FONECASH INC
Form 10KSB
April 15, 2002

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, 2001

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 No.)

90 Park Avenue, Suite 1700, New York, New York 10016
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (212) 984-0641

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[X] No [ ]

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: 14,899,056

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PART I

PART I

Item 1 -Business

Fonecash, Inc. (the "Company") was incorporated under the laws of the State of Delaware on August 7, 1997 and is engaged in the payment processing of transactions for banks and their merchants through its terminals and proprietary system. The Company is in the process of 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 will act as a payment system service provider between banks, mobile merchants and their customers. The Company will charge merchants a fixed transaction fee to process their payments.

The Company remains in development stage and has no operating profits to date. It is still in the process of acquiring additional funds, training personnel, manufacturing its products, and developing its markets.

The Company incurred operating losses of $1,878,498 during 2001. The Company spent a total of $58,200 on Research and Development from Inception to December 31, 2001. The Company expects its accumulated deficit to grow for the foreseeable future.

The Company's Operations to Date

The Company is 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.

Terminals are electronic collectors of credit and debit data from the magnetic stripe or Smart Card. In the case of debit and credit cards the Fonecash system will collect the data from the card when a merchant accepts it for payment of goods or services. This data will then be 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 aims to be of high quality and simple to operate. The Company, and not the individual merchant, will take 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, will not only provide a terminal, but also, will provide a service that facilitates the collection of daily payment receipts, and will transmit 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. The Company also believes that it will be able to compete with

payment processors who only support terminalswhich transmit credit card data to them after the merchant has manually collated the day's electronic receipts which are then transmitted to the payment processor.

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.

Much of the Company's effort from inception to the present has been focused on the design and engineering of the products, and the making of molds for the volume manufacturing process. Before manufacturing, testing for Federal Communications Commission (FCC) approval was completed and the Company's terminals are certified for Parts 15 and 68 of the FCC Rules & Regulations (Code of Federal Regulations, 47, Parts 15 & 68) which pertain to all devices that are attached to the telephone network in the United States.

Payment Processing

The Industry

The industry is generally referred to as the transaction payment industry and is divided into two major segments. In one segment are the manufacturers of hardware, known as terminals, which are electronic devices for capturing the data from some medium, such as a magnetic stripe on a plastic card, or from data stored on a microchip embedded on a plastic card.

In the other segment of this industry are the transaction payment processors, such as First Data Corporation (FDC), Paymentech, Nova Information Systems and several other smaller processors, who, when the data from these terminals is transmitted to their computers by wired or wireless transmission, verify the card as being valid and authorize the purchase for the specific amount indicated by the merchant.

The Verification, Authorization and Settlement Process

When a consumer presents a Visa or Mastercard to a merchant in payment for goods or services, the clerk swipes the card through an electronic terminal that connects by phone lines or a wireless network to a card processor (FDR, Paymentech, or others) whose servers access the Visa/Mastercard network to get verification that the card is valid and to get authorization for the amount to be charged to the cardholder so that the amount does not exceed the cardholder's credit limit. If the authorization transaction succeeds, the cardholder's bank that issued the credit card will put a "hold" for the purchase amount so that, when the settlement or deposit transaction takes place, the funds will be available to pay the merchant. An approval number is generated and the merchant has the cardholder sign a receipt which is kept on file by the merchant for up to six years.

Settlement can take place at any time, but typically, it is done at the end of the merchant's workday. All the credit card transactions since the last settlement period will be communicated to the payment processor's servers over a

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phone line. The payment processor submits a "Deposit Transaction" through the Visa/Mastercard network, in effect debiting the amount of the purchase from the cardholder's card issuing bank and depositing these funds into the merchant's sponsoring bank. It all takes place in minutes or seconds depending on the transactions to be settled.

The FoneCash Technology

Currently there are two models of the Fonecash fixed wired terminal, one a desk model and another is a hand-held model, which are manufactured by Yue-Shoung, Ltd. in Taiwan, and currently, the Company is also developing a wireless, hand-held terminal that will process transactions over a cellular network. Fonecash fixed wired terminals operate on a different system than the terminals currently sold by its competitors, utilizing an Interactive Voice Response (IVR) network - which means that the merchant is being prompted through the various steps involved in taking credit cards for payment of goods and services and connected to the Company's servers which uses commercially available software developed by Atomic Software of Atlanta and certified to connect to various payment processors, such as First Data Resources and Paymentech, who then, connect to the Visa/Mastercard networks for verification, authorization and settlement services. The process of verification, authorization and settlement is the same for the Company's system, except that the Company's servers are in-between the Company's terminals and the payment processor's servers. The Company believes that this will eliminate the resistance of the payment processors to certifying new terminals because their servers do not "see" what terminal is transmitting data; all their servers see is a stream of data from another server (computer). The Company's system is intended to capture the transactions of small merchants onto its servers and bundle the transactions together for settlement so that the volume is greater and thus become more attractive to the payment processors because of the increased transactions, which translated into a rise in revenues.

Competition

The Company does not believe that it faces competition from existing manufacturers or payment processors, which operate in the traditional transaction processing industry, because those companies are not interested in low volume merchants, and low volume merchants resist the cost related to automated terminals. The Company intends to target the very segment of the market which these companies neglect because of their low volume. Management believes that the fonecash system's simplicity and ease of operation will make it attractive to these merchants even if they are able to obtain service from the larger companies offering terminals and payment processing services. Moreover, the Company knows of no other companies planning to target this market niche, or which offer both terminals and payment processing services under one system.

Terminal Manufacturers

According to The Nilson Report, a bi-monthly publication of the credit payment systems industry, in Oxnard, California, the leader among the terminal makers is Verifone, a U.S. based company. It is generally conceded that Verifone has market share of 65% of the terminal market worldwide, based upon delivery and installation of products.

