UNITED AMERICAN CORP
Form 10QSB
August 14, 2006

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

**FORM 10-QSB**

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

For the quarterly period ended June 30, 2006

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

For the transition period to __________

Commission File Number: 000-27621

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

| | |
|---|---|
| Florida | 95-4720231 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

1080 Beaver Hall Suite 1555 Montreal, Quebec, Canada H2Z 1S8
(Address of principal executive offices)

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 49,969,985 common shares as of August 14, 2006

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

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



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

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

| ASSETS | | (IN US$) |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ | 32,912 |
| Accounts receivable, net | | 325,796 |
| Investment tax credit receivable | | 17,191 |
| Inventory | | 15,862 |
| Prepaid expenses and other current assets | | 21,256 |
| Total Current Assets | | 413,017 |
| Fixed assets, net of depreciation | | 571,460 |
| **TOTAL ASSETS** | $ | 984,477 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Loan payable | $ | 86,926 |
| Loan payable - related parties | | 594,417 |
| Convertible debentures | | 90,961 |
| Derivative liability | | 9,039 |
| Accounts payable and accrued expenses | | 268,376 |
| Total Current Liabilities | | 1,049,719 |
| **Total Liabilities** | | 1,049,719 |
| **STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| Common stock, $.001 Par Value; 50,000,000 shares authorized | | |
| and 49,969,985 shares issued and outstanding | | 49,970 |
| Additional paid-in capital | | 4,219,448 |
| Accumulated deficit | | (4,918,305) |
| Accumulated other comprehensive income (loss) | | 92,799 |
| Noncontrolling interest | | 490,846 |
| **Total Stockholders' Equity (Deficit)** | | (65,242) |

| | | |
|---|---|---|
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | $ | 984,477 |

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

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

| | IN US$ | | | |
|---|---|---|---|---|
| | SIX MONTHS ENDED JUNE 30, | | THREE MONTHS ENDED JUNE 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| **OPERATING REVENUES** | | | | |
| Sales | $ 4,347,336 | $ 1,216,396 | $ 1,884,166 | $ 912,653 |
| **COST OF SALES** | | | | |
| Inventory, beginning of period | 51,652 | 44,059 | 20,014 | 121,236 |
| Purchases | 3,759,996 | 1,109,880 | 1,466,103 | 833,232 |
| Inventory, end of period | (15,862) | (102,490) | (15,862) | (102,490) |
| **Total Cost of Sales** | 3,795,786 | 1,051,449 | 1,470,255 | 851,978 |
| **GROSS PROFIT** | 551,550 | 164,947 | 413,911 | 60,675 |
| **OPERATING EXPENSES** | | | | |
| Selling and promotion | 56,220 | 123,044 | 29,232 | 67,336 |
| Professional and consulting fees | 139,188 | 584,664 | 68,352 | 388,050 |
| Commissions and wages | 441,569 | 232,610 | 185,985 | 159,359 |
| Other general and administrative expenses | 72,091 | 56,866 | 34,562 | 10,930 |
| Depreciation, amortization and impairment | 118,750 | 99,083 | 62,005 | 49,082 |
| **Total Operating Expenses** | 827,818 | 1,096,267 | 380,136 | 674,757 |
| **INCOME (LOSS) BEFORE OTHER INCOME (EXPENSE)** | (276,268) | (931,320) | 33,775 | (614,082) |
| **OTHER INCOME (EXPENSE)** | | | | |
| Interest expense | (16,627) | (6,000) | (12,361) | (3,000) |
| **Total Other Income (Expense)** | (16,627) | (6,000) | (12,361) | (3,000) |

