FONECASH INC
Form 10KSB
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20546

FORM 10-KSB

GENERAL FORM FOR REGISTRATION OF SECURITIES OF

Small Business Issuers

Under Section 12(b) or 12(g) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2003

FONECASH, INC

(Name of Small Business Issuer in its charter)

DELAWARE	**22-3530573**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

162 M Homestead Street, Manchester, Connecticut 06040

(Address of principal executive offices) (Zip Code)

Issuer's telephone number (860) 805-0701

Securities to be registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: COMMON STOCK, par value $.0001 per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [X]

Number of shares of Common Stock outstanding at December 31, 2003: 98,574,056

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FORM 10-KSB

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PART I

Item 1 -Business

Fonecash, Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 7, 1997. During the fourth quarter of December 2002, the Company began to wind down its operations. This occurred because of management s inability to raise sufficient funds to finance the continued development of the Company s business plan.

Until that point the Company had been engaged in the payment processing of transactions for banks and their merchants through its terminals and proprietary system. As part of that operation, the Company was developing a wired and wireless gateway to convert consumers' credit and debit card information collected by mobile merchants into a format that can be processed by banks. The Company intended to act as a payment system service provider between banks, mobile merchants and their customers. The Company intended to charge merchants a fixed transaction fee to process their payments.

Currently, the Company remains in development stage and it has no operating profits to date. With the cessation of its pursuit of the credit card processing business, the Company currently has no business operations. The Company is actively seeking a possible merger candidate in an effort to provide shareholders value.

The Company incurred operating losses of $126,307 during 2003. The Company spent a total of $432,256 on Research and Development from Inception to December 31, 2003. The Company expects its accumulated deficit to grow for the foreseeable future.

The Company's Operations to Date

The Company was developing a system of processing credit cards for an under served community of low volume merchants and in-home salespersons consisting of a fixed wire or wireless terminal and a system of computers, utilizing established communications networks, both wired and wireless, for processing the data from credit and debit cards. The Company ceased this operation during the fourth quarter of 2002.

Currently the Company is seeking merger candidates. It has not yet identified nor negotiated with any candidates.

Employees

The Company has one full time employee.

Sources of Revenues

From inception through December 31, 2003, the Company had revenue of $ 10,840 from sale of its products. If the Company can locate, negotiate and acquire a merger candidate revenue could potentially come from the merger candidates business operation.

Additional Risks Factors

An investment in the Company's common stock involves a high degree of risk. Investors should consider the following risk factors and the other information in this registration statement carefully before investing in the Company's common stock. The Company's business and results of operations could be seriously harmed if any of these risks actually happen.

The Company's Limited Operating History May Prevent it From Achieving Success.

The Company's inception date was August 1997. It has a limited operating history, which may prevent it from achieving success. The Company's has had limited revenues and it operating profits are unproven. It will encounter challenges and difficulties frequently encountered by early-stage companies in new and rapidly evolving markets. The Company may fail to address any of these challenges and the failure to do so would seriously harm the Company's business and operating results. It has limited insights into trends that may emerge and affect the Company's business.

The Company has Incurred Losses and Expects Future Losses

The Company has experienced operating losses in each period since inception and expects to incur losses in the future. On December 31, 2003, the Company had an accumulated deficit of $5,701,321. The Company expects to increase its operating expenses. As a result, the Company will need to achieve revenues and profits. The Company's failure to achieve revenues would seriously harm the Company's business and operating results. In fact, the Company may not have any revenue growth.

Future Operating Results Will Likely Fluctuate

The Company's quarterly operating results will likely vary significantly in the future. As a result, period-to-period comparisons of the Company's operating results will not be meaningful and should not be relied upon as indicators of the Company's future performance. In the future, the Company's operating results may be below the expectations of securities analysts and investors. The Company's failure to meet these expectations would likely depress the market price of the Company's common stock. To date, the Company has not had sufficient operating results to gauge any period-to-period fluctuations.

The Company Must Retain and Attract Key Personnel

The Company's success depends largely on the skills, experience and performance of the members of its senior management and other key personnel. In the future, the Company's growth will depend upon its ability to attract and retain key management personnel.

Reliance on Key Personnel

The Company considers Abraham Pierce to be a key employee. The loss of his services could seriously harm the Company's business. The loss of its employee will add a significant burden to the Company's future prospects.

Future Sales of Shares Could Affect the Company's Stock Price

If the Company's stockholders sell substantial amounts of the Company's common stock in the public market, the market price of the Company's common stock could fall. Of the Company's outstanding common stock as of December 31, 2003, 10% is eligible for sale in the public market immediately.

