VIPER NETWORKS INC
Form 10QSB/A
August 09, 2007

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

FORM 10-QSB/A
Amendment No. 2

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

For the quarterly period ended September 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 (218,891,654 shares of Common Stock) was $3,283,375 as of September 30, 2006. The stock price for computation purposes was $0.0150. 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 September 30, 2006 was 233,343,556.

VIPER NETWORKS, INC.
FORM 10-QSB/A (Amendment No. 2) QUARTERLY REPORT
FOR THE QUARTERLY Period ended September 30, 2006

Explanatory Note

Viper Networks, Inc. (the "Company") is filing this second amendment to its Quarterly Report on Form 10-QSB for the quarter ended September 30, 2006 (the "Amendment") to restate the Condensed Consolidated Financial Statements in response to comments issued by and discussions with the Securities and Exchange Commission (the "SEC"). The restated financials (Item 1) and revised document (Item 2 - Managements' Discussion and Analysis of Financial Condition and Results of Operations and Item 3 – Factors That May Affect Future Results) address comments issued by and discussions with the SEC as relates to the Company's Forms 10-KSB for the year ended December 31, 2005, and 10-QSB for the quarters ended March 31, 2006 and June 30, 2006.

Any reference to facts and circumstances at a "current" date refer to such facts and circumstances as of such original filing date.

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VIPER NETWORKS, INC.
FORM 10-QSB/A (Amendment No. 2) QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED September 30, 2006

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VIPER NETWORKS, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENT (UNAUDITED)

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions for Form 10-QSB pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all information and footnote disclosures 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 condensed consolidated balance sheet of the Company as of September 30, 2006, and the related consolidated balance sheet of the Company as of December 31, 2005, which is derived from the Company's audited consolidated financial statements, the un-audited condensed consolidated statement of operations and cash flows for the nine months ended September 30, 2006 and September 30, 2005 and the condensed consolidated statement of stockholders equity for the period of December 31, 2004 to September 30, 2006 are included in this document. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's most recently filed Form 10-KSB.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have reviewed the accompanying condensed consolidated balance sheet of Viper Networks, Inc. and Subsidiaries as of September 30, 2006, and the related condensed consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the nine and three months then ended. These condensed consolidated 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 condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying condensed consolidated 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 condensed consolidated 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 3, 2007 – restated; see Note 6
November 14, 2006
Chula Vista, CA 91910

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VIPER NETWORKS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash	$ 6,765	$ 33,430
Short-term investments	-	4,000
Accounts receivable, net of allowance for doubtful accounts and sales returns	141,153	119,039
Inventories	81,409	74,959
Other current assets	297,243	194,874
Total current assets	526,570	426,301
Property and equipment, net	115,584	179,640
Goodwill	200	149,541
Total assets	$ 642,354	$ 755,482
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 560,175	$ 589,918
Accrued liabilities	158,705	84,492
Loans from related party, net of beneficial conversion discount	4,005	460,052
Taxes payable	5,916	3,749
Deferred revenues	265,267	185,293
Short term debt, net of beneficial conversion discount	69,527	148,438
Total current liabilities	1,063,595	1,471,943
Commitments and Contingencies		
Stockholders equity (deficit):		
Preferred stock: 10,100,000 shares authorized of $0.001 par value; 3,000,000 shares designated Series A; 3,000,000 and -0- shares issued and outstanding as of September 30, 2006 and December 31, 2005	3,000	-
Common stock: 250,000,000 shares authorized of $0.001 par value; 233,343,556 and 151,048,582 shares issued and outstanding as of September 30, 2006 and December 31, 2005	233,344	151,049
Additional paid-in capital	16,448,455	12,602,966
Unearned stock-based compensation	(86,314)	(113,694)
Treasury stock	(223,028)	(223,028)
Accumulated deficit	(16,796,698)	(13,054,628)
Accumulated comprehensive loss	-	(79,125)
Total stockholders' equity (deficit)	(421,241)	(716,461)
Total liabilities and stockholders' equity (deficit)	$ 642,354	$ 755,482

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

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

	Three Months Ended September 30, 2006	2005
Net revenues	$ 659,879	$ 932,467
Cost of revenues	588,434	898,396
Gross Margin	71,445	34,071
Operating Expenses		
General and administrative	707,730	246,511
Bad debt expense (recovery)	1,806	289
Equity loss from unconsolidated subsidiaries	-	-
Impairment of purchased intangibles	-	-
(Gain on sale) impairment of purchased assets	-	-
Total Operating Expenses	709,535	246,800
(Loss) from operations	(638,091)	(212,729)
Other income (expenses)		
Realized (loss) gain on marketable securities	(33,060)	265,440
Interest expense	(42,151)	(43,780)
Other (expense) income	(2,313)	8
Total other income (expenses)	(77,524)	221,668
Net (loss) gain	$ (715,614)	$ 8,940
Basic loss per share	$ (0.00)	$ (0.02)
Weighted average number of shares outstanding	255,319,861	130,479,292

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

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net revenues	$ 1,976,304	$ 2,737,759
Cost of revenues	1,777,197	2,542,201
Gross Margin	199,107	195,557
Operating Expenses		
General and administrative	3,413,172	1,965,642
Bad debt expense (recovery)	21,129	(18,063)
Equity loss from unconsolidated subsidiaries	-	46,329
Impairment of purchased intangibles	149,341	275,000
(Gain on sale) impairment of purchased assets	-	(615,216)
Total Operating Expenses	3,583,642	1,653,692
(Loss) from operations	(3,384,535)	(1,458,134)
Other income (expenses)		
Realized gain on marketable securities	187,494	265,440
Interest expense	(544,672)	(98,256)
Other (expense) income	(355)	12
Total other income (expenses)	(357,533)	167,197
Net loss	$ (3,742,068)	$ (1,290,938)
Basic loss per share	$ (0.02)	$ (0.01)
Weighted average number of shares outstanding	220,800,116	127,798,849

