VIPER NETWORKS INC
Form 10QSB
August 31, 2006

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

FORM 10-QSB

(Mark one)
x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

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

For the transition period from ___________ to ____________

Commission File Number: 0-032939

Viper Networks, Inc.
(Exact name of registrant as specified in its charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	**87-0140279 (IRS Employer Identification No.)**
10373 Roselle Street, Suite 170 San Diego, California (Address of Principal Executive Offices)	**92121 (Zip Code)**

Registrant's Telephone Number, Including Area Code: (858) 452-8737

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

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

The aggregate market value of the voting stock held by non-affiliates (206,616,655 shares of Common Stock) was $8,884,516 as of June 30, 2006. The stock price for computation purposes was $0.0430. This value is not intended to be a representation as to the value or worth of the Registrant's shares of Common Stock. The number of shares of non-affiliates of the Registrant has been calculated by subtracting shares held by persons affiliated with the Registrant from outstanding shares. The number of shares outstanding of the Registrant's Common Stock as of June 30, 2006 was 241,728,557.

VIPER NETWORKS, INC.
FORM 10-QSB QUARTERLY REPORT
FOR THE QUARTERLY Period ended June 30, 2006

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PART 1. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENT

BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-QSB pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of the financial position, results of operations, cash flows, and stockholders equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

The unaudited balance sheet of the Company as of June 30, 2006, and the related balance sheet of the Company as of December 31, 2005, which is derived from the Company's audited financial statements, the un-audited statement of operations and cash flows for the six months ended June 30, 2006 and June 30, 2005 and the statement of stockholders equity for the period of December 31, 2004 to June 30, 2006 are included in this document.

Operating results for the quarter and six months ended June 30, 2006 are not necessarily indicative of the results that can be expected for the year ending December 31, 2006.

Chang G. Park, CPA, Ph. D.
t 371 E STREET t CHULA VISTA t CALIFORNIA 91910-2615t
t TELEPHONE (858)722-5953 t FAX (858) 408-2695 t FAX (619) 422-1465
t E-MAIL changgpark@gmail.com t

To the Board of Directors of
Viper Networks Inc. and Subsidiaries

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have reviewed the accompanying consolidated balance sheet of Viper Networks, Inc. and Subsidiaries as of June 30, 2006, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the six and three months then ended. These financial statements are the representation of the management of Viper Networks, Inc. and Subsidiaries

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be 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. Because of the Company's current status and limited operations there is substantial doubt about its ability to continue as a going concern. Management's plans in regard to its current status are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Chang G. Park, CPA
CHANG G. PARK, CPA

August 29, 2006
Chula Vista, CA 91910

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

		June 30, 2006 (Unaudited)		December 31, 2005
ASSETS				
Current assets:				
Cash	$	74,891	$	33,430
Short-term investments		5,400		4,000
Accounts receivable, net of allowance for doubtful accounts and sales returns (Note 4)		166,478		119,039
Inventories (Note 4)		80,298		74,959
Other current assets (Note 4)		471,467		194,874
Total current assets		798,534		426,301
Property and equipment, net (Note 4)		160,685		179,640
Goodwill (Note 5)		200		149,541
Total assets	$	959,419	$	755,482
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable	$	516,159	$	589,918
Accrued liabilities (Note 4)		147,477		84,492
Loans from related party (Note 7)		24,734		460,052
Taxes payable		6,204		3,749
Deferred revenues (Note 4)		210,482		185,293
Short term debt		100,370		148,438
Total current liabilities		1,005,426		1,471,943
Commitments and Contingencies (Note 9)				
Stockholders equity (deficit):				
Preferred stock: authorized 10,100,000 shares, 3,000,000 shares designated Series A, 1,100,000 and 0 shares issued and -0- shares issued and outstanding (Note 10)outstanding (Note 10)		1,100		-
Common stock: 250,000,000 shares authorized of $0.001 par value, 241,728,557 and 151,048,582 shares issued an outstanding		241,729		151,049
Additional paid-in capital		15,620,751		12,602,966
Unearned stock-based compensation		(95,441)		(113,694)
Treasury stock		(223,028)		(223,028)
Accumulated deficit		(15,513,393)		(13,054,628)
Accumulated comprehensive loss		(77,725)		(79,125)
Total stockholders' equity (deficit)		(46,007)		(716,461)
Total liabilities and stockholders' equity (deficit)	$	959,419	$	755,482

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,	
	2006	2005
Net Revenues	$ 845,880	$ 858,338
Cost of revenues	784,190	718,892
Gross Margin	61,690	139,446
Operating Expenses		
General and administrative	871,224	878,543
Bad debt (recovery) expense	4,630	8,481
(Recovery) impairment of intangibles	-	(529,833)
Total Operating Expenses	875,854	357,192
Gain (Loss) from operations	(814,164)	(217,745)
Other income (expenses)		
Realized gain on marketable securities	66,482	-
Interest expense	(2,018)	(39,923)
Other income	1,021	1
Total other income (expenses)	65,485	(39,922)
Net loss	$ (748,679)	$ (257,667)
Basic loss per share	$ (0.00)	$ (0.00)
Weighted average number of shares outstanding	240,027,458	129,191,823

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues	$ 1,316,425	$ 1,805,291
Cost of revenues	1,188,763	1,643,805
Gross Margin	127,662	161,487
Operating Expenses		
General and administrative	2,617,887	1,719,131
Bad debt (recovery) expense	19,324	(18,352)
Equity loss from unconsolidated subsidiaries	-	14,213
(Recovery) impairment of intangibles	149,341	(254,833)
Total Operating Expenses	2,786,552	1,460,159
Gain (Loss) from operations	(2,658,890)	(1,298,673)
Other income (expenses)		
Realized gain on marketable securities	220,554	-
Interest expense	(22,387)	(54,476)
Other income	1,958	4
Total other income (expenses)	200,125	(54,472)
Net loss	$ (2,458,765)	$ (1,353,145)
Basic loss per share	$ (0.01)	$ (0.01)
Weighted average number of shares outstanding	203,254,168	123,650,390

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Deficit) (Unaudited)

	Series A Preferred Stock		Common Stock		Additional Paid-in	Stock Subscription	Unearned Stock-based	Treasury	Accumulated	C
	Shares	Amount	Shares	Amount	Capital	Receivable	Compensation	Stock	Deficit	
Balance, December 30, 2004	-	$ -	121,222,899	$ 121,223	$ 11,425,685	$ (125,000)	$ (253,318)	$ -	$ (11,124,943	
Issuance of common stock for cash	-	-	29,185,475	29,185	1,179,036	125,000	-	-	-	
Issuance of common stock for services received	-	-	(10,386,811)	(10,387)	148,576	-	-	-	-	
Cancellation of common stock upon recision of notes payable	-	-	(554,283)	(554)	(150,614)	-	-	-	-	
Conversion of notes payable and interest	-	-	12,094,140	12,094	491,523	-	-	-	-	
Cancellation of common stock for settlement and termination of acquisition	-	-	(1,375,000)	(1,375)	(636,125)	-	-	-	-	
Issuance of common stock for cashless exercise of warrants and options	-	-	862,162	862	229,566	-	-	(223,028)	-	
Stock-based compensation	-	-	-	-	(84,681)	-	139,624	-	-	
Comprehensive loss	-	-	-	-	-	-	-	-	-	
Net Loss for the year ended										

December 31, 2005	-	-	-	-	-	-	-	-	(1,929,685
Balance, December 31, 2005	-	-	151,048,582	151,049	12,602,966	-	(113,694)	(223,028)	(13,054,628
Issuance of common stock for cash	-	-	17,897,500	17,897	601,589	-	-	-	-
Issuance of common stock for services received	1,100,000	1,100	40,175,167	40,175	1,955,723	-	-	-	-
Issuance of common stock for syndication fee	-	-	1,500,000	1,500	(1,500)	-	-	-	-
Conversion of notes payable and interest	-	-	31,107,308	31,107	461,973	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	18,253	-	-
Comprehensive loss	-	-	-	-	-	-	-	-	-
Net Loss for twelve months ended June 30, 2006	-	-	-	-	-	-	-	-	(2,458,765
Balance, June 30, 2006	1,100,000	$ 1,100	241,728,557	$ 241,729	$ 15,620,751	$ -	$ (95,441)	$ (223,028)	$ (15,513,393