| | | | | |
|---|---|---|---|---|
| **NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND NONCONTROLLING INTEREST** | (292,895) | (937,320) | 21,414 | (617,082) |
| Noncontrolling interest | 47,820 | 13,750 | 19,993 | 12,572 |
| | | | | |
| **NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES** | (245,075) | (923,570) | 41,407 | (604,510) |
| **Provision for Income Taxes** | - | - | - | - |
| | | | | |
| **NET INCOME (LOSS) APPLICABLE TO COMMON SHARES** | $ (245,075) | $ (923,570) | $ 41,407 | $ (604,510) |
| | | | | |
| **NET (EARNINGS (LOSS) PER BASIC AND DILUTED SHARES** | $ (0.00) | $ (0.02) | $ 0.00 | $ (0.01) |
| | | | | |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | 49,969,985 | 46,132,692 | 49,969,985 | 47,055,150 |
| | | | | |
| | | | | |
| **COMPREHENSIVE INCOME (LOSS)** | | | | |
| Net income (loss) | $ (245,075) | $ (923,570) | $ 41,407 | $ (604,510) |
| Other comprehensive income (loss) | | | | |
| Currency translation adjustments | 53,777 | 44,677 | 47,303 | (100,196) |
| Comprehensive income (loss) | $ (191,298) | $ (878,893) | $ 88,710 | $ (704,706) |

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

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

| | IN US$ | |
|---|---|---|
| | **2006** | **2005** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $(245,075) | $(923,570) |
| | | |
| **Adjustments to reconcile net loss to net cash** | | |
| **used in operating activities:** | | |
| Depreciation, amortization and impairment | 118,750 | 99,083 |
| Shares issued for services | - | 473,750 |
| | | |
| **Changes in assets and liabilities** | | |
| (Increase) in accounts receivable | (138,966) | (29,519) |
| (Increase) in investment tax credit receivable | (689) | - |
| (Increase) in inventory | 35,790 | (58,431) |
| (Increase) decrease in prepaid expenses and other current assets | 12,298 | 4 |
| Increase (decrease) in accounts payable and | | |
| and accrued expenses | (339,600) | 109,428 |
| Total adjustments | (312,417) | 594,315 |
| | | |
| **Net cash (used in) operating activities** | (557,492) | (329,255) |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of fixed assets | (50,110) | (36,271) |
| | | |
| **Net cash (used in) investing activities** | (50,110) | (36,271) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| (Decrease) in bank overdraft | (16,905) | - |
| Proceeds from loan payable | 9,225 | 24,712 |
| Proceeds from loan payable - related parties | 594,417 | (42,702) |
| Proceeds from convertible debentures | - | 289,325 |
| | | |
| **Net cash provided by financing activities** | 586,737 | 271,335 |

| | | |
|---|---|---|
| Effect of foreign currency | 53,777 | 44,677 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 32,912 | (49,514) |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | - | 84,254 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | $ 32,912 | $ 34,740 |
| **CASH PAID DURING THE PERIOD FOR:** | | |
| Interest expense | $ 6,000 | $ 6,000 |

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

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

## NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)**

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

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

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

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)**

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

**Going Concern**

As shown in the accompanying condensed consolidated financial statements the Company has incurred recurring losses of $245,075 and $923,570 for the six months ended June 30, 2006 and 2005, and has a working capital deficiency of $636,702 as of June 30, 2006. The Company had emerged from the development stage and as of March 31, 2004 has started generating revenues.

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

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

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those related to bad debts, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

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

**Comprehensive Income**

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

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

**Inventory**

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Currency Translation**

For subsidiaries outside the United States that prepare financial statements in currencies other than the U.S. dollar, the Company translates income and expense amounts at average exchange rates for the year, translates assets and liabilities at year-end exchange rates and equity at historical rates. The Company's reporting currency is that of the US dollar while its functional currency is that of the Canadian dollar. The Company records these translation adjustments as accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions commenced in 2004 when the Company utilized a Canadian subsidiary to record all of the transactions. The Company recognized a gain (loss) of $53,777 and $44,677 for the six months ended June 30, 2006 and 2005.

**Research and Development**

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

**Revenue Recognition**

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

**Accounts Receivable**

The Company conducts business and extends credit based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on receivables is expected to vary by customer due to the financial condition of each customer. The Company monitors exposure to credit losses and maintains allowances for anticipated losses considered necessary under the circumstances. The Company has recorded an allowance for doubtful accounts of $7,232 as of June 30, 2006.

