 2004. The compensation expense that was not recognized relating to these options and warrants was $ 1,384,763. We therefore decided it appropriate to restate our 2004 financial statements to include this compensation expense. The following table sets forth the impact of the restatements on certain amounts previously reported in our 2004 financial statements.

Consolidated Balance Sheet	As Previously Reported	As
Additional paid-in capital	$ 12,722,565	$
Accumulated deficit	$ (4,639,386)	$

Consolidated Statement of Operations for the nine months ended September 30, 2004:

Compensation and benefits	$ 2,721,296	$
Total operating expense	$ 4,909,174	$
Loss from operations	$ (4,160,050)	$
Net loss	$ (4,014,739)	$
Loss per share	$ (0.27)	$

Comparision of 2004 to 2003

Balance Sheet Data:	December 31, 2004
Total assets	$10,215,552
Long-term liabilities, net	$ 0
Total liabilities	$ 2,108,114
Shareholders' equity	$ 8,107,438

	Year Ended December 31,	
Statements of Operations Data:	2004	2003
Revenue	$ 2,619,393	$ --
Operating (loss)	$(5,544,813)	$ (352,968)
Net loss	$(5,399,502)	$ (352,968)
Net loss per share	$ (0.37)	$ (0.20)

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Net revenue totaled $3,028,006 ($2,619,393 from continuing operations), for the year ended December 31, 2004 as compared to $8,678 for the year ended December 31, 2003. The $3,019,328 increase in total net revenue was primarily attributable entry into the new "VoIP" (Voice over IP) business segment and the acquisition of Voipamericas, Inc. and DTNet Technologies, Inc. in 2004.

Revenue from the sale of tea in the segment business that we have discontinued was $ 408,613, or 13.5%, of total net revenue for the year ended December 31, 2004, versus $8,678, or 100%, of total net revenue for the prior year.

As mentioned in Note A to the financial statements, the Company acquired DTNet in June 2004 and Voipamericas in September 2004. DTNet provides customer premises equipment to cable and DSL Internet providers throughout North America. DTNet sales were approximately $4.7 million in 2003. Voipamericas revenues for the first nine months of 2004 were $1.4 million. Management believes that the acquisitions of DTNet and Voipamericas will provide proven distribution channels and leadership in sales throughout the Americas. DTNet and Voipamericas complement the Company's strategy to deliver Voice over Internet Protocol over a wireless local loop and deliver service provider solutions to cable operators.

Net losses for the respective years ended December 31, 2004 and 2003 were $5,399,502 and $352,968. Net loss per share was $0.37 and $0.20 respectively for each period.

Operating expenses consist of salaries and related personnel costs, outside legal and professional fees, directors and officers insurance, bad debt expenses and general corporate overhead costs. Operating expenses were $6.3 million for the year ended December 31, 2004. Operating expenses for 2003 have been reclassified and included in the loss from discontinued operations for 2003 of $352,968. Compensation and related expenses for 2004 include approximately $2.2 million in compensation costs for warrants issued to employees and approximately $1.1 million in compensation costs for stock options issued to employees and also reflect increases in headcount and related personnel expenses. The general and administrative expenses for 2004 reflect the Company's new line of business, VoIP telephony services.

The comparison of operations for the years ended December 31, 2004 and 2003 is not indicative of the Company's current business model. Whereas, during 2003 the Company was in the business of importing and selling a line of fine teas. The Company has, since discontinued the tea business, to focus solely on VoIP and emerging technologies.

(b) Liquidity and Capital Resources

As of December 31, 2004, we had cash and cash equivalents approximating $1,141,000. We currently have two borrowing arrangements, one for $200,000 with a local bank and one for $560,000 with a note payable to a shareholder. Cash used in operating activities of $2.9 million in fiscal year 2004 was primarily attributable to the net loss of $5.5 million, which included non cash items for warrants and options issued to Company employees amounting to approxumately $3.3 million recorded as compensation in the Consolidated Statement of Operations. Cash provided by financing activities in fiscal 2004 consisted primarily of $3.6 million of proceeds resulting from the sale of common stock to investors in private placement transactions during the whole year and, as above-mentioned, proceeds from issuance of note payable of $560,000.

