



Dear Fellow Shareholders:

Our 2006 revenue was \$12.9 million, a 47% increase over 2005. Our gross margin was a respectable 60% and we believe this is a good indicator of the efficiency of our revenue model. The results for the first quarter of 2007 demonstrate that we are well on our way to delivering another record year of tangible, sustainable growth in both revenue and intrinsic value. Currently, our services are being used by over 1,200 clients including 10 Fortune 100 companies. Our customers include GE, GM, Federal Reserve, Dominos, and Kroll Security, among others.

I believe the future for VillageEDocs (the “Company”) remains bright. We have a solid recurring revenue foundation under which to grow our Company. Our financial performance is much improved from previous years and continues to trend in a positive direction. Our key performance indicators remain strong, as detailed below. I am not saying it won’t be difficult or require a lot of hard work to achieve our goals. However, in the history of the Company, we have never been stronger or had greater potential to grow the intrinsic value for shareholders.



In this letter, I want to review:

- Status of the recent Shareholder Consent
- Business Overview
- Financial Performance
- Key Performance Indicators

I hope, after reading this letter, you will share my enthusiasm about the emerging power and enormous potential of VillageEDocs.

SHAREHOLDER CONSENT SOLICITATION -- JUNE 2007

Recently, as shareholders, we had the opportunity to vote on re-incorporating VillageEDocs in Delaware, approving the election of the board of directors, increasing the pool of shares for employee incentives, and increasing our authorized shares. All the proposals were passed with broad approval. The shareholder consent solicitation materials we sent you explain the issues surrounding each proposal. However, I want to address the matter of

authorized shares. The increase in our authorized shares and employee incentive share pool empowers us to continue to purchase companies with our stock and to provide stock option incentives to existing and employees. Over the past several years our ability to use stock to purchase companies has increased our intrinsic value, which I will discuss below. We have started the paper journey to re-incorporate in Delaware. At this time, I want to thank all of our shareholders for their participation in the shareholder consent process. The board of directors thanks you for once again demonstrating confidence in the leadership of the company. Our board of directors receives no cash



compensation or promise of future cash compensation for their participation. From time to time, they receive a modest grant of common stock for their service. This insures their motivations are consistent with those of our shareholders.

BUSINESS OVERVIEW

VillageEDOCS provides On-Demand Business Information Delivery Service 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.

The exchange of business information, whether presented as discrete bits of information on a web page or a PDA, or in a traditional document format (electronic or paper), underpins virtually every business process. The challenge of seamless business communication is to deliver the right information, at the right time, and in the right way.



Beneath all business processes lay communication methods and corresponding technologies. Unfortunately, as business processes have evolved, companies have struggled with communication methods. Effective use of communication methods is imperative from an operational cost perspective, but is also essential to effectively compete in the marketplace.

VillageEDOCS provides customers the ability to utilize our On-Demand services that provides a breadth of communication methods supporting a wide range of business processes. We provide our customers the flexibility to pay on an as-needed basis using operational dollars, reduce capital expenditures, and eliminate technology risk. The On-Demand services satisfy business contingency requirements and provide a higher level of security.

VillageEDOCS' Software as a Service (SaaS) On-Demand information delivery services are provided through two hardened telephony facilities (AT&T and Qwest) located in California and Florida. As of December 31,

2006, we exceeded 1,200 clients and 25,000 individual users. We provide solutions to large, medium, and small business enterprises.



As we look to 2008, it is our objective to continue the strategy we began in 2003. Quality, Growth and Profit will remain our central strategic themes for 2008, but with even more aggressive goals in each area:

- We will strive to exceed our clients' expectations for quality while simultaneously improving operating processes that drive cost benefits for both our clients and ourselves.
- We will target an increase in our rate of revenue growth through both new client additions as well as growth within our existing client base.
- We will continue to target companies that fit our strategic business vision to acquire, which will increase our rate of growth.
- We will seek sustainable profit performance from our business operations by further leveraging our existing infrastructure to drive ongoing profitable financial performance.