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

VIPER NETWORKS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit) (Unaudited)

	Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Stock Subscription Receivable	Unearned Stock-based Compensation	Treasury Stock	Accumu Defic
	Shares	**Amount**	**Shares**	**Amount**					
Balance, December 30, 2004	-	$ -	121,222,899	$ 121,223	$ 11,425,685	$ (125,000)	$ (253,318)	$ -	$ (11,12
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	-	-	-	-	-	-	-	-	(1,92
Balance, December 31, 2005	-	-	151,048,582	151,049	12,602,966	-	(113,694)	(223,028)	(13,05
	-	-	17,897,500	17,898	601,589	-	-	-	

Issuance of common stock for cash									
Issuance of common stock for repurchase of NextPhase stock	-	-	13,015,000	13,015	176,139	-	-	-	
Issuance of common stock for services received	-	-	40,275,167	40,275	1,573,723	-	-	-	
Issuance of series A preferred stock for services received	1,100,000	1,100	-	-	383,900	-	-	-	
Issuance of common stock for syndication fee	-	-	1,500,000	1,500	(1,500)	-	-	-	
Cancellation of common stock for recession of acquisition	-	-	(2,500,000)	(2,500)	(55,625)	-	-	-	
Issuance of series A preferred stock in exchange for common stock	1,900,000	1,900	(19,000,000)	(19,000)	17,100	-	-	-	
Issuance of common stock for conversion of notes payable and interest	-	-	31,107,307	31,107	461,973	-	-	-	
Beneficial conversion of interest-in-kind on convertible notes	-	-	-	-	556,858	-	-	-	
Stock-based compensation	-	-	-	-	131,333	-	27,380	-	
Comprehensive gain	-	-	-	-	-	-	-	-	
Net loss for nine months ended September 30, 2006	-	-	-	-	-	-	-	-	(3,74
	3,000,000	$ 3,000	233,343,556	$ 233,344	$ 16,448,455	$ -	$ (86,314)	$ (223,028)	$ (16,79

Balance,
September 30,
2006

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

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

	Nine Months Ended September 30,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (3,742,068)	$ (1,290,937)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	138,651	231,601
Allowance for doubtful accounts and sales returns	9,300	(60,333)
Allowance for inventory obsolescence	-	20,750
Allowance for warranty returns	-	20,000
Amortization of stock-based compensation	158,713	44,975
Beneficial conversion of interest-in-kind on convertible notes	520,355	-
(Gain) loss on sale of property and equipment	(7,303)	24,360
Equity loss from unconsolidated subsidiaries, net of cash contributions	-	46,329
Impairment of purchased intangibles	149,341	275,000
(Recovery) impairment of purchased assets	-	(615,217)
Stock based compensation	1,901,309	391,432
Interest accrual	24,080	76,488
(Gain) on sale of marketable securities	(187,494)	(265,440)
Loss on recession of acquisition	25,000	-
Changes in assets and liabilities:		
Accounts receivable	(110,916)	36,731
Inventories	(6,450)	(37,965)
Prepaid expenses	(19,591)	(616,418)
Other current assets	21,849	7,801
Accounts payable	259,814	222,801
Accrued liabilities	78,767	267,038
Taxes payable	2,167	802
Deferred revenues	79,973	95,451
Net cash used in operating activities	(704,505)	(1,124,750)
Cash flows from investing activities:		
Purchases of property and equipment	(78,191)	(16,609)
Proceeds from sale of property and equipment	10,900	15,450
Sales of marketable securities	158,754	265,440
Net cash used in investing activities	91,463	264,281
Cash flows from financing activities:		
Proceeds from issuance of common stock	619,487	857,921
Proceeds from shareholder loans	52,301	229,237
Repayments of shareholder loans	(75,411)	(227,513)
Repayments of convertible loans	(10,000)	(35,110)
Payments on capital lease obligations	-	(2,389)
Net cash provided by financing activities	586,377	822,145
Net increase in cash	(26,665)	(38,325)

Cash at the beginning of the period		33,430		46,956
Cash at the end of the period	$	6,765	$	8,632

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

VIPER NETWORKS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Continued) (Unaudited)

	Nine Months Ended September 30, 2006	2005
Supplemental schedule of cash flow activities		
Cash paid for:		
Interest	$ 59	$ 11,465
Income taxes	$ -	$ 800
Non-cash investing and financial activities:		
Common stock (cancelled) for business acquisition	$ (58,125)	$ (637,500)
Common stock issued in payment of services	$ 1,613,998	$ 47,045
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	$ -
Common stock issued upon repurchase of NextPhase stock	$ 189,154	$ -
Common stock (cancelled) in exchange for Series A preferred stock	$ (237,500)	$ -
Series A preferred stock issued in exchange for common stock	$ 237,500	$ -
Series A preferred stock issued in payment of services	$ 385,000	$ -

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

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

NOTE 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2006 condensed consolidated 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 September 30, 2006 and 2005 and for all periods presented have been made. Certain information and Footnote disclosures normally included in consolidated 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 consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's December 31, 2005 audited consolidated financial statements. The results of operations for periods ended September 30, 2006 and 2005 are not necessarily indicative of the operating results for the full years.