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities:		
Net loss	$ (2,458,765)	$ (1,353,144)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	93,521	157,204
Allowance for doubtful accounts and sales returns	9,298	(57,144)
Amortization of stock-based compensation	18,253	31,138
(Gain) loss on sale of property and equipment	(7,303)	-
Equity loss from unconsolidated subsidiaries, net of cash contributions	-	2,175
Impairment (recovery) of purchased intangibles	149,341	(254,834)
Stock based compensation	1,716,986	232,408
Interest accrual	22,149	22,807
(Gain) on sale of marketable securities	(220,554)	-
Changes in assets and liabilities:		
Accounts receivable	(74,967)	43,854
Inventories	(5,339)	65,594
Prepaid expenses	(18,351)	17,313
Other current assets	25,871	8,647
Accounts payable	80,835	296,420
Accrued liabilities	66,639	165,868
Taxes payable	2,455	802
Deferred revenues	25,188	44,399
Net cash used in operating activities	(574,742)	(562,279)
Cash flows from investing activities:		
Purchases of property and equipment	(78,163)	(2,119)
Proceeds from sale of property and equipment	10,900	15,450
Sales of marketable securities	80,089	-
Net cash used in investing activities	12,826	13,331
Cash flows from financing activities:		
Proceeds from issuance of common stock	619,486	472,000
Proceeds from shareholder loans	49,301	177,093
Repayments of shareholder loans	(55,411)	(51,099)
Repayments of convertible loans	(10,000)	(21,145)
Payments on capital lease obligations	-	(820)
Net cash provided by financing activities	603,376	576,029
Net increase in cash	41,461	27,080
Cash at the beginning of the period	33,430	46,956
Cash at the end of the period	$ 74,891	$ 74,036

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Continued) (Unaudited)

	Six Months Ended June 30, 2006		Six Months Ended June 30, 2005	
Supplemental schedule of cash flow activities				
Cash paid for:				
Interest	$	59	$	8,857
Income taxes	$	-	$	800
Non-cash investing and financial activities:				
Common stock (cancelled) for business acquisition	$	-	$	(637,500)
Common stock issued in payment of services	$	1,996,999	$	423,521
Common stock issued in payment of convertible loans	$	493,080	$	-
Common stock received upon recision of convertible loan	$	-	$	(151,168)
Common stock issued for cashless exercise of options	$	-	$	223,028
Common stock issued in payment of syndication fees	$	78,000	$	-

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

VIPER NETWORKS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(unaudited)

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

The accompanying June 30, 2006 financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2006 and 2005 and for all periods presented have been made. Certain information and Footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2005 audited financial statements. The results of operations for periods ended June 30, 2006 and 2005 are not necessarily indicative of the operating results for the full years.

NOTE 2 - DESCRIPTION OF THE BUSINESS

The consolidated financial statements presented are those of Viper Networks, Inc. and its wholly-owned Subsidiaries (the "Company").

We are striving to become a provider of Voice over Internet Protocol, or VoIP, communications products and services. Since we began VoIP operations in 2000, we have evolved from a pioneer in selling VIPER CONNECT, a "push to talk" technology developed by ITXC, to a next generation provider of high-quality telecommunication services and technology for internet protocol, or IP telephony applications. We utilize our VoIP technology to transmit digital voice communications over data networks and the Internet.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation.

The Company's consolidated financial statements are prepared using the accrual method of accounting and include its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in businesses which the Company does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method and are included in Investments in Unconsolidated Businesses on the consolidated balance sheet.

b. Inventories

Inventories are stated at the lower of cost or market using the first-in first-out method. Inventory costs include international inbound freight, duty and custom fees.

c. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company is required to make judgments and estimates about the effect of matters that are inherently uncertain. Although, we believe our judgments and estimates are appropriate, actual future results may be different; if different assumptions or conditions were to prevail, the results could be materially different from our reported results.

On an on-going basis, the Company re-evaluates its estimates, including, but not limited to, those related to bad debts, product returns, warranties, inventory reserves, long-lived assets, income taxes,

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Estimates (continued)

litigation, and other contingencies. The Company bases its estimates on historical experience and various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

d. Property and Equipment

Property and equipment are stated at cost and are depreciated over their estimated useful lives using the straight-line method. Useful lives range from three to five years for office furniture and equipment. Additions to property and equipment together with major renewals and betterments are capitalized. Maintenance, repairs and minor renewals and betterments are charged to expense as incurred.

e. Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of businesses acquired over the fair value of the identifiable net assets at the date of acquisition. Goodwill and intangible assets acquired in a purchase business combination and determined to have indefinite useful lives are not amortized, but instead are evaluated for impairment annually and if events or changes in circumstances indicate that the carrying amount may be impaired per Statement of Financial Accounting Standards, No.142 (“SFAS 142”), “Goodwill and Other Intangible Assets”. An impairment loss would generally be recognized when the carrying amount of the reporting unit’s net assets exceeds the estimated fair value of the reporting unit. The estimated fair value is determined using a discounted cash flow analysis. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets”.

f. Long-lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable per SFAS 144, “Accounting for Impairment or Disposal of Long-Lived Assets”. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by an asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount exceeds the estimated fair value of the asset. The estimated fair value is determined using a discounted cash flow analysis. Any impairment in value is recognized as an expense in the period when the impairment occurs.

g. Revenue Recognition

The Company recognizes revenues and the related costs for voice, data and other services along with product sales when persuasive evidence of an arrangement exists, delivery and acceptance has occurred or service has been rendered, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Service revenue from monthly and per minute fee agreements is recognized gross, consistent with Emerging Issues Task Force (EITF) No. 99-19 “Reporting Revenues Gross as a Principal Versus Net as an Agent”, as the Company is the primary obligor in its transaction, has all credit risk, maintains all risk and rewards, and establishes pricing. Combined product and

VIPER NETWORKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Revenue Recognition (continued)

service agreements are allocated consistent with EITF No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" with the multiple deliverables divided into separate units of accounting. Revenue is allocated among the separate units of accounting based on their relative fair value. Support and maintenance sales are recognized over the contract term. Amounts invoiced or collected in advance of product delivery or providing services are recorded as deferred revenue.

The Company accrues for warranty costs, sales returns, bad debts, and other allowances based on its historical experience.

h. Stock-based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", provides for the use of a fair value based method of accounting for stock-based compensation. However, SFAS 123 allows the measurement of compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. The Company has elected to account for employee stock options using the intrinsic value method under APB 25. By making that election, the Company is required by SFAS 123 to provide pro forma disclosures of net loss as if a fair value based method of accounting had been applied.

In accordance with the provisions of SFAS 123, all other issuances of stock, stock options or other equity instruments to employees and non-employees as the consideration for goods or services received by the Company are accounted for based on the fair value of the equity instrument issued (unless the fair value of the consideration received can be more reliably measured). During the three months ended June 30, 2006 and 2005, the Company recognized $1,411,524 and $305,462 and $126,426 and $120,195 of expense relating to the grant of common stock to non-employees and employees, respectively, for services which are included in the accompanying consolidated statements of operations. The value of these shares was determined based upon over the counter closing prices.

i. Income Tax

Current income tax expense (benefit) is the amount of income taxes expected to be payable (receivable) for the current year. A deferred tax asset and/or liability is computed for both the expected future impact of differences between the financial statement and tax bases of assets and liabilities and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. Deferred income tax expense is generally the net change during the year in the deferred income tax asset and liability. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be “more likely then not” realized in future tax returns. Tax rate changes are reflected in income in the period such changes are enacted.

j. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the periods presented. Diluted loss per share has not been presented because the assumed exercise of the Company’s outstanding options and warrants would have been antidilutive.

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Net Loss Per Share (continued)

Options and/or warrants will have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the options and/or warrants. There were options to purchase 7,250,000 shares of common stock and 34,033,290 warrants potentially issuable at June 30, 2006 which were not included in the computation of net loss per share.

k. Concentrations of Risk

The Company entered into an agreement during September 1998 to acquire 50 acres of real property known as the Hills of Bajamar, located in Ensenada, Mexico (the “Land”) with the intent, at the time, to sell lots for residential development and build a communications facility for residents in the surrounding area. As of the date of these financial statements, the Company had not received documented title to the Land. Since consideration for the agreement (documented title) has never been received the Company does not believe it is the owner of the Land. If the Company was determined to be the owner of the Land the Company could be subject to the following risks. The property is located in Mexico which has a developing economy. Hyperinflation, volatile exchange rates and rapid political and legal change, often accompanied by military insurrection, have been common in this and certain other emerging markets in which the Company may conduct operations. The Company may be materially adversely affected by possible political or economic instability in Mexico. The risks include, but are not limited to terrorism, military repression, expropriation, changing fiscal regimes, extreme fluctuations in currency exchange rates, high rates of inflation and the absence of industrial and economic infrastructure. Changes in land development or investment policies or shifts in the prevailing political climate in Mexico in which the Company plans to sell lots for residential development and build a communications facility could adversely affect the Company’s business. Operations may be affected in varying degrees by government regulations with respect to development restrictions, price controls, export controls, income and other taxes, expropriation of property, maintenance of claims, environmental legislation, labor, welfare, benefit policies, land use, land claims of local residents, water use and mine safety. The effect of these factors cannot be accurately predicted.

l. Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 154, "Accounting Changes and Error Corrections: a Replacement of Accounting Principles Board Opinion No. 20

and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so or another methodology is required by the standard. Retrospective application refers to the application of a different accounting principle to previously issued financial statements as if that principle had always been used. SFAS No. 154's retrospective application requirement replaces APB No. 20's ("Accounting Changes") requirement to recognize most voluntary changes in accounting principle by including in net income (loss) of the period of the change the cumulative effect of changing to the new accounting principle. This statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The requirements are effective for accounting changes made in fiscal years beginning after December 15, 2005 and will only impact the consolidated financial statements in periods in which a change in accounting principle is made. The implementation of SFAS No. 154 did not have a material impact on our financial position, results of operations or cash flows.

