

UNITED AMERICAN CORP
Form 10QSB
November 21, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-QSB

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended September 30, 2006

☐ Transition Report pursuant to 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period _____ to _____

Commission File Number: 000-27621

United American Corporation
(Exact name of small business issuer as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

95-4720231
(IRS Employer Identification No.)

4150 Ste-Catherine Street West, Suite 200 , Montreal, Quebec, Canada H3Z 0A1
(Address of principal executive offices)

514-313-6010
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days ☒ Yes ☐ No

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
49,969,985 common shares as of September 30, 2006.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

Table of Contents

TABLE OF CONTENTS

Page

PART I - FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	<u>3</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis</u>	<u>4</u>
<u>Item 3.</u>	<u>Controls and Procedures</u>	<u>16</u>

PART II - OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>17</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>17</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>17</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	<u>17</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>18</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>18</u>

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our unaudited condensed consolidated financial statements included in this Form 10-QSB are as follows:

<u>F-1</u>	<u>Unaudited Condensed Consolidated Balance Sheet as of September 30, 2006</u>
<u>F-2</u>	<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Nine and Three Months Ended September 30, 2006 and 2005;</u>
<u>F-3</u>	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005;</u>
<u>F-4</u>	<u>Notes to Condensed Consolidated Financial Statements;</u>

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-QSB. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended September 30, 2006 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents

UNITED AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2006
(UNAUDITED)

ASSETS

(IN US\$)

Current Assets:		
Cash and cash equivalents	\$	-
Accounts receivable, net		745,878
Inventory		11,034
Prepaid expenses - Intelco		
Communications		124,363
Prepaid expenses and other		
current assets		34,539
Total Current Assets		
		915,814
Fixed assets, net of		
depreciation		573,336
TOTAL ASSETS		
	\$	1,489,150

LIABILITIES AND
STOCKHOLDERS'
EQUITY (DEFICIT)

LIABILITIES

Current Liabilities:		
Bank overdraft	\$	370
Deferred revenue		8,290
Loan payable - related		
parties - line of credit		22,368
Loan payable - related		
parties		560,666
Convertible debentures		90,961
Derivative liability		9,039
Accounts payable and		
accrued expenses		763,221
Total Current Liabilities		
		1,454,915
Total Liabilities		
		1,454,915
MINORITY INTEREST		
		555,180

STOCKHOLDERS'
EQUITY (DEFICIT)

Common stock, \$.001 Par		49,970
--------------------------	--	--------

Value; 50,000,000 shares authorized and 49,969,985 shares issued and outstanding	
Additional paid-in capital	4,219,448
Accumulated deficit	(4,875,077)
Accumulated other comprehensive income (loss)	84,714
Total Stockholders' Equity (Deficit)	(520,945)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,489,150

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

Table of Contents

UNITED AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	IN US\$			
	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
OPERATING REVENUES				
Sales	\$ 10,838,193	\$ 2,794,530	\$ 6,490,857	\$ 1,578,134
COST OF SALES				
Inventory, beginning of period	51,652	44,059	15,862	102,490
Purchases	9,587,898	2,581,312	5,827,902	1,545,796
Inventory, end of period	(11,034)	(32,468)	(11,034)	(32,468)
Total Cost of Sales	9,628,516	2,592,903	5,832,730	1,615,818
GROSS PROFIT (LOSS)	1,209,677	201,627	658,127	(37,684)
OPERATING EXPENSES				
Selling and promotion	73,728	128,104	17,508	5,060
Research and development	-	103,006	-	103,006
Professional and consulting fees	234,673	591,972	95,485	7,308
Commissions and wages	821,408	310,157	379,839	77,547
Other general and administrative expenses	116,382	77,408	44,291	20,542
Depreciation, amortization and impairment	184,700	138,303	65,950	39,220
Total Operating Expenses	1,430,891	1,348,950	603,073	252,683
INCOME (LOSS) BEFORE OTHER INCOME (EXPENSE)	(221,214)	(1,147,323)	55,054	(290,367)
OTHER INCOME (EXPENSE)				
Interest expense	(28,453)	(9,000)	(11,826)	(3,000)
Total Other Income (Expense)	(28,453)	(9,000)	(11,826)	(3,000)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES				

AND				
NONCONTROLLING				
INTEREST	(249,667)	(1,156,323)	43,228	(293,367)
Minority interest	112,154	86,170	64,334	-
NET INCOME (LOSS)				
BEFORE PROVISION				
FOR INCOME TAXES				
	(137,513)	(1,070,153)	107,562	(293,367)
Provision for Income				
Taxes				
	-	-	-	-
NET INCOME (LOSS)				
APPLICABLE TO				
COMMON SHARES				
	\$ (137,513)	\$ (1,070,153)	\$ 107,562	\$ (293,367)
NET EARNINGS (LOSS)				
PER BASIC AND				
DILUTED SHARES				
	\$ (0.00)	\$ (0.02)	\$ 0.00	\$ (0.01)
WEIGHTED AVERAGE				
NUMBER OF COMMON				
SHARES				
OUTSTANDING				
	49,969,985	47,425,846	49,969,985	49,969,985
COMPREHENSIVE				
INCOME (LOSS)				
Net income (loss)	\$ (137,513)	\$ (1,070,153)	\$ 107,562	\$ (293,367)
Other comprehensive				
income (loss)				
Currency translation				
adjustments	45,692	88,376	(8,085)	43,699
Comprehensive income				
(loss)	\$ (91,821)	\$ (981,777)	\$ 99,477	\$ (249,668)

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

Table of Contents

UNITED AMERICAN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	IN US\$ 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (137,513)	\$ (1,070,153)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and impairment	184,700	138,303
Shares issued for services	-	473,750
Changes in assets and liabilities		
(Increase) in accounts receivable	(559,049)	(68,367)
Decrease in inventory	40,618	11,591
(Increase) in prepaid expenses and other current assets	(108,846)	(22,661)
Increase in accounts payable and accrued expenses	155,245	282,707
Increase in deferred revenue	8,290	-
Total adjustments	(279,042)	815,323
Net cash (used in) operating activities	(416,555)	(254,830)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed assets	(117,935)	(85,498)
Net cash (used in) investing activities	(117,935)	(85,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
	(16,535)	-

Increase (decrease) in bank overdraft		
Proceeds from loan payable	-	8,793
Proceeds from loan payable - related parties	482,965	60,890
Proceeds from loan payable - related parties - line of credit	22,368	-
Proceeds from convertible debentures	-	331,760
Net cash provided by financing activities		
	488,798	401,443
Effect of foreign currency	45,692	88,376
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	-	149,491
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		
	-	84,254
CASH AND CASH EQUIVALENTS - END OF PERIOD		
	\$ -	\$ 233,745
CASH PAID DURING THE PERIOD FOR:		
Interest expense	\$ 22,453	\$ 6,000

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

Table of Contents

**UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005**

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The condensed consolidated financial statements and notes are presented as permitted on Form 10-QSB and do not contain information included in the Company's annual consolidated statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2005 audited consolidated financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed consolidated financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

These condensed consolidated unaudited financial statements reflect all adjustments, including normal recurring adjustments which, in the opinion of management, are necessary to present fairly the consolidated operations and cash flows for the periods presented.

United American Corporation (the "Company") was incorporated under the laws of the State of Florida on July 17, 1992 under the name American Financial Seminars, Inc. with authorized common stock of 1,000 shares at \$1.00 par value. Since its inception the Company has made several name changes and increased the authorized common stock to 50,000,000 shares with a par value of \$.001. On February 5, 2004, the name was changed to United American Corporation.

The Company was first organized for the purpose of marketing a software license known as "Gnotella", however, in late 2001 this activity was abandoned.