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Hypercom was founded in Australia, and has a U.S. base in Phoenix, Arizona and is a privately held company. Management believes Hypercom is the second largest maker of on-line stationary terminals with approximately 16% share of the market for sale and installation of these electronic devices.

Lipman is an Israeli based maker of terminals and, since 1995 has gained some 10 per cent of the market for sales of these terminals.

Dassault and Ingenico are both French companies and, along with some other makers, such as Goldstar of South Korea, make a line of terminals used mostly in these companies respective domestic markets. The Company believes their sales amount to no more than 10,000 units a year. These three makers, along with all the other smaller firms, amount to 9% of the market for terminals.

Payment Processors - Barriers to Entry

All credit cards transactions must be cleared through a transaction payment processor, and all automatic credit card terminals which connect directly to the computers of the transaction payment processors must be certified by the transaction processor. Certification involves testing the capabilities of the terminal software by repeated transmission of test data which simulate real transactions, in order to prove to the transaction processor that the terminal software is compliant with all requirements of the processor's computer system. Transaction processors are not anxious to fully certify and support new transaction equipment because it is expensive to provide customer assistance to a large number of terminal models. Every piece of newly certified terminals translates to higher training cost for their customer service personnel and, therefore, they try to stick with one piece of equipment.

Strategies to Overcome Barriers to Market

The Company believes that the resistance of the transaction processors to the introduction of new terminals is overcome because the Fonecash terminal is not supported by the processor but by the Company. The processor merely receives a stream of data in digital form from the Company's computers for the benefit of low volume merchants with merchant account numbers who would not be utilizing the processors because of the lack of an electronic terminal. These low volume merchants represent an enlarged customer base for the processors, acquired with very little effort or expense on their part.

In addition to a different method of handling the processing of data, the Company makes a line of products that are simple in design; do not need an external power source and are as easy to operate as an ordinary telephone. The combination of these factors the Company believes are sufficient to overcome opposition from the established payment processors and the resistance of low volume merchants to the purchase of more expensive equipment and services.

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Risks from Competitors

Even though the Company believes it has strategies to overcome barriers to entry into this industry and that it has no direct competitors in its specific market, the terminal manufacturers and the payment processors have longer operating histories and significantly greater financial, technical, marketing and other resources than the Company. Many of these companies have extensive customer bases and strong customer relationships that they could leverage, including relationships with the Company's potential customers. These companies also have significantly more established customer service organizations than the Company will be able to develop. In addition, these companies may adopt aggressive pricing policies. There can be no assurances that that the Company will be able to counter the impact or the level of the pricing.

Employees

The Company employs 3 full time employees in the United States; 2 employees in Shanghai, China and 14 engineers in Kaoshiung, Taiwan who are engaged in development of the Company's products and the development of the Company's software and firmware operating system.

The Target Market

The Company believes that the following four potential markets for its products and system will experience the highest benefit and, therefore, these potential markets are the first priority for the Company's future sales efforts. While the Company has sold none of its products or services into these markets, the

Company believes that the benefits of its products and services will increase the potential of sales to these specific targets.

1. M-Commerce. The Company anticipates that a large market for the fonecash wireless terminal will be the traveling sales representative. The terminal is portable and ideal for this application. The salesperson carrying this unit could be selling cosmetics, household products, insurance policies, encyclopedias or a number of other items. After a demonstration of products or an explanation of services, the in-home salesperson could accept payment by credit or debit card by merely attaching the fonecash terminal to the standard telephone. While the Company has not sold any of its products to in-home sales persons, it believes that use of the fonecash terminal by in-home salespersons represents a significant potential.

2. Home Installed Unit. The Company believes that new programs such as secure Pay Per-View TV, home banking, home shopping clubs, groceries delivered to the home, restricted Internet access, payments of income taxes, and a variety of other programs, that demand some form of pre-payment will become increasingly prevalent. Payment by means of a verified and authorized credit card will be available through the fonecash terminal. The telephone system is the largest wide area network (WAN) in the world and its use in connecting to almost every

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merchant gives the fonecash terminal the capability to act as a payment device for most any service. The fonecash terminal is user installed, cheap enough to be considered a give-away item, and will be positioned to address multiple markets because its Interactive Voice Response (IVR) system which will be installed on computers will be designed to handle up to thousands of separate customers. Payment using a terminal is superior to speaking the credit card number to a merchant on the telephone because one is not revealing the credit card number to a unknown person, thus avoiding one of the ways credit card numbers are stolen and sold to thieves who can use the data to make purchases or sell the data to others who will use the credit card fraudulently.

3. Pre-Pay Calling Card Activation. The Company believes that the pre-pay telephone calling card market has been evolving for years and that such cards are now used widely in developed countries. In the United States, pre-pay telephone calling cards are often sold behind the counter at small merchant locations such as neighborhood 7/11 or gas station convenience stores. Since the cards are delivered ready to be used by anybody, this has created the problem for the merchant who has to protect these cards from being stolen and therefore has to keep the cards behind the counter out of sight of the potential customers. The better arrangement would be to have the card located on stands throughout the store instead of behind the counter. The fonecash terminal solves this problem. When installed on the merchant's telephone line, the fonecash terminal allows the merchant to swipe the telephone card after it has been purchased and activate the card by swiping it through the fonecash terminal. This advantage means the merchants can place cards anywhere in the store knowing they are useless plastic until activated by the terminal. The use of the fonecash terminal to activate cards also gives the provider other unique advantages such as tracking sales, recharging cards on the fly, credit card purchases for cards, credit card authorization services, and many other new services.