NOTE 2 - DESCRIPTION OF THE BUSINESS

The condensed 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 condensed 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 condensed consolidated balance sheet.

b. Inventories

Inventories are stated at the lower of cost, using the first-in first-out method, or market. 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 condensed 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 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 Condensed 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 (“SFAS”) No.142, “Goodwill and Other Intangible Assets” (“SFAS 142”). 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” (“SFAS 144”).

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. 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 in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements". 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 service agreements are allocated consistent with EITF No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables"

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Revenue Recognition (continued)

with the multiple deliverables divided into separate units of accounting. Revenue is allocated among the separate units of accounting based on the relative fair value of the hardware (product) and minutes of calling time (service) based on published pricing. 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 a deferred revenue liability.

The Company's hardware products consist of both i) devices connected to and used in conjunction with a computer for use over any speed Internet connection (dial-up or broadband) and ii) devices used with a broadband Internet connection not requiring a computer. Hardware products contain embedded software or firmware provided by the third party manufacture which is incidental to the product sale. Included with each product sale are a Viper Networks VoIP calling account ("VoIP Account") and the ability to download our proprietary dialer software/VoIP Account interface. Our dialer software/VoIP Account interface is not sold separately; the current version is available for customers to download from our web site.

The Company sells the routing and delivery of internet traffic which conforms with Voice over Internet Protocol to both consumers and wholesale carriers. Consumers purchase prepaid calling time for addition to a VoIP Account either directly from the Company web site or by the purchase of a voucher from our distributor network. Revenue from the sale of prepaid calling time to consumers or vouchers to distributors is deferred upon sale. These deferred revenues are recognized into revenue based on the number of minutes during a call in accordance with our published calling rates. Consumer revenue for a period is calculated by our proprietary software from information received through our network switches. Wholesale carriers purchase bulk minutes of VoIP traffic typically billed weekly in arrears from information received through our network switches. Other services are sold on a per use basis typically billed in arrears.

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

h. Stock-based Compensation

SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R") replaces SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R requires that the cost resulting from all share-based transactions be recorded in the financial statements and establishes fair value as the measurement objective for share-based payment transactions with

employees and acquired goods or services from non-employees. Prior to the January 1, 2006 adoption of SFAS 123R, the Company applied SFAS 123which provided for the use of a fair value based method of accounting for stock-based compensation. However, SFAS 123 allowed the measurement of compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by APB 25, which only required 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. Prior to 2006, the Company had elected to account for employee stock options using the intrinsic value method under APB 25and provided, as required by SFAS 123, pro forma footnote disclosures of net loss as if a fair value based method of accounting had been applied.

The Company adopted 123R in accordance with the modified prospective application and has not restated the consolidated financial statements prior to 2006 for the possible impact of 123R. The table below reflects the pro forma net loss and net loss per share for the three months and nine months ended

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Stock-based Compensation (continued)

September 30, 2005 deducting $61,508 and $184,525 in compensation costs for fair value of employee stock options, respectively.

	Three months ended September 30, 2005	Nine months ended September 30, 2005
Net loss:		
As reported	$ 8,940	$ (1,290,938)
Pro forma	$ (52.568)	$ (1,475,463)
Basic loss per share:		
As reported	$ 0.00	$ (0.01)
Pro forma	$ (0.00)	$ (0.01)

During the nine months ended September 30, 2006 the Company recognized $131,332 for the fair value of employee stock options. The Company estimated the fair value of each option grant at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the years ended December 31, 2005 and 2004; no dividend yield, expected volatility of 103.2% and 200.7%, risk-free interest rates of 4.36% and 4.43%, and expected lives of 10.0 and 10.0 years, respectively. No options were granted during 2006.

During the nine months ended September 30, 2006 and 2005, the Company recognized $1,477,961 and $356,248 and $246,926 and $158,718 of expense relating to the grant of common stock to non-employees and employees, respectively, for services which are included in the accompanying condensed consolidated statements of operations. The value of these shares was determined based upon over the counter closing prices.

In accordance with the provisions of EITF No. 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios” and EITF No. 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments” the Company evaluates debt securities (“Debt”) for beneficial conversion features. A beneficial conversation feature is present when the conversation price per share is less than the market value of the common stock at the commitment date. The intrinsic value of the feature is then measured as the difference between the conversion price and the market value (the “Spread”) multiplied by the number of shares into which the Debt is convertible and is

recorded as debt discount with an offsetting amount increasing additional paid-in-capital. The debt discount is accreted to interest expense over the term of the Debt with any unamortized discount recognized as interest expense upon conversion of the Debt. If a debt security contains terms that change upon the occurrence of a future event (i.e. conversion price equal to 52 week low trading low) the incremental intrinsic value is measured as the additional number of issuable shares multiplied by the commitment date market value and is recognized as additional debt discount with an offsetting amount increasing additional paid-in-capital upon the future events occurrence. The total intrinsic value of the feature is limited to the proceeds allocated to the Debt instrument.