Market

Enterprise Information Delivery is based on the axiom that a document is simply a means to an end. It is the information housed within the document that represents its "true" value, and that information can take many forms and may need to be moved, stored, delivered, presented, and controlled many different ways. We specialize in automating paper and other unstructured document processes, enabling any organization to improve how they receive, create, archive, deliver, and manage the delivery of critical business information. Our strong document processing and delivery solutions are high-value solutions to enterprises that require fast and efficient delivery of information throughout a business process.



We take the cost out of paper intensive processes found in government, finance, healthcare, and manufacturing and many other business processes that are buried in paper.

Companies today have an increasing number of document volume and document-intensive business processes. Many inefficiently exchange and manage these documents with manual paper-based processes that waste time and resources, are difficult to manage and audit, and negatively impact supplier, partner, and customer relations and service levels. Gartner Reports that \$6 billion is spent annually on the purchase of preprinted forms, and more than \$360 billion is spent capturing data submitted on paper forms every year. Additionally, Gartner reports that for every dollar spent producing a paper

form, \$30 to \$150 dollars are spent processing the form. The ability to marry the content buried in electronic and paper processes translates to real financial savings and market competitiveness.



The outsourcing industry throughout the world continues to experience significant growth and evolution. Recent research from International Data Corp. (IDC) shows that the outsourcing industry in the United States will grow from an estimated \$241B in size during 2004 to nearly \$400B in size by 2008. The worldwide outsourcing industry size is expected to grow to more than \$675B (including the USA) by 2008. We believe this compounded annual growth rate of over 10% (both domestically and globally) validates the theory we've held for many years of a momentous global trend towards the extensive use of outsourcing partners. It is our objective to drive our business strategies to capitalize on this trend.

One of our most important competitive differentiators is the breadth of services we offer. Our acquisitions over the past few years have allowed us to expand our range of services. We simplify our customers' operational complexity, empower them to re-deploy their staff on other operational needs and reduce capital dollars and overall operational cost.



VillageEDOCS has positioned itself at the high end of the value proposition. We truly do solve customers' problems and solving these problems creates substantial value for customers, and for us. That is what is most exciting for me, that we have accurately identified what our customers really need, want, and highly value.

Greater Financial Transparency

In 2004, we organized the company to provide greater transparency for our shareholders. We separated MessageVision out of VillageEDOCS and began reporting its results as a discrete segment of the business. In addition, new significant lines of business that we acquire are also reported as discrete segments so that shareholders can see how each Strategic Business Unit performs.

Recurring Revenue Model

Our focus is providing On-Demand Software as a service solution. This provides us a recurring revenue business model. Rather than providing one-time software and hardware only solutions to customers, we provide services to enterprises for their repetitive business processes that are critical to sustaining their business. This means we have a recurring revenue model

rather than a one-time sale. The kinds of business information we deliver range from invoices, orders, medical reports, voice mails, emails, utility and tax bills, insurance forms, bid solicitations and contracts, among others.

Future Business Solutions on the Horizon.

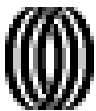


We are strongly positioned to provide solutions tailored for the vast number of underserved small and mid-sized businesses. Our integrated applications enable these companies to accelerate growth and increase profits by more

effectively managing their finances, supply chains, customer relationships, and other key business processes.

Company Built to Last, Management Built to Lead

The most important aspect of having a winning culture is having the right people in place. We have worked hard to bring together an executive team that we believe has the capability and commitment to being a great company. We began reinforcing our leadership when Jay Hill joined in 2004 as Executive Vice President of Corporate Development. Jay leads our acquisition activities and corporate finance. Having an experienced, seasoned and well tempered operations team is critical. The process of effecting the integration of our subsidiaries primarily began last year and a good deal of the journey is in front of us. The integration process is a difficult one in all mergers and many companies stumble at this stage due to a lack of experience. Understanding this, we specifically focused on finding operational leadership with proven experience in managing acquired enterprises and integrating enterprises. In 2006, we made evolutionary changes that support our long-term operational and integration strategy. In early 2006, Jerry Kendall joined as President of VillageEDOCS, with the leaders of each subsidiary reporting to him. Jerry joined our board of directors in mid-2005, so he was familiar with our organization, including our strengths and challenges. Jerry's experience in growing companies, acquiring companies and being with companies that have been acquired provides us additional operational depth and experience. His well seasoned operational experience, his passion for sound operational effectiveness and relentless pursuit of profit is invaluable. Jerry has held the same role in companies smaller than ours and in companies that grew to over \$600 million in annual revenue. Joe Torano joined us late in 2006 as Senior Vice President of Sales and Marketing. Joe's impact has already been felt in increased sales. I encourage you to visit our website and read about their backgrounds.