4. Low Volume Merchants These are merchants with fewer than 20 credit card transactions a month. These merchants have the ability to take credit cards in payment for purchase of goods and services because various banks have opened up

merchant bank accounts for these merchants. These merchants, however, have no electronic transaction terminal. These merchants take credit card transactions by making a paper impression of the card, then, after having the cardholder sign a receipt, they take these paper receipts to a bank where they are then processed with the funds being received in the merchant's account 4-5 days later. The process is long and the delay in depositing the funds causes serious cash flow problems for the merchant. Because the Company makes and will market a high quality, simple to operate terminal, it anticipates that it will be able to attract many of these low volume merchants who are seeking a fast, simple and easy to operate solution to their processing needs.

The Company's Future Strategy

The Company's goal is to establish itself as a prominent force in the automated transaction industry by pursuing the following strategies:

- Develop other markets for transaction automation, such as in-home sales and the home market, wireless transmission and accessing Social Security benefits and payment of income taxes.

- Target the low volume, paper based merchants which the Company estimates number approximately 1.3 million accounts by some 83 banks and financial institutions in the United States.

- Develop opportunities for transaction automation in the international payment processing market, which the Company believes, is largely untapped and potentially larger than the U.S. market.

- Entering new segments of the payment processing market by developing terminals for in-home use to transfer money onto pre-pay telephone cards.

Management of the Company believes that the foregoing factors are the key elements of its operational strategy.

Sources of Revenues

Through December 31, 2001, the Company had revenue of $10,840 from sale of its products. If the Company can realize its goals as set forth above, revenue could potentially come from fees that merchants and banks would pay to the Company for its terminals and use of its processing system.

Manufacturing

The manufacturing of the Company's products is out-sourced to Yue-Shoung, Ltd., or in English, Ever Prosperity Electronics Corp. an electronic manufacturer of telephones and telephone equipment, located in Taiwan, with revenues of $150 million in 1999. This supplier makes a line of electronic products, including touch screen displays, close-circuit video security systems, video telephones and similar electronic products. The Company has no relationship with Yue-Shoung other than as supplier to buyer, except that the Company has agreed that Yue-Shong will be the Company's exclusive supplier until the molds have to be re-placed. Manufacturing is done under a purchase order issued to Yue-Shong by Advance Information Data (ADI), Taiwan, which terms of payment are one-third cash deposit at the start of making the mold for production of the plastic housing; one-third cash payment at the start of the production run, and one-third cash payment at the completion and inspection of the final product. The Company reimburses ADI for payment made under its existing agreement with ADI for consulting and procurement services.

Marketing Strategy

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.

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The Company intends to engage a firm in 2002 to create promotional brochures regarding the Company's terminals and services, emphasizing price, quality and support services. This material is expected to be sold at cost to distributors to be used in their sales presentation. Annually, the Company plans to participate in 4 to 6 forums and exhibitions, such as the Retail Merchants' Show, the Debit Forum, the American Bankers' Association, the Fraud and Security Forum, the COMDEX show, where wireless products and innovative computer and telecommunication products are presented, and the Food and Restaurant exhibition. The Company also intends to engage a firm to design and place advertisements in several of the industry's leading publications, including Credit Card Management, the Blue Book Directory of the Credit Card Industry and POS News, a monthly publication from Faulkner & Gray, a publisher in New York.

The Company's own marketing executives also intend to visit executives and decision makers among the banks and processors. At this level, cost and performance are top priorities, as banks are looking for solutions to overhead and insisting that any change results in increased profits.

In addition, the Company often faces additional competitive factors in foreign countries including, preferences for national makers of terminals, difficulties in obtaining necessary certifications and government tariff policies. Finally, the Company believes that it will need to continue to introduce products containing enhanced features and additional application software programs in order to remain competitive. There can be no assurance that the Company will he successful.

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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. Chief among these challenges and difficulties are:

- o persuading banks to out-source their paper-based merchant accounts;

- o finding and hiring personnel with an expertise in computer software and hardware technology;
- o banking;
- o credit card processing.

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 31,2001, the Company had an accumulated deficit of $3,728,847. 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 o 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. In the future, he company expects to receive revenues from one-time initiation fees when banks and merchants connect to the company's system and from ongoing fees that will be fixed amount per transaction. The revenues received in any period will vary with the number a size of transactions that are processed through the Company's system. The Company may be able to add to its number of bank and merchants by increasing its marketing efforts and thereby expand the overall number of transactions and generate more transaction fees. However, its ability to add banks and merchants will depend in part upon the speed with which the wish to begin transacting business over the Company gateway system.

The Company Depends on the Growth of Its Customer Base

The Company's success is substantially dependent on the growth of its customer base of merchants and banks that use its products and system. If the Company fails to develop a customer base sufficient to ensure profits, its business and operating prospects would be seriously harmed. The Company's ability to attract customers will depend upon on a variety of factors, including the price and the quality of the Company's service as well as the Company's ability to market its products and services effectively.

The Company's Markets Are Highly Competitive

The Company's markets are new, rapidly evolving and highly competitive, and it expects this competition to persist and intensify in the future. The Company's failure to maintain and enhance its competitive position could seriously harm its business and operating prospects. It will encounter competition from a number of sources.

The Company's competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than the Company Many of these competitors have extensive customer bases and strong customer relationships that they could leverage, including relationships with the Company's current and potential customers. These competitors also have significantly more established customer service organizations than the Company does. In addition, these competitors may adopt aggressive pricing policies.

The Company Needs to Develop and Expand Its Sales and Marketing Capabilities

The Company needs to expand its marketing and sales operations in order increase market awareness of the Company's services and generate increased revenues. Competition for qualified sales personnel is intense, however, and :he Company may not be able to hire enough qualified individuals in the future. Company plans to establish marketing offices in other U.S. and Asian locations during 2002, and, thereafter, in Europe and South America by 2003. One office will be opened in each region initially, and additional offices will be opened if demand requires. The Company's services require sophisticated sales efforts targeted at senior management of the Company's prospective customers, which are principally banks and large international conglomerates.