Liquidity for the period from inception through December 31, 2004 has been mainly provided by sales of common stocks through private placements and borrowing from affiliates. Management has taken actions directly related to the generation of product sales during calendar 2004 and anticipates that these efforts will be sufficient to provide reasonable resources to sustain its operations during 2005.

The Company anticipates that all working capital requirements for the current annual period will be satisfied from the operation of the newly acquired business and the sales of additional common shares through private placements.

(c) Payments Due by Period

The following table illustrates our outstanding debts and the terms of that debt as of December 31, 2004:

Contractual Obligations	Total	Less than 1 Year
Long-Term Debt	$ 0.00	$ 0.00
Notes Payable to shareholders	560,000	$ 560,000
Operating Leases	35,572	$ 35,572
Purchase Obligations	0.00	$ 0.00
Total	$ 595,572	$ 595,572

(d) Market Risk

We own market investment securities issued by various securities issuers. The issuers of these products retain all interest rate and default risk.

Available Information

We maintain a corporate Internet website with the address www.voipincorporated.com. The contents of this website are not incorporated in or otherwise to be regarded as part of this report. We file reports with the Securities and Exchange Commission, or SEC, which are available on our website free of charge. These reports include annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

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ITEM 7. FINANCIAL STATEMENTS

The financial statements required by this item begin at Page F-1 hereof.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the filing of our 2004 10-KSB on March 31, 2005 the Company's management, with the participation of our chief executive officer and chief financial officer at that time, evaluated the effectiveness of our Disclosure Controls and Procedures as of December 31, 2004.

We hired a new chief executive officer and new chief financial officer in October 2005. The Company's management, with the participation of our new chief executive officer and new chief financial officer, evaluated the effectiveness of our controls and procedures in connection with the filing of our quarterly report on Form 10-QSB for the quarterly period ended September 30, 2005. In connection with this evaluation and a review of the financial information reported for current and prior periods, we noted the errors resulting in the amended information and restated 2004 financial statements reported in this Amendment No. 1 to our 2004 10-KSB. We have concluded these errors occurred because we did not possess sufficient personnel experienced with the implementation of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" and with U. S. generally accepted accounting principles. Based upon the control deficiency and restatement discussed above, our present chief executive officer and chief financial officer have concluded that our disclosure controls and procedures at September 30, 2005 were not effective in gathering, analyzing and disclosing information needed to satisfy our Company's disclosure obligations under the Exchange Act. We expect to begin to implement measures to improve our disclosure controls beginning with the quarterly period ending December 31, 2005.

PART III

ITEM 13. EXHIBITS

(a) The following documents are filed as part of this Annual Report on Form 10-KSB/A:

1. Financial Statements: The financial statements filed as part of this report are listed in the "Index to Financial Statements" on Page F-1 hereof.

2. Exhibits required to be filed by Item 601 of Regulation 10-KSB

Other Material Contracts

23.1 Consent of Tschopp, Whitcomb & Orr, P.A.

31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer under 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer under 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

VoIP INC.

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Financial Statements of VoIP, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
VoIP, Inc. and Subsidiaries
Fort Lauderdale, Florida

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

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the consolidated financial position of VoIP, Inc. and its subsidiaries, as of December 31, 2004, and the results of operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B to the consolidated financial statements, the accompanying consolidated balance sheet and related statements of operations, shareholders' equity and cash flows have been restated to reflect the accounting for certain stock warrants and options awarded to employees during 2004.

/s/ Berkovits, Lago & Company, LLP

Fort Lauderdale, Florida
March 16, 2005 except for Note B as to which the date is November 23, 2005

TSCHOPP, WHITCOMB & ORR, P.A.