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(unaudited)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Recent Accounting Pronouncements (continued)

In July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109”. FIN 48 requires that the Company recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The provisions of FIN No. 48 will be effective for the Company beginning in the March 2007 quarter, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN No. 48.

NOTE 4 - GOING CONCERN

The Company’s consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred a loss from inception on September 14, 2000 through June 30, 2006, resulting in an accumulated deficit of $15,513,394 at June 30, 2006, that raises doubt about the Company’s ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

It is the intent of management to continue to develop its voice and data services to Web-based customers and expand its Voice-over-Internet Protocol networks for businesses, institutions, and Internet Service Providers (ISP).

Company management will seek additional financing through new stock issuances and lines of credit.

NOTE 5 - SIGNIFICANT EVENTS

On February 14, 2006, the Company signed a three year lease commencing March 15^{th} for 4,000 square feet of office space in Troy, Michigan for an East Coast sales office and to consolidate inventory, order fulfillment, and technical support. First year monthly rental payments are $2,650 increasing to $3,170 and $4,170 in the second and third years. Subsequently, on May 3, 2006 the Company signed a sublease agreement for 80% (3,343 square feet) of its San Diego office under terms equal to its master lease obligation for the remainder of the lease term.

On February 16, 2006, Ron Weaver and Yale Wong elected to convert the entire balance of their promissory notes ($72,294 and $40,662) into 2,409,822 and 1,355,406 shares of the Company's Common Stock in accordance with the terms of the notes, respectively. Also on February 16, 2006, Farid Shouekani elected to convert $90,877 of his promissory note into 4,199,178 shares of the Company's Common Stock in accordance with the terms of the note.

During February the Board of Directors approved, in principal, a compensation arrangement for Farid Shouekani, CEO, which would allow him to receive 10,000,000 shares of common stock for past services and as a retention incentive. The Company does not have a sufficient number of authorized but unissued shares of common stock to complete the transaction. On August 29, 2006 following the designation (on August 7, 2006) of a Series A Preferred Stock, the Company issued 1,000,000 shares of the Series A Preferred Stock to Mr. Shouekani, with the rights and privileges noted below. The 1,000,000 shares of the Series A Preferred Stock will automatically convert into 10,000,000 shares of the Common Stock at such time as there are sufficient authorized but unissued shares of Common Stock to allow conversion of all Series A Preferred Stock then outstanding.

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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NOTE 5 - SIGNIFICANT EVENTS (continued)

On March 1, 2006, Farid Shouekani elected to convert an additional $289,398.78 of his promissory note into 23,151,902 shares of the Company's Common Stock in accordance with the terms of the note.

On March 31, 2006, the Company issued 31,058,500 shares on common stock to seven individuals in Saudi Arabia for services within the Middle East to provide market analysis, develop business plans, establish distribution channels, engineering and other local support, and to assist in obtaining local licenses.

On April 5, 2006, the Company signed a twelve month consulting agreement with J2 Capital Management for strategic advisory services and marketing, advertising, and public relations services in exchange for 2,500,000 shares of the Company's common stock.

On April 30, 2006, the Company signed two twelve month consulting agreements with Pasadena Capital Partners, LLC and Blue Wave Advisors, LLC for the development and implementation of marketing and an investor awareness programs and for turn-key services as the Company's in-house investor relations in exchange for an aggregate of 2,750,000 shares of the Company's common stock.

During June the Board of Directors approved, in principal, a compensation arrangement for Ron Weaver, Chairman of the Board, which would allow him to 1,000,000 shares of common stock for past services and as a retention incentive. The Company does not have a sufficient number of authorized but unissued shares of common stock to complete the transaction. On August 29, 2006 following the designation (on August 7, 2006) of a Series A Preferred Stock, the Company issued 100,000 shares of the Series A Preferred Stock to Mr. Weaver, with the rights and privileges noted below. The 100,000 shares of the Series A Preferred Stock will automatically convert into 1,000,000 shares of the Common Stock at such time as there are sufficient authorized but unissued shares of Common Stock to allow conversion of all Series A Preferred Stock then outstanding.

During the second quarter, the Company commenced marketing a set of fixed price monthly calling plans for residential users in the Detroit, Michigan area. The plans range from $15.95 per month for 600 minutes to North America and selected countries to $23.95 per month for unlimited calls within the United States and Canada.

On August 7, 2006, the Company's Board of Directors designated 3,000,000 shares of Series A Preferred Stock from the 10,100,000 shares of authorized Preferred Stock. The Series A Preferred Stock shall have the following rights and privileges: (1) Dividends of equal rights with the Company's Common Stock,

(2) Liquidation Rights of equal rights with the Company's Common Stock adjusted for the Series A Preferred Stock conversion rights,
(3) Conversion into ten (10) shares of Common Stock shall be automatic within 30 days of the Company having sufficient authorized but unissued shares of Common stock for the conversion of all Series A Preferred Stock then outstanding,
(4) The Company has no redemption rights, and
(5) Voting Rights for each share of Series A Preferred Stock shall be equal to 140 shares of Common Stock.
On August 29, 2006, restricted shares of Series A Preferred Stock shares were issued to Farid Shouekani (1,000,000) and Ron Weaver (100,000) as noted above.

During August the Company received the Final Award in the arbitration between the Company and Greenland Corporation regarding the April 25, 2003 Securities Purchase Agreement. The Final Award rescinds the agreement entitling Viper to the return of all 2,750,000 shares (2,500,000 shares plus the

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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NOTE 5 - SIGNIFICANT EVENTS (continued)

subsequent stock dividend) of it's Common Stock previously issued to Greenland and Greenland is entitled to the return of the 2,000,000 shares of its common stock held by the Company. The Company will instruct it's transfer agent to cancel the 2,750,000 shares of Common stock upon return to Greenland of the 2,000,000 shares of their common stock. In addition, Greenland's cross compliant is denied and any other, if any, claims between the parties not specifically addressed in the Final Award are denied. In addition, Viper was awarded a portion of its attorneys fess and its arbitration costs and is evaluating the possibility of collection, if any, on this cash portion of the Final Award; but given Greenland's previous disclosure of an IRS Tax Lien on Greenland's assets the probability of collection appears unlikely.

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

BASIS OF DISCUSSION AND ANALYSIS

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosures of contingent liabilities. On an ongoing basis, management evaluates its estimates, including those that relate to income tax contingencies, revenue recognition, and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Although we believe our judgments and estimates are appropriate, actual future results may be different; if different assumptions or conditions were to prevail, the results could be materially different from our reported results. If actual results significantly differ from management's estimates, the Company's financial condition and results of operations could be materially impaired.

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements. Forward-looking statements are statements concerning plans, objectives, goals, strategies, expectations, intentions, projections, developments, future events, performance or products, underlying (express or implied) assumptions and other statements which are other than historical facts. In some cases forward-looking statements can be identified by the use of forward-looking words such as "believes", "expects", "ma,", "will", "should", "could", "intends", "plan,", "anticipates", "contemplates", "estimates", "predicts", "projects", and other similar terminology or the negative of these terms or by discussions of plans or strategy that involve risks or uncertainties Management wishes to caution the reader that these forward-looking statements including, but not limited to, statements regarding the Company's marketing -plans, goals, competitive and technology trends, and other matters that are not historical facts are only predictions. No assurances can be given that such predictions will prove correct or that the anticipated future results will be achieved. Actual events or results may differ materially either because one or more predictions prove to be erroneous or as a result of other risks facing the Company. Forward-looking statements should be read in light of the cautionary statements and important factors described in this Form 10-QSB, including, but not limited to, the Sections titled "The Factors That May Affect Future Results" shown as Item 3 and in "Management's Discussion and Analysis of Financial Condition and Results of Operations". The risks include, but are not limited to, the risks associated with an early-stage company that has only a limited history of operations, the comparatively limited financial resources of the Company, the intense competition the Company faces from other established competitors, technological changes that may limit the ability of the company to market and sell its products and services or adversely affect the pricing of these products or services, and management that has only limited experience in developing systems and management practices. Any one or more of these or other risks could cause actual results to differ materially from the future results indicated, expressed, or implied in such forward-looking statements. We undertake no obligation to update or revise any forward-looking statement to reflect events, circumstances, or new information after the date of this Form 10-QSB or to reflect the occurrence of unanticipated or other subsequent events, and we disclaim any such obligation.

RESULTS OF OPERATIONS

Organization of Business; Presentation of Results

The Company provides VoIP communication products and services both to consumer and wholesale customers.
Through our "Consumer" operations we sell third-party hardware products directly and indirectly to consumer end users

(both residential and commercial) that enable these customers to place VoIP telephone calls over our networks. Our Consumer services are based on i) individual prepaid customer accounts and their ability to purchase additional prepaid calling time through our automated, on-line system and ii) residential monthly fixed rate calling plans with excess and/or out of plan minutes billed in arrears. We also provide software which enables call origination, account management, call routing and billing so that per-call revenue can be calculated and charged to the customers' prepaid account. Through our "Wholesale" operations we both buy and sell network capacity to and from other VoIP providers for specific destinations around the world. Thus, we attempt to better utilize the capacity in our network by selling unused capacity to competitors, and expand our termination footprint by contracting for the termination of our customer's calls to destinations where we do not yet have our own servers. Our Wholesale operations were born from the activities in our acquisitions of Mid-Atlantic and Adoria.

