

Edgar Filing: FONEFRIEND INC - Form 10QSB

FONEFRIEND INC  
Form 10QSB  
November 20, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

COMMISSION FILE NUMBER 0-24408

FONEFRIEND, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

33-0611753

-----  
(State of Incorporation)

-----  
(I.R.S. Employer ID Number)

2722 Loker Avenue West, Suite G  
Carlsbad, CA 92008

-----  
(Address of Principal Executive Offices)

(760) 607-2330

-----  
(Registrant's Telephone Number, Including Area Code)

Indicate by check 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes /X/ No / /

As of November 14, 2003, there were 820,361 shares of Preferred Stock and 9,486,000 shares of Common Stock outstanding.

FONEFRIEND, INC.

INDEX

# Edgar Filing: FONEFRIEND INC - Form 10QSB

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

Balance Sheets at September 30, 2003 and June 30, 2003 .....	3
Statements of Operations for the three month period ended September 30, 2003 and three month period ended September 30, 2002 .....	4
Statements of Cash Flows for the three-month period ended September 30, 2003 and the three month period ended September 30, 2002 .....	5
Statements of Stockholders' Equity for the three month period ended September 30, 2003 .....	6
Notes to Financial Statements .....	9

Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations .....	13
--	----

Item 3. Controls and Procedures .....	17
---------------------------------------	----

## PART II - OTHER INFORMATION

Item 1. Legal Proceedings .....	18
Item 2. Changes in Securities .....	18
Item 3. Defaults Upon Senior Securities .....	18
Item 4. Submission of Matters to a Vote of Security Holders ....	18
Item 5. Other Information .....	19
Item 6. Exhibits and Reports on Form 8-K .....	19

2

### FONEFRIEND, INC. PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### BALANCE SHEETS (Amounts in Dollars)

##### ASSETS

September 30, 2003	June 30, 2003
-----------------------	------------------

Current Assets

## Edgar Filing: FONEFRIEND INC - Form 10QSB

Cash in banks and on hand	\$ 10,699	\$ 157
Inventory-equipment	\$ 16,400	\$ 16,000
Stock subscription receivable	\$ 1,390	\$ 0
Current portion of prepaid expenses	\$ 99,400	\$ 148,525
	-----	-----
Total current assets	\$ 127,889	\$ 164,682
	-----	-----
Furniture & equipment, net of depreciation - Note 3	\$ 13,892	\$ 12,255
	-----	-----
Other Assets		
Non-current prepaid expenses and deposits	\$ 13,597	\$ 13,597
Capitalized development costs	\$ 694,863	\$ 694,863
Technology rights, FoneFriend license	\$ 300,000	\$ 300,000
Stock in FoneFriend Systems, Inc.	\$ 150,000	\$ 150,000
Organizational costs, net of amortization - Note 3	\$ 100	\$ 110
	-----	-----
Total other assets	\$ 1,158,560	\$ 1,158,570
	-----	-----
TOTAL ASSETS	\$ 1,300,341	\$ 1,335,507
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 31,919	\$ 4,302
Accrued expenses payable	\$ 163,500	\$ 0
Litigation settlement payable	\$ 20,000	\$ 0
Loans from officers and others	\$ 57,188	\$ 57,188
Payroll taxes payable	\$ 5,416	\$ 5,416
	-----	-----
Total current liabilities	\$ 278,023	\$ 66,906
	-----	-----
Loans payable, non-current	\$ 25,000	\$ 25,000
	-----	-----
TOTAL LIABILITIES	\$ 303,023	\$ 91,906
	-----	-----
Stockholders' Equity - Note 4		
Preferred stock, \$.001 par value, authorized 50,000,000 shares, issued and outstanding 820,361 shares	\$ 820	\$ 820
Common stock, \$.001 par value, authorized 200,000,000 shares, issued and outstanding, 9,386,000 at September and 8,926,000 at June 30, 2003	\$ 9,386	\$ 8,926
Additional paid in capital	\$ 3,869,203	\$ 3,800,063
Operating deficit	\$ (2,882,091)	\$ (2,566,208)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	\$ 997,318	\$ 1,243,601
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,300,341	\$ 1,335,507
	-----	-----

See Accompanying Notes to Financial Statements

# Edgar Filing: FONEFRIEND INC - Form 10QSB

FONEFRIEND, INC.