2600 Maitland Center Parkway, Suite 330
Maitland, FL 32751

Report of Independent Certified Public Accountants

Board of Directors and Stockholder
Millennia Tea Masters, Inc.

We have audited the accompanying balance sheet of Millennia Tea Masters, Inc. as of December 31, 2003 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Millennia Tea Masters, Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced limited sales and incurred cumulative operating losses since its inception through December 31, 2003. The Company has been dependent upon the proceeds from the sales of common stock and advances from related parties to provide working capital. This situation raises a substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Tschopp, Whitcomb & Orr, P.A.

January 30, 2004
Maitland, Florida

VoIP Inc.
Consolidated Balance Sheets
December 31, 2004 and 2003

	Dec. 31, 2004	Dec. 31, 2003
	(As Restated)	

ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,141,205	$ --
Accounts receivable, net of allowance of $136,795	818,071	--
Due from related parties	245,402	--
Inventory	187,451	--
Assets from discontinued operations	412,419	259,459
Other current assets	43,702	--
Total Current Assets	2,848,250	259,459
Property and equipment, net	419,868	--
Intangibles	6,923,854	--
Other assets	23,580	--
TOTAL ASSETS	$ 10,215,552	$ 259,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,224,974	$ --
Bank loans and note payable	760,000	--
Liabilities from discontinued operations	--	151,167
Other current liabilities	123,140	--
Total Liabilities	2,108,114	151,167
Shareholders' equity:		
Common stock - $0.001 par value 100,000,000 shares authorized 24,258,982 and 1,730,939 issued and outstanding respectively	24,259	1,731
Additional paid-in capital	14,107,328	731,208
Accumulated deficit	(6,024,149)	(624,647)
Total shareholders' equity	8,107,438	108,292
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 10,215,552	$ 259,459

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

VoIP Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2004 and 2003

	Year ended December 31, 2004 (As Restated)	Year ende December 31,
Revenues	$ 2,619,393	$
Cost of Sales	1,870,269	
Gross Profit	749,124	
Operating expenses		
Compensation and related expenses	4,106,059	
General and administrative expenses	2,187,878	
Loss from continuing operations before income taxes and discontinued operations	(5,544,813)	
Provision for income taxes	--	
Net loss before discontinued operations	(5,544,813)	
Income (Loss) from discontinued operations, net of income taxes	145,311	(35
Net Loss	$ (5,399,502)	$ (35
Basic and diluted loss per share:		
Loss before discontinued operations	$ (0.38)	$
Income (loss) from discontinued operations, net of income taxes	$ 0.01	$
Total	$ (0.37)	$
Weighted average number of shares outstanding	14,597,312	1,73

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

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VoIP Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2004 and 2003

	Year ended December 31, 2004	Year ended December 31, 2003

	(As Restated)	
Cash flows from operating activities:		
Continuing operations:		
Net loss	$ (5,544,813)	$ --
Adjustments to reconcile net loss to net cash used in operating activities	--	--
Depreciation	82,832	--
Provision for bad debt	136,795	--
Common shares issued for services	494,166	--
Warrants issued to employees and stock option compensation	3,320,763	--
Shares issued for intellectual property	105,000	--
Changes in operating assets and liabilities net of assets and liabilities acquired:		
Accounts receivable	(555,007)	--
Due from related parties	(245,402)	--
Inventory	144,913	--
Other current assets	8,531	--
Accounts payable	(296,305)	--
Other current liabilities	(315,587)	--
Net cash used in continuing operating activities	(2,664,114)	--
Discontinued operations:		
Income (loss) from discontinued operations	145,311	(352,968)
Changes in assets, liabilities, and net results	(408,000)	274,262
Net cash used in discontinued operating activities	(262,689)	(78,706)
Net used in operating activities	(2,926,803)	(78,706)
Cash flows from investing activities - continuing operations:		
Cash from acquisitions	104,872	--
Purchase of property and equipment	(157,881)	--
Cash for intellectual property	(50,000)	--
Purchase of other assets	(21,100)	--
Net cash used in continuing investing activities	(124,109)	--
Discontinued operations:		
Cash from affiliates	--	82,196
Net cash provided by discontinued investing activities	--	82,196
Net cash provided by (used in) investing activities	(124,109)	82,196
Cash flows from financing activities:		
Proceeds from issuance of notes payable	560,000	--
Proceeds from sales of common stock	3,628,618	--
Net cash provided by investing activities	4,188,618	--
Net increase in cash	1,137,706	3,490
Cash at beginning of year	3,499	9