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

VIPER NETWORKS, INC. AND SUBSIDIARIES
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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Income Tax (continued)

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 period 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. 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 33,988,846 warrants potentially issuable at September 30, 2006 which were not included in the computation of net loss per share.

k. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). The provisions of SFAS 155 will be effective for all financial instruments acquired, issued, or subject to a re-measurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. SFAS 155 amends FASB SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". This Statement: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized

financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and e) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company is currently evaluating the impact of adopting SFAS 155.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS 156"). An entity shall adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this Statement is the date that an entity adopts the requirements of this Statement. SFAS 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing

VIPER NETWORKS, INC. AND SUBSIDIARIES
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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Recent Accounting Pronouncements (continued)

liabilities. This Statement: a) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations, b) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, c) permits an entity to choose between two subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities, d) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value, and e) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. The Company is currently evaluating the impact of adopting SFAS 156.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). 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 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 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact of adopting SFAS 157.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). SFAS 158 provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. Also, the effective date of the recognition and disclosure provisions differs for an employer that is an issuer of publicly traded equity securities from one that

is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met: a) the employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally, b) the employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or c) the employer is controlled by an entity covered by (a) or (b). An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) shall be effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. Earlier application is encouraged; however, early application shall be for all of an employer's benefit plans. An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraph 4) and the disclosure requirements (paragraph 7) as of

VIPER NETWORKS, INC. AND SUBSIDIARIES
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NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Recent Accounting Pronouncements (continued)

end of the fiscal year ending after December 15, 2006. The Company is currently evaluating the impact of adopting SFAS 158.

NOTE 4 - GOING CONCERN

The Company's condensed 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 September 30, 2006, resulting in an accumulated deficit of $16,796,698 at September 30, 2006, that raises doubt about the Company's ability to continue as a going concern. The accompanying condensed 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 9, 2007, the Company exchanged certain short term unsecured promissory notes with current and former officers of the Company for unsecured twelve month convertible promissory notes with variable interest equal to the greater of the monthly market yield on 1-year constant maturity U.S. Treasury securities or the noteholders cost of funds. Each of the notes, at the option of each noteholder, are convertible, in whole or part, into shares of the Company's common stock at a percentage of the preceding 52-week low trading range of the Company's publicly traded common stock price. The potential beneficial conversion feature of the notes is recognized as debt discount and is accreted over the term of the notes as interest-in-kind.

Noteholder	Amount	Conversion Factor
John Castiglione	$ 59,327	100% of the 52-week low trading range
Farid Shouekani, President and CEO	$ 367,812	50% of the 52-week low trading range
Jason Sunstein	$ 37,057	100% of the 52-week low trading range

Ronald Weaver, Chairman	$	68,285	100% of the 52-week low trading range
	$	532.481	

On February 14, 2006, the Company signed a three year lease commencing March 15th 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 Farid Shouekani elected to convert the entire balance ($72,294) and $90,877 of their convertible promissory notes into 2,409,822 and 4,190,178 shares of

VIPER NETWORKS, INC. AND SUBSIDIARIES
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NOTE 5 - SIGNIFICANT EVENTS (continued)

the Company's Common Stock in accordance with the terms of the notes, respectively. Also on February 16, 2006, Yale Wong was issued 1,355,406 shares of the Company's Common Stock as full payment of his short term unsecured note ($40,662).

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 September 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.

On March 1, 2006, Farid Shouekani elected to convert an additional $289,398.78 of his convertible 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 of common stock to seven individuals in Saudi Arabia for services within the Middle East to provide market analysis, develop business plans, establish distribution channels, perform 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 receive 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 September 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,

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

(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 Series A Preferred Stock 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 September 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 subsequent 10% stock dividend) of its 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 $25,000 of cash consideration paid by Viper is retained by Greenland. The Company's transfer agent has canceled the 2,750,000 shares of Common Stock. In addition, Greenland's cross compliant was 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 their assets, the probability of collection appears unlikely.

During August a subscriber of the August 2005 unit subscription agreement elected to exchange the NextPhase common stock received as part of the unit subscription for additional shares of the Company's Common Stock. The Company issued 4,265,000 shares of its Common Stock in exchange for the return of 426,500 shares of NextPhase common stock.

On September 6, 2006, to increase the number of available common shares, Farid Shouekani, an officer and director, surrendered 19,000,000 shares of the Company's Common Stock for cancellation in exchange for the issuance to him of 1,900,000 shares of the Company's Series A Preferred Stock.

During September a subscriber of the August 2005 unit subscription agreement elected to exchange the NextPhase common stock received as part of two unit subscriptions for additional shares of the Company's Common Stock. The Company issued 8,750,000 shares of its Common Stock in exchange for the return of an aggregate of 875,000 shares of NextPhase common stock.

On October 25, 2006, the Company signed an exclusive agreement with Onasi, Inc. (dba OnSat) to provide VoIP products and services within the territory of the Navajo Nation under OnSat's Master Agreement: Internet and Transmission

Services with the Navajo Nation. Subject to our ability to obtain necessary debt financing, the Company agrees to purchase various internet-related subscriber equipment from OnSat and to provide VoIP services to customers within the territory of the Navajo Nation. In addition, we agree to purchase from OnSat an aggregate of $1,411,000 in wireless service base equipment (the "Access Equipment"). This equipment is currently installed and operated within the territory by OnSat, and consists of 900 MHz access points, related server equipment, antennas, and related equipment. Pursuant to the terms of the agreement, the Access Equipment purchase price will be satisfied by issuance to OnSat of 64,941,423 shares of the Company's common stock, or preferred stock convertible into such number of shares of the Company's common stock. In accordance with the agreement the Company has the right to sell the Access Equipment back to OnSat on June 30, 2010 or earlier upon achieving 27,000 VoIP subscribers within the territory of the Navajo Nation, and OnSat has the right, subject to certain restrictions, to repurchase from the Company the Access Equipment for 54,941,423 shares of the Company's common stock (to be held in escrow), with such rights expiring on July 10, 2010.

VIPER NETWORKS, INC. AND SUBSIDIARIES
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NOTE 6 - RESTATEMENT

The accompanying unaudited condensed consolidated financial statements as of September 30, 2006, along with the Report of Independent Registered Public Accounting Firm dated November 16, 2006 have been restated as of July xx, 2007.