**JONES LANG
LASALLE**

Growth and Profitability

Let me be clear, without reservation, it is our goal to have both profitability and growth. Historically, as our positive cash flow grew, we have continued to invest in enhancing strategic areas to accelerate our growth.



While this investment activity tends to reduce short-term profit, we believe that our strategic investments have positioned us to successfully acquire and operate additional profitable businesses. We have absorbed the additional expense burdens imposed on small public companies to comply with the Sarbanes-Oxley Act of 2002 and other new accounting and disclosure rules and requirements. Additionally, we have invested in the leadership needed to continue our growth through acquisitions.

We believe corporate expenses will grow more slowly in the future. Therefore, as our revenue increases, the corporate expense will continue to be a smaller percentage of the total revenue. The natural result will be profit and revenue growth for the overall company.

Acquisitions

While we are proud of the financial accomplishments in 2006 and the record operating performances of MessageVision, Tailored Business System, Resolutions, and GoSolutions, we are equally excited about the current acquisition we are pursuing, but have not yet closed.

The target is a private company with good financial metrics. Their un-audited trailing twelve month revenue through March 2007 was approximately \$3.2 million, and un-audited trailing twelve month net income was approximately \$280,000. This target will provide us enriched services and more cohesive solutions to our customers.



In studying the investments we have made, you will see that we favor businesses that add a component to fulfill the requirements of our strategic vision, are profitable, and have a successful track record solving customer problems and long-term customer retention. Additionally, we seek companies whose service and products immediately provide value to our customers and, when combined with our current services, provide value that differentiates us from our competition. The reason for that is simple. We want a company that is built on solving customer issues that transcend time, so that we will have a company that has predictable long-term organic growth.

Moving to a Large and More Efficient Market

In December 2005, we indicated that we wanted our stock to be listed or quoted on a larger exchange. We are still working toward a listing on the NASDAQ Capital Market. We believe this move will increase the Company's visibility as a technology solutions provider, while at the same time we hope it will provide investors with the best prices, the fastest order execution and lower trading costs



The miracles of science™

FINANCIAL PERFORMANCE

In our efforts to help our stockholders to view our business through the same set of eyes as management, I want to discuss certain non-GAAP financial measures in this letter. We believe these are useful performance measures but caution that they should not be substituted for net income or any other measure for determining our operating performance that is calculated in accordance with U.S. GAAP. Please take a moment now to review the important cautionary information contained in the appendix to this letter where we discuss our use of forward-looking statements, non-GAAP financial measures, and certain important risk factors. One of the non-GAAP financial measures we will discuss (and one which is described and reconciled to net loss in the appendix to this letter) is Adjusted EBITDA. For 2006, our Adjusted EBITDA was \$499,622.

We reported an operating loss of \$795,993 for 2006; however, included in the operating loss was \$738,504 in depreciation and amortization expense and \$557,111 in non-cash expense related to the vesting of incentive stock options. These items also contributed to our net loss of \$882,132 for 2006. If you review footnote No. 12 to our 2006 audited financial statements, you can see that the aggregate net incomes of our revenue producing segments (all segments except corporate) added up to a positive \$1.4 million for the year,



including approximately \$706,000 of depreciation and amortization incurred by the operating business units (please see description and

reconciliation contained in the appendix to this letter). This income was insufficient to cover the losses at the corporate segment that relate to the expense of operating the public company (such as legal, accounting, and stock option vesting expense) and the expense of pursuing the acquisition strategy.