Cash at end of year	$ 1,141,205	$ 3,499
Non-cash investing and financing activities:		
Common stock issued for services	$ 494,166	$ --
Warrants issued to employees	$ 3,320,763	$ --
Shares issued for intellectual property	$ 105,000	$ --

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

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VoIP, Inc.
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2004 and 2003
(As Restated for 2004)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital
Balance as of December 31, 2002	1,730,939	$ 1,731	$ 731,208
Loss for the for the year	--	--	--
Balance as of December 31, 2003	1,730,939	1,731	731,208
Common stock issued	12,500,000	12,500	--
Common Stock issued for services received	568,235	568	342,432
Common stock issued to investors for cash received	5,520,566	5,521	3,610,598
Common stock issued for services	339,242	339	150,827
Common Stock issued for acquisition of DTNet Tech	2,500,000	2,500	4,747,500
Common Stock issued for acquisition of VoipAmericas	1,000,000	1,000	1,099,000
Warrants issued to two company officers and stock option compensation	--	--	3,320,763
Stock issued for intellectual property	100,000	100	105,000
Loss for the year	--	--	--
Balance December 31, 2004	24,258,982	$ 24,259	$ 14,107,328

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

Note A - Organization and Description of Business

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

The Company began operations in October 1998 with its initial order of imported teas from Sri Lanka.

On February 27, 2004 the Company entered into a stock purchase agreement that provided for the sale of 12,500,000 shares of its common stock in exchange for $12,500 and a commitment by the purchaser to contribute the assets of two start-up companies in the telecommunications business, eGlobalphone, Inc. and VOIP Solutions, Inc. into the Company.

On April 13, 2004 the Company changed its name to VoIP, Inc. and began to develop and manufacture innovative IP telephony customer premise equipment, provide premium voice over the internet subscriber based telephony services and state of the art long range WiFi technology solutions, for residential and enterprise customers, including multimedia applications.

During December 2004 the Company decided to exit the tea import business in order to focus its efforts and resources in the "Voice over Internet Protocol" (VoIP) telecommunications industry. In connection with the decision, the Company sold its imported tea inventory and began to wind down its tea import operations. The assets, liabilities, and results of operations of the imported tea business has been classified as discontinued operations on the accompanying consolidated financial statements.

The Company offers quality Voice over IP (VoIP) based solutions offering residential and business customers more user friendly and affordable ways to communicate. VoIP, Inc. also manufactures products and provides services to Internet Service Providers, Telecommunication Service Providers and Cable Operators in strategic countries around the world. VoIP, Inc., through its subsidiaries, provides a comprehensive portfolio of IP multimedia-based solutions ranging from subscriber based voice services, to SIP based infrastructure design and deployment, to broadband customer premise equipment design and implementation services, as well as engineering design, manufacturing and distribution of wireless broadband technology.

The Company's operations consist of one segment.

NOTE B - RESTATEMENT OF FINANCIAL STATEMENTS

The Company accounts for options and warrants issued to employees in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." During the preparation of the financial statements for the quarterly period ended September 30, 2005 the Company discovered that it did not recognize in its 2004 financial statements the full amount of compensation expense that should have been recognized on warrants issued to employees in 2004 or the compensation expense for the vested portion of approximately 4,000,000 stock options issued to employees during the year ended December 31, 2004. The compensation expense that was not recognized relating to these options and warrants was $1,384,763 (see Notes I, L and O). The Company therefore, decided that it would be appropriate to restate its financial statements for the year ended December 31, 2004. The following table sets forth the impact of the restatement on certain amounts previously reported in the consolidated 2004 financial statements.

