INNOFONE COM INC
Form 10QSB/A
March 12, 2001

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

FORM 10-QSB/A

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

FOR THE QUARTERLY PERIOD ENDED December 31, 2000 OR

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

FOR THE TRANSITION PERIOD FROM _________ TO ____________

COMMISSION FILE NUMBER: 0-31949

INNOFONE.COM, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Nevada | 98-020313 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

600 North Pine Island Avenue
Suite 450
Plantation, Florida 33324
(Address of principal executive offices and Zip (Postal) Code)

(954) 315-0341
(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

INDICATE BY CHECK MARK WHETHER THE COMPANY HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY SECTION 12, 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN CONFIRMED BY A COURT. YES N/A NO N/A

APPLICABLE ONLY TO CORPORATE ISSUERS

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE: As of February 14, 2001, the Company had outstanding 23,582,754 shares of Common Stock, $.001 par value.

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

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INNOFONE.COM, INC.

FORM 10 - QSB
FOR THE PERIOD ENDED DECEMBER 31, 2000

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EXPLANATORY NOTE: Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the amended Items are amended and restated as set forth below.

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements.

Innofone.com, Inc.

Quarter ended December 30, 2000 and year ended June 30, 2000

The financial statements for the three months ended December 31, 2000 and 1999 include, in the opinion of Innofone.com, Inc. (the "Company"), all adjustments necessary to present fairly the results of operations for such periods. Results of operations for the three months ended December 31, 2000, are not necessarily indicative of results of operations which will be realized for the year ending June 30, 2001. The financial statements should be read in conjunction with the Company's Form 10-SB which contains financial statements for the year ended June 30, 2000.

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INNOFONE.COM, INCORPORATED

Consolidated Balance Sheets
(Stated in United States dollars)

December 31, 2000 with comparative figures as at June 30, 2000,
as restated (see note 8)

| | | December 31, 2000 |
|---|---|---|
| | | (unaudited) |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | - |
| Accounts receivable, net of allowance for doubtful accounts of $31,700, June 30, 2000--$54,000) | | 457,221 |
| Prepaid expenses and deposits | | 49,447 |
| Investment | | 165,000 |
| | | 671,668 |
| Fixed assets | | 332,951 |
| | $ | 1,004,619 |
| **Liabilities and Shareholders' Deficiency** | | |
| Current liabilities: | | |
| Bank indebtedness | $ | 47,777 |
| Accounts payable and accrued liabilities | | 1,793,819 |
| Advances from ultimate shareholders | | 237,098 |
| Current portion of long-term debt | | 40,013 |
| Obligation under capital lease | | 1,236 |
| | | 2,119,943 |
| Advances from ultimate shareholders | | 289,530 |
| Long-term debt | | 30,677 |
| Convertible debt | | 1,805,500 |
| Shareholders' deficiency: | | |
| Share capital (note 2): | | |
| Common shares | | 4,705,083 |
| Preferred shares | | 2,500 |
| Additional paid-in capital | | 6,045,261 |
| | | 10,752,844 |

| | |
|---|---|
| Deficit | (13,981,898) |
| Accumulated other comprehensive loss | (11,977) |
| | (3,241,031) |
| Future operations (note 1(b)) | |
| Subsequent events (note 6) | |
| | $ 1,004,619 |

See accompanying notes to consolidated financial statements.

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INNOFONE.COM, INCORPORATED

Consolidated Statements of Operations
(Stated in United States dollars)
Unaudited
For the six months ended December 31, 2000 with comparative figures for the six months ended December 31, 1999.

| | 2000 | |
|---|---|---|
| | (unaudited) | |
| Sales | $ 719,373 | $ |
| Cost of sales | 499,070 | |
| Gross profit | 220,303 | |
| Selling, general and administrative expenses | 2,198,139 | |
| Amortization | 72,753 | |
| Additional interest | 138,400 | |
| Interest on long term debt and bank charges | 19,627 | |
| | 2,428,919 | |
| Net loss | (2,208,616) | |
| Basic net loss per common share | $ (0.10) | $ |
| Weighted average number of common shares outstanding | 22,745,083 | |

See accompanying notes to consolidated financial statements.