For the first quarter of 2007, our revenue was \$3.8 million, an 85% increase over the first quarter of 2006. While operating expenses increased compared to the first quarter of 2006, the most significant factor in the overall increase

was the addition of operating expenses of GoSolutions, Inc. which we acquired in May 2007. Interestingly, operating expenses during the 2007 quarter were 75% of sales compared to 78% of sales in the 2006 quarter. We reported an operating loss of \$477,734 for the first quarter of 2007; however, included in the operating loss was \$236,491 in depreciation and amortization expense and \$226,575 in non-cash expense related to the vesting of incentive stock options. These items also contributed to our net loss of \$502,762 for the first quarter of 2007.



KEY PERFORMANCE INDICATORS

We use several Key Performance Indicators to manage the company. Below I have identified many of the Key Performance Indicators we monitor. I want to review some of the Key Performance Indicators with you in this letter. Additionally, I want to share some industry metrics we use to monitor the increase in VillageEDOCS' intrinsic value.

The Key Performance Indicators

- Revenue (by VillageEDOCS and by subsidiary)
- Operating Expenses (by VillageEDOCS and by subsidiary)
- Gross Margins (by subsidiary)
- Cash
- Cash flow
- Net asset value
- Recurring Revenue
- On-Demand SaaS Revenue
- Other Recurring Revenue
- Organic Growth
- Growth Through Acquisition
- Earnings Before Interest, Taxes, Depreciation, Amortization (EBITDA)
- Adjusted Earnings Before Interest, Taxes, Depreciation, Amortization (Adjusted EBITDA)

Industry Intrinsic Value Metrics Vs Market Price Per Share

- Adjusted EBITDA
- EBITDA
- Revenue
- Market Capitalization

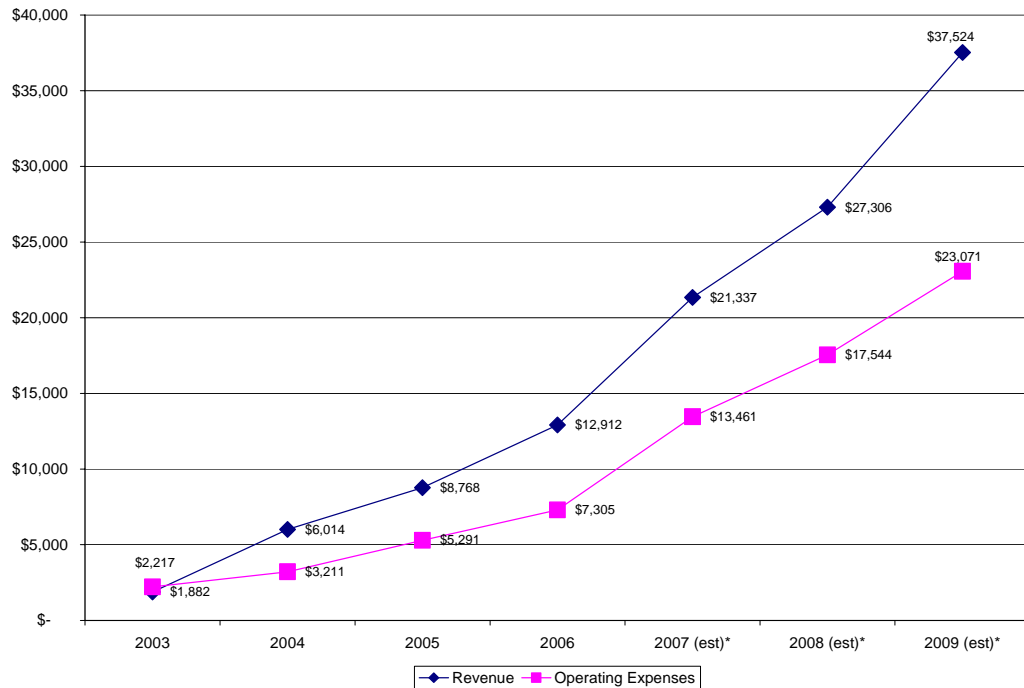
As the charts below indicate, our revenue growth over the last few years is noteworthy and illustrates revenue growth at a rate that outpaces increases in operating expenses. One of the outcomes of our growth strategy is the

reduction of operating expenses as a percentage of revenue. This results from two factors. The first is the availability of additional operating income to offset the corporate overhead required to operate as a public reporting company that is pursuing an ongoing acquisition strategy. Second is the ability to achieve operating efficiencies by consolidating some functions common to each of the businesses.



