FONECASH INC
Form 10QSB
May 20, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to ______

Commission file number: 0-30536

FoneCash, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3530573 (I.R.S. Employer Identification No.)
90 Park Avenue, 1700, New York, New York (Address of principal executive offices)	10016-1301 (Zip-Code)

Registrant's telephone number, including area code: (212) 984-0641

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 X No__

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12,13,or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes X No__

The number of outstanding shares of the registrant's Common Stock, par value $.0001 per share, was 26,849,056 on March 31, 2001.

==

Fonecash, Inc.
Quarterly Report on Form 10-QSB
For the Quarter Ended on March 31, 2002

Table of Contents

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

ASSETS

	March 31, 2002	December 31, 2001
Current assets:		
Cash	$ 568	$ --
Accounts receivable	10,840	10,840
Stock subscriptions receivable	83,875	--
Inventory	177,800	177,800
Prepaid expenses	25,000	25,000
	298,083	213,640

Property and equipment, net	23,613	30,320
Other assets:		
Patent rights, net	1,750	2,000
Other	--	--
	1,750	2,000
	$ 323,446	$ 245,960

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable	$ 149,208	$ 161,478
Due to officer/stockholder	474,791	478,691
Notes payable	191,860	196,024
	815,859	836,193
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 - 26,849,056 shares in 2002 and 14,899,056 in 2001	2,685	1,490
Additional paid-in capital	3,559,054	3,127,624
Treasury stock, 500 shares at cost	(1,500)	(1,500)
Deficit accumulated during the development stage	(4,052,652)	(3,717,847)
	(492,413)	(590,233)
	$ 323,446	$ 245,960

See accompanying notes to the financial statements.

FONECASH, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Operations

	Three	Three	Aug. 7, 1997

	Months Ended March 31, 2002	Months Ended March 31, 2001	(Inception) to March 31, 2002
Revenue:			
Sales	$ --	$ 6,020	$ 10,840
Cost of sales	--	2,800	5,662
Gross profit	--	3,220	5,178
Interest income	5	6	5,216
Total revenue	5	3,226	10,394
Costs and expenses:			
Depreciation	6,707	18,345	197,012
Amortization	250	268	3,618
Research and development, related party	--	9,700	432,256
Officer's compensation	221,000	1,200	934,429
Impairment of investment in related party	--	--	50,000
Impairment of investment in subsidiaries	--	--	450,000
General and administrative	106,853	282,080	1,995,731
	334,810	311,593	4,063,046
Net loss	$ (334,805)	$ (308,367)	$ (4,052,652)
Basic and diluted loss per common share	$ (.02)	$ (.05)	
Weighted average common shares outstanding	16,791,556	6,234,705	

See accompanying notes to the financial statements.

3

FONECASH, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Changes in Stockholders' Equity
For the Period August 7, 1997 (Inception) to March 31, 2002

Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	T Share

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 $.15 per share	200,000	20	29,980	
Net loss for the period				
Balances, December 31, 1997	2,200,000	220	29,980	
Sale of common stock ($.4156 per share)	204,500	20	84,965	
Net loss				
Balances, December 31, 1998	2,404,500	240	114,945	
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				
Balances, December 31, 1999	3,836,338	383	1,282,072	
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	--	--	--	
Net loss				
Balances, December 31, 2000	5,951,372	$ 595	$ 1,801,743	
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				
Balances, December 31, 2001	14,899,056	$ 1,490	$ 3,127,624	

Sale of common stock ($.03 per share)	4,450,000	445	132,180	
Common stock issued for services, valued at $.04 per share	7,500,000	750	299,250	
Net loss for the period				
Balances, March 31, 2002	26,849,056	2,685	3,559,054	

See accompanying notes to the financial statements.