On July 18, 2003, the Company entered into a share exchange agreement with 3874958 Canada Inc. (a Canadian corporation and an affiliate of the Company by common officers) to transfer 26,250,000 shares of its common stock for 100 shares of American United Corporation (a Delaware corporation and wholly owned subsidiary of 3874958 Canada Inc.) which represented 100% of the outstanding shares of American United Corporation. The Company in this transaction acquired internet telecommunications equipment valued at \$874,125. These assets did not go into service until 2004. The 26,250,000 shares of the Company were issued into an escrow account on October 6, 2003, the effective date of the transaction. Later, American United Corporation was dissolved. The equipment value was based on an independent valuation. The shares issued were to 3874958 Canada Inc., whose sole owner at the time, was the President and CEO of the Company. This transaction did not constitute a reverse merger even though the Company issued in excess of 50% of its then current issued and outstanding shares.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

The transaction was viewed as a reorganization of equity under common control since the beneficial owner of the majority shares in the Company was the same before and after the transaction.

In January 2004, the Company took ownership of all 100 shares issued and outstanding of 3894517 Canada, Inc. (a Canadian corporation), whose 100% owner was at the time President and CEO of the Company. At this time, 3894517 Canada, Inc. became the operating unit of the Company for the services they were providing utilizing the equipment acquired in 2003 from American United Corporation. There was no consideration paid for these 100 shares.

On August 27, 2004, the Company entered the telecommunications business by the creation of United American Telecom, a division focused on terminating call traffic in the Caribbean, and by the creation of Telephone, a division focused on providing Voice-over-Internet -Protocol (VoIP) calling services to residential and business customers.

Telephone, Inc. was founded in order to develop a VoIP network which enables users to connect an electronic device to their internet connection at the home or office which permits them to make telephone calls to any destination phone number anywhere in the world. VoIP is currently growing in scale significantly in North America. Industry experts predict the VoIP offering to be one of the fastest growing sectors from now until 2009. This innovative new approach to telecommunications has the benefit of drastically reducing the cost of making these calls as the distances are covered over the Internet instead of over dedicated lines such as traditional telephony. Telephone has grown primarily in the Province of Quebec, Canada through the sale of its product offering in retail stores and over the internet.

In March 2005, Telephone Inc. issued 4 shares of stock to management. After this transaction, the Company owned 96% of Telephone, Inc. Therefore, a noncontrolling interest is reflected in the consolidated financial statements. Subsequently, on April 28, 2005, the Company entered into a merger and reorganization agreement with OSK Capital II Corp., a Nevada corporation, where OSK Capital II Corp. became a 79% majority owned subsidiary of the Company, and Telephone, Inc. became a wholly owned subsidiary of OSK Capital II Corp.

On August 1, 2006, Telephone Inc. entered into an agreement with 3901823 Canada Inc. ("3901823") and Intelco Communications ("Intelco Communications") whereby Telephone Inc. will issue 35 class A voting shares of its common stock representing 25.2% of Telephone Inc.'s issued shares to 3901823 in exchange for fixed costs approximating \$144,000 for the period August 1, 2006 through July 31, 2007, a line of credit of \$75,000 (CAD\$), of which \$25,000 (CAD\$) was drawn upon in July 2006 and the use of its software to sell to Intelco Communications existing customer base the services of Telephone Inc. In lieu of receiving cash for the licensing of its software,

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

Telephone Inc. will apply \$1 per customer per month at a minimum of \$5,000 per month for the 25.2% ownership. 3901823 will receive additional shares of Telephone Inc. should Intelco Communications not earn \$144,000 in charges under these license fees over the one-year period. 3901823 could earn a maximum of 8.34% in addition to the 25.2% for a total of 33.54% of Telephone Inc.

On March 20, 2006, our majority-owned subsidiary OSK Capital II Corp. changed its name to Telephone Corp.

On October 23, 2006, United American Corporation shareholders voted in the majority to spin-off its entire holdings of 25,737,785 shares of the common stock of Telephone Corp. with an effective date of October 30, 2006.

Going Concern

As shown in the accompanying condensed consolidated financial statements the Company has incurred losses of \$137,513 and \$1,070,153 for the nine months ended September 30, 2006 and 2005, and has a working capital deficiency of \$539,101 as of September 30, 2006. The Company had emerged from the development stage and as of March 31, 2004 has started generating revenues.

There is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period.

Management believes that the Company's capital requirements will depend on many factors. These factors include the increase in sales through existing channels as well as the Company's ability to continue to expand its distribution points and leveraging its technology into the commercial small business segments. The Company's strategic relationships with telecommunications interconnection companies, internet service providers and retail sales outlets has permitted the Company to achieve consistent monthly growth in acquisition of new customers.

In the near term, the Company will continue to pursue bridge financing, in addition to the approximately \$100,000 it raised through convertible debentures in 2004 to assist them in meeting their current working capital needs. The Company's ability to continue as a going concern for a reasonable period is dependent upon management's ability to raise additional interim capital and, ultimately, achieve profitable operations. There can be no assurance that management will be able to raise sufficient capital, under terms satisfactory to the Company, if at all.

The condensed consolidated financial statements do not include any adjustments relating to the carrying amounts of recorded assets or the carrying amounts and classification of recorded liabilities that may be required should the Company be unable to continue as a going concern.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and all of its wholly owned and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. All minority interests are reflected in the condensed consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to bad debts, income taxes and contingencies. The Company 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents.

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," (SFAS No. 130). SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations.

Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of information that historically has not been recognized in the calculation of net income.

Inventory

Inventory is valued at the lower of cost or market determined on a first-in-first-out basis. Inventory consisted only of finished goods.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (other than Derivative Financial Instruments)

The carrying amounts reported in the condensed consolidated balance sheet for cash and cash equivalents, and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. For the notes payable, the carrying amount reported is based upon the incremental borrowing rates otherwise available to the Company for similar borrowings. For the convertible debentures, fair values were calculated at net present value using the Company's weighted average borrowing rate for debt instruments without conversion features applied to total future cash flows of the instruments.

Currency Translation

For subsidiaries outside the United States that prepare financial statements in currencies other than the U.S. dollar, the Company translates income and expense amounts at average exchange rates for the year, translates assets and liabilities at year-end exchange rates and equity at historical rates. The Company's reporting currency is that of the US dollar while its functional currency is that of the Canadian dollar. The Company records these translation adjustments as accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions commenced in 2004 when the Company utilized a Canadian subsidiary to record all of the transactions. The Company recognized a gain (loss) of \$45,692 and \$88,376 for the nine months ended September 30, 2006 and 2005.

Research and Development

The Company annually incurs costs on activities that relate to research and development of new products. Research and development costs are expensed as incurred. Certain of these costs are reduced by government grants and investment tax credits where applicable.

Revenue Recognition

In 2004, when the Company emerged from the development stage with the acquisition of American United Corporation/ 3874958 Canada Inc. and after assuming ownership of 3894517 Canada Inc. as well as the establishment of Telephone, Inc. they began to recognize revenue from their VoIP services when the services were rendered and collection was reasonably assured in accordance with SAB 101.

VoIP Service Revenue

Substantially all of the Company's revenues (related to American United) are derived from the sale of wholesale long distance termination services to Tier 1 and Tier 2 Telecommunications carriers. These services were rendered and collection was reasonably assured in accordance with SAB 101.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

VoIP Service Revenue (Continued)

Telephone, Inc.'s revenues which represent a small portion of the total revenues are derived from the Company's retail operation, and for the retail operation monthly subscription fees are charged to customers under the Company's service plans. Monthly subscription fees are generally charged to customers' credit cards on the first day of the customers' billing cycle. The Company offers residential and business unlimited calling packages, along with per minute long distance dialing services.

The Company invoices customers on the anniversary date of their service activation for their monthly services, and this invoice is paid predominantly via the customer's credit card or through automatic debit from the customer's bank account. Long distance dialing services are charged in increments of \$10 to the customer's credit card or automatic debit as required based on the customer's consumption of long distance minutes.

The Company records these revenues monthly and the revenues generated are for the most part through retail channels.

Under typical contracts, customers subscribe for a period of two years. When a contract is not signed, there is no hardware subsidy, and the customer can disconnect service at any time.