Comparison of Three Month period ended June 30, 2006 and June 30*, 2005*

During the three months ended June 30, 2006, the Company recorded $845,880 in Net revenues. This was a -$12,458 decrease (-1.5%) compared to the three months ended June 30, 2005 when we recorded $858,338 in Net revenue. The decrease in Net revenues consisted of a -$30,092 (-16.8%) decrease in Consumer revenue and a $17,634 (+2.6%) increase in Wholesale revenue. The increase in revenue from Wholesale included a quarterly increase of $64,897 (+10.6%) from the former Adoria operations and a quarterly decrease of -$47,263 (-68.0%) from the former Mid-Atlantic operations (the result of an intentional shift in emphasis away this business).

During the three months ended June 30, 2006, the Company's Gross margin decreased by -55.8% to $61,690 (compared to $139,446 in the same Quarter in 2005). This resulted in a Gross margin of 7.3% (compared to a Gross margin of 16.2% in same Quarter in 2005). Consumer Gross margins in the Quarter were -27.6% (Gross loss of -$14,387 on revenues of $148,802); in the same period during 2005 Consumer Gross margins were 18% (Gross margin of $32,138 on Net revenues of $178,893). Cost of revenue (call termination) has increased as the Company commences to improve call quality. For our Wholesale operations, Quarterly Gross margin diminished to 10.9% (Gross margin of $76,077 on Revenues of $697,078) from 15.8% in the same Quarter of 2005 (Gross margin of $107,309 on Revenues of 679,445). The lower Gross margins in Wholesale resulted from increased competitive pressures on revenue. The Company expects these trends to continue for the remainder of the year.

During the three months ended June 30, 2006 the Company incurred $871,224 in General and administrative ("G&A") expenses. This was a -0.8% decrease compared to the three months ended June 30, 2005 when we incurred $878,543 in G&A expenses. Consumer (including corporate overhead) G&A expenses in the three months ended June 30, 2006 increased by 5.8% to $685,142 (460% of Consumer Revenues); during the same period in 2005 Consumer G&A expenses were $647,750 (362% of Consumer Revenues). Wholesale G&A expenses decreased by -19.4% to $186,082 in the second Quarter of 2006 (27% of Wholesale Revenues) from $230,794 in the same period in 2005 (34% of Wholesale Revenues). Overall, General and administrative expenses were primarily made up of wages and salaries, business consulting services, office expenses, fees and costs incurred for legal and accounting services, and other administrative costs.

During the three months ended June 30, 2006 the Company had Bad debt expense of $4,630 (in the same Quarter of 2005 we had $8,481 in Bad debt expense). During the three months ended June 30, 2006 we recorded no Impairment of intangibles; in the same Quarter of 2005 we had a recovery for Impairment of intangibles of $529,833. The Recovery of intangibles recognized during the three months ended June 30, 2005 resulted from the settlement and termination of the Brasil LLC acquisition.

These factors led to a Loss from operations in the three months ended June 30, 2006 of $814,164, a 273.9% increased loss compared to the same Quarter in 2005 when we had a Loss from operations of $217,745. The adverse change of -$596,419 on a year-to-year basis was due primarily to the non-cash Recovery of intangibles recognized in the comparable Quarter in 2005 (-$529,883) and lower Gross margin (-$77,756).

During the three months ended June 30, 2006, we recognized a $66,482 gain from the exchange of 322,000 shares of NextPhase Wireless, Inc. ("NextPhase") common stock in private transactions in payment for services. This compares to the three months ended June 30, 2005 when we had no similar gains or loses. During the three months ended June 30, 2006 we incurred Interest expense of $2,018 compared to $36,923 in Interest expense during the three months ended June 30, 2005. The decrease in Interest expense was due to borrowings from related parties and short term debt that was converted into common stock of the Company.

As a result, during the three months ended June 30, 2006 we had a Net loss of -$748,679 compared to the three months ended June 30, 2005, when we had a Net loss of -$257,667 (an adverse change of $491,012 or 190.6%). As noted above the adverse change was primarily due to the non-cash Recovery of intangibles recognized in the comparable Quarter in 2005. Our Consumer operations experienced a Net loss of -$634,092 (426.1% of Consumer Revenues), an adverse change of -$524,944 compared the same Quarter in 2005 when Consumer had a Net loss of -$109,148. Our Wholesale operations experienced a Net loss of $114,586 (-16.4% of Wholesale Revenues), an improvement of $33,932 compared to the -$148,519 Net loss for the same period in 2005 (21.9% of Wholesale Revenues).

Basic loss per share for the three months ended June 30, 2006 was $0.00, unchanged from the same period in 2005. During the three months ended June 30, 2006, the Company had 240,027,458 Weighted average shares outstanding. By comparison, this was an increase of 110,835,635 shares compared to the three months ended June 30, 2005 when the Company had 129,191,823 Weighted average shares outstanding.

IMPACT OF INFLATION

Because of the nature of its services, the Company does not believe that inflation had a significant impact on its sales or profits.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, we had a total of $798,534 in Total current assets (+99% compared to the same Quarter in 2005) which consisted primarily of the following material amounts: $74,891 in Cash (+1% compared to the same Quarter in 2005); $166,478 in Net accounts receivable (+30%); $80,298 in Inventories (+1150%); and, $471,467 in Other current assets (+148%). In contrast, as of June 30, 2006 our Total current liabilities were $1,005,428 (-52% compared to the same Quarter in 2005), which consisted primarily of the following material amounts: $516,161 in Accounts payable (-23%); $147,477 in Accrued liabilities (-29%); $210,482 in Deferred revenues (+66%); and, $100,370 in Short term debt (-29%).

During the three months ended June 30, 2006, our cash needs were met primarily by loans from certain of our shareholders and the use of proceeds received during the previous quarter from the sale of common stock. We cannot be assured that we can continue to obtain funds from these or any other sources to meet our need for additional capital resources.

Net working capital as of June 30, 2006 was -$206,894, an improvement compared to -$1,671,423 for the same period in 2005. The improvement was primarily from loans from related parties and short term debt that was converted into common stock of the Company. Overall, the company's access to capital is very limited. The Company continually evaluates its cash needs and anticipates seeking additional equity or debt financing in order to achieve its overall business objectives. However, no commitment for additional financing has been obtained and there can be no assurance that such financing will be available, or, if available, at a price or in a form that is acceptable to the Company. We may be limited to loans and other cash infusions from officers, directors, existing stockholders, and persons affiliated or associated with one or more of them. In addition, if any financing should be obtained, existing stockholders will likely incur substantial, immediate, and permanent dilution of their existing investment. Failure to generate sufficient revenues, raise additional capital or reduce certain discretionary spending could have an adverse impact on the Company's ability to achieve its business objectives.

NextPhase Wireless, Inc. is trading on the OTC BB under the symbol NXPW. Incorporated in September, 2000 as a 100% owned subsidiary of the Company, NextPhase remained operationally dormant until May, 2004. At that time the Company elected to concentrate its efforts into its core VoIP business activities. The non-VoIP technologies - that were never developed, were deemed to be of no value, and into which the Company had no intention of investing time or funds - were then assigned to the NextPhase subsidiary in anticipation of spinning it off as a separate entity. In this way, the Company hoped through the spinoff some value might be obtained from what otherwise would have remained worthless. The asset assignment and spinoff was accomplished by Resolution of the Board of Directors of the Company; no formal purchase and sale agreement existed.

One officer of the Company, believing he could create and implement a viable business model within NextPhase, then terminated his employment with Viper and became an officer of NextPhase. Concurrent with the spinoff, NextPhase issued additional common shares to this officer and to several other NextPhase employees that had the effect of diluting Vipers' share of ownership to 40% (4,000,000 shares).

From that point forward NextPhase pursued its own business opportunities independent to those of the Company, except that in 2004 all holders of NextPhase common stock, including the Company, pledged their shares as collateral for a loan NextPhase sought, the proceeds of which were used by NextPhase to purchase a publicly trading entity (Edison Renewables, Inc). That loan has been repaid in full and the pledged shares have been released from the Pledge Agreement.

NextPhase was and continues to be a separate legal entity not related to the Company other than through the Company’s equity ownership. None of the management of the Company have any operational position within NextPhase nor as members of it’s Board of Directors.

The 4,000,000 common shares of NextPhase were pledged (“Pledged Stock”) as collateral on behalf of NextPhase for a $350,000 promissory note (“Note”). In early May 2005, the Note was paid in full and the Pledged Stock is being released to the Company. In August, 2005 the Company requested an exemption (as noted below) to commence selling shares of the NextPhase “restricted” common stock to raise capital for the Company.

During the three months ended June 30, 2006, the Company sold 322,000 shares of NextPhase in private transactions for the payment of services. There were no aggregate proceeds from the public sales. As of June 30, 2006 the Company holds 1,101,934 shares of NextPhase common stock.