Consolidated Balance Sheet at December 31, 2004:	As Previously Reported	As
Additional paid-in capital	$ 12,722,565	$
Accumulated deficit	$ (4,639,386)	$
Consolidated Statement of Operations for the year ended December 31, 2004:		
Compensation and related expense	$ 2,721,296	$
Total operating expense	$ 4,909,174	$
Loss from operations	$ (4,160,050)	$
Net loss	$ (4,014,739)	$
Loss per share	$ (0.27)	$

Note C - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, eGlobalphone, Inc. ("eGlobal") , VoIP Solutions, Inc., VCG Technologies d/b/a DTNet Technologies ("DTNet"), Inc., and VoxConsulting d/b/a/VoIP Americas, Inc. ("VoIP Americas") from their respective dates of acquisition. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and cash equivalents

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the reserve method based on its assessment of the current status of the individual receivables and after using reasonable collection efforts. As of December 31, 2004 the balance of the allowance for uncollectible accounts amounted to $136,795. There was no allowance as of December 31, 2003.

Inventory

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

Advertising expenses

Advertising and marketing expenses are charged to operations as incurred.

Income Taxes

Income taxes - The Company and its subsidiaries file consolidated federal and state income tax returns. The Company has adopted Statement of Financial Accounting Standards No. 109 in the accompanying consolidated financial statements. The only temporary differences included therein are attributable to differing methods of reflecting depreciation for financial statement and income tax purposes.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted-average number of shares of common stock outstanding. The calculation of fully diluted earnings (loss) per share assumes the dilutive effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method.

Fair Value of Financial Instruments

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

Revenue Recognition

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

The recognition of revenues from Internet telephony services are deferred for new subscribers of eGlobalphone and Voipsolutions until it deems that the customer has accepted the service. Subsequent revenues are recognized at the beginning of each customer's month.

Property, plant, and equipment

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

Business combinations

The Company accounts for business combinations in accordance with Statement of Financial Accounting Standard No. 141 Business Combinations ("SFAS No. 141"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 requires that goodwill and intangible assets

with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). This pronouncement also requires that the intangible assets with estimated useful lives be amortized over their respective estimated useful lives.

Impairment of long-lived assets

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

Recent accounting pronouncements

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

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

In December 2004, FASB issued Statement No. 123R, "Share-Based Payment." Statement No. 123R revises Statement No. 123, supersedes APB Opinion No. 25 and amends Statement No. 95. Statement No. 123R requires the cost of employee services received in exchange for an award of equity instruments be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of this Statement are effective for public entities that do not file as small business issuers as of the beginning of the first interim period or annual reporting period that begins after December 15, 2005. The Company does not expect the adoption of this Statement to have a material impact on its financial statements.

Stock Based Compensation

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

Note D - Property and Equipment, net

As of December 31, 2004 property and equipment consists of the following:

Office Equipment	$ 519,810
Furniture & Fixtures	56,748
Vehicles	4,769
Leasehold Improvements	4,562
Total	585,889
Less accumulated depreciation	(166,021)
Total	$ 419,868

Depreciation expense for 2004 amounted to $82,832. There was no depreciation expense for 2003.

Note E - Intangibles

As of December 31, 2004 intangibles consist of the following:

Goodwill-acquisition of DTNet Technologies, Inc.	$5,210,553
Goodwill-acquisition of Voipamericas, Inc.	1,408,301
Intellectual property	305,000

Total	$6,923,854

The goodwill on the acquisition of DTNet Technologies, Inc. ("DTNet") represents the fair market value of DTNet liabilities as of the date of the acquisition plus $4,750,000 which represents the market value of 2,500,000 shares of Company stock issued pursuant to this acquisition.