Customer Equipment

For retail sales, the equipment is sold to re-sellers at a subsidized price below that of cost and below that of the retail sales price. The customer purchases the equipment at the retail price from the re-seller. The customer accepts the terms of the service agreement upon activation by credit card. Should the Company's customers meet the minimum service requirements, the fee paid by the customers for the equipment would be refunded through monthly service billing. This refund is reflected in customer equipment revenue.

Customer equipment expense is recorded to direct cost of goods sold when the hardware is initially purchased from our suppliers.

For wholesale customers, there are no refunds for equipment. The Company does not subsidize equipment sales to wholesale customers.

Activation and Disconnect Fees

The Company also generates revenue from initial activation fees associated with the service contracts, and disconnect fees associated with early termination of service contracts. These fees are included in service revenue as they are considered part of the service component when the service is delivered or performed.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Shipping revenues

The Company generates revenues from shipping equipment direct to customers and our re-seller partners. This revenue is considered part of the VoIP service revenues.

Additional One-Time Customer Support Revenues

The Company also realizes revenues for support of customer and re-seller installations. We typically charge these revenues by the hour or by the service. These revenues are considered part of VoIP service revenues.

Commissions Paid to Wholesalers

Commissions paid to wholesalers is recognized as a cost of sales due to the Company receiving an identifiable benefit in exchange for the consideration, and the Company can reasonably estimate the fair value of the benefit identified. Should the consideration paid by the Company exceed the fair value of the benefit received, that amount would be reflected as a reduction of revenue when recognized in the Company's statement of operation.

Recognition

The Company recognizes revenue utilizing the guidance set forth in EITF 00-21, "Revenue Arrangements with Multiple Deliverables". Under a retail agreement, the cost of the equipment is recognized as deferred revenue, and amortized over the length of the service agreement. Upon satisfying the minimum service requirements the equipment charges are refunded through subsequent billings netting out this charge against service charges. Upon refund, the deferred revenue is fully amortized.

In some cases and for promotional reasons, the Company may offer a "Mail-In-Credit" program to retail customers. As part of this program, upon satisfying the minimum service requirements, the equipment charges are refunded through subsequent billings netting out this charge against service charges.

Under a wholesale agreement, the equipment charge is recognized upon delivery of the equipment to the reseller. There is no refund in this instance.

The Company commenced sales in September 2004. The Company is still essentially in the beginning phases of securing distribution channels and updates their service plans to remain competitive in this industry. The Company incurred some promotional expenses in their initial year of operation to satisfy customer demand for this service, and equipment sales were not significant. As a result, deferred revenue was not material since minimum service requirements were achieved for the units sold.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Company conducts business and extends credit based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on receivables is expected to vary by customer due to the financial condition of each customer. The Company monitors exposure to credit losses and maintains allowances for anticipated losses considered necessary under the circumstances. The Company has recorded an allowance for doubtful accounts of \$2,684 as of September 30, 2006.

Accounts receivable are generally due within 30 days and collateral is not required. Unbilled accounts receivable represents amounts due from customers for which billing statements have not been generated and sent to the customers.

Income Taxes

The Company accounts for income taxes utilizing the liability method of accounting. Under the liability method, deferred taxes are determined based on differences between financial statement and tax bases of assets and liabilities at enacted tax rates in effect in years in which differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are expected to be realized.

Convertible Instruments

The Company reviews the terms of convertible debt and equity securities for indications requiring bifurcation, and separate accounting, for the embedded conversion feature. Generally, embedded conversion features where the ability to physical or net-share settle the conversion option is not within the control of the Company are bifurcated and accounted for as a derivative financial instrument. (See Derivative Financial Instruments below). Bifurcation of the embedded derivative instrument requires allocation of the proceeds first to the fair value of the embedded derivative instrument with the residual allocated to the debt instrument. The resulting discount to the face value of the debt instrument is amortized through periodic charges to interest expense using the Effective Interest Method.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments

The Company generally does not use derivative financial instruments to hedge exposures to cash-flow or market risks. However, certain other financial instruments, such as warrants or options to acquire common stock and the embedded conversion features of debt and preferred instruments that are indexed to the Company's common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net share settlement is not within the control of the Company. In such instances, net-cash settlement is assumed for financial accounting and reporting, even when the terms of the underlying contracts do not provide for net-cash settlement. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period. Fair value for option-based derivative financial instruments is determined using the Black-Scholes Valuation Method.

Advertising Costs

The Company expenses the costs associated with advertising as incurred. Advertising expenses for the nine months ended September 30, 2006 and 2005 are included in general and administrative expenses in the condensed consolidated statements of operations.

Fixed Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; automobiles - 3 years, computer and internet telecommunications equipment - 5 years, and furniture and fixtures - 5 years.

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

Long-lived assets, primarily fixed assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. The Company does not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, the Company recognizes an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and estimated fair value. The Company, determined based upon an independent valuation performed on its equipment acquired from American United Corporation that their was impairment of \$1,750,875 (on October 6, 2003) based upon the fair value of the stock issued for the equipment. This amount is reflected as impairment in the December 31, 2003 financial statements.

(Loss) Per Share of Common Stock

Basic net (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) includes additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents were not included in the computation of diluted earnings per share when the Company reported a loss because to do so would be antidilutive for periods presented.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(Loss) Per Share of Common Stock (Continued)**

The following is a reconciliation of the computation for basic and diluted EPS:

	Setpember 30, 2006	September 30, 2005
Net loss	\$ (137,513)	\$ (1,070,153)
Weighted-average common shares		
Outstanding (Basic)	49,969,985	47,425,846
Weighted-average common stock		
Equivalents		
Stock options	-	-
Warrants	-	-
Weighted-average common shares		
Outstanding (Diluted)	49,969,985	47,425,846

Stock-Based Compensation

The Company measures compensation expense for its employee stock-based compensation using the intrinsic-value method. Under the intrinsic-value method of accounting for stock-based compensation, when the exercise price of options granted to employees and common stock issuances are less than the estimated fair value of the underlying stock on the date of grant, deferred compensation is recognized and is amortized to compensation expense over the applicable vesting period. In each of the periods presented, the vesting period was the period in which the options were granted. All options were expensed to compensation in the period granted rather than the exercise date.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*". The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment Information

The Company follows the provisions of SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*". This standard requires that companies disclose operating segments based on the manner in which management disaggregates the Company in making internal operating decisions. Commencing with the creation of Telephone, Inc. the Company began operating in two segments, and two geographical locations.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), "*Share-Based Payment*" ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R, as amended, are effective for small business issuers beginning as of the next interim period after December 15, 2005.

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, "*Accounting for Certain Hybrid Instruments*" ("SFAS 155"). FASB 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company will evaluate the impact of SFAS 155 on its consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, "*Accounting Changes and Error Corrections*" ("SFAS 154"). SFAS 154 is a replacement of APB No. 20, "*Accounting Changes*", and SFAS No. 3, "*Reporting Accounting Changes in Interim Financial Statements*". SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. This statement establishes that, unless impracticable, retrospective application is the required method for reporting of a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. It also requires the reporting of an error correction which involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes the adoption of SFAS 154 will not have a material impact on its consolidated financial statements.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 3- FIXED ASSETS

Fixed assets as of June 30, 2006 were as follows:

	Estimated Useful Lives (Years)	
Computer equipment	5	\$ 1,073,352
Less: accumulated depreciation		(500,016)
Fixed assets, net		\$ 573,336

There was \$184,700 and \$138,305 depreciation charged to operations for the nine months ended September 30, 2006 and 2005, respectively.

The Company acquired telecommunications equipment in its acquisition of American United Corporation valued at \$874,125, net of impairment of \$1,750,875 in the issuance of the 26,250,000 shares of common stock. This equipment however, was not placed into service until 2004, therefore no depreciation was recorded for those assets in 2003.