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. The Company needs employees with knowledge of the credit card processing industry, Internet and computer technology, banking, and Internet security procedures. 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 Daniel E. Charboneau and Dr. John Wu to be key employees. The loss of either of them could seriously harm the Company's business. The Company will maintain key man insurance on Mr. Charboneau and Dr. Wu, and, while these policies will protect the assets of the business , the loss of either of these employees will add a significant burden to the Company's future prospects.

The Company Depends on Continued Growth of M-commerce

Rapid growth in the use of wireless devices has occurred only recently. As result, acceptance and use may not continue to develop at historical rates and a sufficiently broad base of merchants may not adopt, and use the mobile terminal and other processing services.

Thin Public Market for The Company's Common Stock; Stock Price May Fluctuate

The Company's common stock is sometimes very thinly traded. Its trading price may not be an accurate reflection of the Company's value. The market price of the Company's common stock may fluctuate significantly in response to a number of factors, some of which (such as interest rates, general economic conditions and trading multiples of comparable companies) are beyond the Company's control, and some of which (such as operating results and announcements of new products) are within the Company's control.

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, 2001, 33 % 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.

Proprietary Rights

The Company signed an exclusive, worldwide License Agreement for the technology developed by Mr. Thomas Ulrich and, originally patented in 1987. Yearly maintenance fees, however, were not paid for four years and the intellectual property rights lapsed. Therefore any other developer may attempt to use the technology at this time, unless Mr. Ulrich decides to attempt to re-instate his patent, or sell the right to do so to another. The Company, however, considers the technology valuable and believes that the niche market is large enough to accommodate several developers. In the main, however, the Company relies on copyrights to protect its operating system and various other software programs, as well as relying primarily upon its know-how, rather than patents, to develop and maintain its competitive position. The Company enters into confidentiality agreements with its employees and third parties. However, there can be no assurance that others will not develop products and internal safeguards equivalent or superior to those of the Company, or that the confidentiality agreements and internal safeguards upon which the Company relies will be adequate to protect its interests

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Government Approval and Regulation

Government regulatory policies affect charges and terms for both private line and public network service. Therefore, changes in such policies which make it more costly to communicate on such networks could adversely affect the demand for terminals. The Company must also obtain product certification on the applicable communications network both in the United States and other countries. Any delays in obtaining necessary certifications with respect to future products could delay their introduction. In addition, the Federal Communications Commission requires that the Company's products comply with certain rules and regulations governing their performance. The Company believes it has complied with all such rules and regulations with respect to its existing products.

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. The Company's principal office is located at 90 Park Avenue, Suite 1700, New York, New York 10016 and is part of a commercial executive suite of offices, maintained by HQ Workplaces which supplies secretarial services, phone and fax sending and receipt, in addition to conference rooms rented on an hourly basis. The average cost is between $250 to $540 a month, depending on the level of services used. The Company leases an

additional location of approximately 1200 square feet at 475 Dobbs Ferry Road, White Plains, New York where it houses computers and inventory on a two-year lease with an option to renew for another two years. The monthly rental is $2,250.

Item 3. 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 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 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.

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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:

2001	High	Low
Fourth Quarter	$0.06	$0.06
Third Quarter	$0.10	$0.08
Second Quarter	$0.12	$0.10
First Quarter	$0.40	$0.34

As of December 31, 2001 there were approximately 270 holders of record of the common stock. On December 31, 2001, the closing sales price of the Company's common stock was $0.06 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., 58 Dorchester Road, Lake Ronkonkoma, New York 11779, (516) 585-7341

Recent Sales of Unregistered Securities

The Company issued shares of its common stock to the following shareholders for cash and for services.

Name	Shares
GoCharterCom, Inc	50,000
Joseph Treutlein	50,000

Name	Shares
Richwoodland Profits Corporation	450,000
Universal Venture (BVI) Limited	450,000
Brian Sheppard	800,000
George F. Amrhein	300,000
Zazoff Associates, LLC	100,000
Devine Nine Investment Club	4,000
Jack Gore	20,000
James H. Hoke	30,612
Vintage Golf, Inc	40,000
Steven L. Adler	17,345
Joel Schneider	20,000
Marc R. Cable	10,000
Fred Kaplan	68,671
Mesirow Financial	33,978
Lewis A. Kaplan	87,345
Ernie Kaplan	40,000
Joseph D. Radcliffe	400,000
Reginald L. Clark	1,200,000
John Stone	800,000
Stockgroup Information Systems, Inc	493,200
Charlotte B. Given	320,000
James E. Czekner	100,000
Julie Thompson	200,000
Sharline Gordon	100,000

Michael S. Krome, Esq	250,000
Ken G. Upton	62,530
Joseph B. LaRocco,Esq	100,000

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 $3,717,847 since inception to December 31, 2001. Depreciable assets for this period consisted of $190,305 for production molds, which have a useful life of three years. $73,380 was considered as a depreciation expense for this period ending December 31, 2001.

The Company incurred operating losses of $3,717,847 from Inception to December 31,2001. The Company expects its accumulated deficit to grow for the foreseeable future as total costs and expenses increase due principally to increased marketing expense 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.

For the period ending December 31, 2001 general and administrative expenses were $857,798 as compared to $609,234 for the same period in 2000, representing an

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increase of $248,564. The increase during the period ending December 31, 2001 was primarily due to an expansion of the general operations of the Company, including legal, accounting, and printing associated with the filing of this Form 10-SB and amendments with the Securities and Exchange Commission and costs of raising funds.

Compensation and related benefits during the period ending December 31, 2001 was $443, 200 and represented $1,200 in cash and 5,400,000 shares, valued at $0.12 a share for compensation paid to the Company's president and to Dr. John Wu; there were no compensation expenses for the period ended December 31,2001.