## STATEMENTS OF OPERATIONS (Amounts in Dollars)

	Three Months Ended September 30,	
	2003	2002
Revenue	\$ --	\$ --
Expenses		
Advertising	\$ 1,300	\$ 3,936
Automobile	\$ 200	\$ 3,248
Commissions related to fund raising activity	\$ --	\$ 18,888
Consulting fees	\$ 241,539	\$ 57,720
Depreciation and amortization	\$ 873	\$ --
Insurance	\$ 1,681	\$ 2,447
Legal fees	\$ 24,398	\$ 4,529
Meals and entertainment	\$ --	\$ 4,708
Office supplies	\$ 917	\$ 2,413
Officer/stockholder payments	\$ 20,060	\$ 12,500
Salaries and payroll	\$ --	\$ 59,964
Postage	\$ 1,358	\$ 1,216
Rent	\$ 6,620	\$ 7,029
Telephone	\$ 4,990	\$ 5,891
Travel	\$ 4,464	\$ 7,682
Other	\$ 7,486	\$ 19,155
Total expenses	\$ 315,883	\$ 211,316
Loss from development stage operations	\$ (315,883)	\$ (211,316)

See Accompanying Notes to Financial Statements

4

FONEFRIEND, INC.

## STATEMENTS OF CASH FLOWS (Amounts in Dollars)

	Three Months Ended September 30,	
	2003	2002
Operating Activities		
Loss from development stage operations	\$ (315,883)	\$ (211,316)
Adjustments to loss from development stage operations:		
Prepaid expenses	\$ 49,125	\$ 3,000

Edgar Filing: FONEFRIEND INC - Form 10QSB

Inventory-equipment	\$ (400)	\$ (10,000)
Accounts payable	\$ 27,617	\$ 803
Accrued expenses payable	\$ 163,500	\$ --
Litigation settlement payable	\$ 20,000	\$ --
Depreciation and amortization	\$ 873	\$ 1,337
Deposits	\$ --	\$ (15,448)
Other	\$ (14,290)	\$ (6,172)
	-----	-----
Net cash provided (used) by development stage operations	\$ (69,458)	\$ (243,796)
	-----	-----
Investing Activities		
Increase in capitalized development costs	\$ --	\$ (113,000)
	-----	-----
Financing Activities		
Common stock and paid-in capital	\$ 80,000	\$ 14,990
	-----	-----
Net cash provided by financing activities	\$ 80,000	\$ 14,990
	-----	-----
Net cash increase (decrease) for the period	\$ 10,542	\$ (341,806)
Cash at beginning of period	\$ 157	\$ 377,221
	-----	-----
Cash at end of period	\$ 10,699	\$ 35,415
	-----	-----

See Accompanying Notes to Financial Statements

5

FONEFRIEND, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY  
(Amounts in Dollars)

	No. Shares Outstanding	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	-----	-----	-----	-----	-----
Common shares Beginning balance, July 1, 2002	8,956,361	\$ 8,956	\$ 3,069,182	\$ (1,036,686)	\$ 2,041,452
Loss from operations				\$ (211,316)	\$ (211,316)
Common shares issued September 30, 2002	85,500	\$ 86	\$ 427,415		\$ 427,501

Edgar Filing: FONEFRIEND INC - Form 10QSB

Balance, September 30, 2002	9,041,861	\$	9,042	\$	3,496,597	\$	(1,248,002)	\$	2,257,637	
Loss from Operations to November 21, 2002							\$	(118,281)	\$	(118,281)
Common shares cancelled	(300,000)	\$	( 300)					\$	(300)	
Common shares issued November 21, 2002	58,139	\$	58	\$	29,942	\$		\$	30,000	
Total common shareholders' equity pre- merger, November 21, 2002	8,800,000	\$	8,800	\$	3,526,539	\$	(1,366,283)	\$	2,169,056	
Merger of FoneFriend, Inc. (Nevada corporation) on November 21, 2002 with and into FoneFriend, Inc. (Delaware corporation)										
Exchange of Nevada shares for Delaware shares	2,200,000	\$	2,200							
Issue new Delaware Shares: To: management	4,600,000	\$	4,600							

6

FONEFRIEND, INC.