NOTE 4- RELATED PARTY LOANS

On August 1, 2006, the Company converted \$421,080 of the \$721,080 of its loans into Telephone Corp. (formerly OSK Capital II Corp) common stock. The \$300,000 remaining on the loan has become interest bearing at 12% per annum, payable monthly with a maturity date of August 1, 2009. These amounts were eliminated in consolidation. In addition, there are approximately \$41,297 of non-interest bearing loans that were incurred in August and September 2006. These loans as well were eliminated in consolidation.

Additionally, the Company had loans with various directors and companies that are related to those directors that were non-interest bearing. There was \$560,666 outstanding as of September 30, 2006. These loans are short-term in nature.

Telephone, Inc. a majority owned subsidiary of Telephone Corp. and the Company, as part of the agreement they entered into with Intelco Communications and Intelco Communication's parent, 3901823 Canada Inc., was extended \$25,000 (CDN\$), \$22,368 (US\$) from the \$75,000 (CDN\$) line of credit extended to them by Intelco Communications. This amount remains outstanding as of September 30, 2006.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 6- CONVERTIBLE DEBENTURES

On October 18, 2004, the Company entered into 12% Convertible Debentures (the "Debentures") with Strathmere Associates International Limited in the amount of \$100,000. The Debentures have a maturity date of October 18, 2006, and incur interest at a rate of 12% per annum, payable every six months.

On November 14, 2006, the Company and Strathmere Associates International Limited agreed to extend the maturity date to October 31, 2007, while maintaining the same interest rate of 12% per annum, payable every month.

The Debentures can either be paid to the holders on October 31, 2007 or converted at the holders' option any time up to maturity at a conversion price equal of \$0.07 per share. The convertible debentures met the definition of hybrid instruments, as defined in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The hybrid instruments are comprised of a i) a debt instrument, as the host contract and ii) an option to convert the debentures into common stock of the Company, as an embedded derivative. The embedded derivative derives its value based on the underlying fair value of the Company's common stock. The Embedded Derivative is not clearly and closely related to the underlying host debt instrument since the economic characteristics and risk associated with this derivative are based on the common stock fair value. The Company has separated the embedded derivative from the hybrid instrument based on an independent valuation of \$43,537 based on 500,000 shares (\$100,000 at a \$0.20 (changing to \$0.07 November 2006 exercise price).

For disclosure purposes, the fair value of the derivative is estimated on the date of issuance of the debenture (October 18, 2004) using the Black-Scholes option-pricing model, which approximates fair value, with the following weighted-average assumptions used for September 30, 2006 and 2005; no annual dividends, volatility of 125%, risk-free interest rate of 3.28%, and expected life of 2 years. For disclosure purposes as of September 30, 2006 and 2005 the derivative call option was approximately \$.018 and \$.024 per share, therefore there was a decrease of \$0 and \$31,622 in the derivative liability recognized for the nine months ended September 30, 2006 and 2005, respectively.

The embedded derivative did not qualify as a fair value or cash flow hedge under SFAS No. 133.

Interest expense for the nine months ended September 30, 2006 and 2005 was \$9,000 and \$9,000, respectively. At September 30, 2006, there was \$5,000 of interest accrued.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 7- COMMITMENTS

On October 12, 2004, the Company entered into a carrier agreement with XO Communications, Inc. This carrier agreement provides the Company with the ability to purchase telephone numbers in any of thirty-seven major metropolitan markets in the United States. As a result, services can be provided to consumers in any of these markets with each consumer being assigned a telephone number with a local area code. Prior to this agreement, we were only able to provide phone numbers with Canadian area codes. This contract was cancelled in July 2006. The Company is able to offer US-based area codes utilizing RNK Telecom's network, an agreement entered into December 2005 which really took effect in June 2006.

Additionally, the Company in 2004 and 2005 entered into various agreements with wireless Internet access providers, to provide VoIP services to the Company's customers. On November 3, 2004, the Company also entered into a telecommunications agreement with Kore Wireless Canada, Inc., a supplier of global systems for mobile communications.

On March 1, 2005, the Company entered into a distribution agreement with MSBR Communication Inc. for the purpose of accessing the retail consumer portion of the Company's target market through retail and Internet-based sales. The territory for this distribution is the Province of Quebec in Canada exclusive of Sherbrooke, Quebec. This is a renewable two-year agreement.

On March 11, 2005, the Company entered into a marketing and distribution rights with Podar Infotech Ltd. The five-year renewable agreement grants Podar the exclusive marketing and distribution rights for the Company's products and services for India, China, Sri Lanka, Russia and UAE for which the Company will receive contractually agreed payments.

NOTE 8- STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock

As of September 30, 2006, the Company has 50,000,000 shares of common stock authorized with a par value of \$.001.

The Company has 49,969,985 shares issued and outstanding as of September 30, 2006.

The Company has not issued any shares for the nine months ended September 30, 2006.

During the year ended December 31, 2005, the Company issued 1,400,000 for services at \$.10 per share and 4,450,000 at \$.075 per share for a value of \$473,750.

During 2004, the Company issued 926,743 for services at a fair market value of \$.10 or \$92,674; and 2,250,000 shares of common stock for services at a fair market value of \$.15 per share or \$337,500.

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 8- STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)**Common Stock (Continued)**

The Company has not issued any options or warrants.

NOTE 9- PROVISION FOR INCOME TAXES

Deferred income taxes are determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes are measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

At September 30, 2006, deferred tax assets consist of the following:

Net operating losses	\$ 1,657,500
Valuation allowance	(1,657,500)
	\$ -

At September 30, 2006, the Company had a net operating loss carryforwards of approximately \$4,875,000, available to offset future taxable income through 2026. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

A reconciliation of the Company's effective tax rate as a percentage of income before taxes and federal statutory rate for the periods ended September 30, 2006 and 2005 is summarized as follows:

	2006	2005
Federal statutory rate	(34.0)%	(34.0)%
State income taxes, net of federal benefits	3.3	3.3
Valuation allowance	30.7	30.7
	0%	0%

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 10- SEGMENT INFORMATION

The Company's reportable operating segments include wholesale VoIP services which is the physical buying of minutes (3894517 Canada Inc.), and the VoIP connection services (Telephone Corp. (Formerly OSK Capital II Corp.)). The Company also has corporate overhead expenses. The wholesale services are essentially provided in Africa, and the connection services are provided in North America. The segment data presented below details the allocation of cost of revenues and direct operating expenses to these segments.

Operating segment data for the nine months ended September 30, 2006 are as follows:

	Corporate	Wholesale Services	Connection Services	Total
Sales	\$ -	\$ 10,499,030	\$ 339,163	\$ 10,838,193
Cost of sales	-	9,393,932	234,584	9,628,516
Gross profit (loss)	-	1,105,098	104,579	1,209,677
Operating expenses	99,065	725,392	421,734	1,246,191
Depreciation, amortization and impairment	133,830	14,660	36,210	184,700
Interest (net)	(9,000)	(647)	(18,806)	(28,453)
Net income (loss)	(241,895)	364,399	(372,171)	(249,667)
Segment assets	312,270	1,009,545	167,335	1,489,150
Fixed Assets, net of depreciation	312,270	145,985	115,081	573,336

Operating segment data for the nine months ended September 30, 2005 are as follows:

	Corporate	Wholesale Services	Connection Services	Total
Sales	\$ -	\$2,647,376	\$147,154	\$2,794,530
Cost of sales	-	2,262,356	330,547	2,592,903
Gross profit (loss)	-	385,020	(183,393)	201,627
Operating expenses	473,750	442,581	294,316	1,210,647
Depreciation, amortization and impairment	111,525	7,437	19,341	138,303
Interest (net)	(9,000)	(0)	(0)	(9,000)
Net income (loss)	(594,275)	(64,998)	(497,050)	(1,156,323)

Edgar Filing: UNITED AMERICAN CORP - Form 10QSB

Segment	483,275	314,048	283,907	1,081,230
assets				
Fixed Assets,	483,275	30,752	156,398	670,425
net of				
depreciation				

F-20

Table of Contents

UNITED AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

NOTE 10- SEGMENT INFORMATION (CONTINUED)

In addition, the segment data broken out by geographical location for the nine months ended September 30, 2006 are as follows:

	North, Central and South America	Europe, Middle East and Africa	Asia	Total
Sales	\$ 4,123,832	\$ 4,130,807	\$ 2,583,554	\$ 10,838,193
Cost of sales	3,663,561	3,669,758	2,295,197	9,628,516
Gross profit (loss)	460,271	461,049	288,357	1,209,677
Operating expenses	474,164	474,966	297,061	1,246,191
Depreciation, amortization and impairment	70,277	70,396	44,027	184,700
Interest (net)	(10,826)	(10,844)	(6,783)	(28,453)
Net income (loss)	(94,996)	(95,197)	(59,514)	(249,667)
Segment assets	566,608	567,566	354,976	1,489,150
Fixed Assets, net of depreciation	218,149	218,518	136,669	573,336

The Company operated in one geographical location for the nine months ended September 30, 2005.

