U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

(**X**) ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007 **Commission File Number: 00031395**

VillageEDOCS, Inc.

(Name of Small Business Issuer in its Charter)

Delaware	**33-0668917**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1401 N. Tustin Ave., Suite 230, Santa Ana, CA	**92705**
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone Number: **(714) 734-1030**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
NONE	**N/A**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.0001 par value
(Title of each class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES(**X**) NO( )

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. (**X**)

Indicate by a check mark whether the issuer is a shell company. YES ( ) NO (**X**)

State issuer's revenues for its most recent fiscal year: **$14,180,658**

State the aggregate market value of the voting stock held by non-affiliates of the issuer: **$2,138,723 as of February 29, 2008.**

Number of shares of the issuer's common stock, $0.0001 par value, outstanding as of February 29, 2008: **152,770,913 shares**.
DOCUMENTS INCORPORATED BY REFERENCE: None.

Transitional Small Business Disclosure Format YES ( ) NO (**X**)

Indicate by check mark whether the Issuer is an accelerated filer (as defined in Rule 12b-2 of the Act) YES ( ) NO (**X**)

VillageEDOCS

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

IMPORTANT NOTIFICATIONS

This Annual Report on Form 10-KSB includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements that do not directly and exclusively relate to historical facts constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You are cautioned not to put undue reliance on any forward-looking statements. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 21E of the Exchange Act. For important additional and specific information regarding these statements, we strongly urge you to refer to the captions entitled "CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS" and "CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS" which can be found in Item 6. Management's Discussion and Analysis or Plan of Operation of this Annual Report on Form 10-KSB.

The Company's Internet website address is www.villageedocs.com. The Company's annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K, and all amendments thereto, are available free of charge on the Company's website as soon as reasonably practical after such reports are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission.

Unless otherwise indicated by the context, “we”, “our” or the "Company" means the parent company, VillageEDOCS, Inc. and our wholly-owned subsidiaries, GoSolutions, Inc., MessageVision, Inc., and Tailored Business Systems, Inc. Between April 2005 and November 2007, we operated Phoenix Forms, Inc. dba Resolutions, an electronic forms business that we discontinued and sold effective December 1, 2007.

BUSINESS OVERVIEW

<u>General</u>

VillageEDOCS, Inc. is a global outsource provider of business process solutions that simplify, facilitate and enhance critical business processes. Our mission is to provide solutions that facilitate the movement of business critical information between business enterprises and their trading partners. Our strategy is to further develop innovative solutions to existing services to expand our ability to benefit our enterprise clients and increase the breadth and size of the markets we satisfy today. Our acquisition growth strategy is focused on acquiring intellectual and technology assets that continue to accelerate the expansion of our client solutions.

Clients use our hosted services and client premise solutions for a spectrum of business-critical communications and business processes, including just-in-time manufacturing, receivables, invoice delivery, securities filings, insurance and healthcare transactions, document capture and automation, utility and tax billing, electronic payment capture, general ledger, marketing campaigns, and printing of documents and other applications.

Our target markets include financial services, healthcare, manufacturing, and local government, and we served approximately 900 active clients, including approximately 25,000 individual users, as of December 31, 2007. We have a multi-channel sales approach, selling directly to clients through our telesales and field sales and tele-marketing professionals and indirectly through strategic partners.

We are incorporated in the State of Delaware and have been in business since 1995. Our corporate headquarters are located at 1401 N. Tustin Road, Suite #230, Santa Ana, CA 92705, and our telephone number is (714) 734-1030. As of February 29, 2008, 2007, we had 62 employees, and we service clients throughout the world.

Industry Background

A business enterprise's success is dependent upon the ability to communicate with an ever-expanding number of prospects, clients and trading partners. Business enterprises are challenged to support an increasing number of communication methods while required to meet more stringent compliance and regulation. Today's global competition and markets effectively require business enterprises to have increased speed of communication, accuracy, security management, and control of business processes.

Business enterprises are increasingly outsourcing their inter-enterprise business processes to services like ours. We offer a wide spectrum of business process solutions, a scalable global platform and proven expertise.

Business Services

We market a complete set of business communications services and solutions that enable business enterprise clients to increase competitiveness and efficiency through the automation of labor- and paper-intensive business processes. and solutions that capture client data, shape it into useful information, and deliver it through efficient and secure channels to and from trading partners and their constituents. We believe that our communications technologies-based services improve and enhance data delivery and critical business communications for global enterprises. We believe our hosted “on demand” solutions enable organizations to pay as they utilize services, outsourcing the friction points of business document processing, communications, and messaging, while retaining control of business information, processes, and services. Examples of the information we move for our clients include medical reports, orders, invoices, employment verifications, and insurance documents. We employ a hosted application model that provides low operational cost, high ratio of recurring to non-recurring revenue, and the ability to introduce new service offerings rapidly.

Operating Segments

We conduct our business through three wholly-owned subsidiaries. GoSolutions, Inc. (“GoSolutions”, “GSI”), operates our enhanced voice and data communications services. MessageVision, Inc. ("MessageVision," "MVI") operates our Internet-based document delivery services and provides workflow solutions. Tailored Business Systems, Inc. ("TBS") operates our government accounting products and services business.

Segment revenue and profit information for MessageVision, TBS, and GoSolutions is presented in Note 12 of the Company's 2007 Consolidated Financial Statements, included as Exhibit 99.1 to this report. See "Management's Discussion and Analysis of Financial Condition or Plan of Operation" for additional financial data and commentary on recent financial results for operating segments.

GoSolutions – Enhanced Voice and Data Communications Services

GoSolutions (44% of consolidated revenues in 2007), which we acquired in May 2006, offers next generation communications services to enterprise customers through its hosted suite of enhanced telephony applications. GoSolutions develops, licenses and delivers technology to address the expanding needs of the telecommunications market.

As of February 29, 2008, GSI had over 24,000 active users. GSI has two wholly-owned subsidiaries: Go Solo Technologies, Inc. and GoSolutions Canada, Inc., which has no significant operations. During 2007, independent representatives of one customer accounted for 70% of GSI’s consolidated net sales.

GSI offers a portfolio of progressive, Telco-grade calling services including basic voicemail, enhanced voicemail (which includes speech navigation and Web/phone message access), unified communications, audio and Web conferencing solutions. All GSI’s applications can be bundled with traditional voice and data products to provide the enhanced features found with VoIP offerings. GSI has created a voicemail platform that enables companies to start out with the basics and add enhanced features as they grow. In addition to the features of GoSolutions’ Basic

Voicemail, GoSolutions' Enhanced Voicemail solution offers subscribers a virtual attendant with Find Me call routing capable of ringing up to 9 numbers. Privacy features allow callers to hear who's calling and either accept the call or transfer the caller to voicemail. A Web interface is available to check messages online. Enhanced Voicemail subscribers enjoy an enhanced professional image and the confidence of never missing another call or potential opportunity. Enhanced Voicemail is offered with a generic brand. Private branding and custom branding options are also available.

GSI's flagship product, Unified Communications, is a communications suite that enables subscribers to have a unified inbox. All voice, fax, and email messages are centrally located and accessible via the phone or the Web. Users receive all their messages by consolidating them into the most widely used email application available, MS Outlook. In addition, users can use GSI's speech recognition system to send and receive voicemail and email over the phone. GSI has combined flexible technology in conjunction with a custom IVR application to deliver a corporate directory product. Proprietary speech recognition technology directs a caller to a main line to access other sub accounts (users or departments) by name. Out of office attendant is included with this solution. GSI offers both audio and Web conferencing services. A custom-branding option is available. We intend to use GSI's service platform to deliver new services obtained through future development or acquisitions.

Net sales to external customers for the fiscal years ended December 31, 2007 and 2006 were $6,222,458 and $3,720,998 (from date of acquisition), respectively.

MessageVision - Electronic Document Delivery Services

MessageVision (21% of consolidated revenues in 2007) is a California corporation formed in 2004 to operate the historical business of VillageEDOCS, an Internet-based electronic document delivery service.

We believe that MessageVision provides superior flexibility, availability, reliability, scalability, and security to enterprises. Virtually all industry segments produce documents that require extreme attention to content, format, security, and accuracy prior to delivery to the recipient. One feature that MVI's service provides is the ability for a user to send an electronic fax document to an individual or to a broadcast list of thousands through a web browser, e-mail package, Microsoft Windows-based application, Enterprise Resource Planning or Customer Relationship Management system, or a proprietary corporate information system. In addition, MVI provides "inbound" fax services that enable our clients to receive fax documents electronically. Once received electronically, documents may be stored digitally, printed, forwarded, sent to a fax machine, deleted with a single click, or annotated using popular desktop software. The service also fulfills the reliability and capacity considerations normally applied to production applications. When a fax is received by the service, it can be sent directly to an individual's email, central administrator for further distribution, or to back office applications for processing. Users are assigned a personal toll or toll-free number.

Another example of MVI's service is the ability to capture information from any predefined output format, standard interface, data stream (i.e., API, Barcode, Print, Spool, Control File, etc.) or directly from the actual document.

Our integration tools automatically extract data values to automate business processes such as creating and distributing forms, addressing and re-routing faxes and email transmissions, and archiving data for immediate retrieval.

As of February 29, 2008, MVI had approximately 380 active clients. During 2007, no single customer accounted for more than 10% of consolidated net sales.

We use proprietary, internally-developed document processing and transmission systems to create and send or receive documents for our clients. We provide easy to deploy Internet-based fax services that integrate with existing Internet-connected systems within companies where invoices, statements, purchase orders, ticket confirmations, and other key documents originate. A typical application is characterized by the need to deliver time sensitive, personalized documents to a disparate group of recipients in multiple formats and delivery methods. Our services are designed for use by a wide range of industries and enterprise sizes using such diverse platforms as Microsoft Windows XP, UNIX, and IBM iSeries (AS/400). Our clients currently include financial services companies, healthcare companies, manufacturing companies, E-commerce providers, application service providers, food service corporations, value added resellers, weather reporting services, public relations firms, and direct marketing organizations. Businesses using Oracle and SAP environments, among others, can use our service to become fax-enabled without traditional capital expenditures and ongoing maintenance costs. We offer our clients the flexibility to send Microsoft Office, IBM PCL, Adobe PDF, next-generation HTML, and other types of documents through our Internet fax service. In addition, our service is compatible with virtually any foreign language including character-based Pacific Rim, Middle and Far Eastern languages. In addition, we offer our clients robust activity reporting and job control functions that are not offered by many of our competitors. We offer workflow, archiving and document management solutions that provide electronic document presentation functions that enable our clients to automatically generate and deliver presentation-quality documents from enterprise systems such as ERP, CRM, and E-Commerce and to populate a database with data from a document that has either been scanned or received as a fax.

MVI charges our clients a fee primarily based upon either the number of pages delivered and received, or upon the number of minutes expended, for the delivery or receipt of our clients' documents during the month. In some cases, we charge one-time and annual perpetuation fees for custom-developed client solutions. Our net revenues are impacted by the number of effective business days in any period.

Net sales to external customers for the fiscal years ended December 31, 2007 and 2006 were $2,956,857 and $2,890,640, respectively.

Tailored Business Systems, Inc. - Government Accounting Products and Services

TBS (35% of consolidated revenues in 2007) is a Georgia corporation established in 1973. The Company acquired TBS in February 2004. TBS is engaged in the business of creating, maintaining, training, customizing and supporting computer application programs primarily for the use of city and county governments, the sale of online payment solutions, the sale and installation of computer equipment and supplies, the printing and ordering of forms, the furnishing of consulting services, and the implementation of internal computer networks in communication with IBM iSeries servers. We generate revenues from TBS' established client base in the form of volume printing, billing, and fulfillment services as well as online services, maintenance and training revenues. We have achieved a dominant share of the Georgia market for small to medium government entities, enjoying two-thirds of the city, municipal and county government market in that state. Our goals include expanding our business model to governmental entities regionally and, eventually, nationwide. In addition, we intend to expand revenue both from printing and from subscription-based hosted solutions.

As of February 29, 2008, TBS had approximately 500 active clients. During 2007, no single customer accounted for more than 10% of consolidated net sales.

We charge for our proprietary software and for general-purpose hardware used in providing in-house solutions. When a client elects to use the hosted Application Service Provider service, we charge a monthly fee per user for the use of the Internet based services. For our online payment services, charges are usage-based. In addition to our application offerings, we charge for consulting, installation, implementation, support, annual maintenance and training. We charge separately for printing and forms jobs based on the specific nature of the requirements. For printing, it is generally per mailing and for forms on a per page basis. We deliver an efficient, economical and secure environment for our municipal clients. Our net revenues vary quarterly based on the budget and property tax assessment cycles of our local government clients.

Net sales for the fiscal years ended December 31, 2007 and 2006 were $5,001,343 and $4,130,458, respectively.

Products and Services Development

The Company actively and continually engages in development of additional products and services to offer to our existing and potential new clients.

Our ability to sustain our development activities is dependent upon the availability of sufficient funds from operations or other sources such as proceeds received by the Company from the sale of common stock, bank lines of credit or other credit facilities.

Competition

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than the Company's subsidiaries. Such competitors may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to potential employees and distribution partners. In addition, our clients may be able to replace several of the services we offer with internally developed or managed products. We believe that GSI and MVI can compete effectively because we offer our clients certain capabilities that much of the competition does not offer, such as ease of deployment, custom integration, private-labeling, intelligent document routing, enhanced delivery tracking, time-released training messaging, integrated distribution lists, call transfer functionality, and electronic document presentation. We believe TBS can compete effectively because we provide affordable and reliable full-service solutions tailored to the needs of local governments. However, there can be no assurance that our competitors will not develop and market similar products and services that are equal or superior to ours, or that achieve greater market acceptance than our offerings.

Outlook and Strategy

We intend to continue our focus on obtaining growth from higher margin products and services at GSI, MVI and TBS, as well as growth from acquisitions of companies that consistently generate net income and positive cash flows. We believe that this strategy offers the best opportunity for our operations to continue to generate positive operating income and cash flows from operations and to achieve net income.

During 2006 and 2007, we pursued a strategy of preparing VillageEDOCS for significant growth. One area that we focused on was adding to the leadership team so that sufficient management resources would be in place to properly manage our planned growth. Our strategy for 2008 is to direct capital toward increasing sales and marketing while holding down costs for general and administrative as well as product and technology expenses.

Government Regulation

Our services relate principally to the Internet and telecommunications. Accordingly, we are subject to legal and regulatory developments affecting either Internet or telecommunications services in general. Due to the increasing popularity and use of the Internet, a number of laws and regulations have been adopted at the international, federal, state and local levels with respect to the Internet. Many of these laws cover issues such as privacy, freedom of expression, pricing, on-line products and services, taxation, advertising, intellectual property, information security and the convergence of traditional telecommunications services with Internet communications. Moreover, a number of laws and regulations have been proposed and are currently being considered by federal, state, local and foreign legislatures with respect to these issues. The nature of any new laws and regulations and the manner in which existing and new laws and regulations may be interpreted and enforced cannot be fully determined.

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Research and Development

The markets for our services are evolving rapidly, requiring ongoing expenditures for research and development and timely introduction of new services and service enhancements. Our future success will depend, in part, on our ability to enhance our current services, to respond effectively to technological changes, to sell additional services to our existing customer base and to introduce new services and technologies that address the growing needs of our target markets and existing clients.

Employees

As of February 29, 2008, VillageEDOCS had five full-time employees, three of whom are executive officers. GoSolutions had twenty eight full-time employees. These employees include two engaged in sales and marketing, nine in customer service, three in product development, ten in engineering and operations, and four in administration. MessageVision had eight full-time employees. These employees include one engaged in sales and marketing, five in engineering and operations, and two in administration. TBS had twenty-one full-time employees, including two engaged in sales and marketing, two in technology development, thirteen in operations, and four in administration.

ITEM 2. DESCRIPTION OF PROPERTY

We occupy office space in California, Georgia and Florida. The operations of VillageEDOCS, Inc. and MVI are conducted from approximately 5,750 square feet of leased office space located at 1401 N. Tustin Avenue, Suite 230, Santa Ana, CA 92705. We lease the Santa Ana office space pursuant to an operating lease agreement expiring in May 2012 at a cost of $10,063 per month. The operations of GoSolutions are conducted from approximately 8,000 square feet of leased office space located at 10701 Danka Way North, Suite 100, St. Petersburg, Florida 33716. GoSolutions leases the St. Petersburg office space pursuant to a noncancelable operating lease agreement expiring in April 30, 2011 at a cost of $12,653 per month. The building in which the office space is located is owned by an entity in which a member of GoSolutions Equity LLC (a significant shareholder of VillageEDOCS) owns an interest. The operations of TBS are conducted from approximately 6,200 square feet of leased office space located at 40 Joe Kennedy Blvd., Statesboro, GA 30458. The Company leases the Statesboro office space pursuant to an operating lease expiring in January 2009 at a cost of $6,200 per month. The office building is owned by a partnership controlled by TBS' former owners, who are presently employees of TBS (see "*Certain Relationships and Related Transactions* "). In addition, TBS subleases office space located at 3360 Martin Farm Road, Suwanee GA 30024 from DocPath Corp at a cost of $2,800 per month expiring on December 31, 2008.

Additionally, the Company leases space and operating systems equipment from Level 3 in Tustin, California and from Qwest in Tampa, Florida, primarily to support the service operations of MVI and GSI. The highly secure facilities are served by all major global telecommunications carriers and are physically-, environmentally-, and utility-redundant sites with multiple telecommunications feeds, multiple emergency power generators, and emergency fuel reserves. These fully redundant systems and emergency power provisions are designed to provide non-stop service and no single point of failure.

ITEM 3. LEGAL PROCEEDINGS

Litigation and Claim

In connection with our acquisition of GSI, we are entitled to certain rights of indemnification from GoSolutions Equity, LLC, which is a former shareholder of GSI that became a shareholder of the Company as a result of our acquisition of GSI. We have made a claim of indemnification from this entity in connection with the bankruptcy of one of GSI's significant customers – Vartec Telecom, Inc. – and the facts and circumstances relating to the procurement and maintenance of the Primerica Life Insurance account and related Citigroup affiliates. GoSolutions Equity, LLC has indicated that it does not believe that we have a valid basis for making such indemnification claims.

The Company has engaged in limited discussions with GoSolutions Equity, LLC as it relates to the indemnification claims notice and their response to such claims notice. However, the Company is unable to advise whether it will be successful in the indemnification claims against GoSolutions Equity, LLC. Pursuant to the agreement with GSI, if the Company is successful, GoSolutions Equity, LLC would only be required to return up to approximately 4.4 million of our shares issued to that entity to satisfy such indemnification claims. GoSolutions Equity, LLC is not required to contribute cash to satisfy any indemnification claims.

In March 2007, GSI was served by the Trustee for Vartec Telecom, Inc. ("Trustee") in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division ("Bankruptcy Court"), Case No. 04-81694-hdh-7. The complaint sought recovery of approximately $400,000 for alleged preferential transfers made in 2004. On July 19, 2007, the Bankruptcy Court issued an order approving a compromise and settlement between the Trustee and GSI pursuant to which the claims of the Trustee and the counterclaims of GSI were settled in consideration for GSI's payment of $55,000 over a four month period that began on July 1, 2007.

In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position or results of operations of the Company.

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

During 2007, our shareholders approved the following actions. These approvals were by consent action of the shareholders.

1. The election of J. Thomas Zender, K. Mason Conner, Jerry T. Kendall, H. Jay Hill, and Richard Salas as directors to serve until the 2008 annual meeting of stockholders and until their successors are elected and qualified; and

2. The reincorporation of the Company from California to Delaware by means of a merger with and into a wholly owned Delaware subsidiary;

3. In connection with the reincorporation in Delaware, to increase the number of shares of common stock we are authorized to issued from four hundred million (400,000,000) to five hundred million (500,000,000); and

4. To increase the number of options that we are authorized to grant pursuant to our 2002 Equity Incentive Plan from sixty million (60,000,000) to ninety million (90,000,000).

PART II

ITEM 5. MARKET FOR EQUITY SECURITIES AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Over-the-Counter Bulletin Board ("OTCBB"). The following sets forth the range of high and low bid quotations for the periods indicated as reported by Nasdaq Trading and Market Services. Such quotations reflect prices between dealers without retail mark-up, markdown or commission and may not represent actual transactions. The Company's common stock is quoted on the OTCBB under the symbol VEDO. The stock is thinly traded and transactions in the stock are sporadic and infrequent.

Quarter Ended	High Bid	Low Bid
March 31, 2006	$0.165	$0.080
June 30, 2006	$0.200	$0.080
September 30, 2006	$0.100	$0.060
December 31, 2006	$0.140	$0.085
March 31, 2007	$0.115	$0.034
June 30, 2007	$0.070	$0.020
September 30, 2007	$0.075	$0.040
December 31, 2007	$0.090	$0.040

As of December 31, 2007, there were 346 holders of record of the Company's common stock and one holder of record of the Company's preferred stock.

Dividend Policy

We have never declared dividends or paid cash dividends on our common stock. We intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

Recent Sales of Unregistered Securities

On October 1, 2007, and in connection with a retainer agreement dated September 15, 2007, we issued a warrant to purchase 2,000,000 shares of our common stock at $0.05 per share (fair value on the measurement date) to a consultant in consideration for public relations services. The warrants are exercisable over a five year period from date of grant. The warrants were valued using the Black-Scholes option pricing model, were valued at $100,000, and will be recorded as consulting expense in our consolidated statements of operations over the twelve month vesting period that began on September 15, 2007.

All offers and sales of our securities described above were made pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and Regulation D promulgated thereunder.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

INTRODUCTION

The following Management Discussion and Analysis or Plan of Operation ("MD&A") is intended to help the reader understand VillageEDOCS, Inc. MD&A is presented in the following seven sections:

- Business Overview
- Critical Accounting Policies and Estimates
- Recent Accounting Standards and Pronouncements
- Results of Operations
- Liquidity and Capital Resources
- Cautionary Information About Forward-Looking Statements; and
- Certain Factors That May Affect Future Results.

MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated balance sheet as of December 31, 2007 and our audited consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period then ended and the related notes thereto.

In MD&A, we use "we," "our," "us," "VillageEDOCS," and "the Company" to refer to VillageEDOCS, Inc. and its wholly-owned subsidiaries, unless the context requires otherwise. Amounts and percents in tables may not total due to rounding. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. We caution readers that important facts and factors described in MD&A and elsewhere in this document sometimes have affected, and in the future could affect our actual results, and could cause our actual results during 2008 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us.

Our Internet web site address is www.villageedocs.com. Our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, and current reports of Form 8-K, and all amendments thereto, are available free of charge on our website as soon as reasonably practical after such reports are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission. The information on our web site is not incorporated by reference in this annual report on Form 10-KSB.

As reported in the Report of Independent Registered Public Accounting Firm on our December 31, 2007 consolidated financial statements, we have suffered recurring losses from operations and has a working capital deficit that raises substantial doubt about our ability to continue as a going concern.

Effective May 1, 2006, we acquired GoSolutions. The acquisition of GoSolutions has caused our results of operations during 2007 to vary significantly from those reported for 2006 due to the consolidation of GoSolutions for twelve months in 2007 compared to eight months in 2006 (from date of acquisition). Effective December 1, 2007, we sold Resolutions. Our Board of Directors approved the disposal of the assets and liabilities on December 7, 2007 as part of a strategy to reduce debt and focus on growth at the remaining business units and growth by acquisition. We closed the transaction on December 10, 2007. The sale of Resolutions in 2007 has caused our results of operations for the year ended 2007 to vary significantly from those reported for the first nine months of 2007 and for 2006 due to the classification of Resolutions as discontinued operations for 2007. See Note 5 to our condensed consolidated financial statements contained elsewhere in this report for additional information regarding the accounting for this segment as discontinued operations.

Our business and results of operations are affected by a wide variety of factors, as we discuss under the caption "*Certain Factors That May Affect Future Results*" and elsewhere in this report, which could materially and adversely affect us and our actual results. As a result of these factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price.

Any forward-looking statements herein speak only as of the date hereof. Except as required by applicable law, we undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

BUSINESS OVERVIEW

General

We have been in business since 1995. From inception until September 7, 2007, we were a California corporation. As the result of a merger into our wholly-owned Delaware subsidiary, we became a Delaware corporation.

We conduct our business through three wholly-owned subsidiaries. GSI, our most recent acquisition, provides enhanced voice and data communications services. MVI operates our Internet based document delivery services. TBS operates our government accounting products and services business. From April 2005 through November 2007, Resolutions sold and operated our e-forms, archiving, imaging, and workflow products and services.

We generate revenue, operating income, and cash flows from:

- subscription agreements for enhanced voice, data, and conferencing services;
- usage charges for delivery and other services involving electronic documents;
- usage charges for our governmental accounting and online payment hosted application services;
- recurring fixed monthly service fees for access to voice, data, or application services;
- per item and flat fee charges for volume printing services to governmental entities;
- fees for professional service;
- wholesale enhanced voicemail services;
- the sale of licenses for proprietary software and third party software;
- fees for maintenance and support agreements;
- installation services;
- sales of third party computer hardware; and
- fees for training.

Our Objective

A core component of our mission is to provide solutions that facilitate the movement of business information between business enterprises using a dynamic and diverse set of delivery methods and content formats. Our products and services have been designed to help enterprises meet various communications challenges, including the need to:

- communicate with an ever-expanding number of trading partners, customers, and enterprises;
- increase the control, management, speed, accuracy and security of the information delivered;

- manage an increasing set of methods used to communicate (print/mail, email, web, fax, XML, and wireless);

- cost-effectively implement a solution that will allow the enterprise to endure the slow acceptance of a common set of delivery methods;

- meet the communications challenges with a service that is more robust than available commercial grade proprietary technologies; and

- mitigate the negative impact of delivery methods on workflow, business process and security requirements.

Our target markets include Financial Services, Healthcare, Manufacturing, and Local Government, and we serve approximately 1,000 active clients with over 25,000 users.

While we do have some sources of non-recurring revenue, such as hardware sales and third party software, we focus on developing and maintaining sources of monthly recurring revenue, such as providing subscribers with solutions for their critical day to day business processes for the movement of business information.

Key Items in 2007

- Consolidated net revenue for 2007 increased by 32% over 2006 due to a 21% increase from TBS, a 2% increase from MVI, and a 67% increase from GSI (acquired May 1, 2006);

- Recurring revenue comprised 86% of total revenue from continuing operations;

- Average annual revenue per employee during 2007 was approximately $715,000 (2006: $690,000);

- Gross Margin 60% during 2007, which is consistent with 2006;

- Although operating expenses increased during 2007 compared to 2006, the most significant factor in the overall increase was the addition of $1,428,223 in operating expenses of GSI (full year in 2007 compared to eight months in 2006). Consolidated operating expenses during 2007 were 72% of sales compared to 68% of sales in 2006;

- Operating expenses decreased at TBS (-1%). This decrease was offset by increases at GSI (+55%), MVI (+17%) and Corporate (+62%);

- Net income increased significantly at TBS to $511,848 (+129% compared to 2006);

- Net income increase significantly at GSI to $1,005,091 (+261% compared to 2006), in part due to consolidating a full year 2007 compared to eight months in 2006 (acquired May 1, 2006);

- Obtained $200,000 in working capital from the exercise of 2,000,000 warrants at $0.10 per share;

- Sold Resolutions for $926,835 in net cash proceeds ($53,832 of which were received in 2008). In April 2005, we acquired Resolutions for $432,000 in cash, promissory notes of $200,000 (which were repaid from Resolution’s 2005 and 2006 operating cash flows), and warrants to purchase 10,000,000 shares. The warrants were returned to us and cancelled in connection with the sale;

- Repaid $1,040,000 of secured debt and $30,000 of unsecured debt during 2007;

- Completed data center and technology platform upgrades and developed new features to facilitate the marketing of both new services and existing services at more attractive margins; and

- Entered 2008 executing on a plan to streamline the corporate structure and bolster sales resources to achieve greater organic growth and take advantage of the unique cross selling opportunities among the operating units.