STATEMENT OF STOCKHOLDERS' EQUITY - Continued

	No. Shares Outstanding	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	-----	-----	-----	-----	-----
To: UBN Trust	423,000	\$	423		
To: D. Johnston	423,000	\$	423		
Transfer par value to paid-in capital		\$	(1,154)	\$	1,154
Issue common					

Edgar Filing: FONEFRIEND INC - Form 10QSB

shares to consultants, December 2002	825,000	\$	825	\$	213,675	\$	214,500
Loss from operations from November 21, 2002 to March 31, 2003						\$ (1,124,468)	\$ (1,124,468)
Total common shareholders' equity, March 31, 2003 Delaware Corporation	8,471,000	\$	8,471	\$	3,741,368	\$ (2,490,751)	\$ 1,259,088
Issue common shares to consultants, June 2003	455,000	\$	455	\$	58,695		\$ 59,150
Loss from operations from April 1, 2003 to June 30, 2003						\$ (75,457)	\$ (75,457)
Total common shareholders' equity, June 30, 2003 Delaware Corporation	8,926,000	\$	8,926	\$	3,800,063	\$ (2,566,208)	\$ 1,242,781
Issue common Shares	460,000	\$	460	\$	69,140	\$ (315,883)	\$ 246,283

7

FONEFRIEND, INC.

Statements of Stockholders' Equity - continued

	No. Shares Outstanding	Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	-----	-----	-----	-----	-----
Total common shareholders' equity, September					

Edgar Filing: FONEFRIEND INC - Form 10QSB

30, 2003					
Delaware					
Corporation	9,386,000	\$ 9,386	\$ 3,869,203	\$ (2,882,091)	\$ 996,498
	-----	-----	-----	-----	-----
Preferred shares					
Preferred shares					
issued November					
21, 2002, Nevada	820,361	\$ 820			\$ 820
Cancel Nevada					
preferred shares,					
November 21,					
2002	(820,361)	\$ ( 820)			\$ (820)
	-----	-----	-----	-----	-----
Issue Delaware					
preferred shares					
for Nevada					
preferred shares,					
November 21,					
2002	820,361	\$ 820			\$ 820
	-----	-----	-----	-----	-----
Total stockholders'					
equity, September					
30, 2003					\$ 997,318
	-----	-----	-----	-----	-----

See Accompanying Notes to Financial Statements

FONEFRIEND, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

NOTE 1 - DESCRIPTION OF BUSINESS

A. Background

FoneFriend, Inc. ("FoneFriend" or the "Company") was incorporated on April 24, 2001, under the laws of the State of Nevada, and on November 21, 2002, was merged with and into FoneFriend, Inc., a Delaware corporation. The Company maintains a corporate office at 2722 Loker Avenue, Suite G, Carlsbad, California 92008. The Company's telephone number is: (760) 607-2330.

The Company is a development stage enterprise and has not generated any revenue during its history. The primary business of the Company is to market an Internet telephony device and related services to customers worldwide, called the "FoneFriend". The underlying technology of FoneFriend has been licensed by the Company from FoneFriend Systems, Inc. and will enable the Company's subscribers to make and receive unlimited long distance telephone calls over the Internet, using only their standard residential telephone set (without the need for a computer), for a low monthly fee of about \$10.00 or less. Due to the small cost



## Edgar Filing: FONEFRIEND INC - Form 10QSB

of transmitting calls over the Internet, the Company anticipates that it will realize significant profit margins, in excess of the traditional telecommunications industry.

### B. Basis of Presentation

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") which contemplates continuation of the Company as a going concern. Management is attempting to raise additional capital.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Fiscal Year

The Company's fiscal year is March 31 (after the above-described merger of FoneFriend, Inc. of Nevada with and into FoneFriend, Inc. of Delaware). The accompanying unaudited financial statements are for September 30, 2003 and the three month period then ended.

### B. Significant Estimates

In the process of preparing its financial statements in accordance with GAAP, the Company estimates the carrying value of certain assets and liabilities that are subjective in nature. The primary estimates included in the Company's financial statements include capitalized development costs and the ongoing value of its purchased technology license.

9

FONEFRIEND, INC.

## NOTES TO FINANCIAL STATEMENTS - Continued

### C. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturity dates of three months or less at the date of purchase. These items are carried at cost, which approximates fair value due to their short-term maturity dates.

### D. Prepaid Expenses and other Current Assets

The Company has cash outlays in advance of expense recognition for items such as interest, financing fees, and service contracts. All amounts identified as prepaid expenses that will be utilized during the next twelve months are identified as current assets, while any portion that will not be utilized during the next twelve months are classified as non-current assets.