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable (Continued)**

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

**Income Taxes**

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

**Convertible Instruments**

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

**Derivative Financial Instruments**

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Advertising Costs**

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

**Fixed Assets**

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

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

**Impairment of Long-Lived Assets**

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

**(Loss) Per Share of Common Stock**

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(Loss) Per Share of Common Stock (Continued)**

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

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| Net loss | $ (245,075) | $ (923,570) |
| | | |
| Weighted-average common shares | | |
| Outstanding (Basic) | 49,969,985 | 46,132,692 |
| | | |
| Weighted-average common stock | | |
| Equivalents | | |
| Stock options | - | - |
| Warrants | - | - |
| | | |
| Weighted-average common shares | | |
| Outstanding (Diluted) | 49,969,985 | 46,132,692 |

**Stock-Based Compensation**

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Segment Information**

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

**Recent Accounting Pronouncements**

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

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 3- FIXED ASSETS**

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

| | Estimated Useful Lives (Years) | |
|---|---|---|
| Computer equipment | 5 | $ 1,063,283 |
| Less: accumulated depreciation | | (491,823) |
| Fixed assets, net | | $ 571,460 |

There was $118,750 and $99,083 depreciation charged to operations for the six months ended June 30, 2006 and 2005, respectively.

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

**NOTE 4- LOANS PAYABLE**

The Company beginning in 2004 entered into unsecured loans payable with non-related parties. There was $86,926 outstanding as of June 30, 2006.

**NOTE 5- RELATED PARTY LOANS**

Beginning in April 2005, the Company's subsidiary entered into non-interest bearing loans with OSK Capital II Corp, a company with common officers and directors. There were no amounts outstanding as of June 30, 2006.

Additionally, the Company had loans with various directors that were non-interest bearing. There was $594,417 outstanding as of June 30, 2006.

**NOTE 6- CONVERTIBLE DEBENTURES**

On October 18, 2004, the Company entered into 12% Convertible Debentures (the "Debentures") with Strathmere Associates International Limited in the amount of $100,000. The Debentures have a maturity date of October 31, 2006, and incur interest at a rate of 12% per annum, payable every six months.

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 6- CONVERTIBLE DEBENTURES (CONTINUED)**

The Debentures can either be paid to the holders on October 31, 2006 or converted at the holders' option any time up to maturity at a conversion price equal of $.20 per share. The convertible debentures met the definition of hybrid instruments, as defined in SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The hybrid instruments are comprised of a i) a debt instrument, as the host contract and ii) an option to convert the debentures into common stock of the Company, as an embedded derivative. The embedded derivative derives its value based on the underlying fair value of the Company's common stock. The Embedded Derivative is not clearly and closely related to the underlying host debt instrument since the economic characteristics and risk associated with this derivative are based on the common stock fair value. The Company has separated the embedded derivative from the hybrid instrument based on an independent valuation of $43,537 based on 500,000 shares ($100,000 at a $.20 exercise price).

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

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

Interest expense for the six months ended June 30, 2006 and 2005 was $6,000 and $6,000, respectively. At June 30, 2006, there was $2,419 of interest accrued.

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 7- COMMITMENTS**

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

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

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

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

**NOTE 8- STOCKHOLDERS' EQUITY (DEFICIT)**

**Common Stock**

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

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

The Company has not issued any shares for the six months ended June 30, 2006.

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 8- STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)**

**Common Stock (Continued)**

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

The Company has not issued any options or warrants.

**NOTE 9- PROVISION FOR INCOME TAXES**

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

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

| | 2006 |
|---|---|
| Net operating losses | $ 1,672,224 |
| Valuation allowance | (1,672,224) |
| $ | - |

At June 30, 2006, the Company had a net operating loss carryforward in the approximate amount of $4,918,305, available to offset future taxable income through 2026. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