The Company's combined cash and cash equivalents totaled $35,840 for the period ending December 31,2001. This is an increase of $9,018 from $26,822 for the period ending December 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 $30,320 for the period ending December 31, 2001.

The Company currently has limited internal and external sources of liquidity.

At this time the Company has no material commitment for capital expenditures.

There are no known trends, events or uncertainties that are expected to have a material impact on the net sales and income from operations once the Company has the funds needed to purchase the terminals from Taiwan and complete the set up of its servers. The industry and the needs of the market are well established. The Company believes that it will serve a niche market with its products and services that has yet to be served adequately. The Company's business is not subject to seasonal aspects.

Liquidity and Capital Resources

The Company was incorporated in the State of Delaware on August 7,1997 and has designed an electronic terminal that could be used by mobile merchants and in-home salespersons. The Company anticipates that it can generate revenues from sales of the terminals and from charges collected from each transaction. As of December 31, 2001, limited revenues have been generated from sales but management anticipates sales to commence in 2002.

The Company was started by Messrs. Daniel Charboneau, the Chairman of the Board and Chief Executive Officer, and John Wu, Director and owner of Advance Data Information, Ltd, a Taiwan based research and development company. Messrs. Charboneau and Wu have paid certain expenses on behalf of the Company from personal funds and from Mr. Wu's business.

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Item 8 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 9 - Directors and Executive Officers

Name	Age	Position
Daniel E. Charboneau	70	CEO/Chairman/President
John Jiann-Shong Wu	48	Director
Daniel S. MacDonald	66	Director
Michael Wong	35	Director, Vice President/CFO
David Cheung	36	Director, Vice President, Marketing
Yuan T. Jeang	34	Vice President/Engineering

Mr. Charboneau has a five year employment contracts starting in August,1997 and Dr Wu a five year contract starting from July 1, 1999. The Company retains the services of its vice presidents as consultants on an as-need basis and does not pay them a regular salary.

All current directors were appointed to their office in February 2000 and will hold office until the next annual stockholders' meeting and until their successors have been elected or qualified or until their death, resignation, retirement, removal, or disqualification. Vacancies on the board will be filled by a majority vote of the remaining directors. Officers of the Company serve at the discretion of the Board of Directors.

None of the directors holds other directorships in other reporting companies.

The Company's management comprises:

Daniel E. Charboneau, CEO/President/Chairman of the Board:

Mr. Charboneau is an experienced management executive with over twenty years of accomplishments in the area of marketing, sales, organizational development, manufacturing and profit-center responsibilities. He has worked with several multi-national companies, including Bechtel International where he was Organization Development Consultant from 1974 to 1980, and with 3M in Asia from 1980 to 1984. From 1984 to 1987, Mr. Charboneau operated as a consultant to U.S. and European businesses who were interested in investment in Asia. In 1987, in a joint venture with A&H, a jewelry maker in Rhode Island, Mr. Charboneau established a manufacturing plant in Taiwan whose products were exported worldwide. In addition to his duties on the Board of Directors, Mr. Charboneau directs the development of technologies, products, markets and manages business relations with Asian suppliers.

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John Jiann-Shong Wu, Director/Co-founder:

Born in China, Dr. Wu became an American citizen in 1978 and lives with his family in San Jose, California when he is not in Taiwan. Educated in Taiwan, Dr. Wu received His Master Degree in Computer Science from Florida Institute of Technology and his doctorate in Electrical Engineering from Leland Stanford Junior University. From 1975 to 1982 he was a Researcher with Taiwan National Science, and from 1982 to 1988 a Senior Engineer and Project Manager with General Electric Company in Singapore. From 1989 to 1990, he was a Project Manager with Digital Equipment Corporation and from 1990 to 1991 he was Senior Consulting Engineer with Hewlett Packard. Dr. Wu has designed many products, both hardware and software, and founded his R&D facility to promote better design of electrical and telephonic products. From 1991 to 1996, Dr. Wu was co-founder and Vice President of V-Star Electronics, then, from 1997 until present, Dr. Wu started his own advanced laboratory, Advance Data Information and became a co-founder in FoneCash.

Daniel S. MacDonald, Director

Mr. MacDonald has 22 years of experience in the mutual fund industry and is a Certified Financial Planner and holds licenses in real estate, insurance and securities. He has resided in Japan for from 1962 to 1972 as International Liaison for the Japanese Chamber of Commerce; he speaks Japanese fluently. From 1972 to 1986, he serves in various capacities with Oppenheimer Management Corporation, first in San Francisco as Regional Sales Manager and ending in New York as Senior Vice President and National Sales Manager . In 1989 ,Mr. MacDonald started MDIC, Inc. in Bronxville, New York, and for the last 11 years until present, remains as owner and manager of this financial services corporation specializing in mutual funds.

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Michael Wong. Director and Chief Financial Officer:

Born in Malaysia in 1965,he grew up in Singapore. Mr. Wong is a financial management professional, who received his higher education in Great Britain and received his BA in Accounting and Finance in 1991. Upon returning to Singapore, he joined Price Waterhouse as a tax accountant. Four year later, he joined American International Group, assisting in the business and product development. Subsequently, he had the opportunity to venture into the China market where he was involved in business development and infrastructure work. In 1999, he was involved in corporate restructuring for a chemical company in China and gradually became interested in environmental and telecommunication sectors.