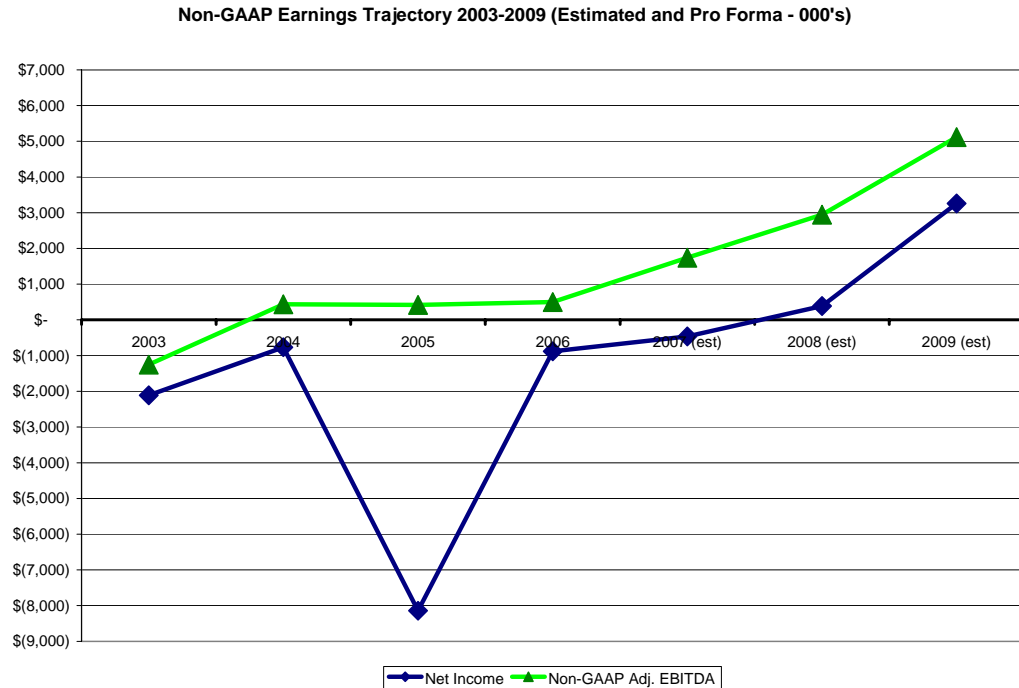
The charts also present estimated 2007-2009 pro forma revenue, net income, and Adjusted EBITDA (a non-GAAP measurement – please see the appendix to this letter). This information is not intended to serve as earnings guidance or to provide a guarantee as to future performance. We present the data for 2007-2009 below to share with you an approximation of what the Company’s financial performance would be in the event that our existing business units continue to grow at a rate similar to the first half of 2007 and if we complete one acquisition per year in each of 2007, 2008, and 2009 of companies with attributes similar to those of the last three companies we acquired (pro forma assumes the acquisitions occur on Jan 1. of each year).

Revenue and Operating Expenses 2003 - 2009 (*2007-2009 Estimated and Pro Forma - 000's)



In other words, if our existing business units continue to grow in the last half of 2007 at a rate similar to the first half of 2007 and if we complete one acquisition per year in each of 2007, 2008, and 2009 of companies with

attributes similar to those of the last three companies we acquired, we expect to improve our net income and Adjusted EBITDA (a non-GAAP measurement – please see the appendix to this letter). The following table illustrates this.



I want to emphasize that this information is not intended to serve as earnings guidance or to provide a guarantee as to future performance.

It is worth noting that the Company has delivered positive Adjusted EBITDA since 2004, due primarily to the positive impact of our acquired companies. Net income (loss) improved between 2003 and 2004, and again between 2005 and 2006. During 2005, we reported a net loss of \$8,144,928. This net loss included significant amounts of non-cash, non-operating expenses. It was discussed extensively in our public filings and we refer you to those filings for a complete explanation. As the chart shows, in addition to it being a substantially non-cash issue, it was a temporary decline in what is otherwise an encouraging trend.