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

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

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 10- SEGMENT INFORMATION**

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

Operating segment data for the six months ended June 30, 2006 are as follows:

| | Corporate | Wholesale Services | Connection Services | Total |
|---|---|---|---|---|
| Sales | $ - | $ 4,143,624 | $ 203,712 | $ 4,347,336 |
| Cost of sales | - | 3,601,033 | 194,753 | 3,795,786 |
| Gross profit (loss) | - | 542,591 | 8,959 | 551,550 |
| Operating expenses | 60,045 | 470,450 | 178,573 | 709,068 |
| Depreciation, amortization and impairment | 89,220 | 8,511 | 21,019 | 118,750 |
| Interest (net) | (6,000) | (647) | (9,980) | (16,627) |
| Net income (loss) | (155,265) | 62,983 | (200,613) | (292,895) |
| Segment assets | 356,880 | 433,786 | 193,811 | 984,477 |
| Fixed Assets, net of depreciation | 356,880 | 87,043 | 127,537 | 571,460 |

Operating segment data for the six months ended June 30, 2005 are as follows:

| | Corporate | Wholesale Services | Connection Services | Total |
|---|---|---|---|---|
| Sales | $ - | $ 1,091,273 | $ 125,123 | $ 1,216,396 |
| Cost of sales | - | 1,016,740 | 34,709 | 1,051,449 |
| Gross profit (loss) | - | 74,533 | 90,414 | 164,947 |
| Operating expenses | 473,750 | 280,059 | 243,375 | 997,184 |
| Depreciation, amortization and impairment | 74,350 | 4,912 | 19,821 | 99,083 |
| Interest (net) | (6,000) | (0) | (0) | (6,000) |
| Net income (loss) | (554,100) | (210,438) | (172,782) | (937,320) |
| Segment assets | 520,450 | 108,430 | 251,847 | 880,727 |
| Fixed Assets, net of depreciation | 520,450 | 44,526 | 95,442 | 660,418 |

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**UNITED AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**JUNE 30, 2006 AND 2005**

**NOTE 11- SUBSEQUENT EVENTS**

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

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

Upon the effective date of this transaction on August 1, 2006, Teliphone, Inc. will no longer be a wholly-owned subsidiary of OSK Capital II, Corp. Teliphone will become a majority owned subsidiary and the noncontolling interest will be reflected in the consolidated financial statements.

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**Item 2. Management’s Discussion and Analysis**

**Forward-Looking Statements**

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

**Business Description**

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

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

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

Since we implemented our new business plan to provide Voice over Internet Protocol (VoIP) solutions, our business has evolved and we have organized our operations into two different segments of the market. Our operations are focused servicing the wholesale VoIP market or retail VoIP providers by constructing VoIP networks and enabling them to purchases termination minutes using our networks. In August 2004, we incorporated Teliphone, Inc. (“Teliphone”), a Canadian corporation, as a wholly-owned subsidiary to service the retail VoIP market by handling the origination, management, and billing of calls. Teliphone also handles servicing and providing businesses and individuals with a mobile or landline phone to access our VoIP networks.

*Wholesale VoIP Market*

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

During the reporting period, we were forced to shut down our CarribbeanOne network due to political changes with government telecommunications regulators in Haiti, the hosting site of our gateway. We anticipate that we will be able to recommence use of our CarribbeanOne network in this area before the end of the current fiscal year. The success of our business plan is not dependent on the CarribbeanOne network. Notwithstanding, we anticipate that the shut down of the CarribbeanOne network will negatively impact our results of operations until such time that we able to recommence use of the CarribbeanOne network.

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

We further expanded our network by entered into a partnership with Tectacom Inc. of Montreal and established a VoIP gateway in Mali, Africa in May of 2006. As a result, we have established a profit-sharing understanding with Tectacom for VoIP long distance termination minutes transiting through our gateways. Tectacom holds agreements with the domestic telecommunications operator in Mali, permitting them to reserve voice channel capacity within the Mali telecommunications infrastructure. This agreement permits us to install our gateways and to interconnect the Mali voice channels with our servers in Montreal. This enables us to sell this direct route connection to our customers in order for them to offer long distance services to their respective retail customer base. Tectacom is further developing additional routes in Africa and we anticipate growth in the establishment of new gateways with them in the future.