INNOFONE.COM, INCORPORATED

Consolidated Statements of Operations
(Stated in United States dollars)
(Unaudited)
For the quarter ended December 31, 2000 with comparative figures for the quarter ended December 31, 1999

| | 2000 |
|---|---|
| | (unaudited) |
| Sales | $ 302,605 |
| Cost of sales | 208,285 |
| Gross profit | 94,320 |
| Selling, general and administrative expenses | 1,145,594 |
| Amortization | 35,830 |
| Interest on long-term debt and bank charges | 13,857 |
| | 1,195,281 |
| Net loss | (1,100,961) |
| Basic net loss per common share | $ (0.05) |
| Weighted average number of common shares outstanding | 23,582,754 |

See accompanying notes to consolidated financial statements.

INNOFONE.COM, INCORPORATED

Consolidated Statements of Shareholders' Deficiency and Comprehensive Loss
(Stated in United States dollars)

Six months ended December 30, 2000 with comparative figures for the year ended
June 30, 2000, as restated (see note 8)

| | Common shares | Preferred shares | |
|---|---|---|---|
| Balance June 30, 1999 | 8,700 | 1,570 | |
| Net loss for the year ended June 30, 2000 | -- | -- | |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation adjustment | -- | -- | |
| Total comprehensive loss | -- | -- | |
| Beneficial conversion feature of convertible debt | | | |
| Compensatory value of stock options | -- | -- | |
| Stock options | 120 | -- | |
| Conversion of preferred shares | 4,690,000 | (2,500) | |
| Reclassification of redeemable equity securities | 3,430 | 3,430 | |
| Balance, June 30, 2000 | 4,702,250 | 2,500 | |
| Net loss for the six months ended December 31, 2000 | -- | | |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation adjustment | -- | -- | |
| Total comprehensive loss | -- | -- | |
| Beneficial conversion feature of convertible debt | | | |
| Convertible notes converted to common stock | 1,253 | | |
| Stock options exercised | 430 | | |
| Issuance of stock for legal fees | 150 | | |
| Issuance of stock by subscription agreement | 1,000 | | |
| Balance, December 31, 2000 | $ 4,705,083 | $ 2,500 | $ |

| | Deficit | Accumul o comprehen in |
|---|---|---|
| Balance June 30, 1999 | (823,235) | (2 |
| Net loss for the year ended June 30, 2000 | (6,262,547) | |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustment | -- | 1 |
| Total comprehensive loss | (6,262,547) | 1 |
| Beneficial conversion feature of convertible debt | | |
| Compensatory value of stock options | -- | |
| Stock options | -- | |
| Conversion of preferred shares | (4,687,500) | |
| Reclassification of redeemable equity securities | | |
| Balance, June 30, 2000 | (11,773,282) | ( |
| Net loss for the six months ended December 31, 2000 | (2,208,616) | |
| Other comprehensive income, net of tax: | | |
| Foreign currency translation adjustment | -- | ( |
| Total comprehensive loss | (2,208,616) | ( |
| Beneficial conversion feature of convertible debt | | |
| Convertible notes converted to common stock | | |
| Stock options exercised | | |
| Issuance of stock for legal fees | | |
| Issuance of stock by subscription agreement | | |
| Balance, December 31, 2000 | $(13,981,898) | $(1 |

See accompanying notes to consolidated financial statements.



INNOFONE.COM, INCORPORATED

Consolidated Statements of Changes in Financial Position
(Stated in United States dollars)