Key Performance Indicators and the results for 2006 and Q1 2007 are:

- Revenue Increase
 - 2006 increased 47% over 2005 to \$12.9 million;
 - Compared to the first five months of 2007, we increased net revenue in our Tailored Business Systems, Inc. ("TBS") operating unit by 27%

which, together with the revenue of MessageVision, Inc. (“MVI”), Resolutions, and GoSolutions, Inc. (“GSI”) (acquired May 1, 2006), contributed to a 68% increase in consolidated revenue during the first five months of 2007;

- Gross Margin
 - 2006 Gross Margin was 60%;
- Adjusted EBITDA
 - 2006 Adjusted EBITDA (see appendix) was approximately \$500,000
- Operating Units Net Income
 - During 2006, our operating business units contributed \$1.4 million in Net Income toward our consolidated Net Loss, including approximately \$706,000 of depreciation and amortization incurred by the operating business units (see appendix);
- Organic Growth
 - Achieved 18% organic revenue growth for the first five months of 2007 compared to the 2006 period (comparison includes GSI’s 2006 pre-acquisition revenue);
- Recurring Revenue
 - Over 80% of our revenue was recurring revenue with 50% of the revenue being generated by our On-Demand Software as a Service (SaaS) offerings.

The Relationship of Intrinsic Value to Market Price

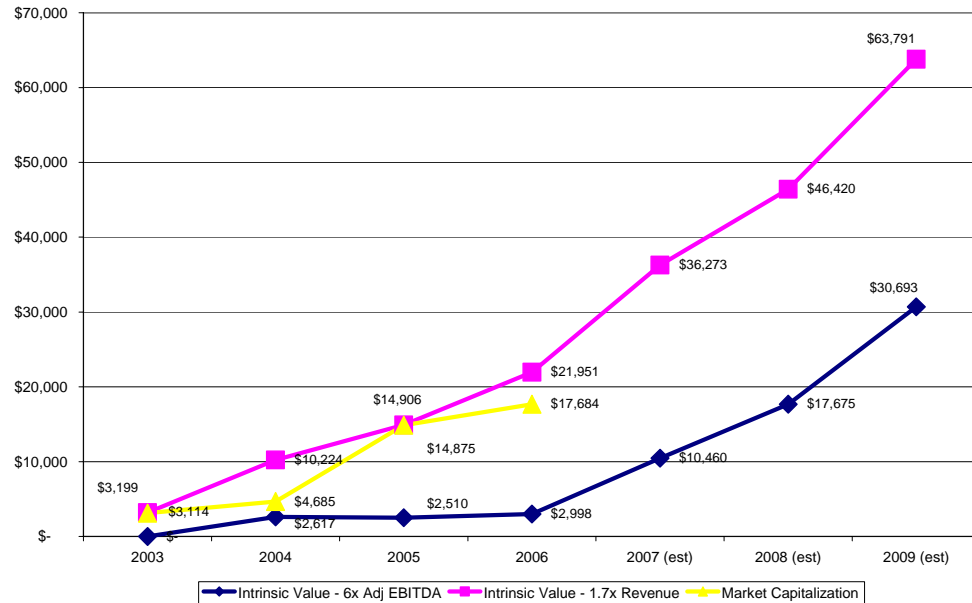
We believe that our intrinsic value has increased significantly in recent years and has out-performed our market value. It is our goal to see our market value reflect our intrinsic value. As we have done with revenue and income, we believe it is helpful to demonstrate the effect of our acquisition strategy on our valuation and the potential future impact.

Our valuation analysis is based on information obtained from private and publicly available sources believed to be reliable. We assumed, without independent verification, that all the information we used was accurate and complete. We identified publicly traded companies that were similar to VillageEDOCS in terms of business activity and size, calculated valuation multiples for the guideline companies, and selected a revenue multiple of 1.7 and an Adjusted EBITDA multiple of 6.

The following chart illustrates the valuation trajectory since 2003. For 2007 – 2009, we have based the valuation estimates presented on estimated pro forma revenue, net income, and Adjusted EBITDA (a non-GAAP measurement – please see the appendix to this letter). This information is not intended to serve as earnings guidance or to provide a guarantee as to future performance or value. We present the data for 2007-2009 below to share with you an

approximation of what the Company's financial performance would be in the event that our existing business units continue to grow at a rate similar to the first half of 2007 and if we complete one acquisition per year in each of 2007, 2008, and 2009 of companies with attributes similar to those of the last three companies we acquired (pro forma assumes the acquisitions occur on Jan 1. of each year). We have not completed an acquisition transaction in 2007 and we caution you that we may not do so in any future period.