### E. Furniture and Equipment

Furniture and equipment are carried at cost and depreciated over the estimated useful lives of the individual assets.

### F. Capitalized Development Costs

Capitalized development costs consist of expenditures made by the Company to

## Edgar Filing: FONEFRIEND INC - Form 10QSB

improve the product and develop marketing channels for the product, and which are deemed by management to have future value to the Company. Such capitalized development costs will be amortized over the estimated useful life once product sales begin.

### G. Technology Rights, FoneFriend License

The Company purchased a license to use the FoneFriend technology for a period of ten years from FoneFriend Systems, Inc. under a license agreement dated April 30, 2001. This license agreement allows the Company to manufacture, market and utilize a proprietary technology referred to as FoneFriend. During the development stage operations, the Company is carrying the asset at cost and will begin amortization over the remaining life of the license when product sales begin. The remaining value to the Company will be reviewed quarterly and if management determines that impairment of the asset has occurred, the carrying value will be adjusted accordingly.

10

### FONEFRIEND, INC.

#### NOTES TO FINANCIAL STATEMENTS - Continued

### H. Stock in FoneFriend Systems, Inc.

The Company purchased stock in FoneFriend Systems, Inc. as a long-term investment. Such investment is carried at cost and will be evaluated periodically by management to determine whether impairment has occurred. Should management determine that the value has been impaired, the carrying value will be adjusted accordingly.

#### NOTE 3 - DEPRECIATION AND AMORTIZATION

The Company's management has estimated the useful lives of furniture, equipment and certain organization costs. The following tables show the gross asset amounts and the accumulated depreciation and amortization:

#### A. Furniture and Equipment

	2003	
	Sept. 30,	June 30,
	-----	-----
Cost	\$ 18,745	\$ 16,245
Less accumulated depreciation	\$ (4,853)	\$ (3,990)
	-----	-----
Net value	\$ 13,892	\$ 12,255
	-----	-----

#### B. Organizational Costs

	2003	
	Sept. 30,	March 31,
	-----	-----
Cost	\$ 195	\$ 195
Less accumulated depreciation	\$ (95)	\$ (85)
	-----	-----
Net value	\$ 100	\$ 110

NOTE 4 - MERGER AND CAPITAL STOCK

The merger of FoneFriend, Inc. of Nevada with and into FoneFriend, Inc. of Delaware was consummated on November 21, 2002 wherein the assets of FoneFriend, Inc. of Nevada were acquired by Universal Broadband Networks, Inc. ("UBN") in a tax-free reorganization pursuant to IRC 368 (the "Merger"). The Merger was effectuated as a "C" type reorganization whereby UBN issued stock in exchange for all of the assets FoneFriend, Inc. of Nevada, after which that corporation was dissolved. UBN was the surviving corporation and changed its name to FoneFriend, Inc. (a Delaware corporation) immediately subsequent to the Merger. Pursuant to the express terms of the Fourth

11

FONEFRIEND, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

Amended Plan of Reorganization, as approved by the U.S. Bankruptcy court (the "Plan"), the Merger was accomplished as follows:

1. All of UBN's issued and outstanding shares of capital stock were cancelled and extinguished and the stockholders of UBN prior to the Merger have no further interest or rights in UBN.
2. UBN issued 2,200,000 shares of newly created common stock in favor of FoneFriend, Inc. (Nevada corporation) in exchange for all of FoneFriend, Inc.'s assets and 115,750 of newly created common stock in favor of a Liquidating Trust for the benefit of UBN's creditors. As a result, the merged entity had a total of 2,315,750 shares of newly created common stock issued and outstanding, of which former shareholders of the dissolved Nevada corporation owned 95%, and J. Michael Issa, Esq., as Trustee of the Liquidating Trust (which was created under the Plan), owned 5%.
3. The issuance of stock pursuant to the Plan, as filed within the U.S. Bankruptcy Court, was ordered by the Court to be exempt from all applicable Federal, State and local securities law, pursuant to 11 U.S.C. ss.1145 (a).
4. The dissolved Nevada corporation's management distributed the newly issued 2,200,000 shares of FoneFriend, inc. (Delaware corporation) to its former shareholders, on a pro-rata basis. Each of such former shareholders received one share of stock in FoneFriend, Inc. (Delaware corporation) for every four-share shares held in the dissolved Nevada corporation.
5. Immediately subsequent to the Merger, the Company authorized the issuance of 820,361 shares of a newly created Series A Preferred Stock (each share of which is convertible into one share of common stock) to be issued to shareholders of preferred stock in the dissolved Nevada corporation prior to the Merger.
6. The Company then issued 4,600,000 shares of common stock to various management personnel and consultants in order to hire or

## Edgar Filing: FONEFRIEND INC - Form 10QSB

retain their services. The Company also issued 423,000 shares of common stock to Dennis H. Johnston, Esq. as compensation for his services in connection with the Merger. Additionally, the Company issued 307,250 shares of common stock to the Liquidating Trust so as to be in compliance with the Anti-Dilution Protection provisions of the Plan.