The goodwill on the acquisition of VoIPAmericas, Inc. (VoIP Americas) represents the fair market value of VoIPAmericas liabilities as of the date of the acquisition plus $1,100,000 which represents the market value of 1,000,000 shares of the Company's stock issued pursuant to this acquisition.

Intellectual property is carried at cost which is comprised of $50,000 paid in cash in 2004, $150,000 due in the first quarter of 2005, and the value assigned to 100,000 Company common shares and 400,000 warrants issued pursuant to this transaction. The valuation of the shares was $1.05 while the value was $105,000. The value of the warrants was determined using the Black-Scholes model calculated as of October 14, 2004. As these warrants were not "in the money" these warrants have been assigned a value of zero. This model uses the annualized deviation calculation and utilizes industry averages as a comparison for adequate statistical results in the valuation. This is a standard financial model that considers the statistical annual volatility of the market changes in a stock price. (See Note H)

Intellectual property consists of the following:

a) all rights of the Company of Record in the telephone numbers 1(800)TALKTIME, 1(888)TALKTIME, and 1(877)TALKTIME.COM

b) all rights to the URL's (domain names) 800TALKTIME.COM, 1800TALKTIME.COM, and 1-800-TALKTIME.COM

c) all rights to U.S. Trademark Registration No. 2,209,316 directed to the mark 1-800-TALKTIME and the goodwill associated therewith.

Note F - Accounts Payables and Accrued Expenses

As of December 31, 2004 accounts payables and accrued expenses consist of the following:

Account Payables Trade	$ 988,815
Accrued Expenses	233,711
Other	2,448
Total	$1,224,974

Note G - Bank Loans and Note Payable

As of December 31, 2004 bank loans and note payable consists of the following:

a) Bank Loan:

Revolving Line of Credit	$ 187,000

Promissory Note	13,000
	200,000
b) Note Payable	560,000
Total	$ 760,000

a) The revolving line of credit with the Bank of Tampa is interest only payable at prime plus 1.0% monthly. The promissory note is payable in monthly installments of approximately $6,200 including interest at a rate of 7.5%. The loans are collateralized by receivables, inventory and equipment. Both balances were fully paid in January 2005.

b) In December 2004 the Company issued a note payable to a shareholder in the amount of $560,000 at an interest rate of 3.75% with a maturity date of December 2005. As mentioned in Note K on January 6, 2005, the Company issued another note payable amounting to $1,040,000 to the same shareholder under the same terms and conditions as the previous one.

Note H - Acquisitions

On May 25, 2004 (but effective for all purposes as of April 15, 2004), the Company completed the acquisition of two Florida-based entities, (eGlobalphone, Inc. and VoIP Solutions, Inc.). Contribution of these start-up companies was the basis for the original decision to issue a controlling block of shares of common stock to Mr. Ivester. eGlobalphone, Inc. and VoIP Solutions Inc. are both Florida corporations.

In June 2004, the Company acquired DTNet Technologies, Inc. a Florida Corporation. The acquisition was financed through the issuance of 2,500,000 shares of the Company's common stock with a value of $4,750,000 in exchange for all issued and outstanding shares of DTNet common stock.

In September 2004, the Company closed the acquisition of VoIP Americas, a Florida corporation. The acquisition was financed through the issuance of 1,000,000 shares of the Company's restricted common stock with the value of $1,100,000 in exchange for all issues and outstanding shares of VoIP Americas.

Note I - Warrants

On August 4th, 2004, the Company issued 4,400,000 warrants to two executives to acquire 2,200,000 Company common shares at $1.00 each. The compensation expense of $2,217,600, is in the accompanying Consolidated Statement of Operations.