David Cheung, Director & Vice President of Corporate Marketing
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After finishing his higher education in Great Britain and receiving his MBA in Finance from Lancaster International Business School of Lancaster University, he joined a subsidiary of Costain Construction as a member of its business development team, specializing in the hospitality sector. After returning to Hong Kong, he was involved in several major infrastructures projects, such as hotels, power plants, roads and bridges, as well as heading up a constancy team for re-marketing of French clothing manufacturer in China. Mr. Cheung joined the Emperor Group in 1998 to lead and implement the strategic business management turn around of the Group's hotel and newspaper divisions. Once back in China, he became a consultant to companies in the fine chemical processing, the Internet and the telecommunications sectors.

Yuan Long Jeang, Vice President of Engineering/Research & Development
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Mr. Jeang holds a Ph.D in Electrical Engineering from Chen Kung University, Taiwan. He was a professor for 10 years and Chief of Image Processing Research Laboratory of the Kaohsiung Technical University for 10 years. Mr. Jeang was Chief Designer for Taiwan Films Limited where he managed all technical aspects of computer generated effects, composit design, 3D production and computer generated graphics. For the past five years, he worked closely with Dr. Wu desuigning algorithms for video and data compression, and has developed standards for cellular phone authentication and encryption.

Item 10 - Executive Compensation

For the year ending December 31, 2001, Mr. Charboneau was paid cash in the amount of $1,200 as compensation on his employment agreement of $120,000. He was also issued 2,100,000 common shares, in lieu of compensation.

Directors do not currently receive any cash compensation.

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Item 11 - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the stock ownership of each person known by the Company to be a beneficial owner of five percent (5%) or more of the Company's equity securities, each Director and executive officer individually and all Directors and Officers of the Company as a group. Each person has sole voting and investment power with respect to the shares shown unless otherwise indicated. As of March 31, 2000, there were 5,303,005 shares issued and outstanding.

Name & Address of Beneficial Owner	Class	Amount Owned	Shares Beneficially Owned % of Class
Daniel E. Charboneau 215 Central Park Ave. Hartsdale, NY 10530	Common	4,111,387	28.0
John Jiann-Shong Wu 21 Street, 6 Fl, No.211 Chung-Cheng 4 Road Kaoshiung, Taiwan	Common	2,000,000	13.0
Total Shares of Officers and Directors as a Group		6,111,387	41.0%

There are no arrangements either presently or planned that will results in a change of control of the Company.

Item 12 - Certain Relationships and Related Transactions

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.

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Item 13 - Exhibits, Financial Statements and Reports on Form 8-K

INDEX TO FINANCIAL STATEMENTS

Statement of Changes in Stockholders' Equity

Statement of Cash Flow

Notes to Financial Statement

STEWART H. BENJAMIN
CERTIFIED PUBLIC ACCOUNTANT, P.C.
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PLAINVIEW, NY 11803

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
FoneCash, Inc.
White Plains, New York

I have audited the accompanying consolidated balance sheets of FoneCash, Inc. (a Delaware corporation in the development stage) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended and for the period August 7, 1997 (inception) to December 31, 2001. 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended and from August 7, 1997 (inception) to December 31, 2001, 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 8 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/ Stewart H. Benjamin
STEWART H. BENJAMIN
CERTIFIED PUBLIC ACCOUNTANT, P.C.

Plainview, New York
April 12, 2002

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

ASSETS

	December 31, 2001	December 31, 2000
Current assets:		
Cash	$ --	$ 1,822
Accounts receivable	10,840	--
Inventory	177,800	35,000
Prepaid expenses	25,000	25,000
	213,640	61,822
Property and equipment, net	30,320	103,700
Other assets:		
Technology rights, net	2,000	3,000
Other	--	116
	2,000	3,116
	$ 245,960	$ 168,638

LIABILITIES AND STOCKHOLDERS' DEFICIT

	December 31, 2001	December 31, 2000
Current liabilities:		
Accounts payable	$ 161,478	$ 83,513
Due to officer/stockholder	478,691	683
Notes payable	196,024	122,953
	836,193	207,149
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 - 14,899,056 shares in 2001 and 5,951,372 in 2000	1,490	595
Additional paid-in capital	3,127,624	1,801,743
Treasury stock, 500 shares at cost	(1,500)	(1,500)
Deficit accumulated during the development stage	(3,717,847)	(1,839,349)
	(590,233)	(38,511)
	$ 245,960	$ 168,638

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

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Aug. 7, 1997 (Inception) to December 31, 2001
Revenue:			
Sales	$ 10,840	$ --	$ 10,840
Cost of sales	5,662	--	5,662
Gross profit	5,178	--	5,178
Interest income	18	4,577	5,211
Total revenue	5,196	4,577	10,389
Costs and expenses:			
Depreciation	73,380	75,258	190,305
Amortization	1,116	1,074	3,368
Research and development, related party	58,200	21,150	432,256
Officer's compensation	443,200	195,229	713,429
Impairment of investment in related party	--	--	50,000
Impairment of investment in subsidiaries	450,000	--	450,000
General and administrative	857,798	609,234	1,888,878
	1,883,694	901,945	3,728,236
Net loss	$(1,878,498)	$ (897,368)	$(3,717,847)

Basic and diluted loss per common share	$ (.19)	$ (.23)
Weighted average common shares outstanding	9,930,238	3,948,428

The accompanying notes are an integral part of the financial 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, 2001

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	T Shar
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	
	===========	===========	===========	======

The accompanying notes are an integral part of the financial statem

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

	Year Ended December 31, 2001	Year Ended December 31, 2000	Aug. 7, (Inceptio December 2001
Cash flows from operating activities:			
Net loss	$(1,878,498)	$ (897,368)	$(3,717
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	73,380	75,258	190
Amortization	1,116	1,074	3
Cash surrender value of life insurance	--	17,732	