*Retail VoIP Network*

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

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

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

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

Teliphone has also entered into an exclusive marketing and distribution agreement to make available its products and services in India, China, Sri Lanka, United Arab Emirates, and Russia. Accounts activated in any of these geographical markets will be assigned a North American telephone number. To date, retail sales to consumers in these geographical areas have not materially contributed to Teliphone’s sales.

*Agreement with Intelco Communication, Inc.*

Teliphone Inc., a wholly-owned subsidiary of our majority-owned subsidiary OSK Capital II, Corp., 3901823 Canada Inc., the holding company of Intelco Communications (“3901823”), and Intelco Communications (“Intelco Communications”) entered into an agreement (the “Agreement”) on July 14, 2006. Pursuant to the terms of the Agreement, Teliphone agreed to issue 35 class A voting shares of its common stock representing 25.2% of Teliphone’s issued shares to 3901823 in exchange for office rent, use of Intelco’s data center for Teliphone’s

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equipment, and use of Intelco's broadband telephony network valued at approximating $144,000 (CDN$) for the period August 1, 2006 through July 31, 2007, a line of credit of $75,000 (CDN$), of which $25,000 (CDN$) was already drawn upon in July 2006.

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

Upon the effective date of this transaction on August 1, 2006, Teliphone, Inc. was longer a wholly-owned subsidiary of OSK Capital II, Corp. Teliphone became a majority owned subsidiary and the noncontolling interest is reflected in the consolidated financial statements.

**Subsidiary Spin-off**

In March 2005, our management proposed to spin-off one of our subsidiaries, Teliphone, Inc., subject to the approval of the stockholders. At the time of this proposal, we owned 100 common shares of the 104 common shares issued and outstanding in Teliphone. Under the terms of this proposal, our shareholders would have received 1 share of Teliphone for each share of our company they owned.

Our board of directors believed that spinning-off Teliphone would accomplish an important objective. The spin-off would enable Teliphone to focus on handling the origination, management, and billing of calls and allow us to concentrate on building an international VoIP focused primarily on call termination. This will allow both companies that have operations that are focused on different objectives to better prioritize the allocation of their management and their financial resources for achievement of their corporate objectives.

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

On April 28, 2005, OSK completed its acquisition of Teliphone, pursuant to an Agreement and Plan of Merger and Reorganization. At the effective time of the merger, OSK acquired all of the outstanding shares of Teliphone and Teliphone merged with OSK II Acquisition Corp., a Florida corporation and wholly-owned subsidiary of OSK Capital II, Corp. Following the merger, Teliphone was the surviving corporation. OSK issued 25,000,000 common shares in exchange for all of the issued and outstanding shares of Teliphone and these shares of OSK were issued to

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the shareholders Teliphone shareholders on a pro rata basis. We owned 100 common shares of the 104 common shares issued and outstanding in Teliphone. As a result, we received 24,038,462
shares of OSK. Following the effectiveness of the merger, OSK had 30,426,000 common shares issued and outstanding. Consequently, Teliphone became a wholly owned subsidiary of OSK and OSK is currently a majority-owned subsidiary of our company.

Our management proposed to spin-off our majority-owned subsidiary, OSK. To complete the spin-off, we propose to distribute the shares of OSK that we own on a pro rata basis to our shareholders. A record date to present the proposed spin-off to our shareholders has not yet been set.

**Results of Operations for the three and six months ended June 30, 2006 and 2005**

*Revenues*

Our total revenue reported for the three months ended June 30, 2006 was $1,884,166, a 106% increase from $912,653 for the three months ended June 30, 2005. Our total revenue reported for the six months ended June 30, 2006 was $4,347,336, a 257% increase from $1,216,396 for the six months ended June 30, 2005. Our revenue for the three and six month ended June 30, 2006 and 2005 was generated by sales of retail domestic and international voice and data products and services using VoIP. The increase in revenue for the three and six month period ended June 30, 2006 from the same reporting period in the prior year is primarily attributable to increases sales of termination services at locations where we do not maintain a VoIP gateway. As a result of increased telephony traffic on our networks primarily to Mexico and the Philippines, we acquired termination minutes in these locations to provide to our customers. The ability to sell the termination minutes we acquired in locations which we do not maintain a VoIP gateway has enabled us to generate additional revenue from our existing consumer base.