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A summary of the Company's warrants as of December 31, 2004 is presented below:

	2004	
		Weighted

	Warrants	average exercise price
Warrants outstanding at beginning of year	--	
Granted to two Company officers	4,400,000	$ 1.00
Granted to third parties	2,400,000	$ 2.58
Expired	--	
Exercised	--	
Warrants outstanding at end of year	6,800,000	$ 1.59

Note J - Commitments

The Company is obligated under non-cancelable operating leases for its office facilities and two apartments used by its employees. Future minimum lease payments under the Company's non-cancelable operating lease as of December 31, 2004 are as follows:

Year ending Dec 31	
2005	$ 52,772
2006	15,155
	$ 67,927

Note K - Due From Related Parties

As of December 31, 2004 the due from related parties consists of the following:

DTNet, Inc. (*)	$ 134,317
DTNet International (*)	119,974
Mozart Communication	21,794
Com Laser	5,850
Due to related parties	(36,533)
	$ 245,402

* The above entities are related to a shareholder of the Company. These advances are unsecured, due upon demand and are non-interest bearing.

Note L - Income Taxes

The components of the Company's consolidated income tax provision are as follows:

	Year ended December 31, 2004 (As Restated)	2003

Current Benefits	$(1,836,000)	(119,000)
Valuation allowance	1,836,000	119,000
Total	--	--

	2004	2003
Long-term deferred tax assets arising from net operatiing loss carry forward	$(1,956,000)	$ (119,000)
Valuation allowance	1,956,000	119,000
Total	--	--

The reconciliation of income tax provision at statutory rate to the reported income tax expense is as follows:

	Year ended December 31 2004	2003
Computed at statutory rate	34%	34%
State tax net of federal benefits	--	--
Valuation allowance	(34%)	(34%)
Total	--	--

At December 31, 2004 and December 31, 2003 deferred tax assets are related solely to the Company's net operating loss carry forward of approximately $4,486,000 and $303,000, respectively, which have been reduced by a valuation allowance. If these carry forwards are not utilized, they will begin to expire in 2018.

Note M - Stockholders' Equity

On February 27, 2004, the Company issued and sold 12,500,000 shares of common stock to Steven Ivester in exchange for cash of $12,500 and his agreement to contribute the intellectual property rights and related assets of two start-up companies formed to engage in the telecommunications industry. The shares issued represented approximately 88% of the shares outstanding after the exchange, as a result of which Mr. Ivester became the controlling shareholder of the Company.

On April 1, 2004, the Company issued 142,902 shares to two accredited investors in satisfaction of accounts payable totaling $71,421.

In May 2004, the Company issued 1,143,250 shares to twenty-two individual accredited investors.

In May 2004, the Company issued 168,235 shares to one individual accredited investor in exchange for services.

In May, 2004, the Company issued 67,300 shares to fourteen individual accredited investors at a price of $3.00 per share.

On May 19, 2004, the Company issued 196,340 shares to two accredited investors in satisfaction of accounts payable totaling $79,745.

On June 25, 2004, the Company closed the acquisition of DTNet Technologies, Inc. ("DTNet") a Florida corporation. The acquisition was effective through the issuance of 2,500,000 shares of VoIP, Inc. restricted common stock in exchange for all issued and outstanding shares of DTNet common stock.

In July 2004, the Company issued 668,688 shares to six individual existing accredited investors. Also effective July 2004, registrant issued 41,688 shares to four accredited individual investors.

On August 4, 2004, the Company issued 4,400,000 warrants to two executives to acquire 4,400,000 shares at $1.00 per share. As explained in Note P, subsequent events, in February 2005, 2,200,000 of warrants were exchanged for restricted shares.

In August 2004, the Company issued 50,000 shares to one individual accredited investor in satisfaction of accounts payable totaling $50,000.

In August 2004, the Company issued 653,319 shares to forty-six individual accredited investors.

In September 2004, the Company issued 38,461 shares to one accredited investor.

On September 1st, 2004, the Company closed the acquisition of VoIP Americas, a Florida corporation. The acquisition took the form of an exchange of 1,000,000 shares of VoIP restricted common stock in exchange the all issued and outstanding shares of VoIP Americas common stock.