Shareholders Will Receive No Dividends

The Company has never paid dividends and has no current plans to do so. Given the Company's financial position, it is unlikely that it will pay any dividends in the foreseeable future. The Company plans instead to retain earnings, if any, to fund internal growth.

The Company Needs Future Capital

The Company needs to raise funds, and funds may not be available on favorable terms or at all. Failure to obtain funds on favorable terms could seriously harm the Company's business and operating results. Furthermore, if the Company issues additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of the holders of the Company's common stock. If the Company cannot raise funds on acceptable terms, it will seriously hamper its growth.

Special Note Regarding Forward-Looking Statements

This document contains forward-looking statements. These statements relate to future events or the Company's future financial performance. In some cases, one can identify forward-looking statements by terminology. For example, "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", or "continue", or the negative of these terms or other comparable terminology, indicate forward-looking statements. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, one should specifically consider various factors, including the risks outlined in the Risk Factors section. These factors may cause the Company's actual results to differ materially from any forward-looking statement.

Although it believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Accordingly, neither the Company nor any other person assumes responsibility for whether the forward-looking statements ultimately prove accurate. The Company will not update any of the forward-looking statements after the date of this registration statement to conform to actual results or to make changes in the Company's expectations that occur after the date this registration statement becomes effective.

Item 2. Properties

The Company owns no property. Currently, the Company's principal office is located at 165 M Homestead Street, Manchester, Connecticut 06040. This space is provided to the Company by its President Abraham Pierce. Mr. Pierce will continue to provide this space for the foreseeable future until a suitable merger candidate can be acquired at which point the Company intends to move its business to the merger candidate s location.

Item 3. Legal Proceedings

The Company was served with a summons and complaint for failure to pay the monthly payments on its line of credit with Fleet National Bank. Pursuant to the lawsuit, the Company would be liable to Fleet National Bank for the outstanding principal balance of $107,645 plus attorney s fees. Management has indicated its intentions to defend the action and will repay the principal balance in monthly installments upon receipt of capital contributions from investors.

On April 8, 2002 the Securities and Exchange Commission filed a complaint alleging that a registration statement and amendments, filed with the Commission by the Company in December 2001, January 2002 and March 2002, and signed by the former president of the Company, Daniel E. Charboneau, contained material misrepresentations and omissions. On January 6, 2004, a United States District Judge from the District of Columbia entered a default judgment against the Company restraining the Company from further violations of Section 17(a) of the Securities Act of 1933, Sections 10(b) and 13a-13 of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, 13a-1 and 13a-13 thereunder. As part of this order the Court also ordered penalties and interest in the amount of $110,977.

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

No matters were submitted to a vote of security holders during the fourth quarter. However, the Company did file notification that the majority of shares entitled to vote, did vote on January 16, 2002, to amend the Certificate of Incorporation of the Company to change authorized number of shares from 20,000,000 million shares of Common Stock, par value $0.0001 and 5,000,000 shares of preferred stock, par value $0.0001, to 500,000,000 million shares of Common Stock, par value $0.0001 and 10,000,000 shares of preferred stock, par value $0.001, for a total of 510,000,000 shares authorized.

PART II

Item 5 Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock has traded on the OTC Bulletin Board under the symbol "FCSH" since July 3, 2000. The following table sets forth the high and low closing prices for the common stock for the periods indicated:

2003

High

Low

Fourth Quarter

$0.005

$0.0001

Third Quarter

$0.005

$0.0001

Second Quarter

$0.002

$0.0001

First Quarter

$0.0001

$0.0001

2002

Fourth Quarter

$0.035

$0.0001

Third Quarter

$0.057

$0.003

Second Quarter

$0.055

$0.03

First Quarter

$0.085

$0.03

As of December 31, 2003 there were approximately 206 holders of record of the common stock. On December 31, 2003, the closing sales price of the Company's common stock was $0.0035 per share.

The Company has not paid any cash dividends on its Common Stock and does not presently intend to do so. Future dividend policy will be determined by its Board of Directors on the basis of its earnings, capital requirements, financial condition and other factors deemed relevant.

The Company's transfer agent is Manhattan Transfer Registrar Co., P.O. Box 361, Holbrook, New York 11741, (631) 585-7341.

Recent Sales of Unregistered Securities

During the period ended December 31, 2003, the Company issued 40,000,000 shares to its two officers in lieu of cash compensation. This issuance was valued at $0.001 per share or $40,000.

