

Datone, Inc  
Form 10-Q  
November 12, 2008

**9595 U.S. SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period September 30, 2008

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

*For the transition period from*  
**Commission File No. 000-53075**

**DATONE, INC.**

(Exact name of small business issuer as specified in its charter)

Delaware	16-1591157
(State or other	(I.R.S. employer
jurisdiction of	identification
incorporation or	number)
formation)	

7325 Oswego Road  
Liverpool, New York 13090  
(Address of principal executive offices)

Issuer's telephone number: (315) 451-7515  
Issuer's facsimile number: (315) 453-7311

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No change

(Former name, former address and former  
fiscal year, if changed since last report)

**Copies to:**

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 o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**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: 4,963,226 shares of \$.0001 par value common stock outstanding as of September 30, 2008.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated  
Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting  
company

(Do not check if a smaller reporting  
company)

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DATONE, INC.  
BALANCE SHEETS

	(Unaudited) September 30, 2008	(Restated) December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ -	\$ -
Commissions and Sales Receivable, Net	17,175	17,261
Inventory	11,425	11,425
Prepaid Expenses and Other Current Assets	-	35
<b>TOTAL CURRENT ASSETS</b>	<b>28,600</b>	<b>28,721</b>
<b>EQUIPMENT</b>		
Telephone and Office Equipment	1,459,766	1,476,016
Vehicle	71,274	64,733
	1,531,040	1,540,749
Less: Accumulated Depreciation	(1,525,208)	(1,534,425)
Net Equipment	5,832	6,324
<b>TOTAL ASSETS</b>	<b>\$ 34,432</b>	<b>\$ 35,045</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 186,550	\$ 172,286
Bank Overdraft	9,414	3,540
Current Portion of Long-Term Debt	7,916	8,091
Accrued Expenses	61,906	51,019
Related Party Note	312,126	239,503
Notes Payable Related Party	-	66,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>577,912</b>	<b>540,439</b>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>-</b>	<b>2,246</b>
<b>TOTAL LIABILITIES</b>	<b>577,912</b>	<b>542,685</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common Stock, .0001 par value 100,000,000 shares authorized, 4,963,226 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	496	496
Additional Paid in Capital	1,722,134	1,640,160
Accumulated Deficit	(2,266,110)	(2,148,296)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(543,480)</b>	<b>(507,640)</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$	34,432	\$	35,045
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The accompanying notes are an integral part of these financial statements.

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DATONE, INC.  
STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
SALES	\$ 30,624	\$ 39,685	\$ 99,598	\$ 123,404
Depreciation	164	5,190	490	12,181
Cost of Sales	9,333	16,992	39,482	43,347
Total Cost of Sales	9,497	22,182	39,972	55,528
Gross Profit	21,127	17,503	59,626	67,876
<b>OPERATING EXPENSES</b>				
Insurance	(342)	6,744	5,527	10,266
Payroll Wages and Taxes	11,131	7,744	37,791	27,055
Rent	15,000	45,071	45,000	45,277
Bad Debt Expense	-	-	-	44,320
General & Administrative	30,602	3,224	69,278	15,950
Total Operating Expenses	56,391	62,783	157,596	142,868
Operating Income (Loss)	(35,264)	(45,280)	(97,970)	(74,992)
<b>OTHER INCOME (EXPENSE)</b>				
Gain on Sale of Equipment	-	-	-	34,233
Other Expense	-	-	-	(60)
Interest Expense	(7,697)	(5,675)	(19,784)	(22,485)
Total Other Income (Expense)	(7,697)	(5,675)	(19,784)	11,688
NET LOSS BEFORE PROVISION	(42,961)	(50,955)	(117,754)	(63,304)
PROVISION FOR INCOME TAXES	-	-	60	504
NET LOSS	\$ (42,961)	\$ (50,955)	\$ (117,814)	\$ (63,808)
Net Loss per Common Share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted Common Shares Outstanding	4,963,226	4,963,226	4,963,226	4,963,226

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

DATONE, INC.  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
<b>Operating Activities:</b>		
Net Loss	\$ (117,814)	\$ (63,808)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation Expense	490	5,639
(Gain) Loss on Sale of Equipment	-	(34,233)
(Increase) Decrease in Commission Receivables	86	34,827
(Increase) Decrease in Inventory	-	509
(Increase) Decrease in Prepaid Expense	35	4,941
Increase (Decrease) in Accounts Payable	14,266	(27,396)
Increase (Decrease) in Accrued Expenses	10,887	16,085
Increase (Decrease) in Related Party Payable	(66,000)	(29,979)
Net cash used in operating activities	(158,050)	(93,415)
<b>Investing Activities:</b>		
Proceeds from Sale of Equipment	-	34,233
Net cash provided by investing activities	-	34,233
<b>Financing Activities:</b>		
Bank Overdraft	5,874	40,407
Additional Paid in Capital	81,974	34,178
Proceeds (Payments) on Related Party Note	72,623	(15,476)
Proceeds (Payments) on Notes Payable	(2,421)	73
Net cash provided by (used in) financing activities	158,050	59,182
Net Increase in cash	-	-
Cash - Beginning of Period	-	-
Cash - End of Period	\$ -	\$ -
<b>Supplemental Disclosures of Cash Flow Information:</b>		
<b>Cash Paid During The Period For:</b>		
Interest	\$ (19,784)	\$ (22,485)

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

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 1. Nature of Business and Summary of Significant Accounting Policies**

*Nature of Business*

Datone, Inc. is currently a provider of both privately owned and company owned payphones (COCOT's) and stations in New York. The Company receives revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, the Company also receives revenues from the service and repair of privately owned payphones, sales of payphone units and the sales of prepaid phone cards.