For the six months ended December 31, 2000 with comparative figures for the year ended June 30, 2000, as restated (see note 8)

| | | December 31, 2000 |
|---|---|---|
| | | (unaudited) |
| Cash flows provided by (used in): | | |
| Operations: | | |
| Net loss | $ | (2,208,616) |
| Items not involving cash: | | |
| Amortization | | 72,753 |
| Compensation cost on stock options | | - |
| Beneficial conversion feature of convertible notes | | 138,400 |
| Issuance of stock for legal fees | | 73,654 |
| Change in non-cash operating working capital | | 931,756 |
| | | (992,053) |
| Financing: | | |
| Advances from ultimate shareholders | | 167,923 |
| Increase (decrease) in bank indebtedness | | 47,777 |
| Principal payments on long-term debt | | (17,788) |
| Principal payments on obligation under capital lease | | (1,000) |
| Increase in convertible debt | | 350,000 |
| Proceeds from options exercised | | 66,000 |
| Issuance of share capital | | 450,002 |
| | | 1,062,914 |
| Investments: | | |
| Additions to fixed assets | | (77,782) |
| Proceeds from term deposit | | - |
| | | (77,782) |
| Effect of exchange rate changes on cash | | (1,336) |
| Increase (decrease) in cash and cash equivalents | | (8,257) |
| Cash and cash equivalents, beginning of period | | 8,257 |
| Cash and cash equivalents, end of period | $ | 0 |

Cash interest paid for the six months ended December 31, 2000 and the year ended June 30, 2000 was $19,627 and $25,083 respectively.

See accompanying notes to consolidated financial statements

INNOFONE.COM, INCORPORATED

Notes to Consolidated Financial Statements
(Stated in United States dollars)
(Unaudited)
For the six months ended December 31, 2000

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Innofone.com, Incorporated (the "Company") is incorporated under the laws of the State of Nevada. The Company, through its legal subsidiary Innofone Canada Inc. ("Innofone Canada") that operates in Canada, is engaged in the telecommunications business of providing long distance telephone services, cellular services and internet services. All of the Company's sales are to Canadian customers in the residential and business sectors. The Company is not dependent on a single customer. However, the Company uses only a few carriers of long distance services that they are dependent on for the usage of their telephone lines.

1. BASIS OF PRESENTATION:

(a) Interim financial statements:

These unaudited interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements which were completed as of June 30, 2000. In the opinion of management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of the results of such periods. The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year.

(b) Future operations:

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of operations, notwithstanding the significant operating losses since incorporation, negative working capital and deficiency in shareholders' equity at December 31, 2000 and the Company's shares being delisted from the National Association of Securities Dealers ("NASD") over-the-counter Bulletin Board. The Company is in the process of finalizing a Registration Statement that it has filed with the United States Securities and Exchange Commission in order for the Company's shares to be eligible for trading in the United States on the NASD over-the-counter Bulletin Board. Continued operations depend upon the Company's ability to attain profitable operations and obtain sufficient cash from external financing to meet the Company's liabilities as they become payable. These conditions and events cast substantial doubt on the Company's ability to continue as a going concern. Management is of the opinion that sufficient working capital will be obtained from operations and external financing to meet the Company's liabilities and commitments as they become payable.

2. SHARE CAPITAL:

The number of outstanding common shares of the Company as at December 31, 2000 is computed as follows:

| | Common Shares |
|---|---|
| Existing outstanding shares and warrants as at June 30, 2000 | 20,750,000 |
| Shares issued in exchange for legal fees | 150,000 |
| Options exercised | 430,000 |
| Promissory notes converted to stock | 1,252,750 |
| Shares subscribed | 1,000,004 |
| Outstanding shares as at December 31, 2000 | 23,582,754 |

During the six months ended December 31, 2000, 430,000 options were exercised generating proceeds of $66,000 for the Company. Effective September 12, 2000, $501,100 in convertible notes dated August 5, and 6, 1999, were converted into 1,252,750 shares of common stock in accordance with the original terms. In September 2000, the Company raised a total of $500,002 in two separate private placements totaling 1,000,004 units consisting of one share of common stock and one warrant to purchase common stock at $1.00 per share and expiring in March 2002.



3. STOCK OPTIONS :

The following table summarizes the stock option activity:

| | Number of average options |
|---|---|

| | |
|---|---|
| Outstanding at June 30, 1999 | 1,380,000 |
| Granted - vested | 3,005,000 |
| Granted - not vested | 4,357,000 |
| Exercised | (120,000) |
| Forfeited | - |
| Expired | - |
| Outstanding (held by 13 optionees) at June 30, 2000 | 8,622,000 |
| Granted | - |
| Exercised | (430,000) |
| Forfeited | - |
| Expired | (50,000) |
| Outstanding at December 31, 2000 (held by 11 optionees) | 8,142,000 |

The weighted average remaining contractual life for all outstanding options is approximately one year.