Value Roadmap 2003-2009 (2007-2009 Estimated and Pro Forma - '000s)



"Looking Past" Earnings

We will achieve profitable operations by growing the Company - both by increasing the operating incomes contributed by our existing business units and by acquiring companies that consistently generate positive operating income and cash flows from operations. We also intend to continue to control all non-essential costs.

While we are pleased that the Company generated positive cash flows from operating activities during 2006, let me restate the management remains committed to steering the Company to profitable operations.

Our net loss for 2006 of \$882,132 included non-cash depreciation and amortization charges of \$738,504 (\$417,321 of which came from amortization of intangible assets) and non-cash stock option vesting expenses of \$557,111. These charges are not related to how well our products and services are selling

or our high gross margins. Because of our current size, these charges have represented and continue to represent a significant percentage of our total operating expenses. In fact, absent these charges, we would have reported net income for 2006 instead of a net loss.

If you review footnote No. 12 to our 2006 audited financial statements, you can see that the aggregate net income of our revenue producing segments (all segments other than corporate) added up to a positive \$1.4 million for the year. This amount was insufficient to cover the losses at the corporate segment that relate to the expense of operating the public company (such as



legal, accounting, and stock option vesting expense) and the expense of pursuing the acquisition strategy.

CLOSING THOUGHTS

Please join me in congratulating the over 76 individuals that comprise VillageEDOCS for their effort thus far. In 2007 and beyond, foremost in our minds is achieving the best return for our shareholders.

Our 2007 Key Performance Indicators are stronger than ever. We have both an attractive growth plan and a demonstrated ability to control costs. Therefore, we believe VillageEDOCS is positioned to achieve increases in both intrinsic and market value.

VillageEDOCS produced results by focusing on the right things: quality product offerings, meeting our customers' needs, organizing for the global marketplace, controlling costs, and investing in our future. We, as shareholders, benefited from an increase in intrinsic value. We know that what matters most today is what we will accomplish in the future. As we look to 2008 and beyond, we remain focused on profitable and sustainable growth and our increase in shareholder value.



The management team and our Board of Directors are committed to building on the brand position VillageEDOCS has established, and we believe the investments in our future will translate to greater market value. Over the past few years, we have made significant strides in reshaping not only our operations but also our corporate structure and profile within the investment community. We recognize that this also requires focus on the public markets and on securing the appropriate coverage for the Company, something we are committed to improving in the coming year.

On behalf of your leadership team, we appreciate the confidence you have placed in us as stewards of your investment. We are committed to protecting it and grow it responsibly. We believe that the large and fast growing outsourcing marketplace, the unique breadth of world class outsourced business information delivery services, our growing brand identity of quality services, our stable and highly experienced and motivated team of people, makes for a great investment.

As always, we would like to thank our customers for their business, our employees for their commitment, and our investors for their continued investment in VillageEDOCS and its future.

Regards,

A handwritten signature in black ink, appearing to read 'Mason Conner', written in a cursive style.

Mason Conner
Chief Executive Officer

Please refer to the Appendix that follows for important supplementary information.