NOTE 11- SUBSEQUENT EVENTS

On October 23, 2006, the Company's shareholders voted in the majority to spin-off its entire holdings of 25,737,785 shares of the common stock of Telephone Corp. (formerly OSK Capital II Corp.) with an effective date of October 30, 2006.

On October 23, 2006, the Company changed its Articles of Incorporation to increase its authorized share limit from 50,000,000 to 100,000,000 shares.

On November 14, 2006, the Company and Strathmere Associates International Limited agreed to extend the maturity date of the convertible debentures to October 31, 2007, while maintaining the same interest rate of 12% per annum, payable every month.

Table of Contents

Item 2. Management's Discussion and Analysis

Forward-Looking Statements

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. V such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

Business Description

Following the acquisition of American United Corporation ("AUC") in 2003, we revised our business plan and implemented the business plan of AUC. AUC began its operations in 2002 as a holding company focused on the acquisition of network-centric technology and telecommunication companies. Given the rapid changes in the telecommunications marketplace, and the strong need for a competitive edge, we revised our business plan and set out on a new course to provide Voice over Internet Protocol (VoIP) solutions.

VoIP means that the technology used to send data over the Internet is now being used to transmit voice as well. The technology is known as packet switching. Instead of establishing a dedicated connection between two devices (computers, telephones, etc.) and sending the message "in one piece," this technology divides the message into smaller fragments, called 'packets'. These packets are transmitted separately over a decentralized network and when they reach the final destination, they're reassembled into the original message.

Table of Contents

VoIP allows a much higher volume of telecommunications traffic to flow at much higher speeds than traditional circuits do, and at a significantly lower cost. VoIP networks are significantly less capital intensive to construct and much less expensive to maintain and upgrade than legacy networks or what is commonly referred to as traditional circuit-switched networks. Since VoIP networks are based on internet protocol, they can seamlessly and cost-effectively interface with the high-technology, productivity-enhancing services shaping today's business landscape. These networks can seamlessly interface with web-based services such as virtual portals, interactive voice response (IVR), and unified messaging packages, integrating data, fax, voice, and video into one communications platform that can interconnect with the existing telecommunications infrastructure.

Since we implemented our new business plan to provide Voice over Internet Protocol (VoIP) solutions, our business has evolved and we have organized our operations into two different segments of the market. Our operations are focused servicing the wholesale VoIP market or retail VoIP providers by constructing VoIP networks and enabling them to purchase termination minutes using our networks. In August 2004, we incorporated Telephone, Inc. ("Telephone"), a Canadian corporation, as a wholly-owned subsidiary to service the retail VoIP market by handling the origination, management, and billing of calls. Telephone also handles servicing and providing businesses and individuals with a mobile or landline phone to access our VoIP networks. Following the approval and effectiveness of the spin-off of our majority owned subsidiary, Telephone Corp., our operations subsequent to the reporting report will be exclusively focused on selling wholesale termination services to global Tier1 and Tier 2 telecommunications companies. We will no longer focus on the retail VoIP market.

Wholesale VoIP Market

We constructed our first VoIP network which we refer to as CaribbeanONE. To construct this network, we established servers in Haiti that utilize our intellectual property to connect with our servers located in Montreal, Quebec, Canada. Following the successful testing of our servers in Haiti, the CaribbeanONE network was completed in March 2004. The establishment of the CaribbeanONE network was critical in that it enabled us to charge significantly less than other providers that exclusively utilize established telecommunication lines for calls that originate in North America and terminate in any country in the Caribbean. When one of our consumers originated a call in North America, our VoIP network will receive the call and transmit the call to our server in Haiti and an established telecommunication line will only be utilized to transmit the call from our server in Haiti to the termination point of the call in the Caribbean. The establishment of the CaribbeanONE network was our first step in strategically establishing computer servers in specified geographical areas to construct an international VoIP network.

In May 2006, we were forced to terminate our CaribbeanOne network due to political changes with government telecommunications regulators in Haiti, the hosting site of our gateway, resulting in our inability to acquire local termination minutes to direct a call from our gateway to its destination point within Haiti. During the reporting period, we were unsuccessful in our efforts to acquire local termination minutes within Haiti. As a result, we no longer utilize our CaribbeanOne network and have focused our operations on other gateways recently developed. The success of our business plan is not dependent on the CaribbeanOne network and we do not

Table of Contents

anticipate that the shut down of the CarribbeanOne network will negatively impact our results of operations.

As part of our growth plan, we expanded our long distance VoIP termination services outside of the Caribbean and into additional routes in Africa. During the third quarter of 2005, we built a VoIP gateway in Gabon, Africa. Similar to our CaribbeanONE infrastructure located in Haiti, we are now able to offer wholesale termination services to global Tier1 and Tier 2 telecommunications companies to utilize our VoIP link between Montreal, Canada and Gabon in order to terminate their long distance calls. This gateway installation permits us to expand the number of voice channels that we have in operation in our global network and sell more long distance termination minutes to our existing and future customers.

We further expanded our network by entered into a partnership with Tectacom Inc. of Montreal and established a VoIP gateway in Mali, Africa in May of 2006. As a result, we have established a profit-sharing understanding with Tectacom for VoIP long distance termination minutes transiting through our gateways. Tectacom holds an agreement with the government-operated telecommunications provider in Mali, permitting them to reserve voice channel capacity within the Mali telecommunications infrastructure. The government-operated telecommunications provider in Mali owns all local landlines within the country and approximately 40% of cellular telephone services provided in the country. This agreement permitted us access to install our gateways and to interconnect the Mali voice channels operated by the government-owned telecommunications provider with our servers in Montreal. This agreement further enables us to sell this direct route connection to our customers in order for them to offer long distance services to their respective retail customer base. Tectacom is further developing additional routes in Africa and we anticipate growth in the establishment of new gateways with them in the future.

In October 2006, we entered into an agreement with the government-operated telecommunications provider in Mali to assist it in identifying the origination point of calls utilizing its voice channels. Identifying the original point of a telephone call is important because it will enable the provider to prohibit unauthorized use of its network which is commonly achieved by disguising the original point of a telephone call. In exchange for providing this service, we will receive more favorable pricing for our use of its voice channels.

Retail VoIP Network

In order to target the retail market segment and provide VoIP directly to consumers, we incorporated Teliphone, Inc. ("Teliphone"), a Canadian corporation as a wholly-owned subsidiary in August 2004. We formed Teliphone as a wholly-owned subsidiary for the purpose handling the origination, management, and billing of calls. Teliphone also handles servicing and providing businesses and individuals with a mobile or landline phone to access our VoIP network. The management of calls refers to the routing of calls from the origination point to the termination point. The billing of calls refers to the collection of charges for utilization of our VoIP network

Following the incorporation of Teliphone, we began to offer businesses and individuals located in the Montreal, Quebec geographical area with the ability to utilize our VoIP network to

Table of Contents

transmit communications through the use of a mobile and landline phone that connects to the Internet. A critical component of Telephone's ability to expand its business and increase its sales presence internationally required that it have the ability to offer local phone numbers in an increasing amount of geographical areas. An inability to offer consumers area codes in their local would result in a competitive disadvantage with other providers that have the ability to offer local area codes to a consumer. During the fourth quarter of 2005, Telephone entered into an agreement with RNK Telecom ("RNK"), a Massachusetts corporation, which provides it with the ability to offer potential consumers phone numbers with area codes in over 200 metropolitan markets throughout the United States and Canada. This agreement also provides it with access to international affiliates of RNK that will enable Telephone to offer local phone number in various international cities in Europe, Asia and Latin America.