4. SEGMENTED INFORMATION:

(a) Reportable segment:

The Company has one reportable segment; resale of long distance services. The resale of long distance services is provided to residential and small to medium sized businesses. This segment represents the result of operations for the Company.

(b) Geographic information:

The Company derives all of its revenue from Canada and all of its fixed assets are physically located in Canada.



5. OTHER EVENTS:

On October 4, 2000, the Company raised $150,000 through a subscription of 10% unsecured promissory notes which are due October 4, 2001. The capital amount of the notes shall be payable on demand in whole or in part in the event that the Company makes a distribution of its securities worth at least $500,000 by private placements or otherwise. The notes are convertible into common shares of the Company with a par value of $0.001 at a price of $0.50 per share. The market value of the Company's common shares at the subscription date was less than the conversion price. Therefore, there is no embedded beneficial conversion option. The notes also include a non-detachable warrant to purchase one common share of the Company with a par value of $0.001 at a price of $1.00 per share.

On November 16, 2000, the Company raised $100,000 through a subscription of 8% unsecured promissory notes which are due November 15, 2001. On

December 16, 2000, the Company raised $100,000 through a subscription of 8% unsecured promissory notes which are due November 15, 2001. Both subscriptions for notes are convertible into common shares of the Company with a par value of $0.001 at a price of $0.30 per share. The market value of the Company's common shares at the subscription date was less than the conversion price. Therefore, there is no embedded beneficial conversion option. The notes also include a non-detachable warrant to purchase one common share of the Company with a par value of $0.001 at a price of $0.75 per share.

6. SUBSEQUENT EVENTS:

On January 12, 2001 the Company signed a Marketing and Network Services Agreement with ePhone Telecom Inc. ("ePhone") whereby the Company agreed to provide ePhone with a first right of refusal until December 31, 2010 to carry its long distance traffic using the ePhone internet network. The agreement also provides for assessing the feasibility of developing new products together and generally developing the business of each company. As part of the agreement, ePhone paid the Company a set-up fee of $500,000 which is due for repayment on April 19, 2001. If the set-up fee is not repaid, ePhone has the right to convert into an equivalent amount of shares of the Company based on a price of $0.25 per share. For accounting purposes, the set-up fee will be initially recognized in the financial statements as a loan. The market value of the Company's common shares at the date of signing the marketing agreement was less than the conversion price. Therefore, there would be no embedded beneficial conversion option. Each share would also have a non-detachable warrant to convert into common shares at a price of $0.75.

On January 12, 2001, the Company granted 100,000 vested options to an employee having an exercise price of $0.50, and on February 9, 2001, the Company granted 60,000 vested options to two employees having an exercise price of $0.25. All 160,000 options expire 12 months after grant date. The market price of the Company stock at the grant date was not in excess of the exercise price. Therefore, there was no intrinsic value to the options at their grant date. However in accordance with the Company's accounting policy, the fair value of the options aggregated $4,740, and will be recognized as compensation expense on the grant date. The fair value has been determined using the Black-Scholes option pricing model assuming a dividend yield of 0%, expected volatility of 100%, and a risk free interest rate of 6%.

The Company is in the process of converting into common shares the promissory notes which become due on December 31, 2000. The notes in the amount of $1,039,500 are convertible into 2,598,750 shares of common stock. The notes also included a warrant to purchase one common share at a price of $1.00 for each $0.40 of notes purchased. These warrants expired December 31, 2000, but the Company has extended the period to exercise the warrant to December 31, 2001. The fair value of the warrants issued at the extension date was not material.

7. NON-CASH FINANCING ACTIVITY

During the six months ended December 31, 2000, the Company issued 150,000 common shares in exchange for legal fees of $73,654 which had been incurred. These shares have been valued at the market price of the Company's common shares on the dates at which both performance had been completed and the shares became issuable.