Areas of Focus

Growth Strategy

Our current and future growth strategy is focused on supporting organic revenue growth and acquiring intellectual and technology assets that improve our ability to take a client's unstructured content and documents and deliver it to the other party through the method preferred by each party, presenting the content in a manner that surpasses our client's goals. In essence, we strive to bring a Business Process Management discipline to their information. We believe that if we are successful in executing this strategy, our clients will enjoy improved compliance, collaboration, cost containment, and superior continuity of business processes.

Our ultimate vision is to become a business process management/workflow service that provides competency and functionality in the following areas:

- Web Content Management;
- Digital Asset Management;
- Email Management;
- Records Management;
- Documentation Management;
- Information Indexing;
- Categorization/Taxonomy;
- Recognition;
- Document Imaging;
- Form Processing;
- Scanning;
- Collaboration;
- Repositories;
- Storage;
- Long Term Archival;
- Content Integration;
- Search and Retrieval;
- Content Syndication;
- Localization and Personalization; and
- Publication (paper or electronic).

We intend to continue our focus on obtaining growth from sales of higher margin products and services at GSI, MVI, and TBS and by acquiring companies that consistently generate net income and positive cash flows. We believe that this strategy offers the best opportunity for our operations to generate positive operating income and cash flows from operations and to achieve net income.

Our acquisition strategy is focused in two areas: service infrastructure and vertical market silo. The service infrastructure area is our focus to acquire enterprises that fulfill our identified strategic technological core competencies. The vertical market silo acquisition strategy is to acquire companies that assist us in penetrating our target market segments of financial services, healthcare, manufacturing, and local government.

Capital Formation

During 2008, we are actively seeking additional financing by issuing equity or obtaining a combination of equity and debt financing from new shareholders and/or lenders. Although we believe we will generate adequate cash to sustain operations at current levels in conjunction with borrowings from our operating lines of credit, we will require additional funding to invest in resources that will enable us to operate profitably on a consistent, month-over-month basis. In addition, we may be required to repay certain of our debt instruments in which case we will require additional funding. We continue to caution that there can be no assurance that funding will be available on acceptable terms, if at all, or that any such funds we raise would enable us to achieve or maintain profitable operations.

In spite of the impact of new laws, regulations, and accounting pronouncements that have significantly increased our cost of operating as a public company, we intend to contain general and administrative costs where possible. However, we expect to incur significant costs during the remainder of 2008 and in 2009 related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including new infrastructure required to remediate certain material weaknesses we have identified in our internal controls over financial reporting. Should additional growth capital become available during 2008, we intend to direct the capital toward increasing sales and marketing while holding down costs for non-essential general and administrative as well as product and technology expenses to the extent possible.

Organizational Enhancements

Our goal is to drive efficiency and effectiveness throughout our group of companies. We are working to align each business unit around shared goals and performance targets. In addition, we are striving to streamline corporate overhead and maximize cross-selling activities. We are devoting strategic product management and technical resources both to strengthening the integration of our existing products and services and to developing new products and services that will allow us to offer our clients powerful new solutions comprised of the best that each of our business units has to offer.

Challenges and Risks

Looking forward, management has identified certain challenges and risks that demand our attention. Of these, two key challenges and risks are discussed below.

Increased Competition and Capabilities in the Marketplace

We face strong competition from well-established national and global companies as well as from relatively new companies. We must continue to selectively expand into other profitable segments of our markets and offer powerful product and service offerings in order to increase our share of the marketplace. The introduction of new technologies could render our existing products and services obsolete or unmarketable or require us to invest in research and development at much higher rates with no assurance of developing competitive products. Changes in technologies or customer requirements also may cause the development cycle for our new products and services to be lengthy and result in significant development costs. Competitive pressures may impair our ability to achieve profitability.

Capital Resources

We believe that current and future available capital resources, including the net proceeds from sale of our products and services, will be sufficient to fund our operations at current levels for the foreseeable future. However, the exact amount of funds that we will require will depend upon many factors, and it is possible that we will require additional financing. Such sources of financing could include capital infusions, additional equity financing, or debt offerings. There can be no assurance that additional funding will be available on acceptable terms, if at all, or that such funds if raised, would enable us to achieve and maintain profitable operations. The inability to obtain such financing could have a material adverse effect on our business, financial condition and results of operations.

See also the section entitled *Certain Factors That May Affect Future Results* below for more information about risks and uncertainties facing VillageEDOCS, Inc.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our consolidated financial statements, we make estimates, assumptions and judgments that can have a significant effect on our revenues, income/loss from operations, and net income/net loss, as well as on the value of certain assets on our consolidated balance sheet. We believe that there are several accounting policies that are critical to an understanding of our historical and future performance as these policies affect the reported amounts of revenues, expenses, and significant estimates and judgments applied by management.

While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements, areas that are particularly significant include:

- revenue recognition;
- stock-based compensation;
- software development costs;
- goodwill and other intangible assets;
- long-lived assets;
- beneficial conversion features;
- income taxes; and
- contingencies

In addition, please refer to Note 3 to the accompanying consolidated financial statements for further discussion of our significant accounting policies.

Revenue Recognition. We recognize revenue in accordance with Staff Accounting Bulletin ("SAB") No. 101, "*Revenue Recognition in Financial Statements*", as revised by SAB No. 104. As such, we recognize revenue when persuasive evidence of an arrangement exists, title transfer has occurred, or the services have been performed, the price is fixed or readily determinable and collectibility is probable. Sales are recorded net of sales discounts.

We have adopted Statement of Position ("SOP") 97-2, "*Software Revenue Recognition*," as well as SOP 98-9, "*Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions*." The SOPs generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair market values of each of the elements. The fair value of an element must be based on vendor-specific objective evidence ("VSOE") of fair value. Software license revenue generated by TBS and Resolutions allocated to a software product is recognized upon delivery of the product, or deferred and recognized in future periods to the extent that an arrangement includes one or more elements that are to be delivered at a future date and for which VSOE has not been established. Maintenance and support revenue is recognized ratably over the maintenance term. First-year maintenance typically is sold with the related software license and renewed on an annual basis thereafter. Estimated fair values of ongoing maintenance and support obligations are based on separate sales of renewals to other customers or upon renewal rates quoted in the contracts. For such arrangements with multiple obligations, we allocate revenue to each component of the arrangement based on the estimated fair value of the undelivered elements. Fair value of services, such as consulting or training, is based upon separate sales of these services. At times, we may enter into multiple-customer contracts in which we allocate revenue based on the number of specified users at each customer, and recognizes revenue upon customer acceptance and satisfying the other applicable conditions of the above described accounting policy.

Services revenue is recognized as the service is performed assuming that sufficient evidence exists to estimate the fair value of the services. Consulting and training services are billed based on contractual hourly rates and revenues are recognized as the services are performed. Consulting services primarily consist of implementation services related to the installation of our products which do not require significant customization to or modification of the underlying software code.

Revenue from subscription agreements consists of fixed monthly fees and usage charges, generally based on per minute rates. Subscription agreement revenue related to MVI and GSI usage service charges are billed monthly in arrears and the associated revenues are recognized in the month of service. Recurring charges for the GoSolo(TM) platform are billed in advance on a monthly basis and recorded as deferred revenues. We recognize subscription agreement revenue ratably over the service period, which management believes approximates the actual provision of services. Professional service fee revenue consists of consulting fees charged to enterprise clients for GoSolo (TM) platform enhancements. We recognize professional service fee revenue on a time and materials basis over the service period, which management believes approximates the actual provision of services. Wholesale enhanced voicemail services consists of fees charged to telecommunications providers for use of the GoSolo (TM) platform to provide their customers with hosted electronic voicemail, billed monthly in arrears and the associated revenues are recognized in the month of service.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If we made different judgments or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result.

Stock-Based Compensation. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors based on estimated fair values. We adopted SFAS 123(R) using the modified prospective transaction method, which requires the application of the accounting standard as of January 1, 2006, the first day of our fiscal year 2006. Our consolidated financial statements as of and for the years ended December 31, 2007 and 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in our consolidated statement of operations. Prior to the adoption of SFAS 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), as allowed under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation* " (SFAS 123). As stock-based compensation expense recognized in the consolidated statement of operations for 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimated. The estimated average forfeiture rates for the years ended December 31, 2007 and 2006, of approximately 11% and 12%, respectively, were based on historical forfeiture experience and estimated future employee forfeitures.

Stock-based compensation expense recognized as operating expense under SFAS 123(R) for the year ended December 31, 2007 was $879,088, determined by the Black-Scholes valuation model, and consisting of stock-based compensation expense related to employee stock options. As of December 31, 2007, there was approximately $1,085,000 of total unrecognized compensation cost, net of forfeitures, related to employee and director stock option compensation arrangements. See Note 3 to the consolidated financial statements for additional information.

Software Development Costs. We capitalize software development costs pursuant to SFAS No. 86, "*Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*," after technological feasibility of the software is established, which is generally the completion of a working prototype and ends upon general release of the product to our customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Capitalized costs consist of direct costs and allocated overhead associated with the development of the software products. Amortization of software development costs commences when the product becomes available for general release to customers and is computed based on the straight-line method over the software's estimated economic life of approximately three years. We review the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

Goodwill and Other Intangible Assets. In accordance with SFAS No. 141, "*Business Combinations*," we record the assets acquired and liabilities assumed in business combinations at their respective fair values at the date of acquisition, with any excess purchase price recorded as goodwill. Because of the expertise required to value intangible assets, we typically engage independent valuation specialists to assist us in determining those values. Valuation of intangible assets entails significant estimates and assumptions including, but not limited to, estimating future cash flows from product sales, developing appropriate discount rates, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired. To the extent actual results differ from these estimates, our future results of operations may be affected. The Company has adopted SFAS No. 142 "*Goodwill and Other Intangible Assets*." Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are no longer subject to periodic amortization but are instead reviewed annually for impairment, or more frequently if impairment indicators arise.

We believe that the accounting estimates related to impairment of goodwill and other intangible assets are "critical accounting estimates" because (1) they are highly susceptible to change from period to period because they require company management to make assumptions about future sales and cost of sales, and (2) the impact that recognizing an impairment would have on the assets reported on our consolidated balance sheet as well as our net loss would be material. Management's assumptions about future sales prices and future sales volumes have fluctuated in the past and are expected to continue to do so.

In estimating future sales, we use our internal budgets. We develop our budgets based on recent sales data for existing products and services, planned timing of new product and service launches, and customer commitments related to existing and newly developed products and services.

In each of the last two years, we have used the services of independent valuation firms to assist us with identifying and valuing intangible assets and testing the reported carrying value of our goodwill and intangible assets. In each year we determined that, based on our assumptions, as well as the impairment analysis conducted by the valuation firm, that the sum of the expected future discounted cash flows exceeded the reported carrying value and therefore we did not recognize an impairment loss.

If we had been required to recognize an impairment loss on our goodwill and intangible assets, it would likely not have materially affected our liquidity and capital resources because we are not subject to any restrictive covenants related to the results of operations we report in our consolidated financial statements.

Long-Lived Assets. We assess the recoverability of our long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management.

Beneficial Conversion Feature. Our convertible note provides for a rate of conversion that can fall below market value. Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force Issue No. 98-5 ("EITF 98-5"), *Accounting For Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio* and Emerging Issues Task Force Issue No. 00-2, *Application of EITF Issue No. 98-5 To Certain Convertible Instruments*, the relative fair values of the BCFs have been recorded as a discount from the face amount of the respective debt instrument. We are amortizing the discount using the effective interest method through maturity of such instruments. We will record the corresponding unamortized debt discount related to the BCF and warrants as interest expense when the related instrument is converted into our common stock.

Income Taxes. We account for income taxes using the asset and liability method under which deferred tax assets or liabilities are calculated at the balance sheet date using current tax laws and rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

Contingencies. From time to time we are or may be subject to various claims and contingencies, sometimes related to legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties, and governmental actions. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate.

RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

Refer to Note 3 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

RESULTS OF OPERATIONS

The following discussion of our performance is organized by reportable operating segments, which is consistent with the way we manage our business. In 2007, we completed the sale of substantially all of the assets and liabilities of Resolutions. The sale has resulted in the reclassification of the revenues and expenses of Resolutions to discontinued operations for all periods presented through the date of sale.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net Revenue from External Customers

Net revenue from external customers for 2007 was $14,180,658, a 32% increase over 2006 net revenue of $10,742,096.

During 2007, GSI, MVI, and TBS generated 44%, 21%, and 35% of our net revenue, respectively. During 2006, GSI, MVI, and TBS, generated 35%, 27%, and 38% of our net revenue, respectively.

The following is a comparison of the components of consolidated net revenue from external customers:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Variance Amount	Percent
Net revenue from external customers:				
Electronic document delivery services	$ 2,956,857	$ 2,890,640	$ 66,217	2 %
Government accounting solutions	5,001,343	4,130,458	870,885	21 %
Integrated communications	6,222,458	3,720,998	2,501,460	67 %
Corporate	-	-	-	
Total net revenue from external customers	$ 14,180,658	$ 10,742,096	$ 3,438,562	32 %

As anticipated, the most significant factor in the increase in consolidated revenue during 2007 was the consolidation of a full twelve months of revenue of GSI compared to eight months from May 1, 2006 (date of acquisition). Revenue increased 67% at GSI. On an annualized (not pro forma) basis, GSI's revenue increased approximately 11% over 2006 due to increases in revenue from subscription agreements and an increase in professional service fees revenue from its largest client.

Revenue increased at MVI by 2% due primarily to increases in revenue from monthly fixed charges and recurring revenue from existing clients. These increases were offset by a decrease in revenue from outbound document delivery services that resulted from client attrition. MVI intends to continue to concentrate sales efforts toward opportunities with larger clients. While such sales typically involve longer and more complex sales cycles, we believe they provide a greater protection from pricing erosion due to the additional functionality and integration that are elements more often associated with our larger client relationships.

Revenue increased 21% at TBS due to increases in revenue from printing, maintenance agreements, online services, and software that resulted from pursuing a strategy to expand our sales of printing business into new areas, such as utility billing, which build upon the property tax form processing business that has historically produced the largest share of TBS's overall printing revenue, typically in the second half of each calendar year. These increases were partially offset by decreases in hardware sales and installation which resulted in part from our strategy to promote online, usage-based services rather than single unit product sales.

Cost of Sales

The following is a comparison of the components of consolidated cost of sales:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Variance Amount	Percent
Cost of sales:				
Electronic document delivery services	$ 1,253,026	$ 946,941	$ 306,085	32 %
Government accounting solutions	3,142,297	2,533,461	608,836	24 %
Integrated communications	1,216,064	834,720	381,344	46 %
Corporate	-	-	-	
Total cost of sales:	$ 5,611,387	$ 4,315,122	$ 1,296,265	30 %

Cost of sales for 2007 were $5,611,387 as compared to the $4,315,122 reported for 2006. Total cost of sales during 2007 represented 40% of net sales in each of 2007 and 2006.

Cost of sales for MVI during 2007 represented 42% of net sales as compared with 33% of net sales in 2006. During 2007, MVI experienced increases in telephony expense, Internet connectivity and data center expense due to a combination of price increases and temporary redundancies required to complete a move to more suitable data center facilities. In addition, operations staffing costs were up 18% due to allocation of additional staff time to operational activities.

Cost of sales for TBS during 2007 represented 63% of net sales as compared with 61% of net sales in 2006. The increased costs at TBS were largely attributable to the increase in revenue as well as reallocation of staff resources which increased operations staff costs and correspondingly reduced administrative staff expenses.

Cost of sales for GSI for 2007 represented 20% of net sales as compared with 22% in the 2006 period as a result of increased usage-based revenues and reductions in telephony and operations staff costs.

Gross Profit

Gross profit for 2007 increased 33% to $8,569,271 as compared to $6,426,974 in 2006. The increase in 2007 of $2,142,297 resulted from increases of $2,120,116 and $262,049 from GSI and TBS, respectively, which were offset by a decrease of $239,868 from MVI. Gross profit margin for the 2007 period on a consolidated basis was 60% in each of 2007 and 2006.

Operating Expenses

The following is a comparison of the components of consolidated operating expenses:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Variance Amount	Percent
Operating expenses				
Electronic document delivery services	$ 1,376,543	$ 1,179,012	$ 197,531	17 %
Government accounting solutions	1,357,964	1,375,461	(17,497)	-1 %
Integrated communications	4,023,474	2,595,251	1,428,223	55 %
Corporate	3,491,916	2,157,851	1,334,065	62 %
Total operating expenses:	$ 10,249,897	$ 7,307,575	$ 2,942,322	401 %

During 2007, operating expenses of Corporate were $3,491,916, an increase of $1,334,065 (+62%) compared to 2006. The increase resulted from higher costs related to amortization of intangible assets, compensation, consulting, legal, and accounting expenses, including $879,088 in stock-based compensation expense related to vested employee and director stock options. During 2006, stock-based compensation expense related to such stock options was $557,111. During 2007, we incurred approximately $170,000 in consulting, travel, legal, and accounting expenses related to planned acquisitions that we elected to terminate. Had we completed the acquisitions, these charges would have been allocated to the purchase price and not included in operations. In addition, accounting expenses increased in 2007 period as a result of new requirements and the acquisition of GSI, which generated significant additional audit and tax return preparation costs for the consolidated entity due to increased scope and complexity.

During 2007, operating expenses at MVI were $1,376,543, an increase of $197,531 (+17%) compared to 2006. Product and technology development increased $120,288 (+29%) compared to 2006 as a result of additional staffing. Sales and marketing increased by $80,879 (+22%) compared to 2006 as a result of reallocation of sales staff to MVI during most of 2007. General and administrative decreased by $25,488 (-7%) compared to 2006 due to decreases in placement fees and bad debt expenses as offset by increased facilities and benefits charges. Depreciation and amortization expense increased $21,852 (+52%) due to an increase in depreciable fixed assets.

During 2007, operating expenses at TBS were $1,357,964, a decrease of $17,497 (-1%) compared to 2006. Product and technology development decreased $167,606 (-44%) compared to 2006 due to reduced staffing. Sales and marketing increased $184,861 (+84%) compared to 2006 due to a change in the incentive compensation structure combined with increased travel and trade show expenses. General and administrative decreased $23,267 (-4%) compared to 2006 due to reduced telephone and maintenance as well as staff restructuring. Depreciation and amortization expenses decreased $11,485 (-10%).

During 2007, GSI incurred $4,023,474 of operating expenses. Sales and marketing, product and technology, general and administrative, and depreciation and amortization expenses were $1,090,575, $979,183, $1,388,127, and $565,589, respectively, and are consistent with prior periods although not directly comparable to 2006 since GSI was acquired effective May 1, 2006. On an annualized (not pro forma) basis, operating expenses increased approximately 3% over 2006.

Operating Income (Loss)

As a result of the foregoing, the Company reported an operating loss for 2007 of $1,680,626, compared to an operating loss of $880,601 for 2006.

The following is a comparison of the components of consolidated loss from operations:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Variance Amount	Percent
Operating income (loss):				
Electronic document delivery services	$ 327,288	$ 764,687	$ (437,399)	-57 %
Government accounting solutions	501,082	221,536	279,546	126 %
Integrated communications	982,920	291,027	691,893	238 %
Corporate	(3,491,916)	(2,157,851)	(1,334,065)	-62 %
Total operating loss	$ (1,680,626)	$ (880,601)	$ (800,025)	-91 %

In addition to increases in compensation, legal, and accounting expenses, two other factors that contributed to the significant change in operating loss were an increase in depreciation and amortization of $191,480 over 2006 (due to an increase in intangible assets and related amortization expense and the acquisition of GSI) and the impact of employee related stock option expenses, which increased by $321,977 over 2006.

Interest Expense, net

During the year ended December 31, 2007, interest expense, net was $111,561, an increase of $5,775 (+5%) compared to 2006.

During 2007, the most significant element of interest expense were interest charges incurred in connection with borrowings against our operating lines of credit. In addition, we incurred charges for interest on promissory notes and convertible promissory notes payable to related party and amortization of debt discount.

Other Income (Expense)

Other income for 2007 was $43,381 compared to other income of $40,099 reported in 2006. In each of the periods, we recorded other income and expense related to settlement of liabilities related to prior years as well as other non-operating income and expense items.

Discontinued Operations

For the years ended December 31. 2007 and 2006, income (loss) from discontinued operations, net of income tax provision of $485,000 and $0, was $(1,625,424) and $78,161, respectively, and included the results of operations of PFI, our electronic forms segment. See Note 5 to our consolidated financial statements contained elsewhere in this report for additional information related to discontinued operations.

Net Loss

As a result of the foregoing, net loss for 2007 was $3,285,230, or $0.02 per share, compared to a net loss of $882,132, or $0.01 per share, for 2006 on weighted average shares of 150,218,437 and 131,185,095, respectively.

The following is a comparison of the components of consolidated net loss:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Variance Amount	Percent
Net income (loss):				
Electronic document delivery services	$ 318,334	$ 822,206	$ (503,872)	-61 %
Government accounting solutions	511,848	223,236	288,612	129 %
Integrated communications	1,005,091	278,305	726,786	261 %
Corporate	(3,495,079)	(2,284,040)	(1,211,039)	-64 %
Discontinued operations	(1,625,424)	78,161	(1,703,585)	*
Total net loss	$ (3,285,230)	$ (882,132)	$ (2,403,098)	-262 %

* calculation is not meaningful

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2007, our net cash position increased by $181,092 to $749,911. Our investing activities provided net cash of $689,830; however, our operating and investing activities used net cash of $93,019 and $415,719, respectively.

Net cash used in operating activities for 2007 was $93,019, a decrease of $469,643 from the $376,624 provided by operating activities during 2006.

Our investing activities during 2007 consisted of the proceeds from the sale of our Resolutions business unit and purchase of computer equipment. Net cash provided by investing activities during 2007 increased $719,049 to $689,830 from the $29,219 used in investing activities during 2006, when our investing activities consisted of acquiring net cash in the acquisition of GSI and purchasing computer equipment.

Net cash used in financing activities during 2007 was $415,719, and included $484,680 of proceeds, net of repayments, from a line of credit, and $200,000 in proceeds from a warrant exercise. These sources of cash were offset by an $840,000 repayment of a secured line of credit, $230,000 of payments on notes and convertible notes related to the TBS and Resolutions acquisitions, and payments on capital lease obligations of $30,399. Net cash used in financing activities during 2006 was $540,637 and included proceeds from notes payable to related parties of $10,000, as offset by $546,562 of payments on notes related to the TBS, Resolutions, and GSI acquisitions, and payments on capital lease obligations of $4,075.

We do not currently have any material commitments for capital expenditures other than those expenditures incurred in the ordinary course of business.

Our sources of capital include cash flow from operations, available credit facilities, and the issuance of debt and equity securities.

On February 6, 2008, we entered into an agreement with The Private Bank of The Peninsula ("Bank") for an asset based line of credit (the "Line"). The Bank's maximum commitment amount for the Line is $1.5 million. Advances will generally be limited to 85% of eligible domestic accounts receivable. The interest rate is floating and is calculated at Wall Street Journal prime plus 3% on the cash borrowed. Interest on outstanding borrowings is payable monthly. As of February 29, 2008, outstanding borrowings on the Line were approximately $75,000. Outstanding advances under the Line are secured by a first lien position on all of our accounts receivable, contract rights, chattel paper, documents, and payment and by a second lien on our inventory, intellectual property, and equipment.

In consideration for the Line, we paid a facility fee of $15,000 to the Bank and we issued the Bank a warrant to purchase 75,000 shares of our restricted common stock at an exercise price of $0.062 per share through February 6, 2018. In addition, we paid a finder's fee in the amount of $50,000 to Dragonfly Capital Partners LLC ("Dragonfly") and issued Dragonfly a warrant to purchase 2,419,355 shares of our restricted common stock at an exercise price of $0.062 per share through February 6, 2013.

TBS has a $100,000 unsecured operating line of credit with BB&T that it had not utilized as of February 29, 2008. During July 2007, VillageEDOCS renewed a $500,000 operating line of credit with Bank of America guaranteed by a shareholder on which it owed approximately $479,000 as of February 29, 2008. On December 11, 2007, we repaid outstanding borrowings of $840,000 to SunTrust Bank in full satisfaction of a commercial note issued in connection with GSI's $1,000,000 revolving line of credit. The line of credit matured on December 12, 2007 and we did not elect to renew it. Our inability to repay outstanding borrowings when due would have a material adverse effect on us.

Substantial risk exists that a decrease in demand for our products and services would reduce the availability of cash from this source since our operating cash flows are derived from products and services that are subject to rapid technological change.

Since our inception, our operating and investing activities have used substantially more cash than they have generated. We believe that we have made considerable progress toward achieving profitable operations by increasing revenues from electronic document delivery services and through our acquisition of TBS and GSI. In addition, we are actively seeking opportunities to acquire or otherwise combine with businesses that are operating profitably and generating positive cash flows. However, at present and for the foreseeable future, we believe that we will continue to need working capital to fund the growth of our businesses and to absorb the increasing costs associated with operating as a fully reporting company in the prevailing regulatory environment. Accordingly, we expect to experience negative operating and investing cash flows during 2008 and at least until MVI, TBS, and GSI consistently generate net cash flows sufficient to offset the anticipated expenses of operating the holding company. We expect to use cash flow generated from operations, the Line, and potentially other sources, to fund negative operating cash flows during 2008.

While we believe that our available cash resources combined with our current revenue streams and lines of credit will be sufficient to meet our anticipated working capital requirements for the next twelve months, we expect to utilize new sources of debt or equity financing during the remainder of 2008 to fund capital expenditure requirements. Should our current revenue streams or margins be subjected to even minor decreases, our external funding requirements would likely be greater.

We believe that sustainable profitability is achievable; however, we have a history of losses. While GSI, MVI, and TBS each reported net income for 2007, this income was not sufficient to offset operating losses, interest expense and corporate overhead. If we are not successful in sustaining and increasing operating profits from our three operating segments, or in reducing expenses of the holding company as a percentage of revenue, we may not achieve profitability on a consolidated basis.

This estimate is a forward-looking statement that involves risks and uncertainties. The actual time period may differ materially from that indicated as a result of a number of factors so that we cannot assure you that our cash resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements for this period. We have advised that we will need to raise additional capital in the future to meet our operating and investing cash requirements. Such sources of financing could include capital infusions, additional equity financing, or debt offerings. There can be no assurance that additional funding will be available on acceptable terms, if at all, or that such funds if raised, would enable us to achieve and maintain profitable operations. If we are not able to obtain sufficient additional funds from investors, we may be unable to sustain all or part of our operations. If we raise additional funds through the issuance of securities, these securities may have rights, preferences or privileges senior to those of our common stock, and our stockholders may experience additional dilution to their equity ownership.