Telephone has increased the availability of its service by entering into agreements with Internet Service Providers within retail establishments such as coffee shops, hotels and airports enabling its consumers to access our VoIP network through the use their laptop or wireless VoIP devices in these particular retail establishments. In addition, Telephone also entered into an agreement to make available a mobile phone that is compatible with both a VoIP network and a GSM network utilized for traditional cellular phone use resulting in an expanding coverage area. For consumers that utilize this service, Telephone has the ability to integrate into a single bill charges for calls placed utilizing both the VoIP and GSM networks. Prior to this agreement, Telephone was unable to offer phone service to consumers at times when they did not maintain an Internet connection.

Once the requisite infrastructure was in place and operational, Telephone sought to establish distribution agreements and incentives for retailers of telephone products to make available to retail consumers and small and medium sized companies a mobile or landline phone that utilizes VoIP. On March 1, 2005, Telephone entered into a distribution agreement with BR Communications ("BR"), formerly known as MSBR Communication Inc., for the purpose accessing the retail target market through retail and Internet-based sales. Under the terms of this agreement, BR was granted the exclusive right to distribute mobile or landline phones that utilize our VoIP network via Internet-based sales or direct sales to retail establishments in the territory consisting of the Province of Quebec in Canada exclusive of Sherbrooke, Quebec. This agreement was entered into for a term of two (2) years with automatic renewals for additional one year terms unless either party provides notice within 90 days of the initial two year term. This agreement is subject to termination upon the occurrence of specified events triggering default. BR receives a pre-determined commission based upon sales of mobile or landline phones that utilize our VoIP network and revenues derived from retailer consumers who activated their VoIP service through distribution channels used by BR. As a result of this agreement, BR has succeeded in building a distribution network of over 70 points of retail sale, telemarketing sales partners and small business telecommunications interconnect companies. This distribution network is the primary source for the acquisition of new customers for Telephone's retail business.

Telephone has also entered into an exclusive marketing and distribution agreement to make available its products and services in India, China, Sri Lanka, United Arab Emirates, and Russia. Accounts activated in any of these geographical markets will be assigned a North American

Table of Contents

telephone number. To date, retail sales to consumers in these geographical areas have not materially contributed to Telephone's sales.

Agreement with Intelco Communication, Inc.

Telephone Inc., a wholly-owned subsidiary of our majority-owned subsidiary OSK Capital II, Corp., 3901823 Canada Inc., the holding company of Intelco Communications ("3901823"), and Intelco Communications ("Intelco Communications") entered into an agreement (the "Agreement") on July 14, 2006. Pursuant to the terms of the Agreement, Telephone Inc. agreed to issue 35 class A voting shares of its common stock representing 25.2% of Telephone Inc.'s issued shares to 3901823 in exchange for office rent, use of Intelco's data center for Telephone Inc.'s equipment, and use of Intelco's broadband telephony network valued at approximating \$144,000 (CDN\$) for the period August 1, 2006 through July 31, 2007, a line of credit of \$75,000 (CDN\$), of which \$25,000 (CDN\$) was already drawn upon in July 2006.

Telephone Inc. also agreed to make available to the customers of Intelco Communications certain proprietary software for broadband telephony use. In lieu of receiving cash for the licensing of this software, Telephone Inc. will apply \$1 per customer per month at a minimum of \$5,000 per month. Following a twelve month period, Intelco Communications will receive additional shares of class A voting common stock of Telephone Inc. for the difference in the value between \$144,000 and the total payments credited back to Telephone Inc. The maximum amount of additional shares that can be issued to Intelco Communications after the twelve month period is an additional 8.34% of Telephone Inc.'s issued and outstanding shares. In the event that the total payments credited back to Telephone Inc. exceeds \$144,000, Intelco Communications will not be entitled to the issuance of any additional shares of Telephone Inc. common stock.

Upon the effective date of this transaction on August 1, 2006, Telephone Inc. was no longer a wholly-owned subsidiary of Telephone Corp. (Formerly OSK Capital II Corp.), our majority owned subsidiary. Telephone Inc. became a majority owned subsidiary and the noncontrolling interest is reflected in the consolidated financial statements.

Subsidiary Spin-off

In March 2005, our management proposed to spin-off our subsidiary, Telephone, Inc., subject to the approval of the stockholders. Our board of directors believed that spinning-off Telephone enable Telephone to focus on handling the origination, management, and billing of calls to retail consumers and allow us to concentrate on building an international VoIP focused primarily on call termination to wholesale consumers. This will allow both companies that have operations that are focused on different objectives to better prioritize the allocation of their management and their financial resources for achievement of their corporate objectives.

In April 2005, our management was presented with an opportunity where Telephone would enter into a merger with a wholly-owned subsidiary of OSK Capital II Corp. ("OSK"), a public reporting company under Section 12(g) of the Securities Exchange Act of 1934. As a result of this opportunity, we did not present our original proposal to the shareholders for their consideration and approval.

Table of Contents

On April 28, 2005, OSK completed its acquisition of Telephone, pursuant to an Agreement and Plan of Merger and Reorganization. At the effective time of the merger, OSK acquired all of the outstanding shares of Telephone and Telephone merged with OSK II Acquisition Corp., a Florida corporation and wholly-owned subsidiary of OSK Capital II, Corp. Following the merger, Telephone was the surviving corporation. OSK issued 25,000,000 common shares in exchange for all of the issued and outstanding shares of Telephone and these shares of OSK were issued to the shareholders Telephone shareholders on a pro rata basis. We owned 100 common shares of the 104 common shares issued and outstanding in Telephone. As a result, we received 24,038,462 shares of OSK. Following the effectiveness of the merger, OSK had 30,426,000 common shares issued and outstanding. Consequently, Telephone became a wholly owned subsidiary of OSK and OSK is currently a majority-owned subsidiary of our company. On August 21, 2006, OSK changed its name to Telephone Corp. Thereafter, we acquired another 1,699,323 shares of Telephone Corp. in consideration for loans previously advanced.

Our management then renewed its proposal to spin-off our majority-owned subsidiary, Telephone Corp. To complete the spin-off, we proposed to distribute the restricted shares of Telephone Corp. that we own on a pro rata basis to our shareholders. This proposal was presented to our shareholders at the annual meeting on October 23, 2006 and approved. Shareholders of record as of October 23, 2006 were entered to receive on a pro rata basis restricted shares of Telephone Corp.

Results of Operations for the three and nine months ended September 30, 2006 and 2005

Revenues

Our total revenue reported for the three months ended September 30, 2006 was \$6,490,857, a 311% increase from \$1,578,134 for the three months ended September 30, 2005. Our total revenue reported for the nine months ended September 30, 2006 was \$ 10,838,193, a 287% increase from \$2,794,530 for the nine months ended September 30, 2005. Our revenue for the three and nine months ended September 30, 2006 and 2005 was primarily generated by sales of VoIP termination services through our existing VoIP gateways. The increase in revenue for the three and nine months ended September 30, 2006 from the same reporting period in the prior year is primarily attributable to sales generated by our VoIP gateway in Mali. Our Mali VoIP gateway was established in May 2006.

Sales of wholesale VoIP termination services through our existing VoIP gateways accounted for \$10,499,030 or 97% of our total revenue generated for the nine months ended September 30, 2006. Retail sales of VoIP services in Canada through our majority-owned subsidiary, Telephone Corp., accounted for \$339,163 or 3% of our total revenue generated for the nine months ended September 30, 2006.