During the period ended December 31, 2002, the Company issued 32,928,174 shares to 28 individuals or entities for services rendered which were valued and expensed at an average of $0.0342 per share. Additionally during this period, the Company sold 10,746,826 shares of common stock to 84 individuals or entities at an average price of $0.0115 per share.

Item 6 - Management's Discussion and Analysis of Financial Condition and Plan of Operation

General

The Company has had revenues of $10,840 since its inception in August 1997 due to the fact that the Company is in the development stage mode for five years. The Company had a net loss of $5,701,321 since inception to December 31, 2003. All depreciable assets were written down to $ -0- because such assets would no longer provide a future benefit to the Company. Depreciation expense of $ -0- was charged to operations for the period ended December 31, 2003. The Company expects its accumulated deficit to grow for the foreseeable future.

For the period ending December 31, 2003 general and administrative expenses were $21,307 as compared to $1,449,025 for the same period in 2002, representing a decrease of $1,427,718. The decrease during the period ending December 31, 2003 was primarily due to charges associated to the cessation of the business activities of the Company.

The Company's combined cash and cash equivalents totaled $ -0- for the period ended December 31, 2003 compared to $ -0- for the period ending December 31, 2002.

The Company does not expect to generate a positive internal cash flow for at least the foreseeable future. The Company currently has limited internal and external sources of liquidity. At this time the Company has no material commitment for capital expenditures.

Liquidity and Capital Resources

The Company presently has no business operations or activity. It has no cash or cash equivalents. It is actively seeking a potential candidate with whom to merge or acquire.

Item 7. Financial Statements

FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Audited Financial Statements

For the years ended December 31, 2003 and 2002

Michael F. Albanese, CPA

18 Lisa Court

Parsippany, NJ 07054

TELEPHONE: (201) 406-5733

FACSIMILE: (973) 887-9103

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders

FoneCash, Inc.

Manchester, Connecticut

I have audited the accompanying consolidated balance sheets of FoneCash, Inc. (a Delaware corporation in the development stage) and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended and for the period August 7, 1997 (inception) to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these consolidated financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FoneCash, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended and from August 7, 1997 (inception) to December 31, 2003, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company's significant net losses raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Michael F. Albanese, CPA

Michael F. Albanese, CPA

Parsippany, New Jersey

January 7, 2004

FONECASH, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Balance Sheets

ASSETS

	December 31, 2003	December 31, 2002
Current assets:		
Accounts receivable	$ --	$ --
Inventory	--	--
Prepaid expenses	--	--
Total Current Assets	--	--
Property and equipment, net	--	--
Other assets:		
Patent rights, net	--	--
Total Assets	$ --	$ --

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable	$ 445,487	$ 424,179
Due to officer/stockholder	584,243	519,243
Notes payable	252,881	252,881
Total Current Liabilities	1,282,611	1,196,303
Stockholders' deficit :		
Preferred stock; $.0001 par value; authorized - 10,000,000 shares; issued - none	--	--
Common stock; $.0001 par value; authorized - 500,000,000 shares; issued and outstanding - 98,574,056 shares in 2003 and 58,574,056 in 2002	9,857	5,858
Additional paid-in capital	4,410,353	4,374,353

Treasury stock, 500 shares at cost	(1,500)	(1,500)
Deficit accumulated during the development stage	(5,701,321)	(5,575,014)
Total Stockholders' (Deficit)	(1,282,611)	(1,196,303)
Total Liabilities and Stockholders' (Deficit)	$ -	$ -

The accompanying notes are an integral part of these statements.

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FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Operations

	Year Ended December 31, 2003	Year Ended December 31, 2002	Aug. 7, 1997 (Inception) to December 31, 2003
Revenue:			
Sales	$ --	$ --	$ 10,840
Cost of sales	--	--	5,662
Gross profit	--	--	5,178
Interest income	--	46	5,257
Total revenue	--	46	10,435
Costs and expenses:			
Depreciation	--	20,121	210,426
Amortization	--	750	4,118
Research and development, related party	--	--	432,256
Officer's compensation	105,000	264,891	1,083,320
Impairment of investment in related party	--	--	50,000
Impairment of investment in subsidiaries	--	--	450,000
Loss on disposition of assets	--	11,449	11,449
General and administrative	21,307	1,449,025	3,359,210
	126,307	1,746,236	5,600,779
SEC litigation settlement	--	110,977	110,977
Net loss	$ (126,307)	$ (1,857,167)	$ (5,701,321)
	$ (.00)	$ (.04)	

Basic and diluted loss per common share		
Weighted average common shares outstanding	79,176,796	42,640,988

The accompanying notes are an integral part of these statements.

FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Changes in Stockholders' Equity

For the Period August 7, 1997 (Inception) to December 31, 2003

	Common Stock		Additional Paid-in	Treasury Stock		Deficit Accumulated During the Development
	Shares	Amount	Capital	Shares	Amount	Stage
Balances, August 7, 1997 (inception)	--	$ --	$ --	--	$ --	$ --
Common stock issued for services and costs advanced, valued at $.0001 per share	2,000,000	200	--	--	--	--
Common stock issued for services, valued at $.15 per share	200,000	20	29,980	--	--	--
Net loss for the period						(61,404)
Balances, December 31, 1997	2,200,000	220	29,980	--	--	(61,404)
Sale of common stock ($.4156 per share)	204,500	20	84,965	--	--	--
Net loss						(95,211)
Balances, December 31, 1998	2,404,500	240	114,945	--	--	(156,615)
Sale of common stock ($.7622 per share)	1,098,505	110	837,160	--	--	--
Services contributed by the president of the Company	--	--	60,000	--	--	--
Common stock issued for services, valued at $.81 per share	333,333	33	269,967	--	--	--

Net loss						(785,366)
Balances, December 31, 1999	3,836,338	383	1,282,072	--	--	(941,981)

(continued)

The accompanying notes are an integral part of these statements.

FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Changes in Stockholders' Equity

For the Period August 7, 1997 (Inception) to December 31, 2003

	Common Stock		Additional Paid-in	Treasury Stock		Deficit Accumulated During the Development
	Shares	Amount	Capital	Shares	Amount	Stage
Sale of common stock ($1.25 per share)	25,000	3	31,247	--	--	--
Common stock issued for services, valued at $.11 per share	1,466,667	147	157,353	--	--	--
Common stock issued for services, valued at $.5312 per share	623,367	62	331,071	--	--	--
Purchase of treasury stock	--	--	--	500	(1,500)	--
Net loss						(897,368)
Balances, December 31, 2000	5,951,372	$ 595	$ 1,801,743	500	$ (1,500)	$ (1,839,349)
Common stock issued for services, valued at $.12 per share	6,959,708	696	858,080	--	--	--
Sale of common stock ($.017 per share)	1,087,976	109	17,891	--	--	--
Common stock issued in acquisition of subsidiaries, valued at $.50 per share	900,000	90	449,910	--	--	--
Net loss						(1,878,498)
Balances, December 31, 2001	14,899,056	1,490	3,127,624	500	(1,500)	(3,717,847)

Sale of common stock ($.012 per share)	10,746,826	1,074	122,878	--	--	--
Common stock issued for services, valued at $.03 per share	32,928,174	3,293	1,123,851	--	--	--
Net loss						(1,857,167)
Balances, December 31, 2002	58,574,056	5,857	4,374,353	500	(1,500)	(5,575,014)

(continued)

The accompanying notes are an integral part of these statements.

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FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Changes in Stockholders' Equity

For the Period August 7, 1997 (Inception) to December 31, 2003

	Common Stock		Additional Paid-in	Treasury Stock		Deficit Accumulated During the Development
	Shares	Amount	Capital	Shares	Amount	Stage
Common stock issued for services, valued at $.001 per share	17,000,000	1,700	15,300	--	--	--
Common stock issued as repayment of related party debt valued at $.001 per share	23,000,000	2,300	20,700			
Net loss						(126,307)
Balances, December 31, 2003	98,574,056	$ 9,857	$ 4,410,353	500	$ (1,500)	$ (5,701,321)

(continued)

The accompanying notes are an integral part of these statements.

FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Consolidated Statements of Cash Flows

	Year Ended December 31, 2003	Year Ended December 31, 2002	Aug. 7, 1997 (Inception) to December 31, 2003
Cash flows from operating activities:			
Net loss	$ (126,307)	$ (1,857,167)	$ (5,701,321)
Adjustments to reconcile net loss to net			
cash used in operating activities			
Depreciation	--	20,121	210,426
Amortization	--	750	4,118
Common stock issued for services	17,000	1,127,143	2,851,753
Common stock issued in acquisition of subsidiaries	--	--	450,000
Common stock issued to officer in payment of debt	23,000	--	23,000
Notes issued for payment of expenses	--	41,280	41,280
Write-down of lost inventory	--	177,800	204,338
Write off uncollectible accounts	--	10,840	10,840
Loss on disposition of assets	--	11,449	11,449
Changes in assets and liabilities			
Increase in accounts receivable	--	--	(10,840)
(Increase) decrease in inventory	--	--	(204,338)
(Increase) decrease in prepaid expenses	--	25,000	--
Increase in accounts payable	21,307	262,702	445,487
Net cash used in operating activities	(65,000)	(180,082)	(1,663,808)
Cash flows from investing activities:			
Organization costs	--	--	(368)
	--	--	(220,625)