Sales of VoIP termination services through our existing VoIP gateways accounted for $1,347,674 or 31% of our total revenue generated for the six months ended June 30, 2006. Retail sales of VoIP services in Canada through our subsidiary, OSK Capital II Corp./Teliphone, accounted for $95,994 or 4.8% of our total revenue generated for the three months ended June 30, 2006 and $203,712 or 4.7% of our total revenue generated for the six months ended June 30, 2006.

*Cost of Sales*

Our cost of sales for the three months ended June 30, 2006 was $1,470,255, a 72% increase from $851,978 for the three months ended June 30, 2005. Our cost of sales for the six months ended June, 2006 was $3,795,786, a 261% increase from $1,051,449 for the six months ended June 30, 2005. The increase in cost of sales is primarily attributable to increased sales in the reporting period. The increased purchases of inventory were required to service our expanding consumer base. Our purchases for the three months ended June 30, 2006 was $1,466,103, compared to $833,232 for the same period in the prior year. Our purchases for the six months ended June 30, 2006 $3,759,996, compared to $1,109,880 for the six months ended June 30, 2005.

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*Gross Profit*

Gross profit increased to $413,911, or approximately 21% of sales, for the three months ended June 30, 2006. This is an increase from a gross profit of $60,675, or approximately 6% of sales for the three months ended June 30, 2005. The significant increase in gross profit for the three months ended June 30, 2006 when compared to the same reporting period in the prior fiscal year is attributable to increased sales of termination traffic in our Gabon or Mali networks which now have greater profit margins that our CaribbeanOne network. During the reporting period, increased telephony traffic through our Gabon network enabled us to receive volume discounts for termination minutes with domestic telecommunication operators translating into higher profit margins. We acquire termination minutes from domestic telecommunication operators in order to be able to route calls from our gateways to the destination point.

Gross profit increased to $551,550 for the six months ended June 30, 2006 from gross profit of $164,947 for the six months ended June 30, 2005. Gross profit as a percentage of sales was 12% for the six months ended June 30, 2006 which was relatively consistent with the 13% of sales reported for the six month ended June 30, 2005.

*Operating Expenses*

Operating expenses for the three months ended June 30, 2006 was $380,136, a 41% decrease from $674,757 for the three months ended June 30, 2005. Our operating expenses for the three months ended June 30, 2006 consisted of selling and promotion expenses of $29,232, professional and consulting fees of $68,352, commissions and wages of $185,985, general and administrative expenses of $34,562, and depreciation, amortization and impartment expenses of $62,005. Our operating expenses for the three months ended June 30, 2005 consisted of selling and promotion expenses of $67,336, professional and consulting fees of $388,050, commissions and wages of $159,359, general and administrative expenses of $10,930, and depreciation, amortization and impartment expenses of $49,082.

Operating expenses for the six months ended June 30, 2006 was $827,818, a 24% decrease from $1,096,267 for the six months ended June 30, 2005. Our operating expenses for the six months ended June 30, 2006 consisted of selling and promotion expenses of $53,220, professional and consulting fees of $139,188, commissions and wages of $441,569, general and administrative expenses of $72,091, and depreciation, amortization and impartment expenses of $118,750. Our operating expenses for the six months ended June 30, 2005 consisted of selling and promotion expenses of $123,044, professional and consulting fees of $584,664, commissions and wages of $232,610, general and administrative expenses of $56,866, and depreciation, amortization and impairment expenses of $99,083.

The decrease in operating expenses was primarily a result of incurring significant less professional and consulting fees. Professional and consulting fees decreased by $319,698 for the three months ended June 30, 2006 from the prior year and $445,476 for the six months ended June 30, 2006 from the prior year. The decrease in operating expenses is also attributable to lower selling and promotional expenses during the reporting period. We pay commissions based upon sales of VoIP termination services. As a result of an increase in the sales of VoIP

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termination services, our commissions and wages increased correspondingly.