The Report of Independent Registered Public Accounting Firm on our December 31, 2007 consolidated financial statements includes an explanatory paragraph stating that the recurring losses incurred from operations and a working capital deficit raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CAUTIONARY INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements that do not directly and exclusively relate to historical facts constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The “forward-looking statements” safe harbor does not apply to our company because we issue “penny stock” and are excluded from the safe harbor pursuant to Section 27A(b)(1)(C) of the Securities Act of 1933, as amended, and Section 21E(h)(1)(C) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our forward-looking statements are based on our plans, intentions, expectation, and belief and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected or expressed herein. You can identify these statements by forward-looking words such as "may", "will", "expect", "intend", "anticipate", "believe", "expect", "plan", "seek", "estimate", "project", "could", and "continue" or similar words. You should read statements that contain these words carefully because they discuss our expectations about our future performance, contain projections of our future operating results or of our future financial condition, or state other "forward-looking" information. . These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect the our current views with respect to future events and financial performance and involves risks and uncertainties, including, without limitation, general economic and business conditions, changes in foreign, political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond our control, including, without limitation, the risks described under the caption "*Certain Factors That May Affect Future Results"* in Item 6 of this Annual Report. Our future results and stockholder values may differ materially from those expressed in these forward- looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. We assume no obligation to update any forward-looking statements. Investors are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the date of this Annual Report on Form 10-KSB. Readers should also consult the cautionary statements and risk factors listed from time to time in our Reports, and all amendments thereto, on Forms 10-QSB, 8-K, and other SEC filings

Forward looking statements in this Annual Report on Form 10-KSB include, without limitation:

The statements under the heading "Item 1. Business" and in MD&A under the caption *Business Overview* concerning (1) our strategy to develop innovative solutions to expand our ability to benefit our enterprise clients and increase the breadth and size of the markets we satisfy today, (2) our strategy to focus on acquiring intellectual and technology assets that continue to accelerate expansion of our client solutions, (3) our goal to expand the business model of TBS regionally and nationwide and to expand revenue both from printing and from subscription-based hosted solutions, (4) our belief that we offer a complete set of business communication services and solutions and a scalable global platform, (5) our belief that our services improve and enhance data delivery or help customers to optimize the processing and delivery of the entire range of business documents, (6) our belief about the benefits businesses will derive from our software and service solutions and about its capabilities, (7) our intent to focus on obtaining growth from higher margin products and services and to make acquisitions of companies that consistently generate net income and positive cash flows, (8) our belief as to the reason that each of our businesses can compete effectively, (9) our strategy of preparing for significant growth and the expected benefits of adding to our leadership team, and (10) our strategy of directing new capital primarily toward increasing sales and marketing, which statements are subject to various risks and uncertainties, including, without limitation, our limited operating history, risks that we may not successfully implement our acquisition program, risks associated with assimilating acquired personnel and technology into the Company, the risk that we will not be able to compete effectively because our market place is highly competitive and has low barriers to entry, and our dependence on third party technology suppliers to provide key software and infrastructure.

The statements under “Item 3. Legal Proceedings” concerning our belief as to the materiality of the indemnity claim.

The statements in MD&A under the captions *Introduction* and *Business Overview* of our strategies, beliefs, plans, expectations, anticipations and hopes with respect to (1) our expectations about the business prospects of MVI, TBS, and GSI, (2) our belief that we have improved our corporate governance, (3) our current and future growth strategy to streamline the corporate structure, bolster sales resources, acquire intellectual and technology assets and our expectations about the benefits we may derive, (4) our belief about our vision to become a business process management/workflow service and the benefits we expect to derive, (5) our acquisition strategy, (6) our expectations regarding challenges and risks that we believe are key challenges and risks, and (7) our belief that obtaining planned financings will allow us to generate adequate cash flows to sustain operations at current levels until we being to operate profitably on a consistent, month-over month basis, which statements are subject to various risks and uncertainties, including, without limitation, our limited operating history, risks that we may not be able to obtain any additional financing at terms acceptable to us, or at all, risks that we may not successfully implement our acquisition program, risks associated with assimilating acquired personnel and technology into the Company, and the risk that we will not be able to compete effectively because our market place is highly competitive and has low barriers to entry.

The statements in MD&A under the caption *Critical Accounting Policies* regarding calculation of allowances, reserves, and other estimates that are based on historical experience, the judgment of management, and various other assumptions that are believed to be reasonable under the circumstances, the results of which for the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from any other sources, our beliefs about critical accounting policies, and the significant judgments and estimates used in the preparation of our consolidated financial statements, which statements are subject to certain risks, including, among other things, the inaccuracy of our beliefs regarding critical accounting policies and that actual customer reserves or other estimates may be different from our estimates, requiring revisions to our estimated allowance for doubtful accounts, additional inventory write-downs, impairment charges, restructuring charges, litigation, warranty, and other reserves.

The statements in MD&A under the caption *Results of Operations* of our strategies, beliefs, plans, expectations, anticipations and hopes with respect to Net Revenue, Gross Profit, Operating Expenses, Income (Loss) from Operations, and Net Loss and our strategies, beliefs, plans, expectations, anticipations and hopes with respect to

Liquidity and Capital Resources set forth in MD&A under the caption Liquidity and Capital Resources, including, without limitation (1) our belief that we have made progress toward achieving profitable operations by increasing revenues from electronic document delivery services and through our acquisitions of TBS and GSI, (2) our strategy of actively seeking to combine with business that operate profitably and generate positive cash flows, (3) our belief that sustainable profitability is achievable, (4) our expectations about future funding requirements, and (5) our belief that current cash position, cash generated through operations and equity offerings and available borrowings will be sufficient to meet our needs through at least the next twelve months, which statements are subject to various risks and uncertainties, including, without limitation, our limited operating history, risks that we may not be able to obtain any additional financing at terms acceptable to us, or at all, the risk that we may be unable to sustain all or part of our operations if we are not able to obtain sufficient additional funds from investors, the risk that our funding requirements could be greater should our current revenue streams or margins decrease, risks that we may not successfully implement our acquisition program, risks associated with assimilating acquired personnel and technology into the Company, and the risk that we will not be able to compete effectively because our market place is highly competitive and has low barriers to entry.

The statements under the heading "Item 8A. Controls and Procedures of our belief that we are addressing the deficiencies that affected our internal control over financial reporting and the time we estimate we will require before we would be able to conclude that all material weaknesses have been remediated or our belief regarding the potential impact to us, which statements are subject to various risks and uncertainties including, without limitation the risk that for financial or other reasons we will be unable to effect some or all of the changes we believe are required within the time periods estimated, or at all.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

We believe it is important to communicate our expectations to our stockholders. There may be events in the future, however, that we are not able to predict accurately or over which we have no control. The risk factors listed in this section, as well as any cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you make an investment decision with respect to our common stock, you should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this report could have a material and adverse effect on our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common stock could decline and you could lose all or part of your investment.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition, or operating results could be negatively affected.

Risks Relating to Our Business

<u>We have a limited operating history which makes financial forecasting and evaluation of our business and prospects difficult and we have received an opinion from our independent registered public accounting firm regarding substantial doubt regarding our ability to continue as a going concern.</u>

Our limited operating history makes it difficult to forecast our future operating results. We were founded and began operating in March 1999, but did not report income from operations until the quarter ended June 30, 2004, and have reported net losses through at least December 31, 2007. We do not have a long history upon which to base forecasts of future operating results, and any predictions about our future revenues and expenses may not be as accurate as they would be if we had a longer business history.

The likelihood of our future success must be considered in light of such limited operating history, as well as the problems, expenses, difficulties, complications and delays frequently encountered in connection with any business. There can be no assurance that our future revenues will ever be significant or that our operations will ever be profitable.

The Report of Independent Registered Public Accounting Firm on our December 31, 2007 consolidated financial statements includes an explanatory paragraph stating that the recurring losses incurred from operations and a working capital deficiency raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

<u>Our ability to operate is conditioned on our ability to obtain additional financing.</u>

Our ability to satisfy our future capital requirements and implement our growth plans will depend upon many factors, including the financial resources available to us, the expansion of our sales and marketing efforts and the status of competition. We believe that current and future available capital resources, including the net proceeds from sale of our products and services, will be sufficient to fund our operations at current levels for the foreseeable future. However, the exact amount of funds that we will require will depend upon many factors, and it is possible that we will require additional financing. There can be no assurance that additional financing will be available to us on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to the existing stockholders will result. If adequate funds are not available, we may be required to delay, reduce or eliminate our programs or obtain funds through arrangements with partners or others that may require us to relinquish rights to certain of our products, technologies or other assets. Accordingly, the inability to obtain such financing could have a material adverse effect on our business, financial condition and results of operations.

<u>We cannot predict whether we will be successful together with TBS and GoSolutions because the combined business model is unproven and markets in which they are operating are developing.</u>

The combined business strategy is unproven, and it is too early to gauge reliably market penetration rates for our services. There can be no assurance that we will be successful in the offering of any additional services that are currently planned. If the demand is lower than anticipated, or the cost to add a customer is higher than anticipated, our business, prospects, financial condition and results of operations would be materially and adversely affected.

<u>GoSolutions currently depends on one large customer for the majority of its revenue.</u>

For 2007, seventy percent (70%) of GoSolutions' revenue was derived from independent representatives of Primerica Life Insurance Company ("PLIC"). PLIC represents the majority of GoSolutions' client base. PLIC is currently endorsing GoSolutions flagship service, *GoSolo*, and is under contract to do so only until the end of August 2009.

<u>We may have difficulty in retaining our customers, which may prevent our long-term success.</u>

We anticipate that our sales and marketing and other costs of acquiring new subscriptions outside of our existing client base will be substantial relative to the monthly fees derived from subscriptions. Accordingly, we believe that our long-term success depends largely on our ability to retain our existing customers, while continuing to attract new ones. We continue to invest significant resources in our network infrastructure and customer and technical support capabilities to provide high levels of customer service. We cannot be certain that these investments will maintain or improve customer retention. We believe that competition from our competitors has caused, and may continue to cause, some of our customers to switch to a competing service provider. In addition, some new customers use our services only as a novelty and do not become consistent users of the service and, therefore, may be more likely to discontinue their service. These factors adversely affect our customer retention rates. Any decline in customer retention rates could have a material adverse effect on our business, prospects, financial condition and results of operations.

<u>We are dependent on third party technologies and services.</u>

We have incorporated technology developed by third parties in our services to be provided to our partners. We will continue to incorporate third-party technology in future products and services. We have limited control over whether or when these third-party technologies will be developed or enhanced. In addition, our competitors may acquire interests in these third parties or their technologies, which may render the technology unavailable to us. If a third party fails or refuses to timely develop, license or support technology necessary to our services, market acceptance of our services could be adversely affected. In addition, we rely on, and will continue to rely on, services supplied by third parties such as telecommunications, Internet access and electrical power. If these services fail to meet industry standards for quality and reliability, market acceptance of our services could be adversely affected.

<u>Our services may become subject to burdensome telecommunications regulation which could increase our costs or restrict our service offerings.</u>

Our *GoSolo* service provides Internet messaging and telecommunication services through data transmissions over both the public switched telecommunication network ("PSTN") and the Internet. The PSTN based telecommunications services provided by *GoSolo* are subject to regulation by the Federal Communications Commission ("FCC"), state public utility commissions and foreign governmental authorities. These regulations affect the prices we pay for transmission services, the competition we face from telecommunications services and other aspects of our market. The FCC does not currently regulate the Internet messaging services provided as part of *GoSolo.* However, as Internet services and telecommunications services converge or as the services we offer expand, there may be increased regulation of our business. Therefore, in the future, we believe it will very likely become subject to additional agency regulations. Changes in the regulatory environment could decrease our revenues, increase our costs and restrict our service offerings.

<u>The markets in which we operate are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors with significantly greater financial resources.</u>

Competition in the converging Internet and telecommunications industries is becoming increasingly intense. We face competition for products and services from both public and private companies, as well as general voice mail providers, fax providers, paging companies, Internet service providers, email providers and internet telephony companies. Competitive pressures may impair our ability to achieve profitability. The increased competition may also make it more difficult for us to successfully enter into strategic relationships with major companies, particularly if the goal is to have an exclusive relationship with a particular company. We compete against other companies that provide one or more of the services that we currently provide. In addition, these competitors may add services to their offerings to provide enhanced telephony services comparable to those offered by the combined companies. Future competition could come from a variety of companies both in the Internet industry and the telecommunications industry. These industries include major companies that have much greater resources than we have, have been in operation for many years, and have large customer bases. These companies may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products and services than we may be able to do. There can be no assurance that additional competitors will not enter markets that we plan to serves or that we will be able to compete effectively. Increased competition may result in price reductions, reduced gross margins and loss of market share. We may be unable to attain, maintain or enhance our competitive position against current and future competitors.

Our industry is subject to rapid technological change and we must adapt quickly to compete effectively.

The markets in which we compete are characterized by (i) rapidly changing technology in information systems, networks, and information security software; (ii) evolving industry standards and communications protocols; and (iii) frequent improvements in products and services. Speech driven communications in particular have experienced rapid changes. These changes can be attributable to frequent new product introductions, continuing advances in technology, and changes in customer requirements and preferences. To succeed, we must continually improve our current products and services and develop and introduce new products and services that are competitive in terms of price, performance, and quality. These products must adequately address the information security requirements of our customers and their evolving information systems and networks.

The introduction of new technologies could render our existing products and services obsolete or unmarketable or require us to invest in research and development at much higher rates with no assurance of developing competitive products. Changes in technologies or customer requirements also may cause the development cycle for our new products and services to be lengthy and result in significant development costs. We may not be able to counter challenges to our current products and services, and our future products and service offerings may not keep pace with the technological changes implemented by competitors, developers of operating systems or networking systems, or persons seeking to breach information security. Our products and services may not satisfy evolving preferences of customers and prospects. Because of the complexity of our applications, which operate on or use multiple platforms and communications protocols, we may experience delays in introducing new products and service enhancements primarily due to development difficulties or shortages of development personnel. There can be no assurance that we will not experience lengthy delays or other difficulties that could delay or prevent the successful development, introduction or marketing of new products and services or service enhancements. If we fail to develop and introduce new products or improve existing services in a timely fashion, such failure may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our failure to manage growth effectively could impair our business.

We believe that our acquisitions will open new cross-marketing opportunities in each company's respective customer base. This expansion of business could place a significant strain on our management, financial resources, and other resources. There can be no assurance that such expansion will occur.

We intend to continue to grow by increasing our sales efforts and completing strategic acquisitions. To effectively manage our growth, we must, among other things:

- engage, train and manage a larger sales force and additional service personnel;

- expand the geographic coverage of our sales force;
- expand our information systems;
- identify and successfully integrate acquired businesses into our operations; and
- administer appropriate financial and administrative control procedures.

Our anticipated growth will likely place a significant strain on our management, financial, operational, technical, sales and administrative resources. Our ability to manage future growth, if it occurs, will also depend upon the capacity, reliability and security of our network infrastructure. Any failure to effectively manage our growth or to promptly address and respond to these circumstances may cause our business to suffer and our stock price to decline.

<u>We intend to acquire new and complementary businesses, products and technologies and may be unable to complete these acquisitions or may not be able to successfully integrate an acquired business in a cost-effective and non-disruptive manner</u>

Our success depends on our ability to continually enhance and broaden our product offerings in response to changing technologies, customer demands and competitive pressures. To this end, we have, from time to time, engaged in the process of identifying, analyzing and negotiating possible acquisition transactions and we expect to continue to do so in the future. We may choose to acquire new and complementary businesses, products, technologies and/or services instead of developing them ourselves. We may, however, face competition for acquisition targets from larger and more established companies with greater financial resources, making it more difficult for us to complete acquisitions. We cannot provide any assurance that we will be successful in consummating future acquisitions on favorable terms or that we will realize the benefits that we anticipate from one or more acquisitions that we consummate. Integrating any business, product technology or service we acquire could be expensive and time-consuming and/or disrupt our ongoing business. Further, we are aware of the numerous risks associated therewith, including but not limited to:

- diversion of management’s attention from day-to-day operational matters and current products and customers;
- lack of synergy, or the inability to realize expected synergies;
- failure to commercialize the new technology or business;
- failure to meet the expected performance of the new technology or business;
- failure to retain key employees and customer or supplier relationships;
- lower-than-expected market opportunities or market acceptance of any new products;
- unexpected reduction of sales of existing products and services by new products or services;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- difficulty effectively integrating the acquired technologies or products with our current products and technologies, particularly where such products reside on different technology platforms;
- difficulty managing geographically-dispersed operations;
- adverse effect on our relationships with partner companies or third-party providers of technology or products; and
- failure of our due diligence process to identify significant issues with product quality, product architecture, legal or tax contingencies, and product development, among other things.

In addition, as a successor we may be subject to certain liabilities of our acquisition targets. We are, and will be, required to review goodwill and other intangible assets for impairment in connection with past and future acquisitions. We may be required to sustain significant exit or impairment charges if products or services acquired in business combinations are unsuccessful, which may materially increase operating expenses.

Our inability to consummate one or more acquisitions on such favorable terms or our failure to realize the intended benefits from one or more acquisitions, could have a material adverse effect on our business, liquidity, financial position and/or results of operations, including as a result of our incurrence of indebtedness and related interest expense and our assumption of unforeseen contingent liabilities. In addition, in order to finance any acquisitions, we will need to raise additional funds through public or private equity or debt financings. In that event, we could be forced to obtain financing on terms that are not favorable to us and, in the case of equity financing, that result in dilution to our stockholders.

Charges to earnings resulting from past or future acquisitions or internal reorganizations may adversely affect our operating results.

Under purchase accounting, we allocate the total purchase price to an acquired company's net tangible assets, amortizable intangible assets and in-process research and development based on their fair values as of the date of the acquisition and record the excess of the purchase price over those fair values as goodwill. Management's estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain. As a result, any of the following or other factors could result in material charges that would adversely affect our results:

- Loss on impairment of goodwill and/or other intangible assets;
- Changes in the useful lives or the amortization of identifiable intangible assets;
- Accrual of newly identified pre-merger contingent liabilities, in which case the related charges could be required to be included in earnings in the period in which the accrual is determined to the extent it is identified subsequent to the finalization of the purchase price allocation; and
- Charges to income to reduce our cost structure.

In addition, fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits. Defending against such lawsuits could result in substantial costs and divert management's attention and resources. Furthermore, any settlement or adverse determination of these lawsuits could subject us to significant liabilities.

Our business and users may be subject to sales tax and other taxes.

The application of indirect taxes (such as sales and use tax, value added tax, or VAT, goods and services tax, business tax, and gross receipt tax) to e-commerce businesses such as MVI and MVI's users is a complex and evolving issue. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the Internet and e-commerce. In many cases, it is not clear how existing statutes apply to the Internet or e-commerce. In addition, some jurisdictions have implemented laws specifically addressing the Internet or some aspect of e-commerce and several other proposals have been made at the U.S. federal, state and local level that would impose additional taxes on the sale of goods and services through the Internet. These proposals, if adopted, could substantially impair the growth of e-commerce, hamper our ability to retain and attract new customers and diminish our ability to derive financial benefit from our activities. In December 2004, the U.S. federal government enacted legislation extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet through November 2007. On October 31, 2007, the moratorium was extended through November 2014. This moratorium does not prohibit federal, state, or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules. The application of existing, new, or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

Our products and technology depend on the continued availability of licensed technology from third parties. The loss of such products and technology would significantly and adversely affect our business.

We license and will continue to license certain technology and software from third parties. These licenses are integral to our business. If any of these relationships were terminated or if any of these third parties were to cease doing business, we would be forced to spend significant time and money to replace the licensed software. We cannot assure you that we would be able to replace these licenses. This could have a material adverse effect on our business, financial condition, and operating results.

The successful operation of our business depends upon the provisioning of critical technology from other companies.

We depend upon third parties for several critical elements of our business, including various technology and infrastructure components. We rely on private third-party providers for our Internet and telephony connections and for co-location of a significant portion of our communications servers. Any protracted disruption in the services provided by any of these suppliers, or any failure by them to handle current or higher volumes of activity could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

An increase in the cost of email transmissions could have a material adverse effect on our business.

We rely on email for the delivery of some of MVI's electronic documents. In addition, the Company regularly communicates with our clients via email. If regulations or other changes in the industry lead to a charge associated with the sending or receiving of email, the cost of providing MVI's services would increase and, if significant, could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

We rely significantly on the revenue generated by our fax services.

During 2007, approximately 21% of our net revenue was fax-related. Our future success is therefore subject to the continued use of fax as a messaging medium and/or our ability to diversify our service offerings and derive more revenue from other services, such as voice, email and unified messaging solutions. If the demand for fax as a messaging medium decreases, and we are unable to replace lost revenues from decreased usage of our fax services with a proportional increase in our customer base or with revenues from our other services, our business, financial condition, operating results and cash flows could be materially and adversely affected.

We believe that one of the attractions to fax versus alternatives, such as email, is that fax signatures are a generally accepted method of executing contracts. Various governmental and non-governmental entities, many of which possess greater resources than we do, are attempting to create a universally accepted method for electronically signing documents. Widespread adoption of so-called “digital signatures” could reduce demand for our fax services and, as a result, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Protection of our intellectual property is limited and there is a risk of third party claims of infringement.

We regard our software as proprietary, and our success and ability to compete depends, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others; we may fail to do so. We will rely on copyright and trade secret laws, trademarks, confidentiality procedures and contractual provisions to protect our proprietary software, documentation, and other proprietary information. In addition, we execute confidentiality and non-disclosure agreements with our employees and limit access to distribution of our proprietary information. These efforts will allow us to rely upon the knowledge and experience of our management and technical personnel, to market our existing products, and to develop new products. The departure of any of our management or technical personnel, the breach of their confidentiality and non-disclosure obligations to us, or the failure to achieve our intellectual property objectives may have a material adverse effect on our business. Although we believe that the effectiveness of our products and services does not depend entirely upon the secrecy of our proprietary or licensed technology, the public disclosure of our technology could reduce the level of our product licensing. Further, litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of our resources and could have a material adverse effect on our business, prospects, financial condition and results of operations regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so or the steps taken by us in this regard may not be adequate to deter misappropriation or independent third-parties from copying or otherwise obtaining and using our products, services, technology, or other information that we regard as proprietary. Also, others may independently develop similar technologies or duplicate our technology. Our inability to protect our proprietary rights may have a material adverse effect on us. As the number of similar products and services in the industry increases and the functionality of these products further overlap, we may increasingly become subject to claims of infringement or misappropriation of the intellectual property or proprietary rights of others. Other third parties could assert infringement or misappropriation claims against us in the future with respect to current or future products and services. Any claims or litigation, with or without merit, could be costly and could result in a diversion of management's attention and of our resources.

Specifically, GoSolutions has been notified that it may be infringing on one or more patents held by Webley Systems, Inc. Although, in connection with its merger with GoSolutions, we received a written declaration of counsel that based upon such firm's review of the actions of GoSolutions, as stated in a GoSolutions certificate describing such actions, it is more likely than not that a court would determine that GoSolutions acted in good faith, and reasonably believed it had a right to act in the manner that was found to be infringing by Webley, there is no assurance that the ultimate outcome of the Webley Systems, Inc. patent infringement claim will not have an adverse impact upon us. We and GoSolutions agreed to carve out the Webley Systems, Inc. patent infringement claims as a matter giving us a right of indemnification against GoSolutions pursuant to the merger documents.

Our business could be adversely affected if we infringe on intellectual property rights of third parties.

Litigation regarding intellectual property rights is common in the software and technology industries.

In the past, we have received letters alleging that we have infringed the intellectual property rights of CatchCurve, Inc. with respect to its AudioFax technology. To avoid the costs of litigating the matter with CatchCurve or migrating our fax service software to another provider, we have entered into a license agreement with CatchCurve for its AudioFax technology.

GoSolutions has in the past received letters alleging that they are infringing the intellectual property rights of Parus Holdings, the parent company of Webley Systems. We have received advice from an intellectual property attorney with experience in this industry with respect to the validity of the claim of the Parus patent, and have been made aware that there is substantial evidence to the effect that there existed prior art to the Parus patent that could impact its effectiveness. We have made efforts to migrate away from the technologies that are affected, and plan to continue to derive larger portions of revenue from different technologies to reduce any exposure to this intellectual property.

We may in the future be the subjects of claims for infringement, invalidity, or indemnification claims based on such claims of other parties' proprietary rights. These claims, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, or require us to enter into royalty or licensing agreements. There is a risk that such licenses would not be available on reasonable terms, or at all. Although we believe we have the ability to use our intellectual property to operate, market, and license our existing products without incurring liability to third parties, there is a risk that our products and services infringe the intellectual property rights of third parties.

Our success depends on the retention of existing executive officers and the ability to hire and retain additional key personnel.

Our future performance depends in significant part upon the continued service of the executive officers named in the "Management" section of this prospectus and other key technical, sales and management personnel. The loss of the services of one or more of any of the named executive officers or other key employees could have a material adverse effect on the business, prospects, financial condition and results of our operations. Our future success also depends on its continuing ability to attract and retain highly qualified technical, sales and managerial personnel. Competition for such personnel is intense. Some technical job categories are under conditions of severe shortage in the United States. We may not be able to recruit or retain the caliber of staff required to carry out essential functions at the pace necessary to sustain or expand our business. There can be no assurance that we can retain our key employees or that we can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future.

The Internet could become subject to regulations that affect our business.

Our business segments, both directly and indirectly, rely on the Internet and other electronic communications gateways. We intend to expand our use of these gateways. To date, the use of the Internet has been relatively free from regulatory restraints. However, legislation, regulations, or interpretations may be adopted in the future that constrain our own and our customers' abilities to transact business through the Internet or other electronic communications gateways. There is a risk that any additional regulation of the use of such gateways could have a material adverse effect on our business and financial condition.

<u>Our current and future revenues are unpredictable and our quarterly operating results may fluctuate significantly.</u>

We have a limited operating history, and have generated only limited revenues to date. We cannot forecast with any degree of certainty the amount of revenue to be generated by any of our services. In addition, we cannot predict the consistency of our quarterly operating results. Factors which may cause our operating results to fluctuate significantly from quarter to quarter include:

- our ability to attract new and repeat customers;
- our ability to keep current with the evolving requirements of our target market;
- our ability to protect our proprietary technology;
- the ability of our competitors to offer new or enhanced products or services; and
- unanticipated delays or cost increases with respect to research and development.

Because of these and other factors, we believe that quarter-to-quarter comparisons of our results of operations are not good indicators of our future performance. If our operating results fall below the expectations of securities analysts and investors in some future periods, then our stock price may decline.

We have some exposure because of the current situation in the subprime lending markets. MVI does business with several companies that are engaged in subprime lending. One customer in the subprime arena has ceased business. It is possible that one or more of our remaining clients in that business could also be unable to sustain operations.

<u>One shareholder owns a significant portion of our outstanding common stock and is able to influence our actions.</u>

One shareholder and his wife own 60,653,171 shares, or approximately 40%, of the outstanding shares of our common stock as of February 29, 2008. In addition, as of February 29, 2008, these individuals hold warrants to purchase an additional 3,000,000 shares of our common stock at $0.10 per share and secured convertible promissory notes and accrued interest thereon convertible into an additional 1,227,643 shares of our common stock at $0.14 per share. Although these individuals do not own a majority of our outstanding shares, the significant number of shares they own gives them the ability to greatly influence the election of our board of directors and to approve or disapprove all other matters requiring the vote of shareholders. In addition, we believe that Barron Partners, LP owns up to 5,000,000 shares, or approximately 3% of the outstanding shares of our common stock as of February 29, 2008 and has the right to acquire up to 33,500,000 shares of the common stock pursuant to outstanding shares of the Series A Preferred Stock (convertible to 33,500,000 shares of the common stock on a one-for-one basis). Barron Partners, LP will also be able to significantly influence corporate actions requiring shareholder consent. In addition, GoSolutions Equity LLC owns 26,786,840 shares, or approximately 15% of the outstanding shares of our common stock as of February 29, 2008. Each of Barron Partners, LP and GoSolutions Equity LLC will also be able to significantly influence corporate actions requiring shareholder consent.

<u>Our Certificate of Incorporation limits director liability, thereby making it difficult to bring any action against them</u>

for breach of fiduciary duty.

As permitted by Delaware law, our Certificate of Incorporation limits the liability of directors to us or our stockholders for monetary damages for breach of a director's fiduciary duty except for liability in certain instances. As a result of its charter provision and Delaware law, stockholders may have limited rights to recover against directors for breach of fiduciary duty.