FONECASH, INC. AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Aug. 7 (Incept Marc 20
Cash flows from operating activities:			
Net loss	$ (334,805)	$ (308,367)	$(4,0
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	6,707	18,345	1
Amortization	250	268	
Common stock issued for services	300,000	266,000	2,0
Common stock issued in acquisition of subsidiaries	--	--	4
Write-down of lost inventory	--	--	
Changes in assets and liabilities			
Increase in accounts receivable	--	(6,020)	(
(Increase) decrease in inventory	--	(172,200)	(2
Increase in prepaid expenses	--	--	(
Increase (decrease) in accounts payable	(12,270)	75,202	1
Net cash used in operating activities	(40,118)	(126,772)	(1,4
Cash flows from investing activities:			
Organization costs	--	--	
Purchases of property and equipment	--	--	(2
Acquisition of patent rights	--	--	
Net cash used in investing activities	--	--	(2
Cash flows from financing activities:			
Proceeds from short-term debt	2,625	3,091	2
Repayment of short-term debt	(6,789)	(5,565)	(

Increase (decrease) in amounts due to an officer/stockholder	(3,900)	127,888	4
Purchase of treasury stock	--	--	
Proceeds from sale of common stock	48,750	--	1,0
Net cash provided by financing activities	40,686	125,414	1,6
Net increase (decrease) in cash	568	(1,358)	
Cash at beginning of period	--	1,822	
Cash at end of period	$ 568	$ 464	$

See accompanying notes to the financial statements.

5

FONECASH, INC. AND SUBSIDIARIES
(A Development Stage Company)
Form 10QSB
Quarter Ended March 31, 2002
Notes to Consolidated Financial Statements

Note 1 - Condensed Consolidated Financial Statements

Basis of Presentation

The accompanying interim unaudited consolidated financial statements include the accounts of FoneCash, Inc. and its subsidiaries which are hereafter referred to as (the "Company"). All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, such interim statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for these interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2002. These financial statements should be read in conjunction with the audited financial statements and footnotes included in the Company's report on Form 10-KSB for the year ended December 31, 2001.

Note 2 - Stockholders' Equity (Deficit)

Common Stock

Since December 31, 2001, the Company has issued 2,100,000 shares of common stock for consulting services and 5,400,000 shares for officers' compensation, valued at $.04 per share. The Company has also sold 4,450,000 shares of common stock at $.03 per share.

Loss Per Common Share

Loss per common share is computed by dividing the net loss by the weighted average shares outstanding during the period.

Item 2. Management's Discussion and Analysis

This Quarterly Report on Form 10-QSB, including the information incorporated by reference herein, includes "forward looking statement" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Act") and Section 21E of the Securities Act of 1934, as amended ("Act of 34"). All of the statements contained in this Quarterly Report on Form 10-QSB, other than statements of historical fact, should be considered forward looking statements, including, but not limited to, those concerning the Company's strategies, objectives and plans for expansion of its operation, products and services and growth in demand for it's products and services. There can be no assurances that these expectations will prove to have been correct. Certain important factors that could cause actual results to differ materially from the Company's expectations (the "Cautionary Statements") are disclosed in this Quarterly report on Form 10-QSB. All subsequent written and oral forward looking statements by or attributable to the Company or persons acting on behalf are expressly qualified in their entirety by such Cautionary Statements. Investors are cautioned not to place undue reliance on these forward looking statements which speak only as of the date hereof and are not intended to give any assurance as to future results. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or reflect the occurrence of unanticipated events.

Fonecash, Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 7,1997 and is in its development stage. The first sale of its products was made in during this period.

The Company incurred operating losses of $4,052,652 from Inception to March 31,2002. The Company expects its accumulated deficit to grow for the foreseeable future as total costs and expenses increases due principally to increased marketing expenses associated with its plans to undertake trials of its products and services. There can be no assurances that the Company will complete successful trials of its products and services, nor that sufficient revenues will be generated from the possible sales of such products and services to allow the Company to operate profitably.

General

The Company has developed a system of processing credit cards for an under served community of low volume merchants and in-home salespersons consisting of a terminal and a system of computers, utilizing established communications networks, both wired and wireless, for processing the data from credit and debit cards.

Terminals are electronic collectors of credit and debit data from the magnetic stripe on cards. In the case of debit and credit cards the Fonecash system collects the data from the magnetic stripe when a merchant accepts the card for payment of goods or services. This data is transmitted to processors where the validity of the card number is confirmed and the amount of the purchase is authorized to the cardholder's account. Settlement occurs when the collected and stored data is sent to the card issuing bank which charges the customer's account and electronically deposits payment in the merchant's bank account, usually within 24 - 48 hours.