The term “restricted” refers to common stock represented by certificate(s) that have not been registered under the Securities Act of 1933, as amended (the “Act”), or under certain state securities laws. No public sale or transfer of these shares may be made in the absence of (a) an effective registration statement under the Act or (b) an opinion of counsel acceptable to the issuing company that registration under the Act or under applicable state securities laws is not required (an exemption) in connection with such proposed sale or transfer. An exemption is typically limited to i) stock owned for a minimum of twelve months and ii) a maximum number of shares to be offered for sale, during any rolling three month period, limited to 1% of the issuing company’s total number of shares issued and outstanding.

The Company has been cash negative since inception, and is not expected to become cash neutral or cash positive until revenues grow significantly in the VoIP operation (at the earliest, by the end of 2006). Until this time, the Company will depend on outside cash sources - mainly new equity sales. Cash on hand as of June 30, 2006 is insufficient to support the needs of the Company for more than a very short period of time. To support operational needs and to implement the business plan the Company will need to raise significant additional capital; without such additional capital the Company cannot grow or continue as it is currently constituted. As of June 30, 2006, the Company expects that it will need at least $2,100,000 to cover its anticipated operating expenses for the twelve month period thereafter. Of this, approximately 60% is for projected salary and payroll related expenses, 13% for projected lease and facility related expenses, and 12% for projected professional services expenses.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting periods. We are required to make judgments and estimates about the effect of matters that are inherently uncertain. .Although, we believe our judgments and estimates are appropriate, actual future results may be different; if different assumptions or conditions were to prevail, the results could be materially different from our reported results.

On an on-going basis, we evaluate our estimates, including, but not limited to, those related to bad debts, product returns, warranties, inventory reserves, long-lived assets, income taxes, litigation, and other contingencies. We base our estimates on historical experience and various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources.

The Company recognizes revenues and the related costs for voice, data and other services along with product sales when persuasive evidence of an arrangement exists, delivery and acceptance has occurred or service has been rendered, the price is fixed or determinable, and collection of the resulting receivable is probable and not contingent. Service revenue from monthly and per minute fee agreements is recognized gross, consistent with Emerging Issues Task Force (EITF) No. 99-19 “Reporting Revenues Gross as a Principal Versus Net as an Agent”, as the Company is the primary obligor in its transaction, has all credit risk, maintains all risk and rewards, and established pricing. Amounts invoiced or collected in advance of product delivery or providing services are recorded as deferred revenue. The

Company accrues for warranty costs, sales returns, bad debts and other allowances based on its historical experience.

The Company’s property and equipment and purchased intangible assets represent a significant component of our consolidated assets. We depreciate property and equipment on a straight-line basis over the estimated useful life of the assets. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the VoIP market, can have a significant impact on asset balances, recoverability, or depreciation expense. Purchased intangible assets with indefinite useful lives are not amortized but are evaluated for impairment at least annually, as required by Statement of Financial Accounting Standards, No.142 “Goodwill and Other Intangible Assets”. Any impairment loss is determined by comparing the fair value of the Intangible Assets with the carrying value. Fair value is estimated using discounted future cash flows. There is inherent subjectivity involved in estimating discounted future cash flows, which can have a material impact on the amount of any impairment.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 154, "Accounting Changes and Error Corrections: a Replacement of Accounting Principles Board Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). SFAS No. 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so or another methodology is required by the standard. Retrospective application refers to the application of a different accounting principle to previously issued financial statements as if that principle had always been used. SFAS No. 154's retrospective application requirement replaces APB No. 20's ("Accounting Changes") requirement to recognize most voluntary changes in accounting principle by including in net income (loss) of the period of the change the cumulative effect of changing to the new accounting principle. This statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The requirements are effective for accounting changes made in fiscal years beginning after December 15, 2005 and will only impact the consolidated financial statements in periods in which a change in accounting principle is made. The implementation of SFAS No. 154 did not have a material impact on our financial position, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109”. FIN 48 requires that the Company recognize in the consolidated financial statements the impact of a tax position that is more likely than not to be sustained upon examination based on the technical merits of the position. The provisions of FIN No. 48 will be effective for the Company beginning in the March 2007 quarter, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN No. 48.

ITEM 3. FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company’s business organization, the Company’s reliance upon certain technology and third parties, competitive trends in the marketplace, and other factors all involve elements of substantial risk. In many instances, these risks arise from factors over which the Company will have little or no control. Some adverse events may be more likely than others and the consequence of some adverse events may be greater than others. No attempt has been made to rank risks in the order of their likelihood or potential impact. In addition to those general risks enumerated elsewhere, any purchaser of the Company’s Common Stock should also consider the following factors.

The Company’s business organization, the Company’s reliance upon certain technology and third parties, competitive trends in the marketplace, ever-changing technology, domestic and international regulatory changes, and other factors all involve elements of substantial risk. In many instances, these risks arise from factors over which the Company will have little or no control. Some adverse events may be more likely than others and the consequence of some adverse events may be greater than others. No attempt has been made to rank risks in the order of their likelihood or potential harm. In addition to those general risks enumerated elsewhere, any purchaser of the Company's Common Stock should also consider the following factors.

1. Continued Operating Losses & Early-Stage Company.

The Company has incurred $2,458,765 in losses during the six months ending June 30, 2006 and cumulative losses of $15,513,394 since the Company's inception. The Company is an early-stage company and may well incur significant additional losses in the future as well and there can be no assurance that the Company will be successful or that it will be profitable in the future.

2. Current Financial Structure, Limited Equity, Limited Working Capital & Need for Additional Financing.

While the Company's management believes that its financial policies have been prudent, the Company has relied, in large part, upon the use of common stock financing to provide a substantial portion of the Company's financial needs. The Company anticipates that it will need to raise significant additional capital to implement is business plan.

This dependence upon common equity financing has meant that we are reliant upon the price of our common stock in the public markets, which has dramatically declined over the past two years and there can be no assurance that the price of our common stock will recover. In addition, we have had only limited discussions with potential investors and there can be no guarantee that the Company will receive additional capital from any investors or, if it does receive sufficient additional capital, that it can obtain additional capital on terms that are reasonable in light of the Company's current circumstances. We have limited equity and limited working capital. Further, the Company has not received any commitments or assurances from any underwriter, investment banker, venture capital fund, or other individual or institutional investor.

3. Auditor's Opinion: Going Concern.
The Company's independent auditors, Chang G. Park, CPA, Ph.D., have expressed substantial doubt about the Company's ability to continue as a going concern since the Company is an early-stage company and there exists only a limited history of operations and has continued operating losses.

4. Subordinate to Existing and Future Debt & Authorized But Unissued Preferred Stock.
All of the Common Stock is subordinate to the claims of the Company's existing and future creditors and the holders of the Company's existing preferred stock and any that may be issued in the future.

5. Outstanding Convertible Non-Dilutive Debt to Current and Former Management.
In August of 2005, we entered into agreements with certain of our current and former officers and directors. Under the terms of these agreements, these individuals returned an aggregate of 16,500,000 shares of our common stock previously awarded as bonuses in connection with their prior employment with the Company and in exchange, we issued an aggregate of 16,500,000 common stock purchase warrants and an aggregate of $838,969.26 in unsecured promissory notes. Each of the notes are convertible, at the option of each noteholder, into shares of the Company's common stock (using the 52-week low trading range of the Company's public common stock price) and the number of shares so issued in payment of all accrued and unpaid interest and principal cannot be reduced as a result of any reverse split of the Company's common stock or any recapitalization. Further, the number of shares issuable to each noteholder are described in each note as non-dilutive; that is the number of shares that may be purchased upon conversion any note will increase in direct proportion to any increase in the number of shares issued by the Company after the issuance of the notes. The warrants grant the holder the right to purchase our common stock at an exercise price of $0.25 per share and the warrants do not expire until August 26, 2009. While the Company believed at the time the issuance of the notes and warrants served to support the Company's plans, the terms of the notes and the warrants may limit the ability to raise additional capital. Further, while the transactions involve the return of shares previously issued in connection with the Company's payment of employment bonuses, the Company did not undertake any evaluation of whether the transactions do not expose the Company to potential claims under the California Labor Code and other state employment rules and regulations.

6. Conflicts of Interest.
As a small company, we are dependent, from time to time, upon one or more our officers and directors to assist us in meeting our financial obligations. In some cases, we may enter into an agreement with an officer or director who assists us in completing one or more

transactions or in providing us with financing or other services. These transactions involve a conflict of interest. A conflict of interest arises whenever a party has an interest on both sides of a transaction. While we believe that we have and will continue to enter into such agreements with officers and directors on terms that are no different than that which we can obtain from independent third parties, there can be no assurance that we will always be successful in these efforts or that we can successfully resolve conflicts of interest to fully satisfy our obligations to our Company and our stockholders.

7. Dependence & Reliance Upon Others.

Some of our products and services may rely upon hardware, software, and communications systems provided by others. For this reason we may become dependent upon third parties which may materially and adversely affect our ability to offer distinct products and services which may result in adverse pricing pressures on our products with resulting adverse impact on our profits, if any.