The following risks relate principally to our common stock and its market value:

Penny stock regulations may impose certain restrictions on marketability of our stock.

The Commission has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) of less than $5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealers presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our securities and may affect the ability of our shareholders to sell our securities in the secondary market and the price at which such purchasers can sell any such securities.

We have never paid dividends on our common stock and do not expect to pay any in the foreseeable future.

We have not paid any dividends on our common stock since our inception and do not intend to pay dividends on our common stock in the foreseeable future. Any earnings that we may realize in the foreseeable future will be retained to finance our growth.

The number of shares eligible for future sale may adversely affect the market for our common stock.

As of February 29, 2008, we had 152,770,913 shares of our common stock issued and outstanding, approximately 140,000,000 of which were "restricted securities" when issued. Rule 144 of the Commission provides, in essence, that a person holding "restricted securities" for a period of six months may sell only an amount every three months equal to the greater of (a) one percent of the issued and outstanding shares, or (b) the average weekly volume of sales during the four calendar weeks preceding the sale. The amount of "restricted securities" which a person who is not an affiliate may sell is not so limited, since non-affiliates may sell without volume limitation their shares held for one year if there is adequate current public information available concerning us. In such an event, "restricted securities" would be eligible for sale to the public at an earlier date. The sale in the public market of such shares of common stock may adversely affect prevailing market prices of the common stock.

On October 15, 2007, we filed a registration statement with respect to approximately 189,000,000 of our shares of common stock. The registration statement was declared effective by the Commission on November 7, 2007.

Outstanding options and warrants could affect the market price of our common stock.

As of December 31, 2007, there were outstanding stock options and warrants to purchase an aggregate of 42,796,669 shares of our common stock at exercise prices ranging between $0.05 per share and $2.50 per share. The exercise of such outstanding options and warrants will dilute the percentage ownership of our stockholders, and any sales in the public market of shares of common stock underlying such securities may adversely affect prevailing market prices for the common stock. Moreover, the terms upon which we will be able to obtain additional equity capital may be adversely affected since the holders of such outstanding securities can be expected to exercise their respective rights therein at a time when we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than those provided in such securities.

<u>Our stock price will fluctuate which could result in substantial losses for investors.</u>

The market price for our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- Quarterly variations in operating results;
- Changes in financial estimates by securities analysts;
- Announcements by us or our competitors of new products, significant contracts, acquisitions, or strategic relationships;
- Disputes concerning our proprietary rights or any future patents, trademarks or copyrights;
- Publicity about us, our products and services, or our competitors;
- Additions or departures of key personnel;
- Any future sales of our common stock or other securities;
- Stock market price and volume fluctuations of publicly-traded companies; and
- Business combination transactions.

These and other external factors have caused and may continue to cause the market price and demand for our common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of common stock and may otherwise negatively affect the liquidity of our common stock.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. If securities class action litigation is brought against us, it could result in substantial costs and a diversion of management’s attention and resources, which could hurt our business.

<u>Trading in our common stock on the OTCBB may be limited thereby making it more difficult for investors to resell their shares of our common stock.</u>

Our common stock trades on the OTCBB. The OTCBB is not an exchange and, because trading of securities on the OTCBB is often more sporadic than the trading of securities listed on an exchange or NASDAQ, you may have difficulty reselling any of your shares.

<u>Our common shareholders may experience substantial dilution.</u>

The sale of a substantial number of shares of our common stock in the public market, or the prospect of such sales, could materially and adversely affect the market price of the Company’s common stock. We are authorized to issue up to 500,000,000 shares of common stock. To the extent of such authorization, our Board of Directors will have the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as the Board of Directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of the Company’s common stock held by existing stockholders. Sales in the public market of substantial amounts of our common stock, including sales of common stock issuable upon exercise of options and warrants, could depress prevailing market prices for our common stock. Even the perception that such sales could occur might impact market prices for the common stock. The existence of outstanding options and warrants may prove to hinder our future equity financings.

<u>If we fail to establish or maintain effective internal controls over financial reporting, the price of our common stock may be adversely affected.</u>

We have determined that our internal controls over financial reporting have material weaknesses and conditions that need to be addressed, the disclosure of which may have an adverse impact on the price of our common stock. We are required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. In addition, our future assessments of internal controls over financial reporting may identify additional weaknesses and conditions that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting, disclosure of management's assessment of our internal controls over financial reporting or disclosure of our independent registered public accounting firm's attestation to or report on management's assessment of our internal controls over financial reporting may have an adverse impact on the price of our common stock.

<u>Standards for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 are uncertain, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.</u>

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal controls over financial reporting, and attestation of our assessment by our independent registered public accounting firm. Currently, we believe these two requirements apply to our annual reports for fiscal 2007 and 2009, respectively. The standards that must be met for management to assess the internal controls over financial reporting as effective are evolving and complex, and require significant documentation, testing, and possible remediation to meet the detailed standards. We have incurred, and expect to incur, significant expenses and to devote resources to Section 404 compliance during the remainder of 2008 and on an ongoing basis. It is difficult for us to predict how long it will take to complete the assessment of the effectiveness of our internal control over financial reporting for each year and to remediate any deficiencies in our internal control over financial reporting. As a result, we may not be able to complete the assessment and remediation process on a timely basis. In addition, the attestation process by our independent registered public accounting firm is new and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accounting firm. In the event that our Chief Executive Officer, Chief Financial Officer or independent registered public accounting firm determine that our internal control over financial reporting is not effective as defined under Section 404, we cannot predict how regulators will react or how the market prices of our shares will be affected; however, we believe that there is a risk that investor confidence and share value may be negatively impacted.

<u>We cannot be certain that our internal control over financial reporting will be effective or sufficient in the future.</u>

Our ability to manage our operations and growth requires us to maintain effective operations, compliance and management controls, as well as our internal control over financial reporting. We may not be able to implement necessary improvements to our internal control over financial reporting in an efficient and timely manner and may discover deficiencies and weaknesses in existing systems and controls, especially when such systems and controls are tested by increased rate of growth or the impact of acquisitions. In addition, upgrades or enhancements to our computer systems could cause internal control weaknesses.

It may be difficult to design and implement effective internal control over financial reporting for combined operations as we integrate acquired businesses. In addition, differences in existing controls of acquired businesses may result in weaknesses that require remediation when internal controls over financial reporting are combined. The integration of two compliant systems could result in a noncompliant system or an acquired company may not have compliant systems. In either case, the effectiveness of our internal control may be impaired.

If we fail to achieve and maintain an effective system of internal controls, we may be unable to produce reliable financial reports or prevent fraud. If we are routinely unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is required to attest to the effectiveness of our internal controls but is unable to deliver a report at all or can deliver only a qualified report, we could be subject to regulatory enforcement and may lose investor confidence in our ability to operate in compliance with existing internal control rules and regulations, either of which could result in a decline in our stock price.

Significant Indebtedness

Our significant debt could adversely affect our financial resources and prevent us from satisfying our debt service obligations. We have a significant amount of indebtedness and are very likely to incur additional indebtedness in the future. In the future, we may not generate sufficient cash flow from operations, or have future borrowings available to us, sufficient to pay our debt.

In order to finance the acquisition consideration for future acquisitions, we may incur additional significant indebtedness. This additional indebtedness may, among other things, require us to:

- Maintain a specific ratio of net debt to consolidated operating income or other measurements;
- Dedicate a significant portion of our cash flow from operations to payments on this debt, thereby reducing the availability of cash flow to fund capital expenditures, to pursue other acquisitions or investments in new technologies and for general corporate purposes;
- Increase our vulnerability to general adverse economic conditions; and
- Limit our flexibility in planning for, or reacting to, changes in or challenges relating to its business and industry.

In addition, the terms of the financing obligations may contain restrictions, including limitations on our ability to:

- Incur additional indebtedness;
- Create or incur liens;
- Dispose of assets;
- Consolidate or merge with or acquire another entity;
- Pay dividends, redeem shares of capital stock or effect stock repurchases; and
- Make loans and investments.

The requirements and limitations that could be associated with additional indebtedness have the potential to increase our vulnerability to general adverse economic conditions, and limit our ability to respond to changes and challenges in our business. In addition, a failure to comply with any such restrictions could result in a default under these financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that we are unable to cure or the inability to secure a necessary consent or waiver could have a material adverse effect on our business, financial condition or results of operations.

Our officers and directors may be able to influence stockholder actions.

At February 29, 2008, executive officers and directors, in the aggregate, beneficially own approximately 10% of our outstanding voting stock (including rights to purchase common stock). These stockholders acting together may be able to significantly influence matters requiring approval by our stockholders, including the election of directors, and the approval of mergers or other business combination transactions in a manner that could conflict with our other stockholders.

Our convertible preferred stock may adversely impact VillageEDOCS and our common stockholders or have a material adverse affect on VillageEDOCS.

We have issued shares of Series A Preferred Stock to Barron Partners LP, the terms of which may have a material adverse effect on our financial condition and results of operations. The preferred stock has a liquidation preference in the amount of $1,675,000 which must be paid before common stockholders would receive funds in the event of liquidation,

ITEM 7. FINANCIAL STATEMENTS

Exhibit 99.1, "*VillageEDOCS, Inc. Financial Statements*" is incorporated herein by this reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. – CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). As a result of this evaluation, we identified material weaknesses in our internal control over financial reporting as of December 31, 2007. Accordingly, we concluded that our disclosure controls and procedures were not effective as of December 31, 2007.

Our internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management's Annual Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded, as of December 31, 2007, we did not maintain effective controls over the financial reporting process because we had the following deficiencies:

1. Shortage of qualified information technology and financial reporting personnel due to limited financial

resources and number of locations. This shortage in financial reporting staff created an adjustment to our annual report for 2007, which was not detected initially by management. The adjustment was related to the sale of PFI. Management has concluded that this control deficiency constitutes a material weakness.

2. The Company did not maintain effective controls to ensure there is timely analysis and review of accounting records, spreadsheets, and supporting data. This control deficiency did not result in audit adjustments to the 2007 interim or annual consolidated financial statements. However, this control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.
3. The Company did not effectively monitor access to, or maintain effective controls over changes to, certain financial application programs and related data. This control deficiency did not result in audit adjustments to the 2007 interim or annual consolidated financial statements. However, this control deficiency could result in a material misstatement of significant accounts or disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.
4. The Company does not maintain a sufficient level of IT personnel to execute general computing controls over our information technology structure, which include the implementation and assessment of information technology policies and procedures. This control deficiency did not result in an audit adjustment to the 2007 interim or annual consolidated financial statements, but could result in a material misstatement of significant accounts or disclosures, which would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.
5. The Company did not maintain adequate segregation of duties within its critical financial reporting applications, the related modules and financial reporting processes. This control deficiency did not result in audit adjustments to the 2007 interim or annual consolidated financial statements. This control deficiency could result in a misstatement of balance sheet and income statement accounts, in the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Management has determined that these control deficiencies constituted a material weakness in our internal control over financial reporting as of December 31, 2007. A material weakness is a control deficiency, or combination of control deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions.

Inherent Limitations Over Internal Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Remediation of Material Weakness

As discussed in *Management's Annual Report on Internal Control over Financial Reporting,* as of December 31, 2007, there were material weaknesses in our internal control over financial reporting. To the extent reasonably possible in our current financial condition, we have authorized the addition of additional staff members to the finance department to ensure that there are sufficient resources within the department to prepare our financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America. We are in the process of centralizing accounts receivable and accounts payable processes for all business units, which will establish mitigating controls to compensate for the risk due to lack of segregation of duties. In addition, we are taking steps to unify the financial reporting of all of our component companies and we are in the initial planning phase of upgrading, where possible, certain of our information technology systems impacting financial reporting. We are currently seeking information technology management staff that is adequately qualified to ensure that the IT general computing controls are effective over our systems impacting financial reporting.

Through these steps, we believe we are addressing the deficiencies that affected our internal control over financial reporting as of December 31, 2007. However, the effectiveness of any system of internal controls is subject to inherent limitations and there can be no assurance that our internal control over financial reporting will prevent or detect all errors. Because the remedial actions require hiring of additional personnel, upgrading certain of our information technology systems, and relying extensively on manual review and approval, the successful operation of these controls for at least several quarters may be required before management may be able to conclude that the material weakness has been remediated. We intend to continue to evaluate and strengthen our ICFR systems. These efforts require significant time and resources. If we are unable to establish adequate ICFR systems, we may encounter difficulties in the audit or review of our financial statements by our independent public accountants, which in turn may have a material adverse effect on our ability to prepare financial statements in accordance with GAAP and to comply with our SEC reporting obligations.

Attestation Report of the Registered Public Accounting Firm.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting.

We have made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS OF THE COMPANY

DIRECTORS, EXECUTIVE OFFICERS, AND SIGNIFICANT EMPLOYEES OF THE COMPANY

Directors and Executive Officers

The following table sets forth certain information with respect to each person who is a director, executive officer, or significant employee of the Company or its subsidiary as of February 29, 2008.

Name	Age	Position
J. Thomas Zender	68	Chairman of the Board
K. Mason Conner	49	Chief Executive Officer, President, Director
H. Jay Hill	68	Executive Vice President of Corporate Development, Director
Ricardo A. Salas	44	Director
Michael A. Richard	39	Chief Financial Officer and Secretary

Executive officers are appointed by the Board of Directors and, subject to the terms of their employment agreements, serve until their successors are duly elected and qualify, subject to earlier removal by the Board of Directors. Directors are elected at the annual meeting of shareholders to serve for their term and until their successors are duly elected and qualify, or until their earlier resignation, removal from office, or death. The remaining directors may fill any vacancy in the Board of Directors for an unexpired term. The term of the current directors continues until the next annual meeting of shareholders to be held in 2007. Mr. Zender has been a director since August 1997, Mr. Hill since October 1997, Mr. Conner since October 1998, and Mr. Salas since July 2005.

Business Experience of Executive Officers, Directors, and Significant Employees

J. THOMAS ZENDER has been a director since 1997 and has been Chairman of the Board since January 2001. He currently serves on our Audit Committee and our Compensation Committee. Mr. Zender is an information technology industry board member and executive with over 35 years management and business development experience. He has held management positions at General Electric, Honeywell, ITT and other companies. Mr. Zender has been an officer in three publicly held corporations, one NYSE listed company and two NASDAQ traded companies. From 1996 through 2001, he served as an interim executive for several early stage companies, including CEO of VillageEDOCS from 1997 to 1999. From 2001 to 2007 Mr. Zender served as president and CEO of Unity, a worldwide not-for-profit, trans-denominational spiritual support movement. He is currently a Director of Peerless Systems, a NASDAQ traded company, and serves on the Audit and Nominating Committees. Mr. Zender served on the board of SAMSys Technologies, a Toronto Stock Exchange traded corporation from 1996 to 2006. He holds a Business Administration degree from Ottawa University, with focus areas of management, marketing, and information technology..

K. MASON CONNER has been our Chief Executive Officer since 1999 and has served as our President since January 1, 2007. Mr. Conner joined the Company as Vice-President of Sales in 1997 and has been a Board Member since 1998, Acting Vice-President of Sales between 1998 and 2002, and President between 1998 and March 2006, and Mr. Conner is also a Director of GoSolutions, MVI, and TBS. He has 27 years in sales and business management experience, including 23 years of direct and channel sales experience in the voice and data communications products and services industry. In the early 1980's he was involved in the application of Internet

Protocol technologies. In the late 1980s and early 1990s he was a principal strategist for an international initiative to transform K-12 education through the use of the Internet. He was a principal consultant with LTS for the electronic vulnerability threat assessment of the Los Angeles Airport Department after the "UnaBomber" threat. He has held sales management positions with Banyan Systems, Doelz Networks, and Timeplex. During the five years prior to joining the Company, Mr. Conner was Director of Sales at Telecom Multimedia Systems from 1996 to 1997, Vice President of Sales at Lo Tiro-Sapere from 1995 to 1996, and Vice President of Sales at Digital Network Architectures from 1991 to 1995.

H. JAY HILL has been a director since 1997 and became the Executive Vice President of Corporate Development in May 2003. Mr. Hill is also a Vice President of Tailored Business Systems, Inc. and GoSolutions, Inc.. For the last 20 years, he has primarily been a senior executive in turnaround situations in information technology and telecommunication companies. From November 2000 to May 2003, Mr. Hill was CEO, President and a Director of LightPort Advisors, Inc, a private Internet service provider for the financial services market. He has held similar positions with Unitron Medical Communications, Inc. (d/b/a Moon Communications) (1999-2000) and Amnet Corporation (Netlink) (1989-1994), and has held senior sales and marketing management positions with SunCoast Environmental Controls (1996-1999), Technology Research Corporation (1994-1996), Harris Corporation, Doelz Networks, Paradyne/AT&T, and Inforex. His primary background in sales and marketing commenced with Philadelphia Electric Company and IBM. Mr. Hill currently serves on our Audit Committee and our Compensation Committee.

RICARDO SALAS joined the board of directors in the second quarter of 2005. Most recently, Mr. Salas served as the President and Chief Executive Officer of Liquidmetal Technologies. From January 2000 through June 2005, Mr. Salas served as Chief Executive Officer of iLIANT Corporation, an information technology and outsourcing service firm in the health care industry, and he continues to serve as Chairman of iLIANT. From 1987 through 2004, he was Vice President of J. Holdsworth Capital Ltd., a private investment firm. As an officer of J. Holdsworth Capital Ltd., Mr. Salas held positions in various investments including Medical Manager Corporation as a vice president between June 1999 and January 2000, National Medical Systems, Inc. as vice president between April 1994 and February 1997, and Uni Flange Corporation as vice president between June 1989 and June 1994. He currently serves as a director of VillageEDOCS, a provider of business information delivery services and products. Mr. Salas received his B.A. in Economics in 1986 from Harvard University in Cambridge, Massachusetts. Mr. Salas currently serves on our Audit Committee and our Compensation Committee.

MICHAEL A. RICHARD joined the Company in February 2001 and is the Chief Financial Officer and Corporate Secretary. Mr. Richard is also a Director and the Secretary of our wholly-owned subsidiaries, GSI, TBS and MVI. Mr. Richard has over 15 years of diverse management and public corporate reporting experience for start-up and early stage ventures. From 1999-2000 he served as V.P. Controller for The BigHub.com, Inc., a public new media company providing unique content, private label search engine, e-commerce solutions, and direct mail. From 1995-1999, Mr. Richard served first as Controller and then as Vice President, Accounting (principal accounting officer), and finally as a Director of PortaCom Wireless, Inc., a public developer and operator of companies with contracts to provide wireless telecommunication services in China and other emerging markets.

Our Corporate Governance Practices

We have always believed in strong and effective corporate governance procedures and practices. In that spirit, we have summarized several of our corporate governance practices below.

Adopting Governance Guidelines	Our board of directors has adopted a set of corporate governance guidelines to establish a framework within which it will conduct its business and to guide management in its running of your Company. The governance guidelines can be found on our website at www.villageedocs.com and are summarized below.
Monitoring Board Effectiveness	It is important that our board of directors and its committees are performing effectively and in the best interest of the Company and its stockholders. The board of directors and each committee are responsible for annually assessing their effectiveness in fulfilling their obligations.
Conducting Formal Independent Director Sessions	At the conclusion of each regularly scheduled board meeting, the independent directors meet without our management or any non-independent directors.
Hiring Outside Advisors	The board and each of its committees may retain outside advisors and consultants of their choosing at our expense, without management's consent.
Avoiding Conflicts of Interest	We expect our directors, executives and employees to conduct themselves with the highest degree of integrity, ethics and honesty. Our credibility and reputation depend upon the good judgment, ethical standards and personal integrity of each director, executive and employee. In order to provide assurances to the Company and its stockholders, we have implemented standards of business conduct which provide clear conflict of interest guidelines to its employees and directors, as well as an explanation of reporting and investigatory procedures.
Providing Transparency	We believe it is important that stockholders understand our governance practices. In order to help ensure transparency of our practices, we have posted information regarding our corporate governance procedures on our website at www.villageedocs.com.
Communications with the Board of Directors	Although we do not have a formal policy regarding communications with the board of directors, stockholders may communicate with the board of directors by writing to the Company at VillageEDOCS, Inc. Attention: Investor Relations, 1401 N. Tustin Ave., Ste. 230, Santa Ana, CA 92705. Stockholders who would like their submission directed to a member of the board may so specify, and the communication will be forwarded, as appropriate.
Standards of Business Conduct	The board of directors has adopted a Code of Business Conduct and Ethics for all of our employees and directors, including the Company's principal executive and senior financial officers. You can obtain a copy of our Code of Business Conduct and Ethics via our website at www.villageedocs.com, or by making a written request to the Company at VillageEDOCS, Attention: Investor Relations, 1401 N. Tustin Ave., Ste. 230, Santa Ana, CA 92705. We will disclose any amendments to the Code of Business Conduct and Ethics, or waiver of a provision therefrom, on our website at the same address.
Ensuring Auditor Independence	We have taken a number of steps to ensure the continued independence of our independent registered public accounting firm. That firm reports directly to the Audit Committee, which also has the ability to pre-approve or reject any non-audit services proposed to be conducted by our independent registered public accounting firm.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

General

The Compensation Committee of the Board of Directors is currently composed of two independent directors, Messrs. Zender and Salas, who have no "interlocking relationships" (as defined by the SEC), and Mr. Hill, who recuses himself from votes and discussions on his own compensation.

We are engaged in highly competitive businesses and compete nationally for personnel at the executive and technical staff level. Outstanding candidates are aggressively recruited, often at premium salaries. Highly qualified employees are essential to our success. We are committed to providing competitive compensation that helps attract, retain, and motivate the highly skilled people we require. We strongly believe that a considerable portion of the compensation for the Chief Executive Officer and other top executives must be tied to the achievement of business objectives, completing acquisitions, and to business unit and overall financial performance, both current and long-term.

Executive Compensation

Our executive compensation program is administered by the Compensation Committee. The role of the Compensation Committee is to review and approve salaries and other compensation of the executive officers of the Company, to administer the Long-Term Incentive Plan, and to review and approve stock option grants to all employees including the executive officers of the Company.

General Compensation Philosophy

Our compensation philosophy is that total cash compensation should vary with our performance and any long-term incentive should be closely aligned with the interest of the stockholders. Total cash compensation for the executive officers consists of the following components:

- Base salary
- An executive officer bonus that is related to growth in our sales and operating earnings.

Long-term incentives are realized through the granting of stock options to executives and key employees through the 2002 Equity Incentive Plan. We have also granted warrants to certain of our executive officers. We have no other long-term incentive plans for our officers and employees.

Base Salary and Executive Officer Bonus Target

Current base salaries for the executive officers were determined by arms' length negotiations with the Board of Directors. Messrs. Conner, Richard and Hill have employment contracts with the Company which set a base salary and, with respect to Messrs. Conner and Hill, allow for bonus targets and levels to be set at the sole discretion of this committee. During 2007, none of the executive officers reached their bonus targets, hence no bonuses were awarded to executive officers in 2007, nor will bonuses be awarded in 2008 for performance in 2007.

Chief Executive Officer Compensation

The current base salary for the Chief Executive Officer of $236,250 is set according to his employment contract, which also includes provision for annual bonuses at the sole discretion of this committee. No bonuses were awarded to the Chief Executive Officer in 2007 and none were accrued based upon 2007 performance.

Stock Options

Stock options are granted to aid in the retention of executive and key employees and to align the interests of executive and key employees with those of the stockholders. The level of stock options granted (i.e., the number of shares subject to each stock option grant) is based on the employee's ability to impact future corporate results. An employee's ability to impact future corporate results depends on the level and amount of job responsibility of the individual. Therefore, the level of stock options granted is proportional to the Compensation Committee's evaluation of each employee's job responsibility. For example, Mason Conner, as the President and Chief Executive Officer, has the highest level of responsibility and would typically be awarded the highest level of stock options. Stock options are granted at a price not less than the fair market value on the date granted.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the aggregate compensation, for each of the last two years, awarded to, earned by or paid to:

(a) our chief executive officer;

(b) each of our two most highly compensated executive officers who were serving as executive officers at the end of the most recently completed fiscal year and whose total salary and bonus exceeds $100,000 per year; or

(c) any additional individuals for whom disclosure would have been provided under (b) but for the fact that the individual was not serving as an executive officer of our company at the end of the most recently completed fiscal year (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards (2) ($)	Non-Equity Incentive plan Compensation ($)	Total ($)
K. Mason Conner, President and CEO	2007	232,500	-	-	110,000	-	342,500
	2006	210,000	-	-	-	-	210,000
Jerry T. Kendall, President, Chief Operating Officer (1)	2007	208,300	-	-	132,000	-	340,300
	2006	166,700	-	-	120,000	-	286,700
H. Jay Hill, Executive Vice President – Corporate Development	2007	206,700	-	2,600	44,000	-	253,300
	2006	183,300	-	7,300	-	-	190,600
Michael A. Richard, CFO and Secretary	2007	160,000	-	-	25,000	-	185,000
	2006	125,417	-	-	-	-	125,417

(1) Effective December 31, 2007, Mr. Kendall ceased to be an officer and director of the Company.
(2) Assumptions relating to the estimated fair value of stock options granted to Mr. Kendall during 2006 which we are accounting for in accordance with SFAS 123(R) are as follows: risk-free interest rate of 3.55%; expected dividend yield 0%; expected option life of 5.0 years; and volatility of 316%. Assumptions relating to the estimated fair value of stock granted to Messrs. Conner, Hill, and Richard during 2007, which we are accounting for in accordance with SFAS 123(R) are as follows: risk-free interest rate of 3.5%; expected dividend yield 0%; expected option life of 6.0 years; and volatility between 121% - 124%.. Please see Note 3 to our consolidated financial statements for further discussion of our assumptions relating to the estimated fair value of equity awards.

NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE

We compensate our executive officers through a combination of a base salary, a cash bonus, and options to purchase shares of our common stock. In addition, in the future, we may provide other perquisites to some of our executive officers. We do not have a formal plan for determining the compensation of our executive officers. Instead, each executive officer negotiates their respective employment agreement with us.

All agreements with our named executive officers that provide for payments to such named executive officers at, following or in connection with the resignation, retirement or other termination of such named executive officers, or a change in control of our company or a change in the responsibilities of such named executive officers following a change in control are set forth in the following description of their respective employment agreements.

EMPLOYMENT AND OTHER AGREEMENTS

We have entered into employment agreements with K. Mason Conner, our President and Chief Executive Officer, Jerry T. Kendall, who served as our President and Chief Operating Officer through December 31, 2007, H. Jay Hill, our Executive Vice President - Corporate Development, and Michael Richard, our Chief Financial Officer. On June 16, 2004, a written consent was filed with the Company to approve the employment agreements with Messrs. Conner, Hill, and Richard and on April 28, 2005 and again on May 1, 2006, each of these agreements was amended. Following is a summary of the significant terms of each of the employment agreements:

K. MASON CONNER. Mr. Conner's employment agreement, dated as of June 10, 2004, and amended as of May 1, 2006, provides for Mr. Conner to serve as our President and Chief Executive Officer for a term ending June 14, 2010. The employment agreement provides that, the term of the agreement shall automatically be extended for successive one year renewal terms, provided that if either Mr. Conner or the Company gives the other party at least ninety days advance written notice of his or its intention to not renew the agreement for an additional term, the agreement will terminate upon the expiration of the current term.