The Company intends to market a product line and a complete processing system that is high quality and simple to operate, because the Company, and not the individual merchant, takes the responsibility for closing the day's receipts and uploading the data to a third party payment processor, such as Paymenttech, Visanet, or First Data Resources, for settlement which results in payments being deposited in the merchants' bank account within 48 hours. Because the Company, not only provides a terminal, but also, provides a service that facilitates the collection of daily payment receipts, and transmits these electronic receipts for payment and deposit of funds to each merchant, the Company believes that it will be able to compete with the current makers of terminals, who only sell terminals, but also, able to compete with payment processors who only support terminals which transmit credit card data to their computers after the merchant has manually closed out the day's electronic receipts and transmitted the totals to the payment processor.

The Company intends to establish up to three master distributors in the United States with the most likely candidates being current Independent Sales Organizations (ISO's) who are already engaged in the business of distributing automated credit card processing terminals to established merchants who have been approved by their sponsoring banks. These ISO's have trained commissioned sales persons and have an interest in placement of any terminal in the market regardless of manufacturer.

The Company has never operated under any other name, nor has it ever been involved with any bankruptcy, receivership or similar proceeding or engaged in any material reclassification, merger, consolidation, or purchase or sale of assets.

Results of Operation

General and administrative expenses during the three months ending March 31, 2002 were $106,853 as compared to $282,080 for the same period in 2001, representing an decrease of $173,227. The decrease during the three month period ending March 31, 2002 was primarily due to an infusion of the capital to the Company to cover legall, accounting and printing associated with the filing of various documents with the Securities and Exchange Commission, as well as cost associated with the manufacture, shipping and storage of products for sale.

Compensation and related benefits during this three months was $221,000 and represented compensation to its consultant; but not to its president whose total compensation for the three months ended March 31, 2001. amounted $1,200.

Balance Sheet Data

The Company's combined cash and cash equivalents totaled $298,083 for the period ending March 31,2002. This is an increase of $84,443 from $213,640 for the period ending March 31, 2001

The Company does not expect to generate a positive internal cash flow for at least the next nine months due to expected increase in spending for salaries and the expected costs of marketing and sales activities.

Property and equipment was valued at $23,613 for the period ending March 31, 2002 and this represents an decrease of $6,707 for purchases of additional molds used the manufacturing of its products in Taiwan. The molds have a useful life of 3 years and are depreciated on a straight-line basis.

Part II Other Information

Item 1 Legal Proceedings

On April 8, 2002, the Company was served with a Notice of an Administrative Hearing at the Securities and Exchange Commission (SEC) offices in Washington, D.C. to be held on April 23, 2002, relating to certain allegations of the Enforcement Division of the SEC, that a Registration Statement on Form SB-2, filed on December 26, 2001 and amended thereafter, contained misrepresentations and omissions of material facts. The Commission seeks to have the ability to sell shares registered pursuant to the Registration Statement stopped. The Company is currently in discussions with the SEC to resolve this matter without a hearing and believes that this matter will be resolved shortly, in a manner that will not materially affect the ability to operate or to engage in further financing. The Company has been given an Offer for Settlement, which is currently under advisement with the Company's attorneys.

Also, on April 8, 2002, in a concurrent action, the Company was served with a Summons and Complaint, entitled Securities and Exchange Commission, Plaintiff v. Fonecash, Inc, and Daniel E. Charboneau, Defendants, entered at the United States District Court, District of Columbia. This action contains the same allegations as in the Notice of Administrative Hearing, related to alleged misrepresentations and omission in the filings of the Company. The Company is in discussions with the Commission related to the resolution of this matter and believes that a resolution will shortly be reached that will not materially impact on the operations of the Company. The Company has filed a Motion for an extension on the time to file an Answer to the Complaint and is awaiting a decision of the court.

The Company has been served with a Summons and Complaint from Fleet National Bank in an action commenced in the Supreme Court of the State of New York, County of New York entitled, Fleet National Bank v. Fonecash, Inc, Jean-Paul Charboneau, Individually and Jiann-Shong Wu, Individually. This action is for the failure to pay the monthly payments on a Line of Credit with Fleet National Bank. The Company has filed an Answer and a Request for Documents and is waiting for a response. The Company intends to defend the action and believes that it will be resolved in a manner that does not materially impact the Company.

The Company has been served with a Summons and Complaint from Edgar Filings, LTD in an action commenced in Harris County, Texas, entitled Edgar Filings, Ltd. v. FoneCash, Inc. This action is for failure to pay various invoices amounting to $2,303.31 for services incurred for filings documents with the Securities and Exchange Commission. The Company is in the process of working out a reasonable payment schedule with plaintiffs.