The first restatement, issued March 2, 2007, included additional interest expense and disclosures regarding unsecured convertible promissory notes (Balance Sheet, Statements of Operations, Statements of Stockholder's Equity (Deficit), Statements of Cash Flows, and footnote 3-h); compensation expense and disclosures regarding fair value of employee stock options (Statements of Operations, Statements of Stockholder's Equity (Deficit), Statements of Cash Flows, and footnote 3-h); and revenue recognition disclosure (footnote 3-g).

This restatement reduces the beneficial conversion feature related to the unsecured convertible promissory notes and accretes the debt discount over the term of the notes (Balance Sheet, Statements of Operations, Statements of Stockholder's Equity (Deficit), Statements of Cash Flows, and footnote 3-h and 5).

The following is a summary of the effects of the both restatements:

Condensed Consolidated Balance Sheets

	September 30, 2006 (Unaudited)	December 31, 2005
Additional paid-in capital:		
As originally reported	$ 15,760,265	$ 12,602,966
Effect of restatement	688,190	-
As restated	$ 16,448,455	$ 12,602,966
Accumulated deficit:		
As originally reported	$ (16,145,011)	$ (13,054,628)
Effect of restatement	(651,687)	-
As restated	$ (16,796,698)	$ (13,054,628)
Total stockholders' equity (deficit):		
As originally reported	$ (457,744)	$ (716,461)
Effect of restatement	36,503	-
As restated	$ (421,241)	$ (716,461)

Condensed Consolidated Statements of Operations (Unaudited)

Three Months Ended September 30,

	2006	2005
Total operating expenses:		
As originally reported	$ 665,758	$ 246,800
Effect of restatement	43,777	-
As restated	$ 709,535	$ 246,800

VIPER NETWORKS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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NOTE 6 - RESTATEMENT (continued)

Condensed Consolidated Statements of Operations (Unaudited) (continued)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Total other income (expenses):		
As originally reported	$ (37,303)	$ 221,668
Effect of restatement	40,221	-
As restated	$ (77,524)	$ 221,668
Net loss:		
As originally reported	$ (631,617)	$ 8,940
Effect of restatement	(83,997)	-
As restated	$ (715,614)	$ 8,940

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Total operating expenses:		
As originally reported	$ 3,452,310	$ 1,653,692
Effect of restatement	131,332	-
As restated	$ 3,583,642	$ 1,653,692
Total other income (expenses):		
As originally reported	$ 162,821	$ 167,197
Effect of restatement	(520,354)	-
As restated	$ (357,533)	$ 167,197
Net loss:		
As originally reported	$ (3,090,381)	$ (1,290,938)
Effect of restatement	(651,687)	-
As restated	$ (3,742,068)	$ (1,290,938)

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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated 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 and 2) 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 ("Consumer Operations"). 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' 1) prepaid account or ii) billed in arrears (for fixed-rate customers for calls outside their allotted calling territories). Through our wholesale activity we both buy and sell network capacity to

and from other VoIP providers for specific destinations around the world (“Wholesale Operations”). 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 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 September 30, 2006 and September 30, 2005

During the three months ended September 30, 2006, the Company recorded $659,879 in Net revenues. This was a -$272,588 decrease (-29.2%) compared to the three months ended September 30, 2005 when we recorded $932,467 in Net revenue. The decrease in Net revenues consisted of a -$26,475 (-15.6%) decrease in Consumer Operations revenue and a -$246,113 (-32.2%) decrease in Wholesale Operations revenue. The decrease in revenue from Wholesale Operations included a quarterly decrease of -$138,695 (-21.4%) from the former Adoria operations (in which revenues were restricted by cash flow limitations) and a quarterly decrease of -$107,418 (-93.3%) from the former Mid-Atlantic operations (the result of an intentional shift in emphasis away this business).

During the three months ended September 30, 2006, the Company’s Gross margin increased by 109.7% to $71,445 (compared to $34,071 in the same quarter in 2005). This resulted in a Gross margin of 10.8% (compared to a Gross margin of 3.7% in same quarter in 2005). Consumer Operations Gross margins in the quarter were 23.8% (Gross profit of $33,905 on revenues of $142,732); in the same period during 2005 Consumer Operations Gross margins were -30.9% (Gross loss of -$52,286 on Net revenues of $169,208). The large improvement is primarily the result of a large (approximately $44,000) billing error in the third quarter of 2005 that had the effect of decreasing Gross margin from about -5% to -30.9% in that quarter. On a year-to-date basis, excluding this billing error, Consumers Operations’ Gross margin fell from approximately 9% in 2005 to 7.6% in 2006. This decrease is attributed to additional terminating costs from our efforts to improve call quality. For our Wholesale Operations, quarterly Gross margin diminished to 7.3% (Gross margin of $37,540 on Revenues of $517,146) from 11.3% in the same quarter of 2005 (Gross margin of $86,356 on Revenues of 763,260). The lower Gross margins in Wholesale Operations resulted from increased competitive pressures on revenue and from our inability to exploit more profitable opportunities that typically require longer cash carrying periods, which was not possible given our cash limitations. The Company expects these trends to continue for the remainder of the year.

During the three months ended September 30, 2006 the Company incurred $707,730 in General and administrative (“G&A”) expenses. This was a 187.1% increase compared to the three months ended September 30, 2005 when we incurred $246,511 in G&A expenses. However, in the third quarter of 2005 there occurred two one-time events that significantly decreased G&A expenses: a one-time recovery resulting from the rescission of the equity swap agreement (+$104,514); and, a one-time recovery from the rescission of previously booked management bonuses (+$600,000). Excluding these events, G&A expenses in the third quarter of 2005 would have been $951,025. Also excluding these one-time third quarter, 2005 events, our G&A expenses in the current quarter would represent a decrease of -$243,295, or -25.6%.