8. RESTATEMENT OF BURDON OPTIONS:

On April 5, 2000, the Company granted 2,750,000 options to purchase common shares to Mr. Burdon. The Company had previously reported a compensation expense of $1,243,933 by June 30, 2000 with an additional $1,445,267 to be recognized over the period to April 5, 2002. The consolidated financial statements have been restated to recognize all of this compensation value by June 30, 2000. As a result of the restatement, the net loss increased by $1,445,267 which resulted in the basic net loss per share increasing $0.12 to $0.50 per share.



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FORWARD-LOOKING INFORMATION.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto for the year ended June 30, 2000 included in the Company's Form 10-SB, as amended, originally filed with the SEC on November 14, 2000. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Words such as "may," "plans," "expects," "anticipates," "approximates," "believes," "estimates," "intends," "hopes," "potential," or "continue", and variations of such words and similar expressions are intended to identify such forward-looking statements. The Company intends such forward-looking statements, all of which are qualified by this statement, to be covered by the safe harbor provisions for forward-looking statements contained in the Private Litigation Securities Reform Act of 1995 and is including this statement for purposes of complying with these safe harbor provisions. The Company has based these statements on its current expectations and projections about future events. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Forward-looking statements include but are not limited to:

- our expectations regarding our strategic relationships and agreements we are currently negotiating.
- the availability of necessary funding.
- our ability to implement successfully our operating strategy.
- future financial performance as estimated in the Company's financial projections.

The following factors, among others, could cause our actual results to differ materially from those expressed in any forward-looking statements we make:

- inaccuracies in our forecasts of customer or market demand.
- highly competitive market conditions.
- changes in or developments under laws, regulations and licensing requirements in countries in which the Company is installing gateways.
- changes in telecommunications technology.

These factors should not be construed as exhaustive. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's views only as of the date hereof. The Company is not obligated to publicly update or revise any forward-looking



statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report on Form 10-Q might not occur. Readers should carefully review the risk factors described in the Form 10-SB and any other documents the Company files from time to time with the Securities and Exchange Commission, including future Annual Reports on Form 10-K Quarterly Reports on Form 10-Q.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUES

Revenues for the quarter ended December 31, 2000 increased 35% to $302,605 as compared to revenues of $225,452 for the quarter ended December 31, 1999. Revenues for the six-month period ended December 31, 2000 increased 108% to $719,373 from $345,231 for the six-month period ended December 31, 1999. The revenue increase is due entirely to an increase in the number of billable long distance calling minutes by our customer base. Revenues from the six months ended December 31, 1999 were generated by GLR customers acquired through our direct marketing agents while the revenues for the quarter ended December 31, 2000 reflect the customer acquisition program with Visa Desjardins. For the six months ended December 31, 2000, approximately 80% of our revenues were generated from the Visa Desjardins customer base and 20% were generated from our GLR customer base. Approximately 94% of our revenues for the six months ended December 31, 2000 are from the resale of long distance voice services to residential and small and medium sized businesses. The remaining 6% of revenues are from the resale of cellular services.

COST OF SALES AND GROSS MARGIN

As a result of our increased revenues, our cost of sales increased 45% from $143,056 for the quarter ended December 31, 1999 to $208,285 for the quarter ended December 31, 2000. Cost of sales for the six months ended December 31, 2000 increased 115% to $499,070 from $232,752 for the six months ended December 31, 1999.