The Company has been threatened with litigation related to the use of Merrill Communications LLC. Merrill was used to file the Company's filings on the EDGAR system. They claim that a balance of $21,371.07, including interest is currently due. The Company has not yet been served with a Complaint by Merrill. Furthermore, the Company disputes the total amount due to Merrill. The Company believes that a resolution will be worked out that will not materially affect the Company. However, if a resolution can not be worked out, a judgment in the amount sought by Merrill might have a material adverse impact on the operations of the Company at this point in time.

The Company is threatened with litigation by Penny King Holdings Corporation(PKH) for $30,000 which is claimed as liquidated damages for cancellation on January 29, 2002 of a Financial Consulting Services Agreement. The Company has rejected this claim as being contrary to fact since the agreement upon which this claim is made is silent about liquidated damages, as well as the fact that PKH did not perform the obligations promised. The Company intends to defend itself against any action and believes that this threat will not materially affect the Company.

Item 2 Changes in Securities

On January 31, 2002, The Company signed a Stock Purchase Agreement with Hedley Finance, Inc., a company, located in Athens, Greece, whereby Hedley would purchase 200 million restricted shares of the Company's common stock at a share price of $0.03 for a total of $6 million. These shares were to be sold by reason of Regulation S to non-citizens of the United States. In order to exchange and make delivery of the stock certificates, an escrow agreement was established with Crouch Chapman Chartered Accountants, located in London, whereby as Hedley deposited funds into the escrow account, Crouch Chapman would release the stock certificates. Hedley never made payment for any of the shares and, after two months, the Company canceled the Stock Purchase Agreement and the sale. Crouch Chapman is in the process of returning the stock certificates to the Company's transfer agent who will cancel these certificates, returning the shares to authorized and unissued status. Under the General; Corporation Law of Delaware, unless consideration has been received, shares are deemed not to have been issued. Nor is stock in escrow considered to have been delivered to the investors.

On December 27, 2001, the Company filed a registration statement on form SB-2 to register 7,275,730 shares, previously issued for services, which became effective on January 16, 2002. The Company filed a post effective statement to the SB-2 registration on February 26, March 6, and March 14, 2002.

During the First Quarter of 2002, the Board of Directors passed a resolution agreeing to issue 3,000,000 shares of common stock to its president, Daniel Charboneau, and 2,400,000 shares of common stock to John Wu, valued at $0.04 a share, in lieu of cash compensation for the year ending December 31, 2001.

Items 3 Defaults upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

The Company increased its authorized common shares from 20,000,000 to 500,000,000 and its preferred shares from 5,000,000 to 10,000,000. The Board of Directors of the Company approved this increase and obtained the necessary approval of a majority of the shareholders. The Company filed Form 14C Information with the Securities and Exchange Commission on January 28, 2002.

Item 5 Other Information

On January 29, 2002, The Company canceled a contract with Penny King Holding Corporation(PKH), made on December 5, 2001, whereby, in return for 2.5 million free trading shares, priced at $0.10 each and for 2.5 million warrants with an exercise price of $0.20, PKH would deposit $250,000 in an escrow account no later than January 29, 2002. While an escrow was not part of the original agreement, PKH and Company mutually agreed to an escrow and agreed to appoint American Investment Services (AIS), a broker/dealer, located in Irvine, California, as the escrow agent. The Company delivered the stock certificates into the escrow, but PKH failed to deposit the funds on January 29, 2002 as promised. The Company notified PKH by certified letter that it was in default of the agreement and gave five days for compliance. On February 5, when promised funds were not deposited into escrow, the escrow agent agreed with Company that PKH was in default, and upon a request by the Company to return the stock certificates, the escrow agent sent the stock certificates to the Company's Transfer agent, returning the shares to authorized and unissued status. As an engagement fee, 125,000 shares were not returned to the Company, but the Company notified the transfer agent to put a stop on these shares as PKH did not perform any services in return for this compensation.

Item 6 Exhibits and reports on Form 8-K

a. Exhibit Index

b. Reports of Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended March 31, 2002.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned who is duly authorized to sign as an officer and as the principal officer of the Company.

Fonecash, Inc

By: /s/ Daniel E. Charboneau

Daniel E. Charboneau, Chairman/CEO

Date: May 20, 2002