12

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's financial statements and related footnotes included elsewhere herein. Statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical facts are forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Examples of such forward looking statements include the Company's expectations regarding its intended plan of operation, the potential sale of its product, the Company's planned financing of this venture and the sufficiency of the Company's available liquidity for working capital, the Company's belief that its technology-based business will grow and result in profitability, that it is positioned to take advantage of new opportunities, and that it will focus on strengthening and growing its business and commercializing innovative technologies and services. Actual results may differ materially from those stated or implied in the forward looking statements. Further, certain forward looking statements are based upon assumptions of future events which may not prove to be accurate and are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by forward looking statements. These risks and uncertainties include, but are not limited to, those referred to in the Company's annual report on Form 10-KSB, for the fiscal year ended March 31, 2003, including the Company's entry into a new commercial business, its ability to access the capital markets and obtain working capital, risks associated with technological changes in the market for telecommunications and voice transmission over the Internet, risks of competition in the emerging internet telephony industry, and other risks described in the Company's Securities and Exchange Commission filings.

#### OVERVIEW

The Company is a development stage enterprise and has not generated any revenue during its history. The primary business of the Company is to market an Internet telephony device and related services to customers worldwide, called the "FoneFriend". The underlying technology of FoneFriend has been licensed by the Company from FoneFriend Systems, Inc. and will enable the Company's subscribers to make and receive unlimited long distance telephone calls over the Internet, using only their standard residential telephone set (without the need for a computer), for a low monthly fee of about \$10.00 or less. Due to the small cost of transmitting calls over the Internet, the Company anticipates that it will realize significant profit margins, in excess of the traditional telecommunications industry.

The Company has experienced significant losses during development stage operations and has yet to realize any revenues from its operations.

## Edgar Filing: FONEFRIEND INC - Form 10QSB

13

During the fourth quarter of fiscal year 2003, management of the Company evaluated the future benefit of the Company's capitalized development costs and determined that it was prudent to write down the value of that asset to its estimated fair value.

During the first two quarters of the current fiscal year, the Company's management focused its efforts primarily on reducing its overhead, to conserve financial resources, and the hiring of consultants that would help further its quest for financing, as well as assist in implementing the Company's intended plan of business and preparing the technical infrastructure and marketing support necessary for its operational stage.

To date, the Company has established the foundation necessary upon which it can build a next generation telecommunications company, utilizing the Internet and VoIP technology, that will carry customer calls at rates which are dramatically lower than traditional international long distance carriers with excellent quality.

### RESULTS OF OPERATIONS

The Company had no revenue during the three months ended September 30, 2003, or during its entire history.

Expenses of the Company for the second quarter of the current fiscal year, ending March 31, 2004, increased to \$315,883, from \$211,316 for the three month period ending September 30, 2003, compared to the three month period ending September 30, 2002. The increase was due primarily to the accrual of consulting fees and officer salary expense, which was not previously accrued by the Company. Current expenses consist primarily of consultant fees, officer salaries, overhead and other general expenses related to continuing operations, developing its product and bringing that product to market.

During the second quarter of fiscal 2004, the Company issued 400,000 shares of stock to consultants for future services to be provided to the Company. The value of such shares issued to consultants is being amortized to consulting expense over the term of each individual's contract, usually either a six or a twelve-month period. Also, the Company issued an additional 60,000 shares of common stock in settlement of litigation.

As previously disclosed in the Company's Form 10-QSB, for the period ending June 30, 2003, the Company received notice on July 30, 2003, that Francois Van Der Hoeven had resigned as a director. Mr. Van Der Hoeven had previously resigned as Senior Vice President of Marketing in May of 2003. In addition, the Company had notified its transfer agent to place a stop transfer order on 1,300,000 shares that were previously issued to him in anticipation of his services over a 3-year employment term. Mr. Van Der Hoeven's shares are being counted as outstanding until such time as the certificate is either returned or the Company issues a cancellation order.