8. Recent Acquisitions & Limited History of Operations.

During the fiscal year ending December 31, 2005, we generated $3,482,549 in net revenues, primarily through our acquisition of Coliance and Mid-Atlantic in 2003 and our acquisition of Adoria in 2004. We will need to further increase our revenues and successfully develop and implement our business strategy in an ever-changing and challenging marketplace if we are to succeed. In the event that we are not able to successfully develop and implement our business strategy, we may be subject to continuing significant risks and resulting financial volatility. Our limited history and the continuing technological and competitive challenges that we face are beyond our ability to control. For these and other reasons we may incur continuing and protracted losses with the result that an investor may lose all or substantially all of their investment.

9. Matter of 911 and Emergency Calling Services and Exposure to Liability.
Both our emergency calling service and our E911 calling service are different, in significant respects, from the emergency calling services offered by traditional wireline telephone companies. In each case, those differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need. Traditional wireline telephone companies route emergency calls over a dedicated infrastructure directly to an emergency services dispatcher at the public safety answering point, or PSAP, in the caller's area. Generally, the dispatcher automatically receives the caller's phone number and actual location information. While our system being deployed is designed to route calls in a similar fashion to traditional wireline services, our 911 services are not yet available in all locations. Further to the extent that it is not available in a specific location or to the extent that a caller experiences delays in obtaining and accessing emergency calling services, we may face significant liability.

10. Matter of National Security Agency and Potential Liability.
As a provider of telephone services, our company may be asked to provide information regarding our customer telephone records to the National Security Agency (NSA) and governmental agencies in connection with efforts taken by these agencies to fight the war against terror. In the event that we assist the NSA and other agencies in providing such information, we may be exposed to potential liability in violating the privacy rights of our customers. We may also face the loss of revenues and customer good will.

11. Decreasing Pricing Trends.
Domestic and international telecommunications prices continue to decrease and we anticipate that this trend will continue. Further, users who select our services may switch to the services offered by our competitors to take advantage of lower priced services offered by them. Such continued competition or continued price decreases may require us to lower our prices to remain competitive. This will serve to reduce our revenue and lead to loss of customers or a decrease in our growth and may delay or prevent us from achieving profitability.

12. Consumer Acceptance of VoIP Technology and Competitive Issues.
The market for VoIP services continues to grow and develop. While we believe that a significant portion of this growth is due to customers who are "early adopters," as this market segment utilizes VoIP services in larger numbers, if we are to achieve any growth in revenues, we will likely incur higher marketing expenses in attracting customers from other segments. For these reasons, we may experience lower growth and higher expenses than our larger competitors. Further, our larger competitors have entered into co-marketing agreements with other technology and internet companies and, in other cases, they are offering VoIP services bundled with other internet services that we do not offer and have no ability to offer. These and other competitive conditions will serve to severely limit our ability to compete effectively.

13. Flaws in Technology and Systems.
While we believe that our VoIP serve network offers a high level of system integrity, flaws in our technology and systems may arise which may create disruptions and other outages. Software and hardware malfunctions or problems with our network may arise. In addition,

"hacker attacks" can occur from the Internet. As a result, if the reliability of our services is adversely perceived by our customers, we may have difficulty ion attracting and retaining customers and our reputation may suffer.

14. Cost of Customer Acquisition.
We have initiated a new business initiative in which we market directly to retail customers via an in-house direct-marketing effort. Our sales and marketing expenses are expected to increase substantially as a result of this effort, yet little data exists on the average cost to acquire customers in this way. If our acquisition rate or customer churn rate exceeds what we expect, our financial results will be negatively impacted and we will experience delays in or an inability to achieve profitability.

15. Unexpected Calling Patterns Associated with Flat Rate Calling Plans.
We have developed and begun to market Flat Rate Calling Plans in which, for a fixed monthly fee, customers have limited or unlimited rights to make telephone calls within designated geographical territories. The profitability of these Plans depends primarily on 'in-territory' calling traffic (i.e., traffic *within* the designated geographical territory for which customers incur no per-call charges) and on 'out-of-territory' calling traffic (international calls for which customers *incur extra charges*, and which are anticipated to generate significant profits). We incur termination costs for all 'in-territory' calls but, for Flat Rate Calling Plans, only generate revenue from fixed the monthly fees. If average 'in-territory' calling traffic exceeds what we anticipate our financial results will be negatively impacted.

If average ‘out-of-territory’ calling traffic falls short of what we anticipate our financial results will be negatively impacted. Either result would lead to delays in or an inability to achieve profitability.

16. Cost Efficiencies Associated with Growth.

We anticipate our average termination costs will improve as traffic increases. If termination cost efficiencies fall short of what we project our financial results will be negatively impacted and we will experience delays in or an inability to achieve profitability.

17. Losses Due to Customers Fraud.

Customers have obtained access to the Company’s service without prepaying for the service (minutes) by submitting fraudulent credit card information. Losses from unauthorized credit card transactions and theft of service totaled $42,579 during the twelve months ending December 31, 2005. We have implemented new anti-fraud procedures in order to control losses relating to unauthorized credit card use, but these procedures may not be adequate to effectively limit our exposure in the future from customer fraud. If our procedures are not effective, consumer fraud and theft of service could be significant and have a material adverse effect on our business and operating results.

18. Price Competition on Certain Services.

The products and services that we intend to offer may, through changing technology and cost structures, become commodities which result in intense price competition. While we believe that we will be able to distinguish our products and services from competing products, services, and technologies offered by others, if we fail to distinguish ourselves from others, this could hinder market acceptance of our services, force reductions in contemplated sales prices for our products and services, and reduce our overall sales and gross margins. Potential customers may view price as the primary distinguishing characteristic between our products and services and those of our competitors. This could result in the Company incurring significant and protracted losses. Further, we are selling into a market that has a broad range of desired product characteristics and features which may make it difficult for us to develop products that will address a broad enough market to be commercially viable.

19. Absence of Barriers to Entry & Lack of Patent Protection.

Our planned products and services are not unique and others could easily copy our strategy and provide the same or similar services since there are no significant barriers to entering the business of providing internet telephone services or VoIP networks and no significant barriers to entry are expected in the future. In addition, we do not hold and do not expect to hold any patent protection on any of our planned products or services. Our products and services primarily utilize the intellectual property rights of others. For these reasons we may face continuing financial losses.

20. Limited Customer Base.

While we seek to implement our plans, we have a limited customer base of approximately 20,000 accounts using our suite of VoIP products and there can be no assurance that we will grow and develop a sufficient customer base that generates sufficient sustainable revenues that provide stable profit margins. The absence of growth at pricing levels that can provide for sustainable revenues and profit margins may greatly inhibit our ability to attract additional capital and otherwise lead to volatile results from operations with consequent adverse and material impact on our financial condition.

21. Customers, Technology/Feature Options & Commercial Viability.
If we are able to implement our business plan, we will be selling our products and services into a marketplace that is experiencing a convergence of competing technologies. Typically, telecommunications providers desire extremely robust products with the expectation of a relatively long effective life. As a result and depending on the outcome of unknown trends in technology, market forces, and other variables, we may not attract a broad enough market to achieve commercial viability.

22. New Technologies May Be Developed.
New products or new technologies may be developed that supplant or provide lower-cost or better-performing alternatives to our planned products and services. This could negatively impact our financial results and delay or prevent us from achieving profitability.

23. Absence of Brand Name Recognition: Limited Ability to Promote.
The market for telecommunications services is intensely competitive; brand name recognition is critical to success. Many companies offer products and services like ours and many have a well established presence in major metropolitan centers. We may not be able to compete successfully with these companies and others that may enter

the market. Some of them also have substantially greater financial, distribution, and marketing resources than we do. If we do not succeed in this competitive marketplace, we will lose customers and our revenue will be substantially reduced and our business, financial condition, and results of operations may be materially and adversely affected.

24. Domestic and Foreign Government Regulation.
We incur significant additional costs to remain a public company and to file current and prior period past due original and amended periodic reports (with the U.S. Securities and Exchange Commission) to meet our obligations as a public company. Since September 22, 2004 (the date at which we were informed that our common stock was registered under Section 12(g) of the Securities Exchange Act of 1934), we have had to expend and divert significant managerial and financial resources to address prior year filing delinquencies and to meet our current year filing obligations under Section 13(a) of the Securities Exchange Act of 1934. While we have made significant progress in filing many periodic reports with the SEC, we have yet to complete work on: (A) amending certain previously filed reports to respond to comments from the staff at the SEC; and (B) completing certain other reports that need to be filed for certain prior periods, including, for example, the filing of Form 10-QSB for the second quarter of 2006 through June 30, 2006. Our goal is to complete the filing of all of our past periodic reports, respond to SEC comments on all of prior and current periodic filings, and to file all of our current periodic reports in a timely manner. However, until we accomplish these and related objectives, we cannot assure you that we have satisfy our obligations as a public company.

Our planned operations will likely be subject to extensive telecommunications-based regulation by the United States and foreign laws and international treaties. In the United States we are subject to various Federal Communications Commission ("FCC") rules and regulations. Current FCC regulations suggest that our VoIP will not be unduly burdened by new and expanded regulations. However, there can be no assurance that the occurrence of regulatory changes would not significantly affect our operations by restricting our planned operations or increasing the opportunity of our competitors. In the event that government regulations change, there can be no assurance that the costs and burdens imposed on us will not materially and adversely impact our planned business.