Sales of wholesale VoIP termination services through our then existing VoIP gateways accounted for \$2,647,376 or 95% of our total revenue generated for the nine months ended September 30, 2005. Retail sales of VoIP services in Canada through our majority-owned subsidiary, Telephone Corp., accounted for \$147,154 or 5% of our total revenue generated for the nine months ended September 30, 2005.

Table of Contents

Cost of Sales

Our cost of sales for the three months ended September 30, 2006 was \$5,832,730, a 261% increase from \$1,615,818 for the three months ended September 30, 2005. Our cost of sales for the nine months ended September 30, 2006 was \$9,628,516, a 271% increase from \$2,592,903 for the nine months ended September 30, 2005. Our cost of sales is primarily the purchase of termination minutes from local providers required to transmit a telephone call from our gateway to the call's local destination point. The increase in cost of sales is primarily attributable to increased sales in the reporting period. The increased purchases of inventory were required to service our expanding consumer base. Our purchases for the three months ended September 30, 2006 was \$ 5,827,902, compared to \$1,545,796 for the same period in the prior year. Our purchases for the nine months ended September 30, 2006 \$9,587,989, compared to \$2,581,312 for the nine months ended September 30, 2005.

Gross Profit

Gross profit increased to \$658,127, or approximately 10% of sales, for the three months ended September 30, 2006. This is an increase from a gross loss of \$37,684 for the three months ended September 30, 2005. The significant increase in gross profit for the three months ended September 30, 2006 when compared to the same reporting period in the prior fiscal year is attributable to increased sales of termination traffic in our Gabon or Mali networks which now have greater profit margins than our CaribbeanOne network. During the reporting period, increased telephony traffic through our Gabon network enabled us to receive volume discounts for termination minutes with domestic telecommunication operators translating into higher profit margins. We acquire termination minutes from domestic telecommunication operators in order to be able to route calls from our gateways to the destination point.

Gross profit increased to \$1,209,677 for the nine months ended September 30, 2006 from gross profit of \$201,627 for the nine months ended September 30, 2005. Gross profit as a percentage of sales increased to 11% for the nine months ended September 30, 2006 from the 7% of sales reported for the nine months ended September 30, 2005.

Operating Expenses

Operating expenses for the three months ended September 30, 2006 was \$603,073, a 138% increase from \$252,683 for the three months ended September 30, 2005. Our operating expenses for the three months ended September 30, 2006 consisted of selling and promotion expenses of \$17,508, professional and consulting fees of \$95,485, commissions and wages of \$379,839, general and administrative expenses of \$44,291, and depreciation, amortization and impairment expenses of \$65,950. Our operating expenses for the three months ended September 30, 2005 consisted of selling and promotion expenses of \$5,060, research and development expenses of \$103,006, professional and consulting fees of \$7,308, commissions and wages of \$77,547, general and administrative expenses of \$20,542, and depreciation, amortization and impairment expenses of \$39,220.

Table of Contents

Operating expenses for the nine months ended September 30, 2006 was \$1,430,891, a 6% increase from \$1,348,950 for the nine months ended September 30, 2005. Our operating expenses for the nine months ended September 30, 2006 consisted of selling and promotion expenses of \$73,728, professional and consulting fees of \$234,673, commissions and wages of \$821,408, general and administrative expenses of \$116,382, and depreciation, amortization and impairment expenses of \$184,700. Our operating expenses for the nine months ended September 30, 2005 consisted of selling and promotion expenses of \$128,104, research and development expenses of \$103,006, professional and consulting fees of \$591,972, commissions and wages of \$310,157, general and administrative expenses of \$77,408, and depreciation, amortization and impairment expenses of \$138,303.

The increase in operating expenses is primarily attributable to the payment of commissions based upon sales of VoIP termination services. As a result of an increase in the sales of VoIP termination services, our commissions and wages increased correspondingly.

Other Income (Expense)

During the three months ended September 30, 2006, we reported other expenses in the amount of \$11,826, compared to reporting other expense in the amount of \$3,000 for the same reporting period in the prior year. During the nine months ended September 30, 2006, we reported other expenses in the amount of \$28,453, compared to reporting other expense in the amount of \$9,000 for the same reporting period in the prior year. The other income reported during the three and nine months ended September 30, 2006 and 2005 is attributable to interest expenses incurred on an outstanding convertible debenture.

Net Income (Loss)

We had net income of \$107,562 for the three months ended September 30, 2006, compared to net loss of \$293,367 for the three months ended September 30, 2005. This three-month period represents the second time since our inception that we have reported a net income. Net loss for the nine months ended September 30, 2006 was \$137,513, compared to a net loss of \$1,070,153 for the nine months ended September 30, 2005. The reporting of net income during the three months ended September 30, 2006 was primarily attributable to increased sales with higher profit margins.

Our income per common share for the three months ended September 30, 2006 was \$0.00, compared to a loss per common share of \$0.01 for the three months ended September 30, 2005. Our income per common share for the nine months ended September 30, 2006 was \$0.00, compared to a loss per common share of \$0.02 for the nine months ended September 30, 2005.

Liquidity and Capital Resources

As of September 30, 2006, we had total current assets of \$915,814, but did not maintain any cash and cash equivalents. Our total current liabilities as of September 30, 2006 were \$1,454,915, resulting in a working capital deficit of \$539,101 as of September 30, 2006.

Table of Contents

Operating activities used \$416,555 in cash for the nine months ended September 30, 2006. Our increase in accounts receivable of \$559,049 was the primary components of our negative operating cash flow. Investing activities during the nine months ended September 30, 2006 used \$117,935 for the purchase of fixed assets. These fixed assets are attributable to our new gateway installations in Gabon and Mali Africa. Net cash flows provided by financing activities during the nine months ended September 30, 2006 was \$488,798. We received \$482,965 as proceeds from the issuance of notes payable to related parties during the nine months ended September 30, 2006.

Based upon our current financial condition, we have insufficient cash to operate our business at the current level for the next twelve months. We intend to fund operations through increased sales and debt and/or equity financing arrangements, which may be insufficient to fund expenditures or other cash requirements. We plan to seek additional financing in a private equity offering to secure funding for operations. There can be no assurance that we will be successful in raising additional funding. If we are not able to secure additional funding, the implementation of our business plan will be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all.

Off Balance Sheet Arrangements

As of September 30, 2006, there were no off balance sheet arrangements.

Going Concern

As shown in the accompanying condensed consolidated financial statements, we have incurred recurring losses of \$137,513 and \$1,070,153 for the nine months ended September 30, 2006 and 2005, and had a working capital deficiency of \$539,101 as of September 30, 2006. We have recently emerged from the development stage and started generating revenues as of March 31, 2004. There is no guarantee that we will be able to raise enough capital or generate revenues to sustain our operations. These conditions raise substantial doubt about our ability to continue as a going concern for a reasonable period.

Management believes that our capital requirements will depend on many factors. These factors include the increase in sales through existing channels as well as our ability to continue to expand our distribution points and leveraging our technology into the commercial small business segments. Our strategic relationships with telecommunications interconnection companies, internet service providers and retail sales outlets has permitted us to achieve consistent monthly growth in acquisition of new customers.

In the near term, we will continue to pursue bridge financing to assist us in meeting our current working capital needs. Our ability to continue as a going concern for a reasonable period is dependent upon management's ability to raise additional interim capital and, ultimately, achieve profitable operations. There can be no assurance that management will be able to raise sufficient capital, under terms satisfactory to us, if at all.

Table of Contents

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most “critical accounting policies” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit this definition.

Currency Translation

For subsidiaries outside the United States that prepare financial statements in currencies other than the U.S. dollar, we translates income and expense amounts at average exchange rates for the year, translates assets and liabilities at year-end exchange rates and equity at historical rates. Our reporting currency is that of the US dollar while its functional currency is that of the Canadian dollar. We record these translation adjustments as accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions commenced in 2004 when we utilized a Canadian subsidiary to record all of the transactions. We recognized a gain (loss) of \$45,692 and \$88,376 for the nine months ended September 30, 2006 and 2005.