Appendix

Important Disclaimer and Cautionary Note

All statements in this shareholder letter 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. Statements made in this shareholder letter, including, without limitation, those relating to our belief about the market for, or suitability of, our products and services and our staff, our belief that we will be successful in completing one or more acquisitions, that we are well on our way to delivering another record year of growth, that we have a solid recurring revenue foundation under which to grow the Company, that we are strongly positioned to provide solutions for a number of small and mid-sized businesses, the potential benefits of a listing on the NASDAQ Capital Market, and our belief that we have increased the intrinsic value of the Company, as well as statements relating to the benefits we expect to derive from one or more acquisitions, our expectations regarding the potential for growth, and our expectations regarding future operating results in both narrative and graphical forms, are forward-looking statements. These statements, and other forward looking statements in this shareholder letter, represent the Company's plans, intentions, expectations and belief and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected or expressed herein. These include, without limitation, risks associated with acquisitions, such as the inability to complete an acquisition or to assimilate and integrate new operations and retain key personnel, uncertainties in the market, competition, legal, regulatory initiatives, success of marketing efforts, availability, terms and deployment of capital, personnel risks, and other risks detailed in the Company's SEC reports, of which many are beyond the control of the Company. Trading in the Company's common stock is limited, and marketability of the stock is restricted by penny stock regulations and the fact that our common stock is traded on the OTCBB. The Company does not presently qualify, and may never qualify, to be listed or quoted on any exchange or other market. Whereas management believes such representations to be true and accurate based on information and data available to the Company as of the date of this shareholder letter, actual results may differ materially from those described. The Company assumes no obligation to update or alter the information in this shareholder letter. Important factors that may cause actual results to differ are set forth in the company's periodic filings with the United States Securities and Exchange Commission.

Investors are cautioned not to put undue reliance on any forward-looking statements, which speak only as of the date of this shareholder letter. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 21E of the Exchange Act.

Non-GAAP Financial Measure: Adjusted EBITDA

We believe “Adjusted EBITDA”, which is a non-GAAP financial measure, provides useful information to investors and management by excluding certain income, expenses, and gains and losses that may not be indicative of our core operating and financial reports. We believe that “Adjusted EBITDA” is a useful performance measure because certain items included in the calculation of net income (loss) may either mask or exaggerate trends our ongoing operating performance. We use “Adjusted EBITDA” on an ongoing basis to track and assess our financial performance. You, however, should not consider “Adjusted EBITDA” in isolation or as a substitute for net income (loss) or any other measure for determining our operating performance that is calculated in accordance with accounting principals generally accepted in the United States of America (“U.S. GAAP,” “GAAP”). “Adjusted EBITDA” is not necessarily comparable to similarly titled measures employed by other companies.

Note 1. 2006 consolidated net loss of \$882,132 as reported under U.S. GAAP included the following charges that we exclude from consolidated net loss to calculate “Adjusted EBITDA” of \$499,622:

- \$738,504 in depreciation and amortization (\$417,321 attributable to amortization of intangible assets);
- \$557,111 in non-cash stock option vesting expense resulting from the adoption of SFAS 123(R);
- \$112,233 of interest expense, net of interest income;
- \$40,099 of other income; and
- \$14,005 of provision for income taxes.

Note 2. 2006 consolidated net loss of \$882,132 as reported under U.S. GAAP included approximately \$1.4 million in net income contributed by our operating business units, or approximately \$2.1 million excluding depreciation and amortization. This income, however, was offset by significant cash and non-cash charges incurred by our corporate segment and as a result of conducting our business as a public company engaging in an ongoing acquisition program, including \$557,111 in non-cash incentive stock option vesting expense resulting from the adoption of SFAS 123(R) as discussed in our SEC reports.

Note 3. 2005 consolidated net loss of \$8,144,928 as reported under U.S. GAAP included the following charges that we exclude from consolidated net loss to calculate Adjusted EBITDA of approximately \$418,300:

- \$293,067 in depreciation and amortization;
- \$8,074,489 of interest expense;
- \$42,526 of other income;
- \$130,903 of other income from the change in value of a derivative;
- \$325,000 of other expense; and
- \$44,054 of provision for income taxes.

2004 consolidated net loss of \$767,913 as reported under U.S. GAAP included the following charges that we exclude from consolidated net loss to calculate Adjusted EBITDA of \$436,100:

- \$234,327 in depreciation and amortization;
- \$725,987 of interest expense;
- \$241,336 of other expense from the change in value of a derivative; and
- \$2,400 of provision for income taxes.

2003 consolidated net loss of \$2,110,040 as reported under U.S. GAAP included the following charges that we exclude from consolidated net loss to calculate Adjusted EBITDA of (\$1,254,900):

- \$148,975 in depreciation and amortization;
- \$661,659 of interest expense;
- \$3,695 of other expense from the change in value of a derivative;
- \$39,943 of loss on buyout of leased equipment; and
- \$800 of provision for income taxes.