Our gross profit also increased from $82,396 for the six months ended December 31, 1999 to a gross profit of $94,320 for the quarter ending December 31, 2000. The increase in gross profit is a result of our increased sales and related cost of services. Our gross profit for the six months ended December 31, 2000 increased 96% to $220,303 from $112,479 in 1999. Our gross profit as percentage of sales for the six months ended December 31, 2000 declined from 33% in 1999 to 31% in 2000. This decline is reflective of a change in 2000 to more residential customers where margins typically are lower than for business customers. In 1999, the GLR program customer base still had a relatively larger portion of business customers. Business customers typically make long distance calls during the daytime hours when we can charge higher rates and generate better margins. Also, during the second quarter of 2000, the Company experienced a larger than expected number of customer credits on the Visa Desjardins program, which resulted in a slightly lower gross profit than expected.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses were $1,145,594 for the quarter ending December 30, 2000, up 260% from $316,440 in the same quarter last year. This increase reflects our increased customer acquisitions and the attendant costs, the expansion of our management team, and our changed business model where we have gone from direct sales of a single product to marketing a bundle of services to a selective customer base using outbound marketing of our products by external call centers. The primary reasons for the increase in selling, general and administrative expenses is due to increases in management and consulting fees, customer acquisition costs, salaries and benefits, billing costs, call center costs, order fulfillment costs, accounting and legal fees and office and general expenses.

Management and consulting fees increased 120% to $196,586 for the quarter ended December 31, 2000 from $88,444 for the same period in 1999. Management and consulting fees include remuneration of $115,000 to the three senior officers and $81,000 in consulting fees paid for marketing and program management. In 1999, these fees only included remuneration paid to the three senior officers.

Customer acquisition costs increased 496% from $48,439 for the quarter ended December 31, 1999 to $288,790 for the quarter ended December 31, 2000. The costs in 2000 reflect commissions we paid Equinox and Visa Desjardins, who were responsible for the rapid expansion of our customer base and consequently our increase in sales. We pay them a commission of $20 Canadian for each new customer that is signed through the outbound sales activity of their call centers. The customer acquisition fees paid in the quarter ended December 31, 1999 represent commissions we paid Adcom Sales Inc., our direct sales marketing team which has since discontinued selling for us.

Salaries and benefits increased 156% from $43,622 for the three months ended December 31, 1999 to $111,569 in the quarter ended December 31, 2000. This increase is primarily due to the addition in October 2000 of a senior executive to explore the possibilities of adding energy to the Company's bundle of services. In October 2000, we also hired two additional administrative staff. These additional new hires represented approximately $70,000 of the increase over the comparable quarter in 1999. The remainder of the increase is a result of pay raises to existing staff.

Billing costs increased by 1000% from $12,486 for the quarter ended December 31, 1999 to $141,055 for the three months ended December 31, 2000. We pay these costs to our independent billing company. The increase reflects the increased sales through the launch of the Visa Desjardins project.

In order to launch the Visa Desjardins project, we needed to utilize the services of a call center for customer service and customer acquisition, and the services of an order fulfillment company to provide new customers with a welcome kit that includes a letter welcoming them to the program as well as any products ordered and related literature. These costs did not exist during the second quarter in 1999. For the quarter ended December 31, 2000, call center costs were $85,275 and order fulfillment costs were $112,155.

Office and general costs increased approximately 10% from $88,444 for the quarter ended December 31, 1999 to $194,586 for the quarter ended December 31, 2000. This increase is due to general increases in the volume of our business. Included in office and general expenses are expenses such as rent, computer lease costs, printing costs, advertising and marketing costs, travel and entertainment expenses, legal and accounting fees, telephone charges, bad debt expenses, commissions to Visa Desjardins, insurance and office supplies.

AMORTIZATION. Amortization expense consists of the depreciation of our capital assets. Our amortization expense for the three months ended December 31, 2000 was $35,830 as compared to $23,782 for the three months ended December 31, 1999. The relative increase in amortization expense is the result of our acquiring new computer equipment for our additional staff.

INTEREST AND BANK CHARGES. Interest and bank charges include interest on long term debt, interest charged on our overdue accounts payable and bank charges. For the three months ended December 31, 2000, these charges increased 153% to $13,857 from $5,481 in 1999. While the interest on long-term debt has declined as the term loan is being repaid, we have been charged interest by several suppliers whose accounts are past due and bank charges are higher due to the increased banking activity accompanied by our growth in revenues.

Due to the above factors, we incurred losses of $1,100,961 for the quarter ending December 31, 2000 as compared to losses of $263,307 for the quarter ended December 31, 1999.



SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Date: March 12, 2001 Innofone.com, Inc.

/s/ LARRY HUNT

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Larry Hunt
President and Chief Executive Officer