Revenue Recognition

In 2004, when we emerged from the development stage with the acquisition of American United Corporation/ 3874958 Canada Inc. and after assuming ownership of 3894517 Canada Inc. as well as the establishment of Telephone, Inc. we began to recognize revenue from our VoIP services when the services were rendered and collection was reasonably assured in accordance with SAB 101.

VoIP Service Revenue

Substantially all of our revenues (related to American United) are derived from the sale of wholesale long distance termination services to Tier 1 and Tier 2 Telecommunications carriers. These services were rendered and collection was reasonably assured in accordance with SAB 101.

Telephone, Inc.’s revenues which represent a small portion of the total revenues are derived from our retail operation, and for the retail operation monthly subscription fees are charged to customers under our service plans. Monthly subscription fees are generally charged to customers’ credit cards on the first day of the customers’ billing cycle. We offer residential and business unlimited calling packages, along with per minute long distance dialing services.

We invoice customers on the anniversary date of their service activation for their monthly services, and this invoice is paid predominantly via the customer’s credit card or through automatic debit from the customer’s bank account. Long distance dialing services are charged in increments of \$10 to the customer’s credit card or automatic debit as required based on the customer’s consumption of long distance minutes.

We record these revenues monthly and the revenues generated are for the most part through retail channels.

Under typical contracts, customers subscribe for a period of two years. When a contract is not signed, there is no hardware subsidy, and the customer can disconnect service at any time.

Customer Equipment

For retail sales, the equipment is sold to re-sellers at a subsidized price below that of cost and below that of the retail sales price. The customer purchases the equipment at the retail price from the re-seller. The customer accepts the terms of the service agreement upon activation by credit card. Should our customers meet the minimum service requirements, the fee paid by the customers for the equipment would be refunded through monthly service billing. This refund is reflected in customer equipment revenue.

Customer equipment expense is recorded to direct cost of goods sold when the hardware is initially purchased from our suppliers.

For wholesale customers, there are no refunds for equipment. We do not subsidize equipment sales to wholesale customers.

Activation and Disconnect Fees

We also generate revenue from initial activation fees associated with the service contracts, and disconnect fees associated with early termination of service contracts. These fees are included in service revenue as they are considered part of the service component when the service is delivered or performed.

Table of Contents

Shipping revenues

We generate revenues from shipping equipment direct to customers and our re-seller partners. This revenue is considered part of the VoIP service revenues.

Additional One-Time Customer Support Revenues

We also realize revenues for support of customer and re-seller installations. We typically charge these revenues by the hour or by the service. These revenues are considered part of VoIP service revenues.

Commissions Paid to Wholesalers

Commissions paid to wholesalers is recognized as a cost of sales due to us receiving an identifiable benefit in exchange for the consideration, and we can reasonably estimate the fair value of the benefit identified. Should the consideration paid by us exceed the fair value of the benefit received, that amount would be reflected as a reduction of revenue when recognized in our statement of operation.

Recognition

We recognize revenue utilizing the guidance set forth in EITF 00-21, "Revenue Arrangements with Multiple Deliverables". Under a retail agreement, the cost of the equipment is recognized as deferred revenue, and amortized over the length of the service agreement. Upon satisfying the minimum service requirements the equipment charges are refunded through subsequent billings netting out this charge against service charges. Upon refund, the deferred revenue is fully amortized.

In some cases and for promotional reasons, we may offer a "Mail-In-Credit" program to retail customers. As part of this program, upon satisfying the minimum service requirements, the equipment charges are refunded through subsequent billings netting out this charge against service charges.

Under a wholesale agreement, the equipment charge is recognized upon delivery of the equipment to the reseller. There is no refund in this instance.

We commenced sales in September 2004. We are still essentially in the beginning phases of securing distribution channels and updates their service plans to remain competitive in this industry. We incurred some promotional expenses in our initial year of operation to satisfy customer demand for this service, and equipment sales were not significant. As a result, deferred revenue was not material since minimum service requirements were achieved for the units sold.

Table of Contents

Impairment of Long-Lived Assets

Long-lived assets, primarily fixed assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. We do not perform a periodic assessment of assets for impairment in the absence of such information or indicators. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or a significant adverse change that would indicate that the carrying amount of an asset or group of assets is not recoverable. For long-lived assets to be held and used, we recognize an impairment loss only if its carrying amount is not recoverable through its undiscounted cash flows and measures the impairment loss based on the difference between the carrying amount and estimated fair value. We, determined based upon an independent valuation performed on our equipment acquired from American United Corporation that there was impairment of \$1,750,875 (on October 6, 2003) based upon the fair value of the stock issued for the equipment. This amount is reflected as impairment in the December 31, 2003 financial statements.

Recently Issued Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") published Statement of Financial Accounting Standards No. 123 (Revised 2004), "*Share-Based Payment*" ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R, as amended, are effective for small business issuers beginning as of the next interim period after December 15, 2005.

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, "*Accounting for Certain Hybrid Instruments*" ("SFAS 155"). FASB 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We will evaluate the impact of SFAS 155 on our consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, "*Accounting Changes and Error Corrections*" ("SFAS 154"). SFAS 154 is a replacement of APB No. 20, "*Accounting Changes*", and SFAS No. 3, "*Reporting Accounting Changes in Interim Financial Statements*". SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting and reporting of a change in accounting principle. This statement establishes that, unless impracticable, retrospective application is the required method for reporting of a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. It also requires the reporting of an error correction which involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We believe the adoption of SFAS 154 will not have a material impact on our consolidated financial statements.

Table of Contents

Item 3. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2006. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Simon Lamarche. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2006, our disclosure controls and procedures are not effective. There have been no significant changes in our internal controls over financial reporting during the quarter ended September 30, 2006 that have materially affected or are reasonably likely to materially affect such controls.

Our board of directors are currently working towards implementing significant changes in our internal controls over financial reporting that are expected to materially affect such controls. Our board of directors is seeking to retain a consultant to recommend for implementation specific disclosure controls and procedures to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended September 30, 2006.

Subsequent to the reporting period on October 23, 2006, we held the annual meeting of our security holders. The meeting was called for the purpose of electing directors, confirming the appointment of Michael Pollack, CPA as the company's independent certified public accountant for the fiscal year ended December 31, 2006, to consider a proposal to amend the Articles of Incorporation to increase the number of shares of common stock authorized for issuance from 50,000,000 to 100,000,000, to consider a plan to spin-off Telephone Corp., a majority owned subsidiary. The total number of shares of common stock outstanding on the record date, September 12, 2006, was 49,969,985 shares. The number of votes represented at the meeting was 28,853,345 shares, or 57.74% of the shares eligible to vote.

The following individuals were elected as directors with the votes being as follows:

Nominee	Votes Cast For	Votes Cast Against	Abstain
G e o r g e Metrakos	28,746,645	0	106,700
S i m o n Lamarche	28,746,645	0	106,700

Table of Contents

The appointment of Michael Pollack, CPA as the Company's independent certified public accountant for the fiscal year ended December 31, 2006 was confirmed, with the votes cast being as follows:

Votes Cast For	Votes Cast Against	Abstain
28,737,545	0	115,800

With respect to the proposed Amendment to the Articles of Incorporation to increase the number of shares of common stock authorized for issuance from 50,000,000 to 100,000,000, votes were cast for confirmation as follows:

Votes Cast For	Votes Cast Against	Abstain
28,813,334	40,011	0

With respect to the proposal to approve the spin-off of Telephone Corp., our majority-owned subsidiary, votes were cast for confirmation as follows:

Votes Cast For	Votes Cast Against	Abstain
28,847,845	5,500	0

No other matters were acted upon by our security holders at our annual meeting.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description of Exhibit
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

Table of Contents

SIGNATURES

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

United American Corporation

Date: November 20, 2006

By: /s/ Simon Lamarche
Simon Lamarche

Title: **Chief Executive Officer, Chief Financial Officer and
Director**