14

### FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company anticipates that it will market its product through direct marketing to segments of the population that use significant long distance service to foreign countries.

## Edgar Filing: FONEFRIEND INC - Form 10QSB

The initial target markets will be areas in which the population includes significant European, Hispanic and Asian segments. These segments of the population typically spend substantial time on international long distance calls to their native countries.

Other products may be developed that compete with the Company's product, thereby reducing future potential revenue.

Further, since the Company's product requires significant lead time in the manufacturing process, any delay in filling orders could affect customer satisfaction.

The Loss Of Our Key Personnel Could Harm Our Business.

The loss of the services of the Company's CEO and other key consultants or employees could have a material adverse effect on our operations, as hiring replacements would most likely involve the payment of salaries, for which we do not currently have the financial resources. Our inability to hire suitable replacements could have a material adverse effect on our ability to continue operating.

The Company is in Breach of Key Employment and Consulting Agreements.

For the last year, the Company has failed to make the required payments of \$7,500 per month to Jackelyn Giroux, the President and Director, under her employment agreement. There is no guarantee that she will continue to work without being paid. The Company may be forced to amend her Employment Agreement on less favorable terms. The loss of Ms. Giroux as President would have a material adverse effect on the Company's ability to continue operating.

For the last year, the Company has failed to make the required payments of \$10,000 a month to Gary A. Rasmussen, a Consultant and founder, under the terms of his Consulting Agreement. There is no guarantee that he will continue to work without being paid. The Company may be forced to amend his Consulting Agreement on less favorable terms. The loss of Mr. Rasmussen would have a material adverse effect on the Company's ability to continue operating.

Additional Risk Factors are set forth in the Company's 10KSB.

For additional Risk Factors please see the Risk Factors located in the Company's Form 10KSB, for the fiscal year ended March 31, 2003 which are hereby adopted and incorporated by reference.

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2003, the Company had limited working capital and the Company had no material unused sources of liquid assets. Also at September 30, 2003, the Company had no existing credit facility. As a result, the Company is delinquent in certain general and administrative expenses and has a shortage of cash to pay its pending accounts payable.

A part of the Company's strategy is to seek external financing to grow its commercial business. Management is presently negotiating with several qualified investment sources in order to obtain the necessary financing required to implement its intended plan of business. The Company's current operating capital has been provided primarily through cash advances from its officers and various third parties.

## Edgar Filing: FONEFRIEND INC - Form 10QSB

While the Company intends to generate working capital from its product and related services in the future, we expect our minimum capital needs during the current fiscal year to be approximately \$2.0 million. This amount will primarily be used for manufacturing, implementing a large scale network system, marketing programs and for general working capital.

However, the Company may not be able to obtain the required financing, or such financing may not be available on acceptable terms. Due to the Company's historical operating losses, there can be no assurance that projected capital requirements will not substantially exceed current and future capital resources. This could result in a significant and material adverse effect on our ability to continue operating.

Additional working capital needs of the Company may require issuance of equity securities, either on a public or private basis. Such issuances would, if consummated, affect the ongoing capital structure of the Company and may result in substantial dilution to shareholders. If additional funds are raised through the issuance of equity, convertible debt, or similar securities of the Company, the percentage of ownership of the Company's current shareholders will be reduced, and such new securities may have rights or preferences senior to those of the common stock held by current shareholders. No agreement with respect to any such financing has been entered into, and such issuance may not be consummated. In the event that funding sources are not available as and when needed by the Company, it could have a severe adverse impact on the combined business and results of operations of the Company and could result in the Company being unable to continue as a going concern. Management is continually monitoring and evaluating the financing sources available to achieve the Company's goals.

Due to the losses sustained by the Company and its lack of working capital, the Company's ability to remain a going concern depends upon its ability to generate sufficient cash flow to meet its obligations and to obtain additional financing as may be required.

16

As of September 30, 2003, management estimated that the Company's cash resources were not enough to meet the Company's estimated funding requirements for the remainder of the year.

FORWARD LOOKING INFORMATION: CERTAIN CAUTIONARY STATEMENTS: "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

The foregoing discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this Form 10-QSB. This Form 10-QSB contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and we cannot assure you that these projections included in these forward-looking statements will come to pass. Our actual results could differ materially from

## Edgar Filing: FONEFRIEND INC - Form 10QSB

those expressed or implied by the forward-looking statements as a result of various factors.