Consumer Operations (including corporate overhead) G&A expenses in the three months ended September 30, 2006 were $578,984 (406% of Consumer Operations revenues); during the same period in 2005 Consumer Operations G&A expenses were $536 (0% of Consumer Operations revenues). However, all of the previously discussed one-time events were included in Consumer Operations’ third quarter, 2005 results. Excluding these one-time events, Consumers Operations G&A expenses would have been a decrease of -$126,066 from the third quarter of 2005 (-17,9%) and Consumers Operations’ G&A expenses as a percent of Consumer Operations revenues (406%) would have been a minor improvement compared to the third quarter, 2005 (416% of revenues). The improvement in Consumer Operations G&A expenses resulted from management changes implemented during the third and fourth quarters of 2005. Wholesale Operations G&A expenses also decreased by -47.7% to $128,746 in the third quarter of 2006 (25% of Wholesale Operations revenues) from $245,974 in the same period in 2005 (32% of Wholesale Operations 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 September 30, 2006 the Company had Bad debt expense of $1,806 (in the same quarter of 2005 we had $289 in Bad debt expense).

These factors led to a Loss from operations in the three months ended September 30, 2006 of -$638,091. Excluding the one-time events noted above, the Loss from operations for the quarter ended September 30, 2005

would have been -$917,243. In that event, the Loss from operations would have represented an improvement of $279,152 (the result of reduced G&A expenses in the current quarter).

During the three months ended September 30, 2006, we recognized an aggregate loss of -$33,060 on the sale of marketable securities, compared to a gain of $265,440 in the third quarter of 2005 (the gain in 2005 resulted from the sale (transfer) of NextPhase Wireless, Inc. ("NextPhase") common stock in the public market (145,000 shares) and private transactions in payment for services (1,421,500 shares)). The -$33,060 loss in the current quarter was the result of: 1) a $77,429 gain on the sale of 811,900 shares of NextPhase common stock in exchange for services rendered; 2) a gain of $78,665 from the sale of 540,000 shares of NextPhase common stock for cash; and, 3) a loss of $189,154 from the repurchase of 1,301,500 shares of NextPhase common stock pursuant to unit subscription agreements with certain investors in August, 2005. In accordance with the terms of those agreements, each investor had the right to – and did – exchange their previously purchased NextPhase stock for Viper common stock. The company previously recognized a $189,154 gain on the sale of the NextPhase stock during August 2005, that gain was reversed in the current quarter when the investors elected to exchange their NextPhase purchases.

During the three months ended September 30, 2006 we incurred Interest expense of $42,151 compared to $43,780 in Interest expense during the three months ended September 30, 2005. The nominal net decrease in Interest expense was due to borrowings from related parties and short term debt that was converted into common stock of the Company offset $40,220 of non-cash expense for accreted interest-in-kind from the potential beneficial conversion feature (debt discount) of the February 2006 unsecured convertible notes.

As a result, during the three months ended September 30, 2006 we had a Net loss of -$715,614 compared to the three months ended September 30, 2005, when we had a Net gain of $8,940 (an negative change of $724,554 or 8105%). As noted above the negative change was primarily due to several one-time events that occurred in the third quarter of 2005. Our Consumer Operations experienced a Net loss of -$622,088 (-436% of Consumer Operations revenues), a negative change of $828,942 compared the same quarter in 2005 when Consumer Operations had a Net gain of -$206,855. Our Wholesale Operations experienced a Net loss of -$93,527 (-18.1% of Wholesale Operations revenues), an improvement of $104,388 compared to the -$197,915 Net loss for the same period in 2005 (-25.9% of Wholesale Operations revenues).

Basic loss per share for the three months ended September 30, 2006 was -$0.00 compared to the three months ended September 30, 2005, when we had a Basic gain per share of $0.00. During the three months ended September 30, 2006, the Company had 255,319,861 Weighted average shares outstanding. By comparison, this was an increase of 124,840,569 shares compared to the three months ended September 30, 2005 when the Company had 130,479,292 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 September 30, 2006, we had $526,570 in Total current assets (+1.0% compared to the same quarter in 2005) which consisted primarily of the following material amounts: $6,765 in Cash (-22% compared to the same quarter in 2005); $141,153 in Net accounts receivable (+3%); $81,409 in Inventories (-9%); $259,118 in Prepaid expenses (+2%); and, $38,124 in Other current assets (+43%). In contrast, as of September 30, 2006 our Total current liabilities were $1,063,595 (-49% compared to the same quarter in 2005), which consisted primarily of the following material amounts: $560,175 in Accounts payable (-5%); $158,705 in Accrued liabilities (+29%); $265,267 in Deferred revenues (+49%); $4,005 in Loans from related party (net of 4,375 in unamortized debt discount); and, $101,655 in

Short term debt (net of 32,128 in unamortized debt discount).

During the three months ended September 30, 2006, our cash needs were met primarily by proceeds from the sale of NextPhase common stock and the use of proceeds received during previous quarters from the sale of the Company's 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 September 30, 2006 was negative -$537,025, an improvement of 65% compared to negative -$1,554,739 for the same period in 2005. The improvement was primarily the result of 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 1) loans and other cash infusions from officers, directors, existing stockholders, and persons affiliated or associated with one or more of them or 2) the sale of the Company's investment in NextPhase Wireless, Inc. subject to the occurrence of future events as noted below. 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 its Board of Directors.