25. Loss of Equipment.
Equipment located in a foreign country with a developing or emerging economy may be materially adversely affected by possible political or economic instability. The risks include, but are not limited to rapid political and legal change, terrorism, military repression, or expropriation of assets. In the event that equipment is damaged or lost our ability to service to our customers will be substantially reduced and our business, financial condition, and results of operations may be materially and adversely affected.

26. Control.
Our current officers and directors directly and indirectly hold an aggregate of 35,111,902 shares of the Company’s common stock (before including any shares issuable upon exercise of any options or warrants). This represents approximately 14.5% of the Company’s total outstanding shares as of June 30, 2006 and thereby allows the Company’s officers and directors to retain significant influence over the Company. Further and due to our limited financial resources, in the past we have issued our common stock and granted common stock purchase options to our officers and directors in lieu of paying cash compensation and we anticipate that we may need to continue this practice in the future. This may further limit

the ability of stockholders

27. <u>Prior Filing of Form 10-SB</u>.

In June of 2001 we prepared and filed a registration statement on Form 10-SB with the U.S. Securities and Exchange Commission ("SEC"). Subsequently, our then legal counsel delivered a letter (dated November 15, 2001) to the SEC which, by its terms, stated that the SEC had agreed to allow us to withdraw the registration statement. At the time the Company's management believed, in reliance upon assurances from the Company's then legal counsel, that the Company had been allowed to withdraw the registration statement, notwithstanding that the Securities Exchange Act of 1934 (the "Exchange Act") provides that any withdrawal of a Form 10-SB registration statement (at any time after 60 days from the date at which it is originally filed) requires that the registrant: (a) file Form 15 with the SEC; (b) meet certain requirements that allow the registrant to file Form 15 to terminate the registration of the securities that were previously registered on Form 10-SB; and (c) file such other periodic reports as required to ensure compliance with Section 13(a) of the Exchange Act up to the date at which the Form 15 is filed. Subsequently, in September 2004, the Company received a letter from the SEC (the "SEC Letter") informing the Company that the Company had not satisfied its obligations to file periodic reports required under Section 13(a) of the Exchange Act. While we believed that we had reasonably relied upon the assurances from our legal counsel (that we had effectively withdrawn the Form 10-SB registration statement), we are determined to complete all past and current periodic filings and to comply with the SEC Letter as expeditiously as possible. However, we have not received any assurances from the SEC that we will not be subject to any adverse enforcement action by the SEC.

While we did not seek to avoid our obligations under the Exchange Act in any way, our prior actions in mistakenly believing that we had no obligation to file periodic reports required by the Exchange Act exposes us to risk of liability for significant civil fines and the SEC could, among other enforcement actions, suspend trading in our Common Stock. Further, we offered and sold securities in reliance upon exemptions that were predicated on our mistaken belief that the registration statement had been withdrawn. For these and other reasons we may be exposed to liability. We intend to continue a dialogue with the staff of the SEC and, as information is collected and documents are prepared, to complete all filings needed to demonstrate that we are fulfilling our obligations under the Exchange Act with due care and in full observance of our obligations as a "reporting company" thereunder.

28. As a public company, we incur increased costs that may place a strain on our resources or divert our management's attention from other business concerns.

As a public company, we incur additional legal, accounting and other expenses that we did not incur as a private company. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition, which requires us to incur legal, accounting, and other expenses. In addition, we are required to maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required. The corporate governance rules and regulations of the SEC increase our legal and financial compliance costs and makes some activities more time consuming and costly. These requirements may place a strain on our systems and resources and may divert our management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

29. Dependence Upon Key Personnel and New Employees.

We believe that our success will depend, to a significant extent, on the efforts and abilities of Farid Shouekani, Paul E. Atkiss, and James R. Balestraci. The loss of the services of any of them could have a material and continuing adverse effect on the Company. Our success also depends upon our ability to attract and retain qualified employees. Hiring to meet our anticipated operations will require that we assimilate significant numbers of new employees during a relatively short period of time.

30. Absence of Key Man Insurance.

We currently do not maintain any key man life insurance on the life of any of our officers or directors and there are no present plans to obtain any such insurance. In the event that any one or more of them are unable to perform their duties, the Company's business may be adversely impacted and our results of operations and financial condition would be materially and adversely impacted for a protracted period.

31. Lack of Independent Evaluation of Business Plan & Proposed Strategy.

We have not obtained any independent or professional evaluation of our business plan and our business strategy and we have no present plans to obtain any such evaluation. There can be no assurance that we will successfully increase revenues, or if revenues we do, that we can do so at levels that will allow us to achieve or maintain profitability. If we are unsuccessful, our results of operations and financial condition would be materially and adversely impacted and investors would likely lose all or a significant portion of their investment.

32. No Planned Dividends.

We do not anticipate that we will pay any dividends on our Common Stock. Any profits that we may generate, if any, will be reinvested.

33. Potential Immediate and Substantial Dilution.

Funding of our planned business is likely to result in substantial and on-going dilution of our existing stockholders. While there can be no guarantee that we will be successful in raising additional capital, if we are successful in obtaining any additional capital, existing stockholders will likely incur immediate and substantial dilution.

34. Matter of Public Market and Rule 144 Stock Sales.

As of June 30, 2006, there were 143,862,571 shares of the Company's Common Stock that were "restricted securities" and which may be sold pursuant to Rule 144. Since September 16, 2002, we have had a limited public trading market for our Common Stock in the "Pink Sheets" market. Since that date trading volumes have been volatile with sporadic liquidity levels. Further, our Common Stock is (as of the date of the filing of this Report) a "Penny Stock" and for this reason we face continuing difficulties in our efforts to gain a liquid trading market and there can be no assurance that any liquid trading market will ever develop or, if it does develop, that it can be maintained. In the event that we are able to complete the filing of all periodic reports (the "Periodic Reports") required by Section 13(a) of the Exchange Act, we may be able to avoid any significant adverse enforcement action by the SEC arising out of our lack of compliance with the Exchange Act. Rule 144 provides that a person holding restricted securities for a period of one year may thereafter sell in brokerage transactions, an amount not exceeding in any three month period 1% of our outstanding Common Stock. Further, unless the Company can complete all of the required Periodic Reports and remain current in the filing of all future Periodic Reports, persons holding restricted stock will not be able to avail themselves of the safe harbor provisions of Rule 144. Persons who are not affiliated with the Company and who have held their restricted securities for at least two years are not subject to the volume limitation. In any trading market for our Common Stock, possible or actual sales of our Common Stock by present shareholders under Rule 144 may have a depressive effect on the price of our Common Stock even if a liquid trading market develops.

35. General Risks of Low Priced Stocks.
In any trading market for our Common Stock, we anticipate that our Common Stock will be deemed a "Penny Stock" which will limit trading and liquidity and thereby the retail market for the Common Stock. The limitations are primarily due to the burdens that are imposed on brokers whose customers may wish to acquire our Common Stock.

In that event, a shareholder may find it more difficult to dispose of, or to obtain accurate quotations as to the price of our Common Stock. In the absence of a security being quoted on NASDAQ, or the Company having $2,000,000 in net tangible assets, trading in the Common Stock is covered by Rule 3a51-1 promulgated under the Securities Exchange Act of 1934 for non-NASDAQ and non-exchange listed securities. Under such rules, broker/dealers who recommend such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or an annual income exceeding $200,000 or $300,000 jointly with their spouse) must make a special written suitability determination for the purchaser and receive the purchaser's written agreement to a transaction prior to sale.

Securities are also exempt from this rule if the market price is at least $5.00 per share, or for warrants, if the warrants have an exercise price of at least $5.00 per share. The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure related to the market for penny stocks and for trades in any stock defined as a penny stock.

The Commission has adopted regulations under such Act which define a penny stock to be any NASDAQ or non-NASDAQ equity security that has a market price or exercise price of less than $5.00 per share and allow for the enforcement against violators of the proposed rules.

In addition, unless exempt, the rules require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule prepared by the Commission explaining important concepts involving a penny stock market, the nature of such market, terms used in such market, the broker/dealer's duties to the customer, a toll-free telephone number for inquiries about the broker/dealer's disciplinary history, and the customer's rights and remedies in case of fraud or abuse in the sale.

Disclosure also must be made about commissions payable to both the broker/dealer and the registered representative, current quotations for the securities, and, if the broker/dealer is the sole market maker, the broker/dealer must disclose this fact and its control over the market. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

While many NASDAQ stocks are covered by the proposed definition of penny stock, transactions in NASDAQ stock are exempt from all but the sole market-maker provision for (i) issuers who have $2,000,000 in tangible assets has been in operation for at least three years ($5,000,000 if the issuer has not been in continuous operation for three years), (ii) transactions in which the customer is an institutional accredited investor, and (iii) transactions that are not recommended by the broker/dealer.