### ITEM 3. CONTROLS AND PROCEDURES

#### (a) Evaluation of disclosure controls and procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and CEO, who serves as the principal operating officer, and its Chief Financial Officer, who has served as the principal financial and accounting officer. Based upon that evaluation, the Company's President and CFO have concluded that the Company's disclosure controls and procedures are effective in alerting them to material information regarding the Company's financial statement and disclosure obligation in order to allow the Company to meet its reporting requirements under the Exchange Act in a timely manner.

17

#### (b) Changes in internal control.

There have been no changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company received notice of a lawsuit commenced against its predecessor company, Fonefriend, Inc., a Nevada corporation, seeking approximately \$21,000. The assets of this predecessor company were acquired by the Company in a stock for assets purchase transaction and Fonefriend of Nevada was dissolved.

The Company has received a threat of litigation from the bankrupt estate of Allegiance Telecom, seeking approximately \$5,000. The Company believes it has affirmative defenses to such charges and intends to defend against any such action should it be commenced.

### ITEM 2. CHANGES IN SECURITIES

During the three months ended September 30, 2003, the Company issued a total of 400,000 shares of stock to two consultants for cash and current and future services provided to the Company. Additionally, 60,000 shares of stock were issued in settlement of a lawsuit.

Subsequent to September 30, 2003, the Company issued a total of 125,000 shares of common stock, of which 100,000 shares were issued in connection with



## Edgar Filing: FONEFRIEND INC - Form 10QSB

the exercise of a stock option, and 25,000 shares were issued as consideration to a consultant.

Subsequent to September 30, 2003, the Company has entered into additional consulting contracts which provide for the issuance of common stock and/or stock options as compensation.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

18

### ITEM 5. OTHER INFORMATION

The Company's Board of Directors unanimously approved the appointment of Ms. Virginia Perfili, subject to her acceptance, as a director to fill the vacancy created upon the resignation of Mr. Francois Van Der Hoeven. Ms. Perfili accepted this appointment on November 14, 2003.

Ms. Perfili was formerly President, CEO and Director of Orphan, Inc., a publicly held, Michigan Corporation, which was formed in 1982 to pursue opportunities in the entertainment, film and record industries. Ms. Perfili's duties included the overall management and promotion for the company. Ms. Perfili left Orphan in 1997 to pursue her career as an independent producer and director of film projects. Ms. Perfili is a graduate of Wayne State University.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits.

Exhibit No.	Description
10.1	2002 Non-Employee Director And Consultant Retainer Stock Plan And Employee Stock Incentive Plan. Incorporated by reference in Form S-8, filed on December 27, 2002.
10.2	Employment Agreement executed by the Registrant and Jackelyn Giroux.
10.3	Consulting Agreement executed by the Registrant and Gary A. Rasmussen.
10.4	Indemnification Agreement executed by the Registrant and Jackelyn Giroux.
10.5	Indemnification Agreement executed by the Registrant and Edward N. Jones.
10.6	Indemnification Agreement executed by the Registrant and

## Edgar Filing: FONEFRIEND INC - Form 10QSB

Dennis H. Johnston.

- 10.7 Indemnification Agreement executed by the Registrant and Gary A. Rasmussen.
- 10.8 Indemnification Agreement executed by the Registrant and Francois Van Der Hoeven.

19

- 10.9 Technology License Agreement executed by the Registrant and Fonefriend Systems, Inc.
- 17.1 Resignation of Director (Francois Van Der Hoeven)
- 31.1\* Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 99.1\* Chief Executive Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2\* Chief Financial Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-----  
\* Filed herewith

- (b) No reports on Form 8-K were filed during the three months ended September 30, 2003.

\*\*\*SIGNATURE PAGE FOLLOWS\*\*\*

20

### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized by FoneFriend, Inc. (the "Registrant")

By: /S/ Jackelyn Giroux

-----  
Jackelyn Giroux, President, Director

By: /S/ Dennis H. Johnston

-----  
Dennis H. Johnston, Secretary, General Counsel, Director

Edgar Filing: FONEFRIEND INC - Form 10QSB

By: /s/ Edward N. Jones

-----  
Edward N. Jones, Chief Financial  
Officer

Dated: November 19, 2003.