The 4,000,000 shares of NextPhase common stock were pledged ("Pledged Stock") as collateral on behalf of NextPhase for a $350,000 promissory note ("Note") issued in connection with the acquisition of the public shell. In early May 2005, the Note was paid in full and the Pledged Stock was 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 September 30, 2006, the Company sold 811,900 shares of NextPhase in private transactions for the payment of services (valued at $77,429). In addition, the company realized $78,665 from the sale of 540,000 shares of NextPhase in private transactions. During the quarter the Company reacquired 1,301,500 shares of NextPhase common stock as noted previously under "Results of Operations". As of September 30, 2006 the Company holds 1,051,534 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 September 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 September 30, 2006, the Company expects that it will need at least $2,200,000 to cover its anticipated operating expenses for the twelve month period thereafter. Of this, approximately 45% is for projected salary and payroll related expenses, 12% for projected lease and facility related expenses, and 22% for projected professional services expenses.

CRITICAL ACCOUNTING POLICIES

The preparation of our condensed 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 reasonably assured, in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 104 “Revenue Recognition in financial Statements”. 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. . Combined product and 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 the relative fair value of the hardware (product) and minutes of calling time (service) based on published pricing. 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 a deferred revenue liability.

The Company’s hardware products consist of both i) devices connected to and used in conjunction with a computer for use over any speed Internet connection (dial-up or broadband) and ii) devices used with a broadband Internet connection not requiring a computer. Hardware products contain embedded software or firmware provided by the third party manufacture which is incidental to the product sale. Included with each product sale are a Viper Networks VoIP calling account (“VoIP Account”) and the ability to download our proprietary dialer software/VoIP Account interface. Our dialer software/VoIP Account interface is not sold separately; the current version is available for customers to download from our web site.

The Company sells the routing and delivery of internet traffic which conforms with Voice over Internet Protocol to both consumers and wholesale carriers. Consumers purchase prepaid calling time for addition to a VoIP Account either directly from the Company web site or by the purchase of a voucher from our distributor network. Revenue from the sale of prepaid calling time to consumers or vouchers to distributors is deferred upon sale. These deferred revenues are recognized into revenue based on the number of minutes during a call in accordance with our published calling rates. Consumer revenue for a period is calculated by our proprietary software from information received

through our network switches. Wholesale carriers purchase bulk minutes of VoIP traffic typically billed weekly in arrears from information received through our network switches. Other services are sold on a per use basis typically billed in arrears.

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. 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.

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 an 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 ("SFAS"), No.142, "Goodwill and Other Intangible Assets" ("SFAS 142"). 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" ("SFAS 144").

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.

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. 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 February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). The provisions of SFAS 155 will be effective for all financial instruments acquired, issued, or subject to a re-measurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The fair value election provided for in paragraph 4(c) of this Statement may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under paragraph 12 of Statement 133 prior to the adoption of this Statement. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. SFAS 155 amends FASB SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"). SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". This Statement: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and e) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The Company is currently evaluating the impact of adopting SFAS 155.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" ("SFAS 156"). An entity shall adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this Statement is the date that an entity adopts the requirements of this Statement. SFAS 156 amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement: a) requires an entity to recognize a servicing asset or

servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations, b) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, c) permits an entity to choose between two subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities, d) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value, and e) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. The Company is currently evaluating the impact of adopting SFAS 156.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). 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 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 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact of adopting SFAS 157.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"). SFAS 158 provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. Also, the effective date of the recognition and disclosure provisions differs for an employer that is an issuer of publicly traded equity securities from one that is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met: a) the employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally, b) the employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or c) the employer is controlled by an entity covered by (a) or (b). An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) shall be effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. Earlier application is encouraged; however, early application shall be for all of an employer's benefit plans. An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraph 4) and the disclosure requirements (paragraph 7) as of the end of the fiscal year ending after December 15, 2006. The Company is currently evaluating the impact of adopting SFAS 158.

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 $3,742,068 in losses during the nine months ending September 30, 2006 and cumulative losses of $16,796,698 since the Company's inception through September 30, 2006. The Company 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 and preferred 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 Debt and Stock Purchase Warrants 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. In addition, the existing short term unsecured promissory notes with these officers were amended to include certain unpaid salaries, benefits, previous salary deferrals, and unpaid expenses within the existing 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. In February of 2006, the short term unsecured promissory notes were exchanged for unsecured twelve month convertible promissory notes with variable interest equal to the greater of the monthly market yield on 1-year constant maturity U.S. Treasury securities or the noteholders cost of funds. Each of the notes, at the option of each noteholder, are convertible, in whole or part, into shares of the Company's common stock at a percentage of the preceding 52-week low trading range of the Company's publicly traded common stock price. While the Company believed at the time the issuance of the warrants and the exchange of the notes 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 and unpaid accrued salaries, 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. <u>Conflicts of Interest</u>.

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.

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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. In the nine months ended September 30, 2006 losses from unauthorized credit card transactions totaled $3,277. 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 September 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. <u>Control</u>.

Our current officers and directors directly and indirectly hold an aggregate of 14,451,902 shares of the Company's common stock (before including any shares issuable upon exercise of any options, warrants, or the conversion of certain convertible promissory notes issued on February 9, 2006) and 3,000,000 shares of the Company's series A preferred stock (convertible into 30,000,000 share of common stock). This represents approximately 66.5% of the Company's voting control as of September 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. Prior Filing of Form 10-SB.
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. <u>Lack of Independent Evaluation of Business Plan & Proposed Strategy</u>.