*Other Income (Expense)*

During the three months ended June 30, 2006, we reported other expenses in the amount of $12,361, compared to reporting other income in the amount of $3,000 for the same reporting period in the prior year. During the six months ended June 30, 2006, we reported other expenses in the amount of $16,627, compared to reporting other income in the amount of $6,000 for the same reporting period in the prior year. The other income reported during the three and six months ended June 30, 2006 and 2005 is attributable to interest expenses incurred on an outstanding convertible debenture.

*Net Income (Loss)*

We had net income of $41,407 for the three months ended June 30, 2006, compared to net loss of $604,510 for the three months ended June 30, 2005. This three-month period represents the first time since our inception that we have reported a net income. Net loss for the six months ended June 30, 2006 was $245,075, compared to a net loss of $923,570 for the six months ended June 30, 2005. The reporting of net income during the three months ended June 30, 2006 was primarily attributable to increased sales with a higher profit margin.

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

**Liquidity and Capital Resources**

As of June 30, 2006, we had total current assets of $413,017 and cash and cash equivalents of $32,912. Our total current liabilities as of June 30, 2006 were $1,049,719, resulting in a working capital deficit of $636,702 as of June 30, 2006.

Operating activities used $557,492 in cash for the six months ended June 30, 2006. Our net loss of $245,075 and the payment of accounts payable and accrued expenses in the amount of $339,600 were the primary components of our negative operating cash flow. Investing activities during the six months ended June 30, 2006 used $50,110 for the purchase of fixed assets. These fixed assets are attributable to our new gateway installations in Gabon and Mali Africa. Net cash flows provided by financing activities during the six months ended June 30, 2006 was $586,737. We received $594,417 as proceeds from the issuance of notes payable to related parties during the six months ended June 30, 2006.

The success of our business plan beyond the next 12 months is contingent upon us obtaining additional financing. We intend to fund operations through debt and/or equity financing arrangements, which may be insufficient to fund our capital expenditures, working capital, or other cash requirements. We do not have any formal commitments or arrangements for the sales of stock or the advancement or loan of funds at this time. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all.

**Off Balance Sheet Arrangements**

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

**Going Concern**

As shown in the accompanying condensed consolidated financial statements, we have incurred recurring losses of $245,075 and $923,570 for the six months ended June 30, 2006 and 2005, and had a working capital deficiency of $636,702 as of June 30, 2006. We have recently emerged from the development stage and started generating revenues as of March 31, 2004. There is no guarantee that we will be able to raise enough capital or generate revenues to sustain our operations. These conditions raise substantial doubt about our ability to continue as a going concern for a reasonable period.

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

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

**Critical Accounting Policies**

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

**Currency Translation**

For subsidiaries outside the United States that prepare financial statements in currencies other than the U.S. dollar, we translates income and expense amounts at average exchange rates for the year, translates assets and liabilities at year-end exchange rates and equity at historical rates. Our reporting currency is that of the US dollar while its functional currency is that of the Canadian dollar. We record these translation adjustments as accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions commenced in 2004 when we utilized a

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Canadian subsidiary to record all of the transactions. We recognized a gain (loss) of $53,777 and $44,677 for the six months ended June 30, 2006 and 2005.

**Revenue Recognition**

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

**Impairment of Long-Lived Assets**

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

**Recent Accounting Pronouncements**

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

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

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consolidated financial statements.

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

**Item 3. Controls and Procedures**

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

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

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

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Limitations on the Effectiveness of Internal Controls

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

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

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

None

### Item 3. Defaults upon Senior Securities

None

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

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

### Item 5. Other Information

None

### Item 6. Exhibits

| Exhibit Number | Description of Exhibit |
|---|---|
| 10.1 | Letter of intent for Joint Venture Agreement between Teliphone, Inc. and Intelco Communication, inc. dated July 14, 2006 [1] |
| 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

[1] Previously filed as an exhibit to current report on Form 8-K filed on August 3, 2006

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## SIGNATURES

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

**United American Corporation**

Date: August 14, 2006

By: /s/ Simon Lamarche
Mr. Simon Lamarche
Title: **Chief Executive Officer and Director**