In October 2004, the Company issued 251,831 shares to twelve accredited investors.

In October 2004, the Company issued 100,000 shares to one individual accredited investors.

In November 2004, the Company issued of 2,249,500 to five accredited investors.

In November 2004, the Company issued 318,500 shares to twelve accredited investors.

In December 2004, the Company issued 79,659 shares to five accredited investors.

In December 2004, the Company issued 400,000 shares to sixteen accredited investors.

Note N - Discontinued Operations

In December 2004, the Company decided to exit the tea business and sold all its tea inventory, Therefore, those transactions have been presented as discontinued operations for the years ended December 31, 2004 and 2003.

Assets, liabilities, and results of the discontinued tea operations of the Millennia Tea Master division are as follows:

Assets from discontinued operation:

	2004	2003
Cash	$ 4,419	$ 3,499

Notes receivable from purchaser of tea (non-interest bearing due in four equal installments through December 31, 2005)	408,000	--
Tea inventory at net realizable value	--	251,534
Other assets	--	4,426
Total	$ 412,419	$ 259,459

Liabilities from discontinued operations:

Due to related parties	$ --	$ 151,167
Total	$ --	$ 151,167

Results from discontinued operations:

Revenues	$ 408,613	$ 8,678
Cost of sales	263,302	11,213
Gross profit	145,311	(2,535)
Other expenses	--	350,433
Income (loss) from discontinued operations:	$ 145,311	$(352,968)

NOTE O - Stock Options

A total of 4,000,000 shares of common stock has been reserved for issuance under the Company's 2004 Employee Stock Option Plan. The Company accounts for the fair value of its grants under its 2004 Stock Option Plan in accordance with SFAS No. 123. The compensation cost that has been charged against income for the 2004 Option Plan was approximately $1,117,000 in 2004.The activity in this 2004 Option Plan for the year ended December 31, 2004 is as follows:

	Number	Exercise Price Range
Options outstanding at December 31, 2003	--	
Options granted	4,000,000	$0.85 - $1.56
Options returned to the plan due to terminations	(350,000)	$1.10
Options outstanding at December 31, 2004	3,650,000	$0.85 - $1.56

Options exercisable at year-end	903,750
Weighted-average fair value of options granted during the year	$0.82

Note P - Subsequent Events

On January 6, 2005, the Company issued a Note Payable to its controlling shareholder in the amount of $1,040,000 at an interest rate of 3.75%, maturing in December 2005.

On January 26, 2005, the Company filed a Form S-8 registration statement in connection with the Company's 2004 Stock Option Plan. The plan provides for the grant to eligible employees and directors of options for the purchase of Common Stock. The Option Plan covers, in the aggregate, a maximum of 4,000,000 shares of Common Stock and provides for the granting of both incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986) and nonqualified stock options (options which do not meet the requirements of Section 422). Under the Option Plan, the exercise price may not be less than the fair market value of the Common Stock on the date of the grant of the option.

On February 14, 2005, an officer exercised a Stock Purchase Warrant to purchase 2,200,000 shares of VoIP, Inc. common stock by surrendering such Warrant, and, based upon an agreement with the Company, receiving in return 750,000 shares of restricted common stock in a net exercise.

On February 23, 2005, VoIP, Inc. and its subsidiary eGlobalPhone, Inc. executed an Asset Purchase Agreement for the purchase of certain intellectual property rights associated with the trade names TALKTIME and TALKTIME.COM. In exchange for the rights, the Registrant issued 100,000 shares of restricted common stock, warrants to purchase 400,000 shares at $1.70 per share, and agreed to pay $200,000 cash. Negotiations started during the last quarter of 2004, therefore all the cash disbursements, liabilities, shares issued, and commitments were recorded in that period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons in the capacities and on the dates indicated.

Name	Office	Date
/s/ B. Michael Adler ------------------------ B. Michael Adler	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	11/23/05
/s/ David Sasnett ------------------------ David Sasnett	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	11/23/05