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 September 30, 2006 there were 106,318,747 shares of the Company's Common Stock and 3,000,000 shares of the Company's series A preferred 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. No public market currently exists for the Company's preferred stock, but those securities are convertible into an aggregate of 30,000,000 common shares upon certain conditions. Since September 16, 2002 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.

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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, as to there effectiveness to record, process, summarize, and report on a timely basis. 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, taken as a whole, 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 and 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, except that such controls and procedures are not effective to ensure that the reports that it files or submits under the Exchange Act are on a timely basis nor that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is communicated to the Company’s management, as appropriate 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.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS

Internal controls are processes designed, by our board of directors and management, to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Internal controls consist of five interrelated components:

1. Control environment sets the tone of an organization, influencing the control consciousness of its people and is the foundation for all other components of internal control, providing discipline and structure,
2.

Risk assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed,

3. Control activities are the policies and procedures that help ensure that management directives are carried out,
4. Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities, and
5. Monitoring is a process that assesses the quality of internal control performance over time.

Internal controls, no matter how well designed and operated, can provide only reasonable assurance of achieving our control objectives. The likelihood of achievement is affected by limitations inherent to internal controls. These include the realities that human judgment in decision-making can be faulty and that breakdowns in internal controls can occur because of human failures such as simple errors or mistakes. Additionally, controls, whether manual or automated, can be circumvented by the collusion of two or more people or inappropriate management override of internal controls. Internal controls are influenced by the quantitative and qualitative estimates and judgments made by management in evaluating the cost-benefit relationship of an internal control. Custom, culture, and the corporate governance system may inhibit fraud, but they are not absolute deterrents.

It is the responsibility of management, to include the Chief Executive Officer and Chief Financial Officer, to monitor compliance with and maintain effective internal controls.

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 California, County of San Diego seeking, among other things, rescission of an April 25, 2003 agreement with Greenland Corp ("Greenland"). The Company considers the contract it entered into with Greenland (wherein Greenland was to receive 2,500,000 common shares of the Company) 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 2,500,000 common shares of the Company.

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, issued June 29, 2006, rescinded the agreement between the parties, entitling Viper to the return of all 2,750,000 shares (2,500,000 shares plus the subsequent 10% stock dividend) of its Common Stock previously issued to Greenland and entitling Greenland to the return of the 2,000,000 shares of its common stock held by the Company. The $25,000 of cash consideration paid by Viper is retained by Greenland. The Company's transfer agent has canceled the 2,750,000 shares of Common Stock. In addition, Greenland's cross compliant was denied and any other, if any, claims between the parties not specifically addressed in the Final Award were 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. However, given Greenland's previous disclosure of an IRS Tax Lien on their assets the probability of collection appears small.

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 its 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 an accredited investor 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 short term unsecured 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 full payment of $40,662 owed under a short term unsecured 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 upon their election to convert, under the terms of the convertible promissory notes (exhibit 4.2 as filed August 26, 2005 on form 8-K), an aggregate of $163,172. 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, upon his election to convert, under the terms of the convertible promissory note (exhibit 4.2 as filed August 26, 2005 on Form 8-k), the balance due under his note ($289,399). 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 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 August 2006, the Company issued 4,265,000 shares of the Company's Common Stock to one purchaser in exchange for the return of 426,500 shares of NextPhase common stock pursuant to an August 2005 unit subscription agreement. The unit subscription agreement provided the investor an option to exchange the NextPhase shares for additional shares of the Company's Common Stock. 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 September 2006, the Company issued 200,000 shares of the Company's Common Stock to one other employee 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 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 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 September 2006, the Company issued a total of 1,100,000 shares of the Company's Series A Preferred Stock to Farid Shouekani, an officer and director (1,000,000), and to Ronald Weaver, a director (100,000), in payment for services. The certificate of designation for the Series A Preferred Stock was adopted on August 7, 2006, as filed August 9, 2006 on Form 8-K. 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 September 2006, the Company issued a total of 1,900,000 shares of the Company's Series A Preferred Stock to Farid Shouekani, an officer and director, in exchange for the return and cancellation of 19,000,000 shares of the company's Common Stock. 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 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 September 2006, the Company issued 8,750,000 shares of the Company's Common Stock to one purchaser in exchange for the return of an aggregate of 875,000 shares of NextPhase common stock pursuant to an August 2005 unit subscription agreement. The unit subscription agreement provided the investor an option to exchange the NextPhase shares for additional shares of the Company's Common Stock. 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

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

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORMS 8-K

(a). The following Exhibits are attached:

EXHIBIT NUMBER	DESCRIPTION
4.5 *#	Certificate Of Designation, Series A Preferred Stock
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 Title 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 *	

Certification Pursuant to Title 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.
*# Previously filed with Form 10-QSB and incorporated herein by reference.

(b). The Company filed the following Reports on Form 8-K during the nine months ended September 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
October 27, 2006	Entry into a material definitive agreement, completion of acquisition of assets, and unregistered sale of equity securities

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: *<u>/s/ Farid Shouekani</u>* Date: August 9, 2007
Farid Shouekani
Chief Executive Officer

By: *<u>/s/ Paul E. Atkiss</u>* Date: August 9, 2007
Paul E. Atkiss
Chief Financial Officer/Principal Accounting Officer

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: *<u>/s/ Farid Shouekani</u>* Date: August 9, 2007
Farid Shouekani
Chief Executive Officer & Director

By: *<u>/s/ Paul E. Atkiss</u>* Date: August 9, 2007
Paul E. Atkiss
Chief Financial Officer, Secretary & Director

By: */s/ Ronald G. Weaver* Date: August 9, 2007
Ronald G. Weaver
Director