In addition, transactions in a NASDAQ security directly with the NASDAQ market maker for such securities, are subject only to the sole market-maker disclosure, and the disclosure with regard to commissions to be paid to the broker/dealer and the registered representatives. The Company's securities are subject to the above rules

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, but that such disclosure controls and procedures are not effective to insure reporting is on a timely basis. In addition, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate but that such disclosure controls and procedures are not effective to insure information is communicated to allow for timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in the Company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

DISCLOSURE CONTROLS AND INTERNAL COMTROLS

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorization of management and directors of the Company; and provide reasonable assurance regarding prevention or detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements. Management believes the internal control policies and procedures have been and are likely to continue to be effective in meeting these needs.

In addition, the Company's internal control over financial reporting also includes policies and procedures that pertain to the timeliness of information and reporting, both to management and to the public. These policies and procedures are important to support Management's decision making processes, to quickly identify inappropriate activities and minimize loss, and to empower investors with timely information in support of their investment decisions. Management has determined that these internal control policies and procedures have not been effective to ensure that financial statements for internal and external reporting purposes are prepared on a timely basis. In addition, management does not believe the necessary changes to these control policies and procedures to rectify this deficiency have been implemented. As such, management believes financial statements may continue to suffer from lack of timely preparation and dissemination, and that this condition will continue until adequate changes have been designed and implemented.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired control objectives.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

VIPER NETWORKS, INC. vs GREENLAND CORPORATION

On June 11, 2004 the Company filed an action in The Superior Court of the county of San Diego, California seeking, among other things, rescission of an April 25, 2003 agreement with Greenland Corporation ("Greenland"). The Company considers the contract it entered into with Greenland (wherein Greenland was to receive 2,500,000 shares of the Company's common stock) to have been obtained by fraud. Greenland has filed counter-claims in both California and Utah, seeking, among other things, full and free ownership to the disputed shares of the Company's common stock.

As requested, by the Company, The Superior Court stayed the California cases and referred the California and Utah causes of action to binding arbitration (as stipulated in the April 25, 2003 agreement). The Final Award rescinds the agreement entitling Viper to the return of all 2,750,000 shares (2,500,000 shares plus the subsequent stock dividend) of it's Common Stock previously issued to Greenland and Greenland is entitled to the return of the 2,000,000 shares of its common stock held by the Company. The Company will instruct it's transfer agent to cancel the 2,750,000 shares of Common stock upon return to Greenland of the 2,000,000 shares of their common stock. In addition, Greenland's cross compliant is denied and any other, if any, claims between the parties not specifically addressed in the Final Award are denied. In addition, Viper was awarded a portion of its attorneys fess and its arbitration costs and is evaluating the possibility of collection, if any, on this cash portion of the Final Award; but given Greenland's previous disclosure of an IRS Tax Lien on Greenland's assets the probability of collection appears unlikely..

HILLS OF BAJAMAR

During September 1998, the Company entered into an agreement with Tri-National, a related party, to purchase 50 acres of real property known as the Hills of Bajamar, located in Ensenada, Mexico (the "Land) that is valued at the predecessor cost of $125,000. The Company intended, at the time, to sell lots for residential development and build a communications facility for residents in the surrounding area.

As consideration for the Land, the Company issued 3,000,000 shares of its series B Preferred Stock and stock warrants to purchase 1,000,000 shares of Common Stock. During June 2001, the Company negotiated a settlement and release with the Class B preferred stockholder whereby the Preferred Stock and stock warrants were exchanged for 400,000 shares of the Company's Common Stock and the cumulative undeclared dividend was not declared. During October 2001, Tri-National filed a voluntary bankruptcy petition; the court appointed a Trustee in October 2002.

Because consideration for the agreement (documented title) never was received the Company did not believe it was ever the owner of the Land. Accordingly, the value of the Land had previously been classified as a stock subscription receivable.

During January 2006, the Company and the court appointed Trustee entered into a settlement agreement whereby the 400,000 shares of the Company's Common Stock was released to the Trustee as an asset of the bankruptcy estate, Viper was released from all claims, and the Company relinquished any claim in the Land. Accordingly, the $125,000 previously held as a stock subscription receivable was charged against earnings as a bad debt during the year ended December 31, 2005.

The Company's officers and directors are aware of no other threatened or pending litigation, which would have a material, adverse effect on us. From time to time we are a defendant (actual or threatened) in certain lawsuits encountered in the ordinary course of its business, the resolution of which, in our opinion, is not likely to have a material adverse effect on our financial position, results of operations, or cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In January 2006, the Company issued 333,333 shares of the Company's Common stock to one purchaser in exchange for the Company's receipt of $20,000 in cash. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchaser was accredited investors as defined in Rule 501 of Regulation D of the Securities Act of 1933. The purchaser was provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist them in understanding the merits and risks of the investment. The purchaser was further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchaser was informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In January 2006, the Company issued a total of 912,000 shares of the Company's Common stock to Paul Atkiss (an officer and director of the Company; 250,000), two employees (132,000), Paul Goss (legal counsel; 350,000), and Gibrahn Verdult (consultant; 180,000) in payment for services. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In January 2006, the Company issued 9,000,000 shares of the Company's Common stock to two purchasers in a cashless exercise of stock options (200,000 shares $7,400) and warrants (8,800,000 shares $352,000) in exchange for monies owed on promissory notes. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were each accredited investors as defined in Rule 501 of Regulation D of the Securities Act of 1933. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist them in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In January 2006, the Company issued 5,915,000 shares of the Company's Common stock to five purchasers in exchange for the Company's receipt of an aggregate of $195,800 in cash. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In January 2006, the Company issued 3,294,140 shares of the Company's Common stock to three purchasers in conversion of an aggregate of $151,464 owed under convertible promissory notes. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In February 2006, the Company issued 15,615,000 shares of the Company's Common stock to five purchasers in exchange for the Company's receipt of an aggregate of $569,486 in cash. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; a 1,500,000 share commissions was incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In February 2006, the Company issued a total of 2,000,000 shares of the Company's Common stock to Nabil Youkhana (an officer of the Company; 1,500,000) and to one other employee (500,000), in payment for service. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In February 2006, the Company issued 1,355,406 shares of the Company's Common stock to one purchaser in conversion of $40,662 owed under a convertible promissory note. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchaser was sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchaser was provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchaser was further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchaser was informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time

In March 2006, the Company issued 6,600,000 shares of the Company's Common stock to two purchasers in conversion of an aggregate of $163,172 owed under convertible promissory notes. Ronald Weaver, a director, received 2,409,822 shares ($72,295) and Farid Shouekani, an officer and director, received 4,190,178 shares ($90,877). All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In March 2006, the Company issued 250,000 shares of the Company's Common stock to Paul Atkiss, an officer and director of the Company in payment for services. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchaser was sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchaser was provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchaser was further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchaser was informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In April 2006, the Company issued a total of 2,500,000 shares of the Company's Common stock to Jinan Haba (the wife of Farid Shouekani, an officer and director of the Company; 1,000,000) and three employees (1,500,000) in payment for services. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In May 2006, the Company issued a total of 36,308,500 shares of the Company's Common stock to ten purchasers in payment for service. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

In June 2006, the Company issued 23,151,902 shares of the Company's Common stock to Farid Shouekani, an officer and director in conversion of $289,399 owed under a convertible promissory note. All of the shares were offered and sold under a claim of exemption provided by Section 4(2) of the Securities Act of 1933 without the use of an underwriter or NASD registered broker-dealer; no commissions were incurred by the Company in connection with the transaction. The purchasers were sophisticated and experienced in financial, business, and investment matters and otherwise able to evaluate the merits and risks associated with the purchase of the Company's securities. The purchasers were provided with, or given access to, information about the Company and the offering, including, but not limited to, the Company's financial statements, business plan, articles of incorporation, by-laws, a description of how the proceeds were to be used, and additional information to assist in understanding the merits and risks of the investment. The purchasers were further provided the opportunity to ask questions of the Company's officers and directors and receive answers to their questions. The purchasers were informed the securities purchased were restricted securities and they may have to hold them for an indefinite period of time.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

Not Applicable.

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORMS 8-K

(a). The following Exhibits are attached:

EXHIBIT NUMBER	DESCRIPTION
23.1 *	Auditor's Consent
31.1 *	Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 *	Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 *	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 *	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
	* Filed herewith.

(b). The Company filed the following Reports on Form 8-K during the three months ended June 30, 2006:

DATE	DESCRIPTION
August 9, 2006	Unregistered sale of equity securities, changes in control of registrant, and regulation FD disclosure
August 11, 2006	Change in registrant's certifying accountant
August 15, 2006	Amendment to August 11, 2006 change in registrant's certifying accountant

SIGNATURES

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

Viper Networks, Inc.

By: /s/ *Farid Shouekani* Farid Shouekani Chief Executive Officer	Date: August 30, 2006
By: /s/ *Paul E. Atkiss* Paul E. Atkiss Chief Financial Officer/Principal Accounting Officer	Date: August 30, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ *Farid Shouekani* Farid Shouekani Chief Executive Officer & Director	Date: August 30, 2006
By: /s/ *Paul E. Atkiss* Paul E. Atkiss Chief Financial Officer, Secretary & Director	Date: August 30, 2006
By: /s/ *Ronald G. Weaver* Ronald G. Weaver Director	Date: August 30, 2006