Common stock issued for services	858,776	488,633	1,707
Common stock issued in acquisition of subsidiaries	450,000	--	450
Write-down of lost inventory	26,538	--	26
Changes in assets and liabilities			
Increase in accounts receivable	(10,840)	--	(10
(Increase) decrease in inventory	(169,338)	10,143	(204
Increase in prepaid expenses	--	--	(25
Decrease in utility deposit	--	250	
Increase (decrease) in accounts payable	77,965	73,723	161
Net cash used in operating activities	(570,901)	(230,555)	(1,418
Cash flows from investing activities:			
Organization costs	--	--	
Purchases of property and equipment	--	(95,625)	(220
Acquisition of patent rights	--	--	(5
Net cash used in investing activities	--	(95,625)	(225
Cash flows from financing activities:			
Proceeds from short-term debt	95,150	139,674	242
Repayment of short-term debt	(22,079)	(24,221)	(46
Increase (decrease) in amounts due to an officer/stockholder	478,008	(25,903)	478
Purchase of treasury stock	--	(1,500)	(1
Proceeds from sale of common stock	18,000	31,250	971
Net cash provided by financing activities	569,079	119,300	1,644
Net increase (decrease) in cash	(1,822)	(206,880)	
Cash at beginning of year	1,822	208,702	
Cash at end of year	$ --	$ 1,822	$

The accompanying notes are an integral part of the 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 has acquired the rights to market a patented electronic terminal that is used by retail merchants and in-home salespersons when payment is made with a credit or debit card. Revenues are expected to be generated from sales of the terminals and from transaction charges to banks.

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 useful lives to their estimated residual values, and reviewed for impairment in accordance with

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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

Accounts

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.

Receivable

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

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.

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 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 consist primarily of patent rights. Intangible assets are amortized on a straight-line basis over five years. Amortization expense was $1,116 and $1,074 for the years ended December 31, 2001 and 2000, 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.

Fair Value of Financial Instruments

The fair value of the Company's payables due to an officer/stockholder is not practicable to estimate due to the related party nature of the underlying transactions and the indefinite payment terms.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date.

Loss Per Common Share

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

Note 2 - Stockholders' Equity (Deficit)

Common Stock

Since December 31, 2000, the Company has issued 4,809,708 shares of common stock for promotional, legal and consulting services, valued at $.14 per share, as well as 2,150,000 shares of common stock to an officer for compensation, valued at $.08 per share. The Company has also sold 1,087,976 shares of common stock at $.017 per share. The Company has issued 900,000 of common stock valued at $.50 per share in exchange for four foreign companies, as previously discussed.

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Dividends may be paid on outstanding shares as declared by the Board of Directors from time to time. Each share of common stock is entitled to one vote.

Stock Options

At December 31, 2001 the Company has reserved and granted 800,000 shares of common stock for issuance in connection with the stock option plan at an exercise price of $.50 per share. No options have been exercised as of December 31, 2001.

Preferred Stock

No shares of the Company's preferred stock have been issued or are outstanding. Dividends, voting rights and other terms, rights and preferences of the preferred shares have not been designated but may be designated by the Board of Directors from time to time.

Note 3 - Income Taxes

There is no provision for income taxes since the Company has incurred net operating losses. At December 31, 2001, the Company has net operating loss carryforwards of $3,250,085, which may be available to offset future taxable income through 2021. A deferred tax asset has not been recorded for the net operating loss carryforwards due to uncertainties as to the ultimate realization of the deferred tax asset.

Note 4 - Prepaid Expenses

Prepaid expenses consists of a down payment of $25,000 on April 29, 1999 for the cost of printing brochures containing product and company information. The printing costs will be charged to income as the brochures are distributed. No brochures have been distributed as of December 31, 2001.

Note 5 - Property and Equipment

Property and equipment consisted of the following at December 31, 2001 and 2000:

	2000	2001
Molds	$ 208,500	$ 208,500
Tools and test equipment	12,125	12,125
	220,625	220,625
Less accumulated depreciation	190,305	116,925
	$ 30,320	$ 103,700

Depreciation expense of $73,380 and $75,258 was charged to operations for the years ended December 31, 2001 and 2000, respectively.

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Note 6 - Technology Rights

On November 1, 1997 the Company entered into a license agreement with Thomas J. Ulrich. Under this agreement the Company will acquire an exclusive license to use the technology, pertaining to telephone line powered applications, for the primary purpose of utilizing the licensor's invention for sales of products and services. The Company is required to make payments of $30,000 for a non-refundable license execution fee based upon capital funding, and for royalties based upon gross sales of all licensed products sold. As of December 31, 2001 a license execution fee of $5,000 was capitalized and is being amortized over the remaining life of the patent of 5 years. The balance of the license execution fee of $25,000 is due upon funding of an Initial Public Offering or any other financing exceeding $500,000. The agreement also provides for a royalty of 3% of the gross sales of all licensed products and an annual minimum fee of $10,000 in 2000 and $20,000 for each year thereafter. In addition, minimum sales revenues of $500,000 for the year 2000 to a total $2 million in sales for the year 2003 and thereafter were agreed to. No additional payments were made under the license agreement during the year ended December 31, 2001.

Note 7 - Notes Payable

Notes payable consisted of the following at December 31, 2001 and 2000:

	2001	2000
Line of credit with Fleet Bank, unsecured, guaranteed by the president of the Company, interest at 2.75% above prime, monthly payments equal to 2% of principal balance, was due November 2001. The Company is in default with respect to the terms of this note. Legal action has been taken by the bank as of the date of this report.	$107,645	$91,716
SBA note payable to Habib American Bank, unsecured, interest at 2.75% above prime, payable at $1,604 per month including interest, due September 1, 2002	16,866	31,237
Credit card balances payable to 10 different credit card issuers with credit lines totaling $62,700, monthly minimum payments totaling $3,081, including interest at various rates ranging from 13.4% to 27.99%	65,887	--
Demand note payable to an individual, unsecured, interest at 7%, due December 31, 2002	5,626	--
	$196,024	$122,953

Interest expense on notes payable of 10,586 and $10,344 was charged to operations for the years ended December 31, 2001 and 2000, respectively.