Pursuant to the employment agreement, Mr. Conner received a base salary of $150,000 for the period from June 15, 2004 until April 16, 2005, at which time his base salary was increased to $180,000. Effective as of May 1, 2006, Mr. Conner's annual salary was increased to $225,000 and to $236,250 on May 1, 2007. The Board will review his salary at annual intervals, and may adjust his annual base salary from time to time as the Board of Directors or its Compensation Committee deems to be appropriate, provided, however, that the salary for the twelve month period beginning May 1, 2007 and each succeeding year shall not be less than 105% of the salary for the prior year. Mr. Conner is entitled to an incentive bonus based upon the Company's net income. For the 2004 fiscal year, Mr. Conner was paid a bonus equal to 10% of the Company's net income. For the year 2005, the percentage bonus will be 7% of the net income paid in cash and 5% paid in Company shares. The number of Company shares issuable to the Executive shall be based upon the average closing price of the Company's shares for the ten (10) trading days ending on March 31st of the following year. Each year subsequent to 2005, the board will establish the percentages; during 2006 and 2007 the percentages shall not be less than 4% and 2% respectively.

Pursuant to the employment agreement, we have granted Mr. Conner options for 3,500,000 shares of our common stock (the "Option Shares"). The Option Shares will vest over a five year period and may be exercised during the seven year period after vesting. If Mr. Conner voluntarily resigns or is terminated for cause, all unvested options will be forfeited and cancelled; provided, that Mr. Conner shall be fully vested in one-half of his then unvested Option Shares (A) in the event of his termination by the Company other than for cause, (B) upon the consummation of a Change in Control, or (C) upon Mr. Conner's death or disability. The Company has agreed to use its best efforts to register, and maintain the effectiveness of a registration statement on Form S-8, for resale all of the Option Shares granted to Mr. Conner and, at any time that Form S-8 is not effective, to grant him piggyback registration with respect to any registration statement filed by the Company.

Mr. Conner also is entitled to participate in any benefits plans maintained by the Company for its executives or employees and is entitled to four weeks annual vacation. He is also entitled to be reimbursed for business expenses incurred by him in promoting the Company's business.

If Mr. Conner's employment is terminated for reasons other than death, disability, cause, or voluntary termination by Mr. Conner, the Company will be obligated to make monthly payments to Mr. Conner for twelve (12) months. Each monthly payment shall be equal to one-twelfth (1/12th) of twice Mr. Conner's annual base salary, as in effect on the date of termination. In addition, any restricted stock, stock options or other awards granted to him will become immediately vested in full and, in the case of stock options, exercisable in full. Mr. Conner will also be permitted to continue to participate for a period of one year, at the Company's expense, in all benefit and insurance plans, coverage and programs in which he was participating as of the termination date.

The Company may terminate the agreement if it determines that Mr. Conner has been unable to attend to his duties for at least ninety (90) days because of a medically diagnosable physical or mental condition, and has received a written opinion from a physician acceptable to the Board that such condition prevents him from resuming full performance of his duties and is likely to continue for an indefinite period. Upon such termination, the Company shall pay Mr. Conner a monthly disability benefit equal to one-twelfth (1/12th) of his current annual base salary at the time he became permanently disabled until the earliest of (i) the month in which the he returns to active employment, either with the Company or otherwise, (ii) the end of the initial term of the agreement, or the current renewal term, as the case may be, or (iii) the twenty-fourth month after the date of the termination. Any such payments shall be reduced by any amounts paid to Mr. Conner under any long-term disability plan or other disability program or insurance policies maintained or provided by the Company.

If Mr. Conner is terminated for Cause, he shall be entitled to receive his base salary through the date of termination and any non-forfeitable benefits earned and payable to him under the terms of deferred compensation or incentive plans maintained by the Company. In the event of a Change in Corporate Control, any restricted stock, stock options or other awards granted to Mr. Conner shall become immediately vested in full and, in the case of stock options, exercisable in full. Additionally, if at any time during the twelve (12) consecutive months following or six (6) months prior to the occurrence of a Change in Corporate Control, Mr. Conner is involuntarily terminated (other than for Cause) by the Company, he shall be entitled to lump sum severance pay in an amount equal to the sum of (i) 299% of his annual base salary in effect at the time of the Change in Corporate Control plus (ii) 299% of the annual bonus paid to him with respect to the last fiscal year ending prior to the Change in Corporate Control.

JERRY T. KENDALL. Effective December 31, 2007, Mr. Kendall ceased to be an officer and director of the Company. On March 1, 2006, we entered into an executive employment agreement with Jerry T. Kendall, who had served as a director of the Company from the second quarter of 2005. The employment agreement provided for Mr. Kendall to serve as our President and Chief Operating Officer for a term of two years from March 1, 2006. Pursuant to his employment agreement, Mr. Kendall received a base salary of $200,000, which increased to $210,000 on May 1, 2007 pursuant to his employment agreement. Pursuant to his employment agreement, the Company granted Mr. Kendall options for 4,000,000 shares of its common stock which were to have vested over a five year period and were exercisable during the seven year period after vesting. Mr. Kendall will also be permitted to continue to participate for the remainder of 2008, at the Company's expense, in all benefit and insurance plans, coverage and programs in which he was participating as of the termination date. Upon termination, Mr. Kendall vested 25% of the unvested portion of the stock option granted in connection with the agreement and any stock options granted Mr. Kendall prior to the employment agreement, has a modified term of the covenant not to compete equal to the greater of twelve months or the number of months of severance pay granted, and is entitled to receive a series of monthly payments for a period of twelve months, each of which shall be equal to one-twelfth of Mr. Kendall's annual base salary as in effect upon termination.

H. JAY HILL. Mr. Hill's employment agreement, dated as of June 10, 2004, as amended May 1, 2006, provides for Mr. Hill to serve as our Executive Vice President - Corporate Development for a term commencing June 16, 2004 and ending June 15, 2010. The employment agreement provides that, the term of the agreement shall automatically be extended for successive one year renewal terms, provided that if either Mr. Hill or the Company gives the other party at least ninety days advance written notice of his or its intention to not renew the agreement for an additional term, the agreement will terminate upon the expiration of the current term.

The employment agreement provides for Mr. Hill to receive a base salary of $120,000 until April 16, 2005, at which time his base salary was increased to $150,000. Effective May 1, 2006, Mr. Hill's annual salary was increased to $200,000 and to $210,000 on May 1, 2007. The Board will review Mr. Hill's salary at annual intervals, and may adjust his annual base salary from time to time as the Board of Directors or its Compensation Committee deems to be appropriate, provided, however, that the salary for the twelve month period beginning May 1, 2007 and each succeeding year shall not be less than 105% of the salary for the prior year.

Mr. Hill will be paid an incentive bonus based on the Company's profitability. At the end of each fiscal year, commencing with 2005, Mr. Hill will earn a percentage of the net income under GAAP to be paid the month following the filing of the 10K report. For the year 2005, the percentage bonus will be 5% of the net income paid in cash and 4% paid in Company shares. The number of Company shares issuable to Mr. Hill shall be based upon the average closing price of the Company's shares for the ten (10) trading days ending on March 31st of the following year. Each year subsequent to 2005, the board will establish the percentages; during 2006 and 2007 the percentages shall not be less than 3% and 2% respectively.

Pursuant to the employment agreement, we have granted Mr. Hill options for 500,000 shares of our common stock (the "Option Shares"). The Option Shares will vest over a five year period and may be exercised during the seven year period after vesting. If Mr. Hill voluntarily resigns or is terminated for cause, all unvested options will be forfeited and cancelled; provided, that Mr. Hill shall be fully vested in then unvested Option Shares (A) in the event of his termination by the Company other than for cause, (B) upon the consummation of a Change in Control, or (C) upon Mr. Hill's death or disability. The Company has agreed to use its best efforts to register, and maintain the effectiveness of a registration statement on Form S-8, for resale all of the Option Shares granted to Mr. Hill and, at any time that Form S-8 is not effective, to grant him piggyback registration with respect to any registration statement filed by the Company.

Mr. Hill also is entitled to participate in any benefits plans maintained by the Company for its executives or employees and is entitled to four weeks annual vacation. He is also entitled to be reimbursed for business expenses incurred by him in promoting the Company's business.

If Mr. Hill's employment is terminated for reasons other than death, disability, or voluntary termination by Mr. Hill, the Company will be obligated to make monthly payments to Mr. Hill for each month during the remaining term of the employment agreement, but not less than twelve (12) months. Each monthly payment shall be equal to one-twelfth (1/12th) of twice Mr. Hill's annual base salary, as in effect on the date of termination. In addition, any restricted stock, stock options or other awards granted to him will become immediately vested in full and, in the case of stock options, exercisable in full. Mr. Hill will also be permitted to continue to participate for a period of one year, at the Company's expense, in all benefit and insurance plans, coverage and programs in which he was participating as of the termination date.

The Company may terminate the agreement if it determines that Mr. Hill has been unable to attend to his duties for at least ninety (90) days because of a medically diagnosable physical or mental condition, and has received a written opinion from a physician acceptable to the Board that such condition prevents him from resuming full performance of his duties and is likely to continue for an indefinite period. Upon such termination, the Company shall pay Mr. Hill a monthly disability benefit equal to one-twelfth (1/12th) of his current annual base salary at the time he became permanently disabled until the earliest of (i) the month in which the he returns to active employment, either with the Company or otherwise, (ii) the end of the initial term of the agreement, or the current renewal term, as the case may be, or (iii) the twenty-fourth month after the date of the termination. Any such payments shall be reduced by any amounts paid to Mr. Hill under any long-term disability plan or other disability program or insurance policies maintained or provided by the Company.

If Mr. Hill is terminated for Cause, he shall be entitled to receive his base salary through the date of termination and any non-forfeitable benefits earned and payable to him under the terms of deferred compensation or incentive plans maintained by the Company.

In the event of a Change in Corporate Control, any restricted stock, stock options or other awards granted to Mr. Hill shall become immediately vested in full and, in the case of stock options, exercisable in full. Additionally, if at any time during the twelve (12) consecutive months following or six (6) months prior to the occurrence of a Change in Corporate Control, Mr. Hill is involuntarily terminated (other than for Cause) by the Company, he shall be entitled to lump sum severance pay in an amount equal to the sum of (i) 200% of his annual base salary in effect at the time of the Change in Corporate Control plus (ii) 200% of the annual bonus paid to him with respect to the last fiscal year ending prior to the Change in Corporate Control.

MICHAEL RICHARD. Mr. Richard's employment agreement, dated as of June 10, 2004, as amended May 1, 2006, provides for Mr. Richard to serve as our Chief Financial Officer for a term commencing June 15, 2004 and ending June 14, 2008. The employment agreement provides that, the term of the agreement shall automatically be extended for successive one year renewal terms, provided that if either Mr. Richard or the Company gives the other party at least ninety days advance written notice of his or its intention to not renew the agreement for an additional term, the agreement will terminate upon the expiration of the current term.

The employment agreement provides for Mr. Richard to receive a base salary of $95,000 until April 16, 2005, at which time his base salary was increased to $100,000. Effective May 1, 2006, Mr. Richard's annual base salary was increased to $125,000 and to $160,000 on October 1, 2006. The Board will review Mr. Richard's salary at annual intervals, and may adjust his annual base salary from time to time as the Chief Executive Officer deems to be appropriate, provided, however, that the salary for the twelve month period beginning May 1, 2007 and each succeeding year shall not be less than 105% of the salary for the prior year.

Pursuant to the employment agreement, we have granted Mr. Richard options for 650,000 shares of our common stock (the "Option Shares"). The Option Shares will vest over a five year period and may be exercised during the seven year period after vesting. If Mr. Richard voluntarily resigns or is terminated for cause, all unvested options will be forfeited and cancelled; provided, that Mr. Richard shall be fully vested in then unvested Option Shares (A) in the event of his termination by the Company other than for cause, (B) upon the consummation of a Change in Control, or (C) upon Mr. Richard's death or disability. The Company has agreed to use its best efforts to register, and maintain the effectiveness of a registration statement on Form S-8, for resale all of the Option Shares granted to Mr. Richard and, at any time that Form S-8 is not effective, to grant him piggyback registration with respect to any registration statement filed by the Company.

Mr. Richard also is entitled to participate in any benefits plans maintained by the Company for its executives or employees and is entitled to three weeks annual vacation. He is also entitled to be reimbursed for business expenses incurred by him in promoting the Company's business. If Mr. Richard's employment is terminated for reasons other than death, disability, or voluntary termination by Mr. Richard, the Company will be obligated to make monthly payments to Mr. Richard for each month during the remaining term of the employment agreement, but not less than six (6) months. Each monthly payment shall be equal to one-twelfth (1/12th) of his annual base salary, as in effect on the date of termination. In addition, any restricted stock, stock options or other awards granted to him will become immediately vested in full and, in the case of stock options, exercisable in full. Mr. Richard will also be permitted to continue to participate for a period of six (6) months, at the Company's expense, in all benefit and insurance plans, coverage and programs in which he was participating as of the termination date.

The Company may terminate the agreement if it determines that Mr. Richard has been unable to attend to his duties for at least ninety (90) days because of a medically diagnosable physical or mental condition, and has received a written opinion from a physician acceptable to the Board that such condition prevents him from resuming full performance of his duties and is likely to continue for an indefinite period. Upon such termination, the Company shall pay Mr. Richard a monthly disability benefit equal to one-twelfth (1/12th) of his current annual base salary at the time he became permanently disabled until the earliest of (i) the month in which the he returns to active employment, either with the Company or otherwise, (ii) the end of the initial term of the agreement, or the current renewal term, as the case may be, or (iii) the sixth month after the date of the termination. Any such payments shall be reduced by any amounts paid to Mr. Richard under any long-term disability plan or other disability program or insurance policies maintained or provided by the Company.

If Mr. Richard is terminated for Cause, he shall be entitled to receive his base salary through the date of termination and any non-forfeitable benefits earned and payable to him under the terms of deferred compensation or incentive plans maintained by the Company.

In the event of a Change in Corporate Control, any restricted stock, stock options or other awards granted to Mr. Richard shall become immediately vested in full and, in the case of stock options, exercisable in full. Additionally, if at any time during the twelve (12) consecutive months following or six (6) months prior to the occurrence of a Change in Corporate Control, Mr. Richard is involuntarily terminated (other than for Cause) by the Company, he shall be entitled to lump sum severance pay in an amount equal to the sum of (i) 50% of his annual base salary in effect at the time of the Change in Corporate Control plus (ii) 50% of the annual bonus paid to him with respect to the last fiscal year ending prior to the Change in Corporate Control.

The foregoing descriptions of the employment agreements are qualified in their entirety by reference to the actual terms of each agreement, copies of which have been filed with the Commission.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

The following table presents information regarding outstanding options held by our named executive officers as of the end of our fiscal year ended December 31, 2007.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
K. Mason Conner (1)	100,000	-	-	0.25	5/31/09	-	-	-	-
	31,138	-	-	2.50	8/4/10	-	-	-	-
	34,536	-	-	2.50	10/1/11	-	-	-	-
	-	-	1,719,658	0.19	1/30/14	-	-	-	-
	3,500,000	-	-	0.15	6/15/12	-	-	-	-
	2,000,000	-	-	0.16	12/27/12	-	-	-	-
		-	-						
H. Jay Hill (1)	31,138	-	-	2.50	8/4/10	-	-	-	-
	34,536	-	-	2.50	10/1/11	-	-	-	-
	-	-	686,325	0.19	1/30/14	-	-	-	-
	1,500,000	-	-	0.18	8/15/13	-	-	-	-
	1,000,000	-	-	0.10	8/15/13	-	-	-	-
	500,000	-	-	0.15	6/15/12	-	-	-	-
	2,000,000	-	-	0.16	12/27/12	-	-	-	-
Michael A. Richard (1)	150,000	-	-	2.50	2/27/11	-	-	-	-
	-	-	387,500	0.19	1/30/14	-	-	-	-
	650,000	-	-	0.15	6/15/12	-	-	-	-
	250,000	-	-	0.16	12/27/12	-	-	-	-

(1) Except as indicated, these options held by Messrs. Conner, Hill, and Richard are vested in full as of December 31, 2007.

STOCK OPTIONS

The Company has adopted an equity incentive plan (the "2002 Plan") that authorizes the issuance of options to acquire up to 90,000,000 shares of common stock, as amended, to employees and certain outside consultants. The 2002 Plan allows for the issuance of either non-qualified or, subject to stockholder approval, incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 2002 Plan, the exercise price of each option shall not be less than fair market value on the date the option is granted.

During 1997, the Board of Directors of the Company adopted a stock option plan (the "1997 Plan") that authorizes the issuance of options to acquire up to 5,000,000 shares of common stock to employees and certain outside consultants. The 1997 Plan allows for the issuance of either non-qualified or incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 1997 Plan, the exercise price of each option shall not be less than 85 percent of fair market value on the date the option is granted.

At December 31, 2006, we have outstanding options to purchase 37,230,669 shares of our common stock pursuant to the 2002 Plan and the 1997 Plan. The number of options under both the 2002 Plan and the 1997 Plan available for grant at December 31, 2007 is approximately 58,000,000 (see Notes to accompanying consolidated financial statements).

DIRECTOR COMPENSATION

The following table presents information regarding compensation paid to our non-employee directors for our fiscal year ended December 31, 2007.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Jerry T. Kendall	-	-	$41,625				
Ricardo A. Salas	-	-	$36,000	-	-	-	-
J. Thomas Zender	-	-	$75,803	-	-	-	-

Assumptions relating to the estimated fair value of stock options granted to Messrs. Kendall, Salas, and Zender during 2007, which we are accounting for in accordance with SFAS 123(R), are as follows: risk-free interest rate of 3.5%; expected dividend yield 0%; expected option life of 6.0 years; and volatility of 121%. Mr. Kendall ceased to be a director effective December 31, 2007. Please see Note 3 to our consolidated financial statements for further discussion of our assumptions relating to the estimated fair value of equity awards.

NARRATIVE DISCLOSURE TO DIRECTOR COMPENSATION TABLE

Members of our board of directors receive no cash compensation for services as a director or for attendance at or participation in meetings. Directors receive options to purchase common stock as compensation for services as a director. In past years, directors have received options to purchase the Company's common stock in consideration for services as a director. There has been no determination made as to the number and exercise price of options, if any, that will be issued to either K. Mason Conner or H. Jay Hill for service during terms following the term that expired on October 5, 2001. Directors are reimbursed for out-of-pocket expenses incurred by them in connection with attending meetings. All directors have options to purchase shares of the Company's common stock as set forth in the table in this report. The Company has no other arrangements regarding compensation for services as a director.

COMMITTEES OF THE BOARD AND AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has an Audit Committee and a Compensation Committee.

AUDIT COMMITTEE. The Audit Committee of the Board of Directors (the "Audit Committee") monitors the integrity of the Company's financial statements, the independence and qualifications of the independent registered public accounting firm, the performance of the Company's independent registered public accounting firm and the effectiveness of the Company's disclosure controls and procedures and internal controls. It is also responsible for retaining, evaluating, and, if appropriate, recommending the termination of the Company's independent registered public accounting firm. The Audit Committee has been established under a charter approved by the Board. Our Audit Committee consists of Messrs. Zender, Hill, and Salas. Mr. Salas serves as Chairman. During 2006 the Audit Committee met one time. In March 2006, Mr. Zender replaced Mr. Kendall on the Audit Committee in connection with Mr. Kendall's appointment as the Company's President and Chief Executive Officer. Because our board of directors is comprised of only five members, the Audit Committee includes one member of executive management, H. Jay Hill, who is not considered to be independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Securities Exchange Act of 1934, as amended. We are not required by the OTCBB to have an audit committee comprised entirely of independent directors. We do not have an audit committee financial expert as defined by Item 401(e) of Regulation S-B of the Exchange Act at this time because we believe that we are not in a position to attract suitable candidates due to insufficient capital resources. In addition, we are not required by the OCTBB to have an audit committee financial expert.

COMPENSATION COMMITTEE. The Compensation Committee of the Board of Directors (the "Compensation Committee") administers the benefits, incentives and compensation of the Company's executive officers, reviews the performance of the Company's executive officers, reviews and approves executive compensation policy and objectives, concludes whether Company executives are compensated according to such standards, makes recommendations to the Board of Directors with respect to compensation, and carries out the Board's responsibilities relating to all forms of executive compensation. The Compensation Committee has been established under a charter approved by the Board. Non-qualified stock options which are granted to the members of the Compensation Committee are recommended by the Company's Chief Executive Officer and approved by the Board of Directors. Our Compensation Committee consists of Messrs. Zender, Hill, and Salas.. Mr. Zender serves as Chairman. During 2006 the Compensation Committee met one time. In March 2006, Mr. Zender replaced Mr. Kendall on the Compensation Committee in connection with Mr. Kendall's appointment as the Company's President and Chief Executive Officer. Because our board of directors is comprised of only five members, the Compensation Committee includes one member of executive management, H. Jay Hill. Mr. Hill recuses himself from votes and discussions on his own compensation. We are not required by the OTCBB to have a compensation committee comprised entirely of independent directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of shares of the Company's common stock owned as of February 29, 2008 beneficially by (i) each person who beneficially owns more than 5% of the outstanding common stock, (ii) each director of the Company, (iii) the President and Chief Executive Officer of the Company, the executive officers and significant employees of the Company whose cash and non-cash compensation for services rendered to the Company for the year ended December 31, 2007 exceeded $100,000), and (iv) directors, executive officers, and significant employees as a group:

Name of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class (3) (4) (13)
James Townsend (5)	11,147,720	6.4
C. Alan Williams (6)	64,880,814	37.3
K. Mason Conner (7)	7,709,438	4.4
J. Thomas Zender (8)	1,814,499	1.0
H. Jay Hill (9)	6,431,999	3.7
Ricardo A. Salas (10)	420,000	*
Michael Richard (11)	1,504,167	*
GoSolutions Equity LLC (12)	26,786,840	15.4
All directors, executive officers, and significant employees as a group (5 persons)	17,880,103	10.3

* Less than 1 %

(1) The address of each individual is in care of the Company.

(2) Represents sole voting and investment power unless otherwise indicated.

(3) Based on 152,770,913 shares of the Company's common stock outstanding at February 29, 2008, plus, as to each person listed, that portion of the Company's common stock subject to outstanding options, warrants, and convertible debt which may be exercised or converted by such person, and as to all directors and executive officers as a group, unissued shares of the Company's common stock as to which the members of such group have the right to acquire beneficial ownership upon the exercise of stock options or warrants, or conversion of convertible debt within 60 days of February 29, 2008.

(4) Excludes 25,631,665 shares reserved for issuance under outstanding options and warrants.

(5) Includes options to acquire 65,674 shares of common stock at $2.50 per share.

(6) Includes $171,870 of debt and accrued interest convertible to 1,227,643 shares of common stock at $0.14 per share and warrants to acquire 3,000,000 shares at $0.10 per share.

(7) Includes 124,106 shares and options to acquire 100,000 shares of common stock at $0.25 per share, options to acquire 65,674 shares at $2.50 per share, options to acquire 1,719,658 shares at $0.19 per share, options to acquire 3,500,000 shares at $0.15 per share, options to acquire 2,000,000 shares at $0.16 per share, and warrants to acquire 200,000 shares at $0.15 per share.

(8) Includes options to acquire 290,000 shares of common stock at $0.20 per share, options to acquire 66,261 shares at $2.50 per share, options to acquire 918,825 shares at $0.19 per share, and options to acquire 300,000 shares at $0.15 per share.

(9) Includes options to acquire 65,674 shares at $2.50 per share, options to acquire 686,325 shares at $0.19 per share, options to acquire 1,500,000 shares at $0.18 per share, options to acquire 1,000,000 shares at $0.10 per share, options to acquire 500,000 shares at $0.15 per share, options to acquire 2,000,000 shares at $0.16 per share, and warrants to acquire 350,000 shares at $0.15 per share.

(10) Includes options to acquire 400,000 shares of common stock at $0.18 per share.

(11) Includes options to purchase 150,000 shares of common stock at $2.50 per share, options to purchase 387,500 shares of common stock at $0.19 per share, options to purchase 650,000 shares of common stock at $0.15 per share, and options to purchase 250,000 shares at $0.16 per share.

(12) The members of GoSolutions Equity LLC are Daniel M. Doyle, Sr., H. Scott Seltzer, Larry C. Morgan, Shaun C. Pope, Tom C. Lokey, and William Thompson Thorn, III.

(13) Excludes up to 33,500,000 shares of our common stock underlying conversion of our Convertible Series A Preferred Stock issued to Barron Partners, LP ("Barron"). We have entered into an agreement with Barron which provides that Barron will not acquire any additional shares of our common stock in the open market or convert our Convertible Series A Preferred Stock into our common stock or exercise warrants if the effect of such a purchase, exercise or conversion would be to increase Barron's equity ownership position above 4.99%. Accordingly, because it is not anticipated that Barron will acquire beneficial ownership within the next 60 days or shares of our common stock above 4.99% of our outstanding number of shares of common stock, such securities are excluded from the above table.

Securities Authorized for Issuance Under Equity Compensation Plans

The following provides information, as of December 31, 2007, concerning compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

	(a)	(b)	(c)
Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighed-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders	37,230,669	$ 0.19	57,699,331
Equity compensation plans not approved by security holders	5,566,000	$ 0.09	--
Total	42,796,669	$ 0.18	57,699,331

For a complete description of our equity compensation plans, please refer to Note 7 of our consolidated financial statements as of December 31, 2007, which are filed as Exhibit 99.1 hereto.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Person Transactions.

In the future, the Audit Committee will review all relationships and transactions in which the company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. The company's legal consultant is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to the company or a related person are disclosed in the company's proxy statement. In addition, the Audit Committee reviews and approves or ratifies any related person transaction that is required to be disclosed. As set forth in the Audit Committee's key practices, in the course of its review and approval or ratification of a disclosable related party transaction, the committee considers:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to the company;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of the company; and
- any other matters the committee deems appropriate.

Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Description of Related Party Transactions

TBS leases the building that houses substantially all of its operations from Perimeter Center Partners, which is controlled by James L. Campbell and Stephen A. Garner. Messrs. Campbell and Garner are the former owners of TBS and are significant employees of the Company. The lease commenced on February 1, 2004 and has a term of six years, as amended, with monthly payments of $6,200 per month. The Company has executed a Guaranty with respect to the lease.

TBS has a related party capital lease with Perimeter Center Partners for an inserting machine. The lease commenced on May 19, 2007 and ends on January 31, 2010. Monthly payments are $1,746. The Company has executed a Guaranty with respect to the lease.

In connection with the acquisition of TBS, the Company issued a $300,000 convertible promissory note to Stephen A. Garner and a $300,000 convertible promissory note to James L. Campbell (the "TBS Notes"). Messrs. Campbell and Garner are employees of TBS. Each of the TBS Notes bore interest at 5 percent per annum and was due and payable in three equal annual installments of $100,000, with the first installment paid in February 2005, the second installment paid in March 2006 and the third and final installment paid in February 2007.

GSI leases the St. Petersburg office space pursuant to a noncancelable operating lease agreement expiring in April 30, 2011 at a cost of $12,653 per month. The building in which the office space is located is owned by an entity in which a member of GoSolutions Equity LLC (a related party) owns an interest.

On May 7, 2007, and pursuant to the TBS acquisition agreement, the Company issued 1,100,000 shares of common stock to each of Messrs. Garner and Campbell. The shares were valued at $0.04 per share (the estimated fair value on the measurement date) and recorded as additional purchase price. No additional shares of common stock are due to Messrs. Garner and Campbell pursuant to the TBS acquisition agreement.

On May 7, 2007, and in connection with the acquisition of TBS, the Company issued 66,000 shares of its restricted common stock to H. Jay Hill, who is an officer and director of the Company, as a finder's fee. The shares were valued at $0.04 per share (the estimated fair value on the measurement date).

On May 1, 2006 and in connection with the acquisition of GSI, the Company issued 42,663,879 shares of its restricted common stock to approximately 37 shareholders of GSI. The shares were valued at $0.10 per share (the estimated fair value on the date of acquisition).