Purchases of property and equipment						
Acquisition of patent rights		--		--		(5,000)
Net cash used in investing activities		--		--		(225,993)
Cash flows from financing activities:						
Proceeds from short-term debt		--		32,625		274,949
Repayment of short-term debt		--		(17,048)		(63,348)
Increase (decrease) in amounts						
due to an officer/stockholder		65,000		40,552		584,243
Purchase of treasury stock		--		--		(1,500)
Proceeds from sale of common stock		--		123,953		1,095,457
Net cash provided by financing activities		65,000		180,082		1,889,801
Net increase (decrease) in cash		-		-		-
Cash at beginning of year		--		--		--
Cash at end of year	$	--	$	--	$	--

The accompanying notes are an integral part of these statements.

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FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

The financial statements presented are those of FoneCash, Inc. and its subsidiaries, a development stage company (the Company). The Company was incorporated under the laws of the State of Delaware on August 7, 1997. The Company's activities during the period ended December 31, 2003 have been primarily directed towards the raising of capital. The Company s business activity was to acquire the rights to market an electronic terminal that was to be used by retail merchants and in-home salespersons when payment was made with a credit or debit card. Currently the company is seeking a merger candidate.

The Company has limited operations and in accordance with Statement of Financial Accounting Standards No. 7 (SFAS #7), the Company is considered a development stage company.

Business Combination

On April 10, 2001, pursuant to an agreement with Richwoodland Profits Corporation (RPC) and Universal Venture Limited (UVL), each a British Virgin Island holding company, the Company has acquired all of the voting stock of four foreign companies that were wholly-owned by RPC and UVL in return for 900,000 shares of common stock of the Company, valued at $.50 per share. The companies acquired are start-up companies that have no assets, liabilities, revenue, expenses and results of operations. The investment in the companies has been reported entirely as goodwill, as there is no value in the companies. The four acquired companies are Universal Information Technology, (Hong Kong) Limited, a company which has developed a video compression technology for Internet and wireless applications; Firstech Ventures (Hong Kong) Limited, a company that locates engineering services for environmental projects in China, especially land fill projects, waste water and waste oil treatment facilities, and waste liner projects; Tech Unity Technology, (Hong Kong) Limited, which engages in gathering information and research about business opportunities in China for dissemination among U.S. and Australian bidders; and Fonecash.com (Hong Kong) Limited, a company engaged in the wireless processing of credit and debit cards for the mobile merchants. In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated or completed after June 30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase business combination must meet to be recognized and reported apart from goodwill. The Company has adopted the provisions of Statement 141 in reporting the business combination. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated

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FONECASH, INC. AND SUBSIDIARIES

(A Development Stage Company)

Notes to Consolidated Financial Statements

Business Combination (Cont d)

useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre- Statement 142 accounting literature. The Company has adopted the provisions of Statement 142 and has written the goodwill associated with the business combination down to zero, as no future benefit can be determined. An impairment loss of $450,000 has been reflected in the consolidated statements of operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting 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 period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include checking and money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

Accounts Receivable

The Company considers none of the accounts receivable to be collectible; and accordingly, wrote off all of the accounts receivable in 2002.

Inventory

Inventory is stated at the lower of cost or market, with cost determined on a first-in, first-out basis and market based on the lower of replacement cost or realizable value. The inventory was stored at an outside location. The owner of the storage facility is attempting to sell the inventory to recoup the rent owed by the Company for use of the facility. The inventory was $0 as of December 31, 2003 and 2002, respectively.

Property and equipment and depreciation

Property and equipment are stated at cost. Depreciation for both financial reporting and income tax purposes is computed using combinations of the straight line and accelerated methods over the estimated lives of the respective assets. Molds are depreciated over 3

Property and equipment and depreciation (Cont d)

years and tools and test equipment are depreciated over 5 years. Maintenance and repairs are charged to expense when incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged to income.

Intangible Assets

Intangible assets consisted primarily of patent rights. Pursuant to a complaint filed by the

Securities and Exchange Commission alleging that the patent rights had lapsed in 1993, the book value of the patent rights of $1,250 was charged to operations in 2002. Intangible assets were amortized on a straight-line basis over five years. Amortization expense was $0 and $750 for the years ended December 31, 2003 and 2002, respectively.

Long-lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by an asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.