Note 8 - Going Concern

The Company's consolidated financial statements have been prepared in conformity with principles of accounting applicable to a going concern. These principles contemplate the realization of assets and liquidation of liabilities in the normal course of business. As shown in the consolidated financial statements, the Company has incurred significant net losses and as of December 31, 2001, reflects a deficit accumulated during the development stage of $3,717,847. The Company has not commenced its planned principal operations. The Company's continued existence is dependent on its ability to generate sufficient cash flow or raise additional capital to meet its obligations on a timely basis. The Company has been exploring sources to obtain additional equity or debt financing. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. Accordingly, the Company's continuation as a going concern is in substantial doubt and the financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence.

Note 9 - Litigation

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.

Note 10 - Related Party Transactions

The Company was indebted to officers/stockholders in the amount of $478,691 as of December 31, 2001, which includes $270,000 for unpaid salary, $58,200 for research and development expenses, as discussed below, and $150,491 for merchandise purchases and expenses advanced on behalf of the Company. There are no specific terms for repayment.

The Company has leased its executive offices and storage facilities from the president of the Company under a month-to-month operating lease since the Company's inception. Rent expense amounted to $14,990 for 2001, and $18,102 for 2000.

The Company utilizes Advance Data Information Corporation ("ADI"), a Taiwan corporation owned by a director/stockholder of the Company, as its research and development laboratory. Research and development expenses under this arrangement totaling $58,200 and $21,150 were charged to operations during the years ended December 31, 2001 and 2000, respectively.

Note 11 - Consulting Agreements

On February 4, 1998 the Company entered into a consulting agreement with East Coast Entertainment, Inc. ("ECE") requiring payments of $50,000 per year in monthly installments once the Company attains gross revenues of $300,000. ECE will assign administrative duties including but not limited to, publicity, advertising, public relations, investor relations programs, news releases, hiring of all necessary outside contractors for any specialized projects, printing and development of the Company's annual reports, preparation of any design, print or art work, camera ready art, distribution of reports and

corporate releases to State and Federal securities agencies. ECE is entitled to $100,000 annually once the Company achieves $500,000 in gross revenues. ECE is entitled to participate in the Company's stock option plans and group health plans pursuant to the same terms that apply to all senior key executives and other employees of the Company. The agreement is renewable annually for a period of ten years. No expenses have been recognized under this arrangement for the year ended December 31, 2001.

The Company entered into another consulting agreement with Advance Data Information Corporation ("ADI"), a Taiwan corporation owned by Dr. Wu, a director/stockholder of the Company, in which ADI will act as the research and development laboratory for the Company. The Company shall have exclusive ownership rights to any and all products that are developed as a result of this agreement. The Company has issued 200,000 shares of its common stock to Dr. Wu in August 1997, valued at $.15 per share, 333,333 shares in June 1999, valued at $.81 per share, and 1,466,667 shares in December 2000, valued at $.11 per share for services rendered.

Note 12 - Contract for Deployment and Installation Services

Pursuant to a letter of intent dated June 5, 1999 between the Company and Fusion

Capital Corp. ("Fusion"), a Florida corporation, the Company agreed to purchase a majority of the common stock of Fusion. The Company simultaneously issued a loan to Fusion of $37,000 to be granted in 10 installments of $3,700 from June 14, 1999 through August 16, 1999. Ten separate promissory notes of $3,700 were executed, each providing for interest at a rate of 6% and each of the ten notes payable within 12 months from the date of issuance with the first payment due on June 14, 2000. The balance due on the notes of $37,990 on December 31, 1999 included accrued interest of $990.

In April 2000, the Company entered into negotiations with Fusion for deployment and installation services for 500 terminals which the Company planned for its trials with merchants in order to prove its revenue concept. On May 1, 2000, the Company and Fusion entered into a Contract for Deployment and Installation, whereby the principal balance of the notes totaling $37,000 was converted to an advance payment pursuant to the contract, as reflected in the statements of operations, and the accrued interest of $990 was written off.

Exhibits

The Following list describes the exhibits filed as part of this Annual Report on Form 10-KSB:

Exhibit Number	Description of Document
3.1	Certificate of Incorporation as filed on August 7,1997*
3.2	Amendment to Certificate of Incorporation as filed on November 4, 1997*
3.3	Bylaws*
4.1	Form of Stock Certificate*
10.1	Employment Agreement dated August 1,1997 by and between the Company and Mr. Daniel E. Charboneau*
10.2	Consulting Agreement with East Coast Entertainment dated February 4,1998*
10.3	Consulting Agreement with Advance Data Information dated October 10,1997*
10.4	Employment Agreement dated August 7,1997*
10.5	Employment Agreement dated July 1, 1999 by and between the Company and John Jiann-Shong Wu. *
10.6	Deployment and Installation Agreement with Fusion Capital Corp, dated May 1, 2000.* *

* Incorporated by reference to Registration Statement on Form 10-SB, filed with the Securities and Exchange Commission on December 30,1999, as amended.

Signatures

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on behalf by the undersigned, thereunto duly authorized on April 14, 2001

FoneCash, Inc.

By:/s/ Daniel E. Charboneau
Daniel E. Charboneau
President and Chief Executive Officer

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In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/Daniel E. Charboneau Daniel E. Charboneau	Director, President	April 14, 2002
/s/John Jiann-Shong Wu John Jiann-Shong Wu	Director	April 15, 2002
/s/ Daniel S. MacDonald Daniel S. MacDonald	Director	April 15, 2002
/s/ Michael Wong Michael Wong	Director	April 15, 2002
/s/ David Cheung David Cheung	Director	April 15,2002

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