On May 1, 2006 and in connection with the acquisition of TBS, the Company issued 1,100,000 shares of its restricted common stock to each of James L. Campbell and Stephen A. Garner, pursuant to the acquisition agreement. The shares were valued at $0.11 per share (the estimated fair value on the measurement date).

On June 29, 2006 and in connection with the acquisition of TBS, the Company issued 66,000 shares of its restricted common stock to H. Jay Hill, who is an officer and director of the Company, as a finder's fee. The shares were valued at $0.11 per share (the estimated fair value on the measurement date).

In connection with the acquisition of Resolutions, the Company issued promissory notes in the amount of $120,000 and $80,000 to Alexander Riess and William Falcon, respectively. The notes bear interest at 5% per annum and are due in ten monthly installments, payment of which is subject to certain conditions including availability of sufficient positive cash flow from the operations of Resolutions following the acquisition. As of February 28, 2006, all amounts due pursuant to the promissory notes had been paid by the Company.

Board of Director Independence

The standards relied upon by the Board of Directors in affirmatively determining whether a director is “independent” are those of the Nasdaq, which include the following objective standards:

(a) a director who is an employee, or whose immediate family member (defined as a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law and anyone, other than a domestic employee, sharing the director’s home) is an executive officer of the Company, would not be independent for a period of three years after termination of such relationship;

(b) a director who receives, or whose immediate family member receives, payments of more than $120,000 (or one percent of the average of our total assets at year-end for the last three completed fiscal years, whichever is greater) during any period of twelve consecutive months from the Company, except for certain permitted payments, would not be independent for a period of three years after ceasing to receive such amount;

(c) a director who is or who has an immediate family member who is, a current partner of the Company’s outside auditor or who was, or who has an immediate family member who was, a partner or employee of the Company’s outside auditor who worked on the Company’s audit at any time during any of the past three years would not be independent until a period of three years after the termination of such relationship;

(d) a director who is, or whose immediate family member is, employed as an executive officer of another company where any of the Company’s present executive officers serve on the other company’s compensation committee would not be independent for a period of three years after the end of such relationship; and

(e) a director who is, or who has an immediate family member who is, a partner in, or a controlling shareholder or an executive officer of any organization that makes payments to, or receives payments from, the Company for property or services in an amount that, in any single fiscal year, exceeds the greater of $200,000, or 5% of such other company’s consolidated gross revenues, would not be independent until a period of three years after falling below such threshold.. In addition, no director will qualify as “independent” unless the Board affirmatively determines that the director has no material relationship with the Company (either, directly or as a partner, shareholder or officer of an organization that has a relationship with the Company).

The Board of Directors, in applying the above-referenced standards, has affirmatively determined that the Company’s current “independent” directors are: J. Thomas Zender and Ricardo A. Salas.

ITEM 13. EXHIBITS

2.1	Agreement and Plan of Merger dated January 31, 2004 by and among VillageEDOCS, VillageEDOCS Merger Sub, Inc., Tailored Business Systems, Inc., Stephen A. Garner, and James L. Campbell previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **
2.2	Plan of Internal Restructuring previously filed as Exhibit B to the Company's Schedule 14C Information Statement filed on July 23, 2004 and incorporated herein by reference. **
2.3	Stock Purchase Agreement dated as of April 1, 2005 and executed April 15, 2005 by and among VillageEDOCS Acquisition Corp, Phoenix Forms, Inc., and Its Shareholders. Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
2.4	Merger Agreement, dated as of February 17, 2006, by and among VillageEDOCS, VEDO Merger Sub, Inc., GoSolutions, Inc. and certain stockholders of GoSolutions. Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 21, 2006. **
2.5	Articles of Merger and Plan of Merger. Previously filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
2.6	Assets Purchase Agreement dated December 10, 2007 by and between Phoenix Forms, Inc. and DocPath Corp. Previously filed as Exhibt 2.1 to the Company’s Current Report on Form 8-K filed on December 11, 2007. **
3.1	Articles of Incorporation, as amended. Previously filed with the Company's Form 10-SB filed on August 29, 2000. **
3.2	By-laws. Previously filed with the Company's Form 10-SB filed on August 29, 2000. **
3.3	Article of Amendment to Articles of Incorporation to increase authorized number of common shares. Previously filed with the Company's 14C Information Statement filed on July 23, 2004. **
3.4	Article of Amendment to Articles of Incorporation to increase authorized number of common shares and to create a class of preferred stock. Previously filed with the Company's 14C Information Statement filed on June 7, 2005. **
3.5	Form of Certificate of Designations of Preferences, Rights and Limitations of Series A Convertible Preferred Stock. Previously filed as Exhibit 4.8 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
3.6	Certificate of Amendment of Articles of Incorporation to increase authorized number of common shares. Previously filed with the Company's Current Report on Form 8-K filed on January 20, 2006. **
3.7	Form of Certificate of Incorporation of VillageEDOCS, Inc. Previously filed with the Company’s Definitive Information Statement on Schedule 14A filed on May 24, 2007.**

3.8 Form of Bylaws of VillageEDOCS, Inc. Previously filed with the Company’s Definitive Information Statement on Schedule 14A filed on May 24, 2007.

4.1 Letter Agreement dated July 30, 2002 by and between the Company, C. Alan Williams, and Joan P. Williams previously filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2002 and incorporated herein by reference. **

4.2 Form of Unsecured Convertible Promissory Note. Previously filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.3 Form of Convertible Secured Promissory Note. Previously filed as Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.4 2002 Equity Incentive Plan dated as of January 30, 2002. Previously filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.5 Form of Stock Option Agreement. Previously filed as Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.6 Promissory Note Modification Agreement dated May 9, 2002 by and among the Company, Joan P. Williams and C. Alan Williams. Previously filed as Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.7 Security Agreement dated May 9, 2002 by and among the Company, Joan P. Williams and C. Alan Williams. Previously filed as Exhibit 4.4 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference. **

4.8 Promissory Note to Stephen A. Garner dated February 17, 2004 previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.9 Promissory Note to James L. Campbell dated February 17, 2004 previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.10 Guaranty by Tailored Business Systems, Inc. to Stephen A. Garner dated February 17, 2004 previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.11 Guaranty by Tailored Business Systems, Inc. to James L. Campbell dated February 17, 2004 previously filed as Exhibit 4.4 to the Company's Current

Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.12 Form of Security Agreement dated February 17, 2004 by and between Tailored Business Systems, Inc. and Stephen A. Garner previously filed as Exhibit 4.5 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.13 Form of Security Agreement dated February 17, 2004 by and between Tailored Business Systems, Inc. and James L. Campbell previously filed as Exhibit 4.6 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.14 Registration Rights Agreement dated February 17, 2004 by and between VillageEDOCS and Stephen A. Garner previously filed as Exhibit 4.7 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.15 Registration Rights Agreement dated February 17, 2004 by and between VillageEDOCS and James L. Campbell previously filed as Exhibit 4.8 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.16 Form of Stock Pledge Agreement dated February 17, 2004 by and between Tailored Business Systems, Inc. and Stephen A. Garner previously filed as Exhibit 4.9 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.17 Form of Stock Pledge Agreement dated February 17, 2004 by and between Tailored Business Systems, Inc. and James L. Campbell previously filed as Exhibit 4.10 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **

4.18 Notice of Intent to Exercise Conversion Right dated February 10, 2005 by Joan P. Williams and C. Alan Williams. Previously filed as Exhibit 4.5 to the Company's Current Report on Form 8-K filed on February 14, 2005. **

4.19 Promissory Note to Alexander Riess dated April 15, 2005. Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

4.20 Promissory Note to William R. Falcon dated April 15, 2005. Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

4.21 Common Stock Purchase Warrant to Alexander Riess dated as of April 1, 2005. Previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

4.22 Common Stock Purchase Warrant to William R. Falcon dated as of April 1, 2005. Previously filed as Exhibit 4.4 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

4.23 Note Purchase Agreement dated April 13, 2005 by and between VillageEDOCS and Barron Partners LP. Previously filed as Exhibit 4.5 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

4.24	Convertible Note to Barron Partners LP dated April 13, 2005. Previously filed as Exhibit 4.6 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
4.25	Registration Rights Agreement dated April 13, 2005 by and between VillageEDOCS and Barron Partners LP. Previously filed as Exhibit 4.7 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
4.26	Form of Certificate of Designations of Preferences, Rights and Limitations of Series A Convertible Preferred Stock. Previously filed as Exhibit 4.8 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
4.27	Stock Purchase Warrant "A" dated April 13, 2005 to Barron Partners LP. Previously filed as Exhibit 4.9 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
4.28	Stock Purchase Warrant "B" dated April 13, 2005 to Barron Partners LP. Previously filed as Exhibit 4.10 to the Company's Current Report on Form 8-K filed on April 19, 2005. **
4.29	Form of Note Assignment. Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 6, 2005. **
4.30	Form of Promissory Note Modification Agreement. Previously filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on July 6, 2005. **
4.31	Form of Notice of Intent to Exercise Conversion Right. Previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on July 6, 2005. **
4.32	Notice of conversion by Barron Partners LP dated September 30, 2005. Previously filed as Exhibit 4.6 to the Company's Current Report on Form 8-K filed on October 5, 2005. **
4.33	Form of Convertible Secured Promissory Note by and among C. Alan Williams, Joan P. Williams, and the Company previously filed as Exhibit 4.19 to the Company's Annual Report on Form 10-KSB filed on April 14, 2006 and incorporated herein by reference. **
4.34	Convertible Secured Promissory Note dated February 16, 2004 by and among C. Alan Williams, Joan P. Williams, and the Company previously filed as Exhibit 4.20 to the Company's Annual Report on Form 10-KSB filed on April 14, 2006 and incorporated herein by reference. **
4.35	Notice of conversion by Barron Partners LP dated October 21, 2005. Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 24, 2005 and incorporated herein by reference. **
4.36	Notice of conversion by Barron Partners LP dated March 8, 2006. Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 9, 2006 and incorporated herein by reference. **

4.37	Registration Rights Agreement dated as of April 28, 2006 by and among VillageEDOCS and the principal stockholders of GoSolutions, Inc. Previously filed as Exhibit 99.5 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
4.38	Principal VEDO Stockholders Voting Agreement dated as of April 28, 2006 by and among Barron Partners, LP, C. Alan Williams, Joan P. Williams and GoSolutions, Inc. Previously filed as Exhibit 99.6 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
4.39	Indemnity/Contribution Agreement effective April 30, 2006, by and among VillageEDOCS, GoSolutions Equity, LLC (the "LLC"), and the principals of the LLC identified on the signature page thereto. Previously filed as Exhibit 99.7 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
4.40	Settlement and Release Agreement dated as of April 28, 2006 by and among VillageEDOCS, GoSolutions, Inc., The Zant Group Trust and Louis J. Zant. Previously filed as Exhibit 99.9 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
4.41	Second Extension Agreement dated as of April 28, 2006 by and between The Zant Group Trust and GoSolutions, Inc. Previously filed as Exhibit 99.9 to the Company's Current Report on Form 8-K filed on May 4, 2006. **
4.42	Settlement and Release Agreement dated as of June 30, 2006, by and among VillageEDOCS, GoSolutions, Inc., Bruce H. Bennett and Sandra G. Bennett. Previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on July 12, 2006. **
4.43	Warrant Exchange Agreement dated as of November 20, 2006 by and between the Company and Barron Partners, LP. Previously filed as Exhibit 10.1 to the Company’s Amended Current Report on Form 8-K/A filed on November 22, 2006.**
10.1	General Release and Noncompetition Agreement dated February 17, 2004 by Stephen A. Garner in favor of Tailored Business Systems, Inc. previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **
10.2	General Release and Noncompetition Agreement dated February 17, 2004 by James L. Campbell in favor of Tailored Business Systems, Inc. previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **
10.3	Lease Agreement dated February 17, 2004 by and between Perimeter Center Partners and Tailored Business Systems, Inc. previously filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on February 18, 2004 and incorporated herein by reference. **
10.4	Employment Agreement dated June 10, 2004 by and between the Company and K. Mason Conner previously filed as Exhibit C to the Company's Schedule 14C Information Statement filed on July 23, 2004 and incorporated herein by reference. **

10.5 Employment Agreement dated June 10, 2004 by and between the Company and H. Jay Hill previously filed as Exhibit D to the Company's Schedule 14C Information Statement filed on July 23, 2004 and incorporated herein by reference. **

10.6 Employment Agreement dated June 10, 2004 by and between the Company and Michael Richard previously filed as Exhibit E to the Company's Schedule 14C Information Statement filed on July 23, 2004 and incorporated herein by reference. **

10.7 Release of Claims Agreement dated as of April 1, 2005 by Alexander Riess in favor of Phoenix Forms, Inc. Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

10.8 Release of Claims Agreement dated as of April 1, 2005 by William R. Falcon in favor of Phoenix Forms, Inc. Previously filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 19, 2005. **

10.9 Amendment No. 1 to Executive Employment Agreement dated April 28, 2005 by and between the Registrant and K. Mason Conner. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2005. **

10.10 Amendment No. 1 to Executive Employment Agreement dated April 28, 2005 by and between the Registrant and H. Jay Hill. Previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 29, 2005. **

10.11 Amendment No. 1 to Executive Employment Agreement dated April 28, 2005 by and between the Registrant and Michael A. Richard. Previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 29, 2005. **

10.12 Executive Employment Agreement, dates as of March 1, 2006, by and between the Company and Jerry T. Kendall. Previously files as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 1, 2006. **

10.13 Amendment No. 2 to Michael Richard Executive Employment Agreement effective as of May 1, 2006. Previously filed as Exhibit 99.11 to the Company's Current Report on Form 8-K filed on May 4, 2006. **

10.14 Amendment No. 2 to H. Jay Hill Executive Employment Agreement effective as of May 1, 2006. Previously filed as Exhibit 99.12 to the Company's Current Report on Form 8-K filed on May 4, 2006. **

10.15 Amendment No. 2 to K. Mason Conner Executive Employment Agreement effective as of May 1, 2006. Previously filed as Exhibit 99.13 to the Company's Current Report on Form 8-K filed on May 4, 2006. **

10.16 Thor Bendickson Employment Agreement effective as of May 1, 2006. Previously filed as Exhibit 99.14 to the Company's Current Report on Form 8-K filed on May 4, 2006. **

10.17 Patent License Agreement, dated as of May 12, 2006, by and between VillageEDOCS and Catch Curve, Inc.. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 16, 2006. **

10.18 Office Lease Agreement effective June 1, 2007 by and between the Company and Tustin Avenue Investors, LLC. Previously filed as Exhibit 10.1 to the

Company's Current Report on Form 8-K filed on April 25, 2007. **

10.19	Placement Agency Agreement effective October 13, 2006 by and between the Company and Stonegate Securities, Inc. Previously filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-QSB filed on August 14, 2007. **
10.20	Engagement Agreement effective July 10, 2007 by and between the Company and GemStone Securities, LLC. Previously filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-QSB filed on August 14, 2007. **
10.21	Settlement Agreement dated June 6, 2007 by and among Jeffrey H. Mims, VarTec Telecom, Inc, Excel Telecommunications, Inc., VarTec Solutions, Inc., and GoSolutions, Inc. Previously filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-QSB filed on August 14, 2007. **
10.22	Form of Loan and Security Agreement dated February 6, 2008 by and between The Private Bank of the Peninsula and each of the Registrant, MessageVision, Inc., and Tailored Business Systems, Inc. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 11, 2008. **
14.1	Code of Ethics. Previously filed as Exhibit 14.1 to the Company's Annual Report on Form 10-KSB filed on March 29, 2004 and incorporated herein by reference. **
21.1	Subsidiaries of the Registrant.*
31.1	Certification Under Section 302 of The Sarbanes-Oxley Act of 2002 signed and dated March 31, 2008 by K. Mason Conner, Chief Executive Officer.*
31.2	Certification Under Section 302 of The Sarbanes-Oxley Act of 2002 signed and dated March 31, 2008 by Michael A. Richard, Chief Financial Officer.*
32.1	Certification Pursuant To 18 U.S.C. §1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 signed and dated March 31, 2008 by K. Mason Conner, Chief Executive Officer.***
32.2	Certification Pursuant To 18 U.S.C. §1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 signed and dated March 31, 2008 by Michael A. Richard, Chief Financial Officer.***
99.1	VillageEDOCS, Inc. Consolidated Financial Statements For The Fiscal Years Ended December 31, 2007 and 2006 together with Report of Independent Registered Public Accounting Firm.*

*	Filed herewith
**	Previously filed
***	Furnished herewith

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2007 and 2006 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditors that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, including procedures related to our acquisition of GSI and Resolutions (iii) services rendered in connection with tax compliance, tax advice, and tax planning, and (iv) all other fees for services rendered. "All Other Fees" consisted of fees related to our proxy statements, registration statements, SEC comment letters, and press releases.

			2007		2006
(i)	Audit Fees	$	205,000	$	185,000
(ii)	Audit Related Fees		-		40,000
(iii)	Tax Fees		40,000		40,000
(iv)	All Other Fees		-		-
	Total	$	245,000	$	265,000

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, VillageEDOCS, Inc. has caused this Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

VillageEDOCS, Inc.
(Registrant)

VillageEDOCS, Inc.

By: /s/ Michael A. Richard
Michael A. Richard
Chief Financial Officer and
Principal Accounting Officer

Date: March 31, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-KSB has been signed by the following persons below on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ K. Mason Conner K. Mason Conner	Director, President, and Chief Executive Officer	March 31, 2008
/s/ Michael A. Richard Michael A. Richard	Chief Financial Officer, Principal Accounting Officer	March 31, 2008
/s/ J. Thomas Zender J. Thomas Zender	Director, Chairman of the Board	March 31, 2008
/s/ Ricardo A. Salas Ricardo A. Salas	Director	March 31, 2008
/s/ H. Jay Hill H. Jay Hill	Executive Vice President, Director	March 31, 2008

Exhibit 99.1

VILLAGEEDOCS, INC.

Financial Statements
For the Years Ended December 31, 2007 and 2006
Together with Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of VillageEDOCS, Inc.

We have audited the accompanying consolidated balance sheet of VillageEDOCS, Inc. and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VillageEDOCS, Inc. and subsidiaries at December 31, 2007, and the results of their operations and their cash flows for each of the years in the two-year period then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for share-based compensation to adopt Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment.*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses and has a working capital deficit of $2,279,882. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ KMJ Corbin & Company LLP
Irvine, California
March 31, 2008

VillageEDOCS, Inc. and subsidiaries
Consolidated Balance Sheet

		December 31, 2007
ASSETS		
Current assets:		
Cash	$	749,911
Accounts receivable, net of allowance for doubtful accounts of approximately $49,000		899,117
Inventories		31,988
Prepaid expenses and other current assets		193,557
Total current assets		1,874,573
Property and equipment, net		379,192
Other assets		48,611
Goodwill		6,272,457
Other intangibles, net		2,993,449
	$	11,568,282
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$	561,845
Accrued expenses		2,491,416
Deferred revenue		425,636
Capital lease obligation, current		19,008
Lines of credit		484,680
Convertible note and accrued interest payable to related party		171,870
Total current liabilities		4,154,455
Capital lease obligation, net of current portion		21,918
Total liabilities		4,176,373
Commitments and contingencies		
Stockholders' equity:		
Series A Preferred stock, par value $0.001 per share:		
Authorized -- 48,000,000 shares		
Issued and outstanding -- 33,500,000 shares		33,500
(liquidation preference of $1,675,000)		
Common stock, par value $0.0001 per share:		
Authorized -- 500,000,000 shares		
Issued and outstanding -- 152,770,913 shares		15,277
Additional paid-in capital		32,397,585
Accumulated deficit		(25,054,453)
Total stockholders' equity		7,391,909
	$	11,568,282

See accompanying notes to consolidated financial statements.

VillageEDOCS, Inc. and subsidiaries
Consolidated Statements of Operations

	Years Ended December 31, 2007	Years Ended December 31, 2006
Net sales	$ 14,180,658	$ 10,742,096
Cost of sales	5,611,387	4,315,122
Gross profit	8,569,271	6,426,974
Operating expenses:		
Product and technology development	1,724,724	1,425,435
Sales and marketing	1,975,315	1,153,245
General and administrative	5,758,493	4,129,010
Depreciation and amortization	791,365	599,885
Total operating expenses	10,249,897	7,307,575
Loss from operations	(1,680,626)	(880,601)
Interest expense, net of interest income	(111,561)	(105,786)
Other income	43,381	40,099
Loss before provision for income taxes	(1,748,806)	(946,288)
Benefit (provision) for income taxes	89,000	(14,005)
Loss from continuing operations	$ (1,659,806)	$ (960,293)
(Loss) income from discontinued operations (net of income tax provision of $485,000 and $0)	(1,625,424)	$ 78,161
Net loss	$ (3,285,230)	$ (882,132)
Basic and diluted loss available to common stockholders per common share		
Loss from continuing operations	$ (0.01)	$ (0.01)
Income (loss) from discontinued operations	$ (0.01)	-
Loss per share	$ (0.02)	$ (0.01)
Weighted average shares outstanding - basic and diluted	150,218,437	131,185,095

See accompanying notes to consolidated financial statements.

VillageEDOCS and subsidiaries

Statements of Stockholders' Equity

For the Years Ended December 31, 2007 and 2006

	Series A Preferred Stock		Common Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Total
Balances, January 1, 2006	13,500,000	$ 13,500	99,167,526	$ 9,917	$ 26,542,554	$ (20,887,091)	$ 5,678,880
Estimated fair value of common stock issued to							
employees as compensation	-	-	66,000	7	7,253	-	7,260
Estimated fair value of common stock							
issued as acquisition cost of TBS	-	-	2,200,000	220	241,780	-	242,000
Estimated fair value of common stock issued as							
acquisition cost of TBS	-	-	110,000	11	12,089	-	12,100
Estimated fair value of common stock							-
issued as acquisition cost of GSI	-	-	42,663,879	4,266	4,262,122	-	4,266,388
Estimated fair value of common stock issued							
in connection with consulting services	-	-	660,722	66	67,435	-	67,501
Issuance of preferred stock in consideration							
for cancellation of common stock warrants	22,500,000	22,500	-	-	(22,500)	-	-
Conversion of preferred stock to common stock	(2,500,000)	(2,500)	2,500,000	250	2,250	-	
Estimated fair value of vested stock options	-	-	-	-	557,111	-	557,111
Net loss			-	-	-	(882,132)	(882,132)
Balances, December 31, 2006	33,500,000	33,500	147,368,127	14,737	31,670,094	(21,769,223)	9,949,108

Continued…

	Series A Preferred Stock		Common Stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	Total
Estimated fair value of common stock issued to employees as compensation	-	-	66,000	6	2,634	-	2,640
Estimated fair value of common stock issued as acquisition cost of TBS	-	-	2,200,000	220	87,780	-	88,000
Estimated fair value of common stock issued as acquisition cost of TBS	-	-	110,000	11	4,389	-	4,400
Estimated fair value of common stock issued in connection with consulting services	-	-	1,026,786	103	73,468	-	73,571
Issuance of common stock in consideration for exercise of common stock warrrants	-	-	2,000,000	200	199,800	-	200,000
Estimated fair value of common stock warrants issued in connection with consulting services	-	-	-	-	33,332	-	33,332
Estimated fair value of common stock warrants cancelled in disposition of PFI	-	-	-	-	(553,000)	-	(553,000)
Estimated fair value of vested stock options	-	-	-	-	879,088	-	879,088
Net loss			-	-	-	(3,285,230)	(3,285,230)
Balances, December 31, 2007	33,500,000	$ 33,500	152,770,913	$ 15,277	$ 32,397,585	$ (25,054,453)	$ 7,391,909

See accompanying notes to consolidated financial statements

VillageEDOCS, Inc. and subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31, 2007	2006
Cash Flows from Operating Activities:		
Net loss	$ (3,285,230)	$ (882,132)
Adjustments to reconcile net loss to net cash		
(used in) provided by operating activities:		
Depreciation and amortization	909,839	738,504
Provision for (recovery of) doubtful accounts receivable	(18,368)	37,901
Estimated fair value of stock options issued to employees for services rendered	879,088	557,111
Estimated fair value of warrants issued to consultants	33,332	-
Common stock issued to employees and non-employees for services rendered	76,211	74,761
Amortization of debt discount	12,233	14,676
Loss on discontinued operations	1,404,523	-
Gain on sale of assets	-	1,700
Changes in operating assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	(250,013)	352,818
Inventories	22,960	(423)
Prepaid expenses and other current assets	(180,706)	(76,774)
Other assets	(11,069)	31,300
Accounts payable	(63,251)	(152,285)
Accrued expenses and interest	265,217	(142,944)
Deferred revenue	112,215	(177,589)
Net cash (used in) provided by operating activities	(93,019)	376,624
Cash Flows from Investing Activities:		
Purchases of property and equipment	(147,680)	(132,511)
Cash acquired in acquisition of GSI, net	-	234,535
Costs incurred for purchase of GSI	-	(130,054)
Cash acquired from sale of PFI, net	837,510	-
Additions to capitalized software development	-	(1,189)
Net cash provided by (used in) investing activities	689,830	(29,219)
Cash Flows from Financing Activities:		
Payments on lines of credit, net	(355,320)	-
Proceeds from warrant exercise	200,000	-
Proceeds from notes payable	-	10,000
Payments on capital lease obligation	(30,399)	(4,075)
Principal payments on notes payable to related parties	(30,000)	(346,562)
Principal payments on convertible notes to related parties	(200,000)	(200,000)
Net cash used in financing activities	(415,719)	(540,637)
Net change in cash	181,092	(193,232)
Cash, beginning of year	568,819	762,051
Cash, end of year	$ 749,911	$ 568,819
Supplemental disclosure of cash flow information -		
Cash paid during the year for:		
Interest	$ 95,360	$ 99,320
Income taxes	$ 74,642	$ 4,000

Supplemental Schedule of Noncash Investing and Financing Activities:		**2007**		**2006**
Issuance of common stock as acquisition cost	$	92,400	$	254,100
Issuance of common stock on conversion of preferred stock	$	-	$	2,500
Issuance of preferred stock in consideration for cancellation of warrants	$	-	$	22,500
Estimated fair value of common stock issued in connection with acquisition	$	-	$	4,266,388
Accrual for patent license	$	-	$	250,000
Acquisition of property and equipment through capital lease obligation	$	63,175	$	12,225

1. Background, Organization and Basis of Presentation

VillageEDOCS, Inc. (the "Company" or "VillageEDOCS") was incorporated in 1995 in Delaware, reincorporated in California in 1997, and reincorporated in Delaware in September 2007. The Company has historically operated an electronic document delivery service marketed to organizations throughout the United States and internationally. On February 17, 2004, the Company acquired Tailored Business Systems, Inc. ("TBS"). TBS provides various programming, processing and printing services to governmental entities, including installing software, hardware, printing and mailing of property tax forms. On June 16, 2004, the holders of a majority of the voting capital stock of the Company voted to approve a Plan of Restructuring that included the reorganization of the Company's electronic document delivery business into a wholly owned subsidiary of the Company. In connection with the reorganization, the Company formed MessageVision, Inc. ("MVI") on October 25, 2004. Effective April 1, 2005, the Company acquired Phoenix Forms, Inc. dba Resolutions ("PFI" or "Resolutions"), which it subsequently sold effective December 1, 2007. Effective May 1, 2006, the Company acquired GoSolutions, Inc. ("GSI"). GSI provides enhanced voice and data communications services including speech-driven messaging, unified communications, and audio conferencing applications. The consolidated financial statements include the accounts of the Company and those of MVI, TBS, Resolutions, and GSI, its wholly owned subsidiaries, since October 25, 2004, February 17, 2004, April 1, 2005, and May 1, 2006, respectively. The accounts of Resolutions are included through November 30, 2007. See Note 5 for additional information regarding the accounting for Resolutions as a discontinued operation. All significant inter-company transactions and balances have been eliminated in consolidation.

2. Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred significant losses since inception, and has a working capital deficit of $2,279,882. The Company's losses are continuing and are expected to continue until such time as the Company is able to sufficiently expand its existing businesses or is able to consummate business combination transactions with other businesses whose profits are sufficient to offset any ongoing losses from operating the holding company that owns GSI, TBS and MVI.

The Company's success is dependent upon numerous items, certain of which are the successful growth of revenues from its products and services, its ability to obtain new customers in order to achieve levels of revenues adequate to support the Company's current and future cost structure, and its success in obtaining financing for equipment and operations, for which there is no assurance. Unanticipated problems, expenses, and delays are frequently encountered in establishing and maintaining profitable operations. These include, but are not limited to, competition, the need to develop customer support capabilities and market expertise, setbacks in product development, technical difficulties, market acceptance and sales and marketing. The failure of the Company to meet any of these conditions could have a materially adverse effect on the Company and may force the Company to reduce or curtail operations. No assurance can be given that the Company can achieve or maintain profitable operations.

The Company believes it will have adequate cash to sustain operations until it achieves sustained profitability. However, until the Company has a history of maintaining revenue levels sufficient to support its operations and repay its working capital deficit, the Company may require additional financing. Sources of financing could include capital infusions, additional equity financing or debt offerings. Although cash flows from operations improved during 2006 to a level sufficient to support operating expenses, the Company's operations used net cash during 2007. Should such cash flows continue to decrease for any reason, management plans to obtain debt and equity financing from new and existing stockholders. There can be no assurance that funding will be available on acceptable terms, if at all, or that such funds, if raised, would enable the Company to achieve or sustain profitable operations.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the classification of liabilities that might result from the outcome of these uncertainties.

3. Summary of Significant Accounting Policies

a. Segments of an Enterprise and Related Information

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 131, *"Disclosures about Segments of an Enterprise and Related Information."* SFAS No. 131 requires the Company to report information about segments of its business in annual financial statements and requires it to report selected segment information in its quarterly reports issued to stockholders. SFAS No. 131 also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The Company's four reportable segments are managed separately based on fundamental differences in their operations. At December 31, 2007, the Company operated in the following four reportable segments (see Note 12):

(a) Electronic document delivery services,
(b) Government accounting solutions,
(c) Integrated communications, and
(d) Corporate.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in this summary of significant accounting policies.

b. Concentration of Credit Risk

The Company extends credit to its customers and performs ongoing credit evaluations of such customers. The Company does not obtain collateral to secure its accounts receivable. MVI and GSI generally require a valid credit card or ACH debit account to collateralize credit extended to non-corporate clients. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary. At

December 31, 2007, the Company has recorded an allowance for doubtful accounts of approximately $49,000.

For the years ended December 31, 2007 and 2006, independent representatives of one enterprise accounted for approximately 31% and 23%, respectively, of total revenues.

No single customer accounted for more than 10% of accounts receivable at December 31, 2007.

At December 31, 2007, the Company had amounts on deposit with financial institutions in excess of the federally insured limits of $100,000, which approximated $410,000.

c. <u>Use of Estimates in the Preparation of Financial Statements</u>

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management are, among others, the realizability of accounts receivable, inventories, recoverability of long-lived assets, valuation of stock options, warrants, and deferred taxes. Actual results could differ from those estimates.

d. <u>Property and Equipment</u>

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Equipment under capital lease obligations is depreciated over the shorter of the estimated useful life or the term of the lease. Major betterments and renewals are capitalized, while routine repairs and maintenance are charged to expense when incurred.

e. <u>Revenue Recognition</u>

The Company recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 101, *"Revenue Recognition in Financial Statements,"* as revised by SAB No. 104. As such, the Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, or services have been performed, the price is fixed or readily determinable and collectibility is probable. Sales are recorded net of sales discounts.

The Company has adopted Statement of Position ("SOP") 97-2, "*Software Revenue Recognition,"* as well as SOP 98-9, *"Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions."* The SOPs generally require revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair market values of each of the elements. The fair value of an element must be based on vendor-specific objective evidence ("VSOE") of fair value. Software license revenue generated by TBS and

Resolutions (through the date of disposal – see Note 5), allocated to a software product is recognized upon delivery of the product, or deferred and recognized in future periods to the extent that an arrangement includes one or more elements that are to be delivered at a future date and for which VSOE has not been established. Maintenance and support revenue is recognized ratably over the maintenance term. First-year maintenance typically is sold with the related software license and renewed on an annual basis thereafter. Estimated fair values of ongoing maintenance and support obligations are based on separate sales of renewals to other customers or upon renewal rates quoted in the contracts. For such arrangements with multiple obligations, the Company allocates revenue to each component of the arrangement based on the estimated fair value of the undelivered elements. Fair value of services, such as consulting or training, is based upon separate sales of these services. The Company at times may enter into multiple-customer contracts in which the Company allocates revenue based on the number of specified users at each customer, and recognizes revenue upon customer acceptance and satisfying the other applicable conditions of the above described accounting policy.

Services revenue is recognized as the service is performed assuming that sufficient evidence exists to estimate the fair value of the services. Consulting and training services are billed based on contractual hourly rates and revenues are recognized as the services are performed. Consulting services primarily consist of implementation services related to the installation of the Company's products which do not require significant customization to or modification of the underlying software code.

Revenue from subscription agreements consists of fixed monthly fees and usage charges, generally based on per minute rates. Subscription agreement revenue related to MVI and GSI usage service charges are billed monthly in arrears and the associated revenues are recognized in the month of service. Recurring charges for the GoSolo (TM) platform are billed in advance on a monthly basis and recorded as deferred revenues. The Company recognizes subscription agreement revenue ratably over the service period, which management believes approximates the actual provision of services. Professional service fee revenue consists of consulting fees charged to enterprise clients for GoSol(TM) platform enhancements. The Company recognizes professional service fee revenue on a time and materials basis over the service period, which management believes approximates the actual provision of services. Wholesale enhanced voicemail services consists of fees charged to telecommunications providers for use of the GoSolo(TM) platform to provide their customers with hosted electronic voicemail, billed monthly in arrears and the associated revenues are recognized in the month of service.

Significant management judgments and estimates must be made in connection with determination of the revenue to be recognized in any accounting period. If the Company made different judgments or utilized different estimates for any period, material differences in the amount and timing of revenue recognized could result.

f. <u>Product and Technology Development</u>

Product and technology development expense includes personnel costs relating to developing the features, content and functionality of MVI's internet-enabled fax services and web site, TBS's government accounting software, and GSI's communications services. Product and technology development costs are expensed as incurred.

g. Advertising

The Company expenses all advertising costs as incurred. Advertising costs were $57,410 and $99,236 for the years ended December 31, 2007 and 2006, respectively.

h. Risks and Uncertainties

The Company operates in industries that are subject to intense competition, government regulation and rapid technological change. The Company’s operations are subject to significant risks and uncertainties including financial, operational, technological, regulatory and other risks associated with an operating business, including the potential risk of business failure.

i. Fair Value of Financial Instruments

The carrying amount of certain of the Company's financial instruments as of December 31, 2007 approximate their respective fair values because of the short-term nature of these instruments. Such instruments consist of cash, accounts receivable, accounts payable, accrued expenses, capital lease obligations, lines of credit, and notes payable. The fair value of convertible notes payable to related party is not determinable as the borrowings are with a related party.

j. Loss per Share

Basic loss per share is computed by dividing loss available to common stockholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional common shares were dilutive. All potentially dilutive shares, approximately 2,657,000 and 4,150,000 as of December 31, 2007 and 2006, respectively, have been excluded from diluted loss per share, as their effect would be anti-dilutive for the periods then ended.

k. Comprehensive Income

The Company has no items of comprehensive income.

l. Web Site Development Costs

During the years ended December 31, 2007 and 2006, the Company did not capitalize any additional amounts related to its web site in accordance with the Emerging Issues Task Force ("EITF") Issue No. 00-2, "*Accounting for Web Site Development Costs."* Web site development costs were amortized using the straight-line method over the estimated useful life of three years.

m. Software Development Costs

The Company capitalizes software development costs pursuant to SFAS No. 86, "*Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*," after technological feasibility of the software is established, which is generally the completion of a working prototype and ends upon general release of the product to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Capitalized costs consist of direct costs and allocated overhead associated with the development of the software products. Amortization of software development costs commences when the product becomes available for general release to customers and is computed based on the straight-line method over the software's estimated economic life of approximately three years. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset. At December 31, 2007, management determined that no impairment existed.

n. Income Taxes

The Company accounts for income taxes in accordance with the asset and liability method for financial accounting and reporting purposes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

o. Stock-Based Compensation

At December 31, 2007, the Company had two stock-based compensation plans.

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, ("SFAS 123(R)") which establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on accounting for transactions where an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, based on the grant-date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. In March 2005, the United States Securities and Exchange Commission ("SEC" or "Commission") issued Staff Accounting Bulletin ("SAB") No. 107 *Share-Based Payment* ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statements of operations.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's consolidated statements of operations for the years ended December 31, 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of December 31, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), and compensation expense for the share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As stock-based compensation expense recognized in the consolidated statements of operations for the years ended December 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The estimated average forfeiture rate for the years ended December 31, 2007 and 2006, of approximately 12%, and 11%, respectively, was based on historical forfeiture experience and estimated future employee forfeitures.

SFAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options to be classified as financing cash flows. Due to the Company's loss position, there were no such tax benefits during the years ended December 31, 2007 and 2006.

Description of Plans

The Company's stock option plans provide for grants of options to employees and directors of the Company to purchase the Company's shares, as determined by management and the board of directors, at the fair value of such shares on the grant date. The options generally vest over a five-year period beginning on the grant date and have a seven-year term. As of December 31, 2007, the Company is authorized to issue up to 95,000,000 shares under these plans and has approximately 58,000,000 shares available for future issuances.

Summary of Assumptions and Activity

The fair value of stock-based awards to employees and directors is calculated using the Black-Scholes option pricing model even though the model was developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which differ significantly from the Company's stock options. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior.

The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods. The fair value of options granted was estimated using the following weighted-average assumptions:

	2007	2006
Stock options:		
Expected term (in years)	6.0	5.0
Expected volatility	121% - 124%	316%
Risk-free interest rate	3.5%	3.55%
Dividend yield	-	-

A summary of option activity as of December 31, 2007 and changes during the year then ended, is presented below:

	December 31, 2007			
		Weighted-Average		
	Shares	Exercise Price	Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2007	38,971,557	$ 0.19		
Options granted	5,422,392	$ 0.18		
Options forfeited	(7,163,280)	$ 0.21		
Options exercised	-	$ -		
Options outstanding at December 31, 2007	37,230,669	$ 0.21	5.6	$ -
Options vested or expected to vest	35,943,447	$ 0.21	5.6	$ -
Options exercisable at December 31, 2007	26,849,848	$ 0.23	5.0	$ -

The weighted-average grant date fair value of options granted during 2007 was $0.07 per option. Upon the exercise of options, the Company issues new shares from its authorized shares.

As of December 31, 2007, there was approximately $1,085,000 of total unrecognized compensation cost, net of forfeitures, related to employee and director stock option compensation arrangements. That cost is expected to be recognized on a straight-line basis over the next 3.5 weighted average years. The total fair value of vested options issued to employees and directors during the years ended December 31, 2007 and 2006 was $879,088 and $557,111, respectively, net of an estimated forfeiture rate of 12% and 11%, respectively, which was recorded as general and administrative expense in the accompanying consolidated statements of operations.

All issuances of the Company's stock for non-cash consideration have been assigned a dollar amount equaling either the market value of the shares issued or the value of consideration received whichever is more readily determinable. The majority of the non-cash consideration received pertains to services rendered by consultants and others and has been valued at the market value of the shares issued. In certain issuances, the Company may discount the value assigned to the issued shares for illiquidity and restrictions on resale.

p. Inventories

Inventories consist primarily of supplies, forms, envelopes, and software licenses purchased for resale. Cost is determined on a first-in, first-out basis. The Company periodically reviews its inventory quantities on hand and adjusts for excess and obsolete inventory based primarily on historical usage rates and its estimated forecast of product demand. Actual demand may differ from the Company's estimates. Once established, write-downs of inventory are considered permanent adjustments to the basis of the excess or obsolete inventory.

q. Goodwill and Other Intangible Assets

Goodwill represents the excess of acquisition cost over the net assets acquired in a business combination and is not amortized in accordance with SFAS No. 142, "*Goodwill and Other Intangible Assets*." The provisions of SFAS No. 142 require that the Company allocate its goodwill to its various reporting units, determine the carrying value of those businesses, and estimate the fair value of the reporting units so that a two-step goodwill impairment test can be performed. In the first step of the goodwill impairment test, the fair value of each reporting unit is compared to its carrying value. Management reviews, on an annual basis, the carrying value of goodwill in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future undiscounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would perform the second step of the goodwill impairment test in order to determine the amount of goodwill impairment, if any.

The changes in the carrying amount of goodwill for the year ended December 31, 2006 are as follows (see Note 5):

Balance, January 1, 2007	$	8,692,483
Goodwill of TBS acquired (see Note 7)		92,400
Goodwill of PFI disposed (see Note 5)		(2,512,426)
Balance, December 31, 2007	$	6,272,457

The Company performed an impairment test on goodwill as of December 31, 2007. Based on its analysis as of December 31, 2007, the Company's management believes there is no impairment of its goodwill. There can be no assurance, however, that market conditions will not change or demand for the Company's products or services will continue, which could result in impairment of goodwill in the future.

Identifiable intangibles acquired in connection with business acquisitions are recorded at their respective fair values (see Note 5). Deferred income taxes have been recorded to the extent of differences between the fair value and the tax basis of the assets acquired and liabilities assumed.

r. Beneficial Conversion Feature

The convertible note provides for a rate of conversion that could fall below market value (see Note 6). Such feature is normally characterized as a "beneficial conversion feature" ("BCF"). Pursuant to Emerging Issues Task Force ("EITF") Issue No. 98-5 *Accounting For Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio* and EITF Issue No. 00-27, *Application of EITF Issue No. 98-5 To Certain Convertible Instruments,* the relative fair value of the BCF has been recorded as a discount from the face amount of the debt instrument. The Company is amortizing the discount using the effective interest method through maturity of such instrument.

s. Long-Lived Assets

In the event that facts and circumstances indicate that equipment or other long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future discounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment charge is necessary. The amount of long-lived asset impairment, if any, is charged to operations in the period in which long-lived asset impairment is determined. At December 31, 2007, management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products or services will continue, which could result in impairment of long-lived assets in the future.

t. Warranty Costs

The Company provides a limited 90 day warranty on certain products sold. Estimated future warranty obligations related to certain products and services are provided by charges to operations in the period in which the related revenue is recognized. As of December 31, 2007, management of the Company determined that a warranty reserve was not necessary. In addition, the charges to expense during the years ended December 31, 2007 and 2006 were insignificant.

u. New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company plans to adopt SFAS No. 157 beginning in the first quarter of 2008. The adoption of this pronouncement is not expected to have material effect on the Company's consolidated financial statements.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* , applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The adoption of this pronouncement is not expected to have material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. We are currently evaluating the impact SFAS No. 141R will have on any future business combinations.

Other recent accounting pronouncements issued by the FASB (including the EITF) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

4. Property and Equipment

Property and equipment consist of the following as of December 31, 2007:

Equipment under capital lease	$	84,831
Computer equipment		864,955
Furniture and equipment		518,827
Automobiles		48,800
Software		171,002
		1,688,415
Less-- accumulated depreciation		(1,309,223)
	$	379,192

Depreciation expense for property and equipment for 2007 and 2006 was $259,156 and $180,452, respectively, for continuing operations and $29,984 and $50,125 for discontinued operations, respectively.

5. Acquisitions, Discontinued Operations, Dispositions, and Intangible Assets

GSI

Effective May 1, 2006, VEDO Merger Sub, Inc., a wholly owned subsidiary of VillageEDOCS, Inc., acquired 100% of the outstanding common and preferred stock of GSI (the "Acquisition").

GSI is a Florida corporation formed in 2000 to acquire Go Solo Technologies, Inc., which has been operating continuously since 1999. GSI is headquartered in St. Petersburg, Florida.

The terms of the Acquisition were the result of arms-length negotiations. None of the GSI shareholders were previously affiliated with VillageEDOCS, Inc..

Effective May 1, 2006, VillageEDOCS issued 42,663,879 shares of its common stock, net of approximately 17,336,121 shares not issued in connection with two settlements (see below), with an estimated fair value of $4,266,388, to GSI's stockholders. VillageEDOCS, Inc’s common stock was valued at $0.10 per share, the fair value of VillageEDOCS, Inc’s common stock on the date of the acquisition.

In connection with the Acquisition, VillageEDOCS, Inc. and dissenting shareholders of GSI holding approximately 1,771,000 and 3,021,000 shares of GSI’s common and preferred Series A stock, respectively, entered into settlement agreements (the "Settlement Agreements"). Pursuant to the Settlement Agreements, the dissenting shareholders agreed to waive all dissenters’ rights regarding approval of the Acquisition. In exchange for the waiver, VillageEDOCS, Inc. agreed to pay cash in the amount of $965,000 in lieu of shares of its common stock.

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

VillageEDOCS, Inc. funded the required payment under the Settlement Agreements with proceeds from GSI's cash balance of $965,000, $840,000 of which was provided by GSI's $1,000,000 revolving line of credit with a financial institution (see Note 6).

In connection with the Acquisition, VillageEDOCS, Inc. incurred approximately $130,000 in acquisition-related costs including, but not limited to, expenses incurred for legal, accounting and travel.

The acquisition price was comprised of the following:

Cash in accordance with settlement agreements	$	965,000
Estimated fair value of VillageEDOCS' common stock		4,266,388
Legal, accounting, and other costs		130,054
	$	5,361,442

The following represents an allocation of the purchase price over the historical net book value of the acquired assets and liabilities of GSI as of May 1, 2006, the effective date of the Acquisition:

Cash	$	1,199,535
Accounts receivable, net		332,457
Prepaid expenses and other current assets		68,912
Property and equipment, net		240,272
Other assets		34,895
Line of credit		(840,000)
Deferred revenue		(1,386,194)
Other liabilities		(949,686)
Net tangible liabilities assumed		(1,299,809)
Identifiable intangibles:		
Customer relationships		2,200,000
Technology		490,000
Trade names and marks		420,000
Goodwill		3,551,251
	$	5,361,442

The pro forma combined historical results, as if GSI had been acquired as of January 1, 2006 are estimated as follows:

		Year Ended December 31, 2006 (unaudited)
Net sales	$	15,079,240
Net loss	$	(1,173,259)
Weighted average common		
shares outstanding:		
basic and diluted		145,211,587
Loss per share:		
basic and diluted	$	(0.01)

The pro forma information has been prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results.

Discontinued Operations and Disposition of Resolutions

On December 10, 2007, the Company sold substantially all of the assets of its wholly-owned subsidiary Phoenix Forms, Inc. dba Resolutions to DocPath Corp. for $970,000 in cash, plus the cancellation of 10,000,000 warrants previously issued with an exercise price of $0.15 per share. The warrants were originally issued to Alexander Riess and William Falcon as consideration in the acquisition of Phoenix Forms, Inc. by VillageEDOCS, Inc. in April 2005 and were valued at $553,000 on the date of cancellation (see below).

The Company's Board of Directors approved the disposal of the assets on December 7, 2007 as part of a strategy to reduce debt and focus on growth at the remaining business units and growth by acquisition. The Company used $845,005 of the proceeds from the asset sale to retire a commercial note with a bank on December 11, 2007 (see Note 6).

The purchaser assumed substantially all of the employment agreements of Phoenix Forms, Inc., its office lease, accounts payable, and certain other accrued liabilities and contracts as stipulated by the Assets Purchase Agreement. Accordingly, the Company does not expect to incur significant future cash expenditures in connection with the disposal.

In connection with the disposal, the Company recorded a loss from discontinued operations of $1,625,424, net of tax of $485,000. Such loss includes income from PFI's operations of $264,099 before income taxes and a loss on the disposal of approximately $1,404,523 (which consists of net proceeds of $926,835 (net of $43,165 of expenses), plus the fair value of the cancelled warrant of approximately $553,000, less the net assets sold of $2,884,358, which includes the carrying value of goodwill and certain intangible assets with a carrying value of $3,019,916 at the time of disposition, which were written off and $35,493 of cash retained by the seller. The Company received $873,003 in December 2007 and the remaining $53,832 in January 2008. The amounts received in January 2008 have been included in the prepaid expenses and other current assets in the accompanying consolidated balance sheet.

In accordance with SFAS No. 144, *Accounting for the Impairment of Disposal of Long Lived Assets*, the operations associated with this transaction and the loss on the sale have been classified as income (loss) from discontinued operations in the accompanying consolidated statements of operations.

Discontinued operations' results were as follows:

	December 31, 2007	December 31, 2006
Results of discontinued operations:		
Net sales	$ 1,763,024	$ 2,170,077
Income before income taxes	$ 264,099	$ 78,161
Loss on sale of discontinued operations:		
Sales price, net	$ 1,479,835	$ —
Net assets sold	(2,884,358)	—
Loss on sale	$ (1,404,523)	$ —
Income (loss) from discontinued operations before income taxes	$ (1,140,424)	$ 78,161
Income taxes	(485,000)	—
Income (loss) from discontinued operations	$ (1,625,424)	$ 78,161

Other Intangible Assets

On May 12, 2006, the Company entered into a Patent License Agreement (the "License Agreement") with Catch Curve, Inc. ("Catch Curve"). Pursuant to the License Agreement, Catch Curve granted the Company a worldwide, non-exclusive, non-divisible, fully paid-up license to use certain patented technology in connection with any facsimile products or services made or sold by the Company or its subsidiaries. The Company is obligated to make aggregate license payments of $600,000 over a period of up to thirty-two months beginning on May 12, 2006, at which time no further payments are required under the License Agreement. The License Agreement stipulates that $350,000 of the total license fee is attributable to sales of products and services prior to the date of the License Agreement. The remainder of $250,000 is attributable to sales of products and services subsequent to the date of the License Agreement. Accordingly, on May 12, 2006, the Company recorded an intangible asset in the amount of $250,000. The intangible asset is being amortized over 58 months, the current remaining life of the patents covered by the License Agreement. During 2007, the Company made license payments of $180,000 under the License Agreement. At December 31, 2007, the unpaid balance due was $180,000, which has been classified as a current liability on the accompanying consolidated balance sheet.

Other intangible assets consist of the following as of December 31, 2007:

	Estimated Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Corporate:				
License agreement	Five	$ 250,000	$ (84,051)	$ 165,949
TBS:				
Customer list	Ten	$ 500,000	$ (193,750)	$ 306,250
Trade name	Five	50,000	(38,750)	11,250
		$ 550,000	$ (232,500)	$ 317,500
GSI:				
Customer relationships	Ten	$ 2,200,000	$ (366,667)	$ 1,833,333
Technology	Five	490,000	(163,333)	326,667
Trade names and marks	Ten	420,000	(70,000)	350,000
		$ 3,110,000	$ (600,000)	$ 2,510,000
Total other intangible assets		$ 3,910,000	$ (916,551)	$ 2,993,449

Amortization of other intangible assets was $471,724 and $417,321 during 2007 and 2006, respectively for continuing operations and $88,490 and $88,494 during 2007 and 2006, respectively, for discontinued operations. During 2007, the Company wrote off $507,489 of intangible assets in connection with the sale of PFI.

The estimated amortization expense for the next five years approximates:

Years Ending December 31,		
2008	$	472,000
2009		463,000
2010		462,000
2011		357,000
2012		312,000
	$	2,066,000

6. Debt

Bank Lines of Credit

During 2006 and in connection with the acquisition of GSI, the Company had a $1,000,000 revolving line of credit (the "Line") with a financial institution and had used the proceeds to fund a required payment of $840,000 pursuant to the Settlement Agreements with dissenting shareholders of GSI. On December 11, 2007, VillageEDOCS, Inc. paid $845,005 to the financial institution in full satisfaction of the commercial note issued in connection with the Line. The Line matured on December 12, 2007 and the Company did not elect to renew it. The Company elected to pay the commercial note in full from available cash in lieu of converting the Line to a non-revolving term loan. Interest on outstanding borrowings had been payable monthly at a rate equal to the prime rate. During the years ended December 31, 2007 and 2006, the Company paid $62,883 and $52,578, respectively, in interest on the Line. The Line had been collateralized by the assets of GSI and guaranteed by four shareholders of the Company who were formerly shareholders of GSI.

Effective September 30, 2006, VillageEDOCS obtained a $500,000 revolving line of credit ("RLOC") with a financial institution. The RLOC is guaranteed by a shareholder of the Company. Interest on outstanding borrowings is payable monthly at an annual rate of interest equal to LIBOR plus 2% (6.22% at December 31, 2007). As of December 31, 2007, there were outstanding borrowings of $484,680 on the RLOC and the Company was in compliance with all loan covenants.

Effective November 28, 2005, TBS renewed a $100,000 revolving line of credit ("TBS RLOC") with a financial institution. The TBS RLOC is guaranteed by the assets of TBS. Interest on outstanding borrowings is payable monthly at a variable annual rate equal to the financial institution's prime rate in effect (7.25% at December 31, 2007). As of December 31, 2007, the Company had not utilized the TBS RLOC and was in compliance with all loan covenants.

C. Alan and Joan P. Williams

On February 17, 2004, the Company borrowed $1,700,000 from C. Alan and Joan P. Williams and issued a convertible promissory note, bearing interest at 10 percent per annum. During 2005, all but $65,000 of the principal amount due pursuant to this note was converted into shares of the Company's common stock. The note, as amended, and accrued interest are due at the earlier of one of three events: 1) October 31, 2009; 2) acquisition of a controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of $3,000,000. The conversion price is $0.14 per share. As an incentive for Mr. and Mrs. Williams to provide the loan, the Company issued them a warrant to purchase 5,000,000 shares of the Company's restricted common stock at $0.10 per share exercisable until February 17, 2009. In connection with the issuance of the note, the Company recorded a debt discount of $730,000, consisting of an embedded put option of $280,000 and the fair value of the warrant of $450,000, which were recorded as derivative liabilities upon note issuance and subsequently reclassified to additional paid-in capital. The Company amortized the discount using the effective interest method through October 31, 2007.

During 2007 and 2006, $12,233 and $14,676, respectively, of interest expense was recognized in connection with the amortization of debt discount related to these notes.

At December 31, 2007, the amount owed by the Company to Mr. and Mrs. Williams pursuant to the unpaid balance of the convertible promissory note payable was $65,000 in principal and $106,870 in unpaid interest and are included in convertible note payable and accrued interest payable to related party in the accompanying consolidated balance sheet.

Barron Partners, LP

On April 13, 2005, the Company issued a convertible note payable to Barron Partners, LP ("Barron") in the principal amount of $800,000 (the "Convertible Note") which was converted into 16,000,000 shares of the Company's Series A preferred stock on September 30, 2005.

In connection with the Convertible Note, the Company issued Barron a warrant ("Warrant A") to purchase up to 32,000,000 shares of its common stock at $0.10 per share (subject to adjustment, as defined). Pursuant to the warrant agreement, the holder has the right to purchase preferred shares of the Company for a limited time, as defined. In addition, the Company issued Barron a warrant ("Warrant B") to purchase up to 8,000,000 shares of its common stock at $0.25 per share (subject to adjustment, as defined). Warrants A and B vested upon grant and are exercisable through April 2010. The warrants contain certain cashless exercise and anti-dilution provisions, as defined.

On November 17, 2006, the Company and Barron entered into a Warrant Exchange Agreement (the “Exchange Agreement”). Pursuant to the Exchange Agreement, Barron agreed to cancel Warrants A and B to the Company. In consideration for the cancellation of the foregoing warrants, the Company issued 22,500,000 shares of its Series A Preferred Stock to Barron. Preferred Stock is convertible at the option of the holder into common stock on a one-for-one basis. No gain or loss was recorded as a result of the Exchange Agreement. Pursuant to the Exchange Agreement, the Company granted Barron certain registration rights (see Note 7).

Zant Trust

On September 1, 2001, GSI executed and delivered a note payable to a related party in the principal amount of $500,000, which matured in September 2006, as amended. The note bore interest at 10% per annum, was secured by the assets of GSI, and was paid in full during 2006.

James L. Campbell and Stephen A. Garner

In connection with the acquisition of TBS, the Company issued a $300,000 convertible promissory note to Stephen A. Garner and a $300,000 convertible promissory note to James L. Campbell (the "TBS Notes"). Messrs. Campbell and Garner are employees of TBS. Each of the TBS Notes bore interest at 5 percent per annum and was due and payable in three equal annual installments of $100,000, with the first installment paid in February 2005, the second installment paid in March 2006 and the third and final installment paid in February 2007.

Alexander Riess and William Falcon

In connection with the acquisition of Resolutions, the Company issued promissory notes in the amount of $120,000 and $80,000 to Alexander Riess and William Falcon, respectively. Messrs. Riess and Falcon are employees of Resolutions. The notes bore interest at 5% per annum and were paid in full in February 2006.

Also in connection with the acquisition of Resolutions, Messrs. Riess and Falcon loaned the Company $60,000 and $40,000, respectively, through February 28, 2006. The notes bore interest at 7.5% per annum and were paid in full as of December 31, 2006.

An aggregate of $30,000 in notes payable to Messrs. Riess and Falcon were assumed in the acquisition of Resolutions. The notes were non-interest bearing. The notes were paid in full as of March 1, 2007 in accordance with the acquisition agreement.

Interest Expense

Interest expense recognized on the Line and all the notes payable and the convertible note payable to a related party was $112,447 and $111,652 during 2007 and 2006, respectively. Interest expense during 2007 and 2006 included non-cash charges of $12,233 and $14,676, respectively, related to amortization of debt discount.

7. Stockholders' Equity (Deficit)

a. Preferred Stock

On May 20, 2005, stockholders holding shares representing 74% of the votes entitled to be cast at a meeting of the Company's stockholders consented in writing to a proposal to amend the Company's articles of incorporation to create and establish a series of preferred stock of the Company in connection with a private placement of the Company's $800,000 convertible promissory note. The amendment authorized 48,000,000 shares of Series A Convertible Preferred Stock, par value $0.001 ("Series A Preferred Stock"). Each share of Series A Preferred Stock shall be convertible into one share of Common Stock. Series A Preferred Stock will be immediately convertible into common stock, however, the Company is prohibited from effecting any conversion of the Series A Preferred Stock, and the holder shall not have the right to convert any portion of the Series A Preferred Stock, to the extent that after giving effect to such conversion, the holder (together with the holder's affiliates) would beneficially own in excess of 4.99% of the number of shares of common stock outstanding immediately after giving effect to the conversion. The foregoing restriction may be waived (a) upon sixty-one days prior notice from the holder to the Company and (b) shall not apply in the event of a sale of substantially all of the assets or securities of the Company, a merger involving the corporation or an underwritten public offering of the Company's common stock. No dividends shall be payable with respect to the Series A Preferred Stock. The Series A Preferred Stock shall have no voting rights, except with respect to changes in the powers, preferences or rights of the Preferred Stock. The liquidation preference of the Series A Preferred Stock is equal to $0.05 per share (the "Liquidation Value"). Upon liquidation of the Company, holders of Series A Preferred Shares will be paid the Liquidation Value prior to distribution of any amounts to holders of our common stock.

On March 8, 2006, the Company accepted a notice from Barron Partners, LP of its intent to convert an additional 2,500,000 shares of the Company's Series A Preferred Stock into 2,500,000 shares of the Company's common stock. The shares of common stock were issued on March 8, 2006.

On November 17, 2006, the Company and Barron entered into a Warrant Exchange Agreement (the "Exchange Agreement"). Pursuant to the Exchange Agreement, Barron agreed to cancel Warrants A and B (see Note 6). In consideration for the cancellation of the foregoing warrants, the Company issued 22,500,000 shares of its Series A Preferred Stock to Barron. No gain or loss was recorded as a result of the Exchange Agreement.

b. Common Stock

On January 9, 2006, the Company filed a Certificate of Amendment of Articles of Incorporation with the Secretary of State of the State of California in order to increase the authorized number of shares of common stock of the Company from 250,000,000 to 400,000,000. The shareholders holding shares representing 70% of the votes entitled to be cast at a meeting of the Company's stockholders consented in writing to the proposed actions. The Company's Board of Directors approved these actions on December 6, 2005 and recommended that the Articles of Incorporation and the Incentive Plan be amended to reflect the above action. The Secretary of State accepted the Certificate of Amendment on January 19, 2006 with an effective date of January 9, 2006.

On May 1, 2006 and in connection with the acquisition of GSI, the Company issued 42,663,879 shares of its restricted common stock to approximately 37 shareholders of GSI (see Note 5). The shares were valued at $0.10 per share (the estimated fair value on the date of acquisition).

On May 1, 2006 and in connection with the acquisition of TBS, the Company issued 1,100,000 shares of its restricted common stock to each of James L. Campbell and Stephen A. Garner, pursuant to the acquisition agreement. The shares were valued at $0.11 per share (the estimated fair value on the date that the shares were earned) and recorded as additional purchase price.

On June 29, 2006 and in connection with the acquisition of TBS, the Company issued 66,000 shares of its restricted common stock to H. Jay Hill, who is an officer and director of the Company, as a finder's fee. The shares were valued at $0.11 per share (the estimated fair value on the date that the shares were earned) and recorded as compensation expense in the accompanying statement of operations.

On June 29, 2006 and in connection with the acquisition of TBS, the Company issued 110,000 shares of its restricted common stock to a non-affiliate pursuant to a finder's fee agreement. The shares were valued at $0.11 per share (the estimated fair value on the date that the shares were earned) and recorded as additional purchase price.

On June 29, 2006, the Company issued 160,722 shares of its restricted common stock to a non-affiliate independent contractor for project management services rendered. The shares were valued at $0.14 per share (the estimated fair value on the date of issuance) and recorded as consulting expense in the accompanying statement of operations.

On October 31, 2006, the Company issued an aggregate of 500,000 shares of its restricted common stock to a consultant in connection with a placement agency agreement. The 500,000 shares were valued at $0.09 per share (fair value on date of issuance) and the Company recorded $45,000 of consulting expense in the accompanying consolidated statement of operations in accordance with the nature of the services provided.

On February 22, 2007, the Company issued an aggregate of 500,000 shares of its restricted common stock to a consultant in connection with a placement agency agreement. The 500,000 shares were valued at $0.085 per share (fair value on the measurement date) and the Company recorded $42,500 of consulting expense in the accompanying consolidated statements of operations during the year ended December 31, 2007 in accordance with the nature of the services provided.

On May 7, 2007, and pursuant to the TBS acquisition agreement, the Company issued 1,100,000 shares of common stock to each of Messrs. Garner and Campbell. The shares were valued at $0.04 per share (the estimated fair value on the measurement date) and recorded as additional purchase price. No additional shares of common stock are due to Messrs. Garner and Campbell pursuant to the TBS acquisition agreement.

On May 7, 2007, and in connection with the acquisition of TBS, the Company issued 110,000 shares of its restricted common stock to a non-affiliate pursuant to a finder's fee agreement. The shares were valued at $0.04 per share (the estimated fair value on the measurement date) and recorded as additional purchase price.

On May 7, 2007, and in connection with the acquisition of TBS, the Company issued 66,000 shares of its restricted common stock to H. Jay Hill, who is an officer and director of the Company, as a finder's fee. The shares were valued at $0.04 per share (the estimated fair value on the measurement date) and were recorded as compensation expense.

On May 7, 2007, the Company issued 26,786 shares of its restricted common stock to a non-affiliate independent contractor for project management services rendered. The shares were valued at $0.04 per share (the estimated fair value on the measurement date) and were recorded as consulting expense in June 2007.

As of May 24, 2007, a majority of the Company's stockholders approved a proposal to increase the authorized shares of the Company to 500,000,000 from 400,000,000.

On August 28, 2007, and in connection with an engagement agreement, the Company issued an aggregate of 500,000 shares of its restricted common stock to Gemstone Securities LLC for services provided. The shares were valued at $0.06 per share (the estimated fair value on the measurement date).

On August 28, 2007, the Company issued 2,000,000 shares of its restricted common stock to C. Alan and Joan P. Williams at $0.10 per share in consideration for $200,000 in cash proceeds to the Company from the exercise of common stock purchase warrants.

Effective September 7, 2007, the Company reincorporated in Delaware under the name VillageEDOCS, Inc. Pursuant to its Articles of Incorporation filed with the State of Delaware, the Company is authorized to issue two classes of shares of stock. The first class is designated as preferred stock. The total number of shares of Series A Preferred stock that the Company is authorized to issue is forty eight million (48,000,000) of $0.001 par value per share. The second class is designated as common stock. The total number of shares of common stock that the Company is authorized to issue is five hundred million (500,000,000) of $0.0001 par value.

c. Stock Options

The Company has adopted an equity incentive plan (the “2002 Plan”) that authorizes the issuance of options to acquire up to 90,000,000 shares of common stock, as amended, to employees and certain outside consultants. The 2002 Plan allows for the issuance of either non-qualified or, subject to stockholder approval, incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 2002 Plan, the exercise price of each option shall not be less than fair market value on the date the option is granted. The number of options under the 2002 Plan available for grant at December 31, 2007, and 2006 was 54,825,470 and 23,788,645, respectively.

During 1997, the Board of Directors of the Company adopted a stock option plan (the “1997 Plan”) that authorizes the issuance of options to acquire up to 5,000,000 shares of common stock to employees and certain outside consultants. The 1997 Plan allows for the issuance of either non-qualified or incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 1997 Plan, the exercise price of each option shall not be less than 85 percent of fair market value on the date the option is granted. The number of options under the 1997 Plan available for grant at December 31, 2007 and 2006 was 2,873,861 and 2,239,798, respectively.

During 2006, the Company granted to its employees options to purchase shares of its common stock under the 2002 Plan as follows: 13,520,000 shares at $0.15 per share, 500,000 shares at $0.16 per share, and 100,000 shares at $0.18 per share. All options were issued above or at the fair market value on the dates of grant and vest on various dates from the date of grant through December 2011.

During 2006, 2,183,113 options under the 2002 Plan and 150,000 other options were cancelled due to their expiration or the termination of employment.

During 2007, the Company granted to its employees options to purchase shares of its common stock under the 2002 Plan as follows: 1,180,000 shares at $0.15 per share, and 4,242,392 shares at $0.19 per share. All options were issued above or at the fair market value on the dates of grant and vest on various dates from the date of grant through August 2015 (see Note 3).

During 2007, 6,529,217 options under the 2002 Plan and 634,063 other options were cancelled due to their expiration or the termination of employment.

Stock option activity for the years ended December 31, 2007 and 2006 is as follows:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at January 1, 2006	27,184,670	$ 0.22
Granted	14,120,000	0.15
Forfeited	(2,333,113)	0.28
Exercised	-	-
Outstanding at December 31, 2006	38,971,557	0.19
Granted	5,422,392	0.18
Forfeited	(7,163,280)	0.21
Exercised	-	-
Outstanding at December 31, 2007	37,230,669	$ 0.19
Exercisable at December 31, 2007	26,849,848	$ 0.23

Weighted average fair value of options granted:	2006	$ 0.14
	2007	$ 0.07

The following summarizes information about options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
$0.10 - $0.25	36,420,510	5.7	$ 0.16	26,039,689	$ 0.16
$1.00	50,000	1.1	1.00	50,000	1.00
$2.50	760,159	2.7	2.50	760,1593	2.50
	37,230,669		$ 0.21	26,849,848	$ 0.23

d. Warrants

From time to time, the Company issues warrants pursuant to various consulting and third party agreements.

On October 1, 2007, and in connection with a retainer agreement dated September 15, 2007, the Company issued a warrant to purchase 2,000,000 shares of its common stock at $0.05 per share (fair value on the measurement date) to a consultant in consideration for public relations services. The warrants are exercisable over a five year period from date of grant. The warrants were valued using the Black-Scholes option pricing model, were valued at $100,000, and will be recorded as consulting expense in the Company's statements of operations over the twelve month vesting period that began on September 15, 2007. During the year ended December 31, 2007, the Company recorded $33,332 of consulting expense in connection with this warrant.

In connection with the Convertible Note (see Note 6), the Company issued Barron a warrant ("Warrant A") to purchase up to 32,000,000 shares of its common stock at $0.10 per share (subject to adjustment, as defined). Pursuant to the warrant agreement, the holder had the right to purchase shares of the Company's preferred stock for a limited time, as defined. In addition, the Company issued Barron a warrant ("Warrant B") to purchase up to 8,000,000 shares of its common stock at $0.25 per share (subject to adjustment, as defined) (see Note 6). The warrants were valued using the Black-Scholes option pricing model and were valued at $6,400,000. Warrants A and B vested upon grant and were exercisable through April 2010. The warrants contained certain cashless exercise and anti-dilution provisions, as defined. On November 17, 2006, the Company and Barron entered into a warrant exchange agreement (see Note 7).

On April 15, 2005 and in connection with the acquisition of PFI, the Company issued warrants to purchase an aggregate of 10,000,000 shares of VillageEDOCS' common stock at $0.15 per share. The warrants were valued at $2,100,000 (estimated based on the Black-Scholes option pricing model) and included as consideration in the purchase price, and vested at various amounts during the third, twelfth, twenty-fourth, and thirty-sixth months following the date of closing. The warrants were tendered and cancelled effective December 1, 2007 in connection with the sale of Resolutions (see Note 5).

The following represents a summary of the warrants outstanding for the years ended December 31, 2007 and 2006:

	Number of Warrants	Weighted Average Exercise Price Per Share
Outstanding at January 1, 2006	55,566,000	$ 0.13
Granted	-	-
Exercised	-	-
Expired/Forfeited	(40,000,000)	0.13
Balance at December 31, 2006	15,566,000	$ 0.13
Granted	2,000,000	0.05
Exercised	(2,000,000)	0.10
Expired/Forfeited	(10,000,000)	0.15
Balance at December 31, 2007	5,566,000	$ 0.09

Weighted average fair value of warrants granted in 2007:	$ 0.05

The following summarizes information about warrants outstanding at December 31, 2007:

	Warrants Outstanding and Exercisable		
Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.05	2,000,000	4.7	$ 0.05
$0.10	3,000,000	2.1	$ 0.10
$0.15	550,000	7.3	$ 0.15
$0.18	16,000	2.3	$ 0.18
	5,566,000		$ 0.09

8. Income Taxes

At December 31, 2007, the Company had approximately 24,857,000 and $28,126,000, respectively, of federal and state net operating loss carryforwards for tax reporting purposes available to offset future taxable income; federal and state net operating loss carryforwards expire through 2025 and 2015, respectively. Under the Tax Reform Act of 1986, the amounts of and benefits from net operating losses carried forward may be impaired or limited in certain circumstances. Events which may cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50 percent over a three-year period. At December 31, 2007, the effect of such limitation, if imposed, has not been determined.

Pursuant to Internal Revenue Code Sections 382 and 383, the use of the Company’s net operating loss and credit carryforwards may be limited if a cumulative change in ownership of more than 50% occurs within a three-year period. The annual limitation may result in the expiration of net operating losses and credits before utilization.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company's formation due to the complexity and cost associated with such a study, and the fact that there may be additional such ownership changes in the future. If the Company has experienced an ownership change at any time since its formation, utilization of the NOL carryforwards would be subject to an annual limitation under Section 382 of the Code, which is determined by first multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term, tax-exempt rate, and then could be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the NOL carryforwards before utilization. Further, until a study is completed and any limitation known, no amounts are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit under FIN 48. Due to the existence of the valuation allowance, future changes in the Company's unrecognized tax benefits will not impact its effective tax rate. Any carryforwards that will expire prior to utilization as a result of such limitations will be removed from deferred tax assets with a corresponding reduction of the valuation allowance.

Deferred tax assets consist primarily of the tax effect of net operating loss carryforwards. The Company has provided a full valuation allowance on the deferred tax assets because of the uncertainty regarding realizability. The valuation allowance increased approximately $784,000 and $497,000 during the years ended December 31, 2007 and 2006, respectively.

Deferred tax assets consist of the following at December 31, 2007:

Deferred tax assets:		
Net operating loss carryforwards	$	9,816,000
Purchased intangibles		(899,000)
Other		127,000
Less valuation allowance		(9,044,000)
	$	-

A reconciliation of income taxes from continuing operations computed at the federal statutory rate of 34% to the provision for income taxes is as follows for the years ended December 31:

		2007		2006
Computed benefit at federal statutory rate	$	(487,000)	$	(295,000)
State income tax benefit, net of federal effect		(26,000)		(10,000)
Increase in valuation allowance		784,000		497,000
Other		(360,000)		(177,995)
	$	(89,000)	$	14,005

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109” (“FIN No. 48”). FIN No. 48 establishes a single model to address accounting for uncertain tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN No. 48 on January 1, 2007. Upon adoption, the Company recognized no adjustment in the amount of unrecognized tax benefits. As of the date of adoption, the Company had no unrecognized tax benefits. The Company’s policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

The Company is subject to U.S. federal and state income tax. The Company is no longer subject to U.S. federal and state income tax examinations for years before 2004 and 2003, respectively. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or credit carry forward amount. The Company is currently under U.S. federal tax examinations. The Company is currently not under state tax examinations.

A portion of the net operating loss carryforwards as of December 31, 2007 includes amounts related to stock option deductions. Under SFAS 123R, any excess tax benefits from share-based compensation are only realized when income taxes payable is reduces, with the corresponding credit posted to additional paid-in capital.

9. Loss per Share

Basic and diluted loss per common share is computed as follows for the years ended December 31:

	2007	2006
Numerator for basic and diluted loss per common share:		
Net loss available to common stockholders	$ (3,285,230)	$ (882,132)
Denominator for basic and diluted loss per common share:		
Weighted average common shares outstanding	150,218,437	131,185,095
Basic and diluted loss available to common stockholders per common share	$ (0.02)	$ (0.01)

10. Commitments and Contingencies

a. Leases

The Company leases certain property and equipment under operating lease agreements (including related party leases – see Note 11) which expire on various dates through 2012 and provide for monthly lease payments ranging from $108 to $12,653.

The Company also leases equipment under a related party capital lease agreement which expires in January 2010 and provides for a monthly lease payment of $1,746.

Future annual minimum payments under capital leases and noncancelable operating leases is as follows:

		Operating Leases		
	Capital	Related Party	Other	Total
2008	$ 21,000	$ 238,000	$ 222,000	$ 481,000
2009	21,000	246,000	206,000	473,000
2010	1,600	185,000	172,000	358,600
2011	-	61,000	154,000	215,000
2012	-	-	76,000	76,000
Total minimum lease payments	$ 43,600	$ 730,000	$ 830,000	$ 1,603,600
Less: amounts representing interest	(2,700)			
Present value of lease obligations	$ 40,900			

Rent expense for the years ended December 31, 2007 and 2006 was $369,396 (including $243,851 of related party rent) and $371,049 (including $175,624 of related party rent), respectively.

b. Litigation

The Company is, from time to time, involved in various legal and other proceedings which arise in the ordinary course of operating its business.

In connection with the acquisition of GSI the Company is entitled to certain rights of indemnification from GoSolutions Equity, LLC, which is a former shareholder of GSI that became a shareholder of the Company as a result of our acquisition of GSI. The Company made a claim of indemnification from this entity in connection with the bankruptcy of one of GSI's significant customers – Vartec Telecom, Inc. – and the facts and circumstances relating to the procurement and maintenance of the Primerica Life Insurance account and related Citigroup affiliates. GoSolutions Equity, LLC has indicated that it does not believe that we have a valid basis for making such indemnification claims.

The Company has engaged in limited discussions with GoSolutions Equity, LLC as it relates to the indemnification claims notice and their response to such claims notice. However, the Company is unable to advise whether it will be successful in the indemnification claims against GoSolutions Equity, LLC. Pursuant to the agreement with GSI, if the Company is successful, GoSolutions Equity, LLC would only be required to return up to approximately 4.4 million of our shares issued to that entity to satisfy such indemnification claims. GoSolutions Equity, LLC is not required to contribute cash to satisfy any indemnification claims.

In March 2007, GSI was served by the Trustee for Vartec Telecom, Inc. (“Trustee”) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (“Bankruptcy Court”), Case No. 04-81694-hdh-7. The complaint sought recovery of approximately $400,000 for alleged preferential transfers made in 2004. On July 19, 2007, the Bankruptcy Court issued an order approving a compromise and settlement between the Trustee and GSI pursuant to which the claims of the Trustee and the counterclaims of GSI were settled in consideration for GSI’s payment of $55,000.

In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the consolidated financial position or results of operations of the Company.

c. Consulting and Employee Agreements

The Company has entered into a variety of consulting and employee agreements for services to be provided to the Company in the ordinary course of business. These agreements call for minimum salary levels and/or option grants and/or common share issuances and various payments upon performance of services and/or termination of the agreements (except for cause).

d. Indemnities and Guarantees

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. The Company indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the States of California, Florida, and Georgia. These indemnities include certain agreements with the Company’s officers under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. In connection with its facility leases, the Company has indemnified its lessors for certain claims arising from the use of the facilities. In connection with the Company's acquisition of TBS, the parties have agreed to indemnify each other from claims relating to the acquisition agreement to a maximum of $1,500,000 except in the event of fraud, willful misconduct, or breaches of certain representations and warranties contained in the agreement. In connection with the Company's acquisitions of Resolutions and GSI, the parties have agreed to indemnify each other from claims relating to the acquisition agreement. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

11. Related Party Transactions

The Company has borrowed significantly from related parties, issued a significant number of options and warrants to related parties, and issued a significant number of shares of its common stock to related parties upon conversion of convertible promissory notes payable as described more fully in Notes 6 and 7.

TBS has a related party operating lease with Perimeter Center Partners for the rental of the land and building occupied by TBS. The lease, as amended, commenced on February 1, 2004 and has a term of six years, with monthly payments of $6,200. The Company has executed a Guaranty with respect to the lease. Perimeter Center Partners is owned by Stephen A. Garner and James L. Campbell, who are significant employees of the Company and the former owners of TBS.

TBS has a related party capital lease with Perimeter Center Partners for an inserting machine. The lease commenced on May 19, 2007 and ends on January 31, 2010. Monthly payments are $1,746. The Company has executed a Guaranty with respect to the lease.

GSI leases the St. Petersburg office space pursuant to a noncancelable operating lease agreement expiring in April 30, 2011 at a cost of $12,653, $13,232, $13,841, $14,485, and $15,164 per month for each of the twelve month periods ended April 2007, 2008, 2009, 2010, and 2011, respectively. The building in which the office space is located is owned by an entity in which a member of GoSolutions Equity, LLC (a related party) owns an interest.

12. Segment Reporting

The Company's continuing operations are classified into four principal reportable segments that provide different products or services. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies. The Company operates in the following four reportable segments:

(a) Electronic document delivery services
(b) Government accounting solutions,
(c) Integrated communications, and
(d) Corporate.

The Company evaluates performance and allocates resources based upon operating income. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies. Inter-segment sales are eliminated upon consolidation.

The following table summarizes segment asset and operating balances by reportable segment, has been prepared in accordance with the internal accounting policies, and may not be presented in accordance with accounting principles generally accepted in the United States of America:

	Year ended / As of December 31, 2007	Year ended December 31, 2006	(1)
Net revenue from external customers:			
Electronic document delivery	$ 2,956,857	$ 2,890,640	
Government accounting solutions	5,001,343	4,130,458	
Integrated communications	6,222,458	3,720,998	
Corporate	-		
Total net revenue from external customers:	$ 14,180,658	$ 10,742,096	
Operating income (loss) from continuing operations:			
Electronic document delivery	$ 327,288	$ 764,687	
Government accounting solutions	501,082	221,536	
Integrated communications	982,920	291,027	
Corporate	(3,491,916)	(2,157,851)	
Total operating loss from continuing operations:	$ (1,680,626)	$ (880,601)	
Depreciation and amortization:			
Electronic document delivery	$ 64,173	$ 42,321	
Government accounting solutions	109,288	120,773	
Integrated communications	565,589	404,464	
Corporate	52,315	32,327	
Total depreciation and amortization:	$ 791,365	$ 599,885	
Interest expense, net of interest income:			
Electronic document delivery	$ -	$ 31	
Government accounting solutions	1,646	-	
Integrated communications	(1,190)	4,258	
Corporate	111,105	101,497	
Total interest expense, net of interest income:	$ 111,561	$ 105,786	

continued…

	Year ended / As of December 31, 2007	Year ended December 31, 2006 (1)
Income (loss) from continuing operations:		
Electronic document delivery	$ 318,334	$ 822,206
Government accounting solutions	511,848	223,236
Integrated communications	1,005,091	278,305
Corporate	(3,495,079)	(2,284,040)
Total loss from continuing operations:	$ (1,659,806)	$ (960,293)
Identifiable assets:		
Electronic document delivery	$ 693,312	
Government accounting solutions	3,718,622	
Integrated communications	6,542,920	
Corporate	613,428	
Total identifiable assets:	$ 11,568,282	
Capital expenditures:		
Electronic document delivery	$ 76,919	$ 55,590
Government accounting solutions	66,850	13,211
Integrated communications	60,144	48,690
Corporate	5,969	-
Total capital expenditures:	$ 209,882	$ 117,491

(1) 2006 period results and balances for the Integrated communications segment are reported as of and for the period from May 1, 2006 (date of acquisition) through December 31, 2006.

13. Subsequent Events

On February 6, 2008, the Company and The Private Bank of The Peninsula ("Bank") entered into an agreement for an asset based line of credit (the "Line"). The Bank's maximum commitment amount for the Line is $1.5 million. Advances will generally be limited to 85% of eligible domestic accounts receivable. The interest rate is floating and is calculated at Wall Street Journal prime rate plus 3% on the cash borrowed. Interest on outstanding borrowings is payable monthly.

A facility fee of $15,000 was paid to the Bank in connection with the Line. A finder's fee in the amount of $50,000 was paid by the Company to Dragonfly Capital Partners LLC ("Dragonfly"). In addition, the Company issued Dragonfly an immediately exercisable warrant to purchase 2,419,355 shares of its restricted common stock at an exercise price of $0.062 per share through February 6, 2013.

Outstanding advances under the Line will be secured by a first lien position on all of the Company's accounts receivable, contract rights, chattel paper, documents, and payment and by a second lien on its inventory, intellectual property, and equipment.

In consideration for the Line, the Company issued the Bank an immediately exercisable warrant to purchase 75,000 shares of its restricted common stock at an exercise price of $0.062 per share through February 6, 2018.

On February 8, 2008, the Company issued Agile Equity LLC an immediately exercisable warrant to purchase 653,214 shares of its restricted common stock at $0.077 per share through February 8, 2009 in consideration for consulting services rendered in connection with acquisition due diligence. Approximately $50,000 of such services were provided during 2007. Accordingly, the Company has included $50,000 in accrued expenses in the accompanying consolidated balance sheet related to such services.