*Summary of Significant Accounting Policies*

*Management Estimates*

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Concentrations of Credit Risk*

The Company's payphones are located primarily in New York and usage of those phones may be affected by economic conditions in those areas.

The Company maintains cash balances with a financial institution insured by the Federal Deposit Insurance Corporation up to \$100,000. There are no uninsured balances at September 30, 2008.

*Cash and Cash Equivalents*

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents for purposes of classification in the balance sheets and statement of cash flows. Cash and Cash equivalents consists of cash in bank (checking) accounts.

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 1. Nature of Business and Summary of Significant Accounting Policies - Continued**

*Fixed Assets and Depreciation*

Fixed assets are stated at cost. Depreciation is calculated on a straight-line basis over the useful lives of the related assets, which range from five to seven years.

*Income Taxes*

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes are recognized using the asset and liability method by applying tax rates to cumulative temporary differences based on when and how they are expected to affect the tax return. Deferred tax assets and liabilities are adjusted for income tax rate changes.

*Unaudited Interim Financial Statements*

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2008 and for all periods presented have been made.

*Net (Loss) per Common Share*

Net loss per common share has been calculated by taking the net loss for the current period and dividing by the weighted average shares outstanding at the end of the period.

*Revenue Recognition*

The Company derives its primary revenue from the sources described below, which includes dial around revenues, coin collections, and telephone equipment repairs and service. Other revenues generated by the Company include phone card sales, and commissions.

Dial around revenues are generated from calls to gain access to a different long distance carrier than is already programmed into the phone. GAAP (SAB No. 101) requires the Company to recognize revenue when earned. In the past, we were recording the revenue when the money was wire deposited into our account. We are now recording a monthly accrual and adjusting the revenue to actual on a quarterly basis. The revenue is estimated monthly, based on prior quarter's actual receipts. We use prior quarter receipts as estimates because there has not been a significant change to total payphones in the previous few quarters. Also, historical figures have shown the revenue earned is not far different than estimates made. Revenues on commissions, phone card sales, and telephone equipment repairs and service are recognized when the services are provided.

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 1. Nature of Business and Summary of Significant Accounting Policies - Continued***Revenue Recognition – Continued*

The proceeds from the sales of pay telephones and other equipment are excluded from revenues and reported as other income.

**Note 2. Inventory**

Inventory is valued at the lower of cost, determined on the first-in, first-out basis (FIFO), or market value. At September 30, 2008 and December 31, 2007 inventory consists of the following:

	2008	2007
Parts and Accessories	\$ 11,425	\$ 11,425

**Note 3. Commissions and Sales Receivable**

Commissions and Sales Receivable consists of the following at September 30, 2008 and December 31, 2007:

	2008	2007
Commissions Receivable	\$ 15,000	\$ 16,146
Sales Receivable	2,175	1,115
	\$ 17,175	\$ 17,261

**Note 4. Related Party Note**

The Company has three notes payable with Joseph Passalaqua. The notes are due on demand and carry interest ranging from 10% to 18%. The outstanding principal on the notes are \$26,000 at September 30, 2008. The accrued interest was \$1,623 as of September 30, 2008.

As of December 31, 2007 the Company had payables due to USIP.Com, Inc., in the amount of \$66,000. As of September 30, 2008 the outstanding balance was converted to paid in capital.

The Company has rents payable to a related party in the amount of \$284,503 and \$239,503 as of September 30, 2008 and December 31, 2007, respectively.

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 5.****Commitments**

The Company leases office space under an operating lease expiring in December 2009. Rent expense for the period ended September 30, 2008 amounted to \$45,000.

The minimum future rental payments under the operating lease at September 30, 2008 are as follows:

2008	\$ 15,000
2009	\$ 60,000

**Note 6. Major Dial Around Compensation Providers (Commissions)**

The Company received approximately 95% of total dial around and zero-plus compensation (commissions) from two providers.

**Note 7. Income Taxes**

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates.

Net deferred tax assets consist of the following components as of:

	2007	2006
Deferred tax assets		
NOL Carryover	(828,587)	(804,264)
Valuation Allowance	828,587	804,264
Net deferred tax assets	-	-

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations:

	2007	2006
Book Income	(24,323)	(74,192)
Valuation Allowance	24,323	74,192
	-	-

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 7. Income Taxes - Continued**

At December 31, 2007, the Company had net operating loss carry forwards of approximately \$2,110,047 that may be offset against future taxable income through 2027. No tax benefit has been reported in the December 31, 2007, financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating carryforwards for Federal Income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

**Note 8 – Uncertain Tax Provisions**

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of the provisions of FIN 48 did not have a material impact on the company’s financial position and results of operations. At January 1, 2007, the company had no liability for unrecognized tax benefits and no accrual for the payment of related interest.

Interest costs related to unrecognized tax benefits are classified as “Interest expense, net” in the accompanying statements of operations. Penalties, if any, would be recognized as a component of “Selling, general and administrative expenses”. The Company recognized \$0 of interest expense related to unrecognized tax benefits during 2007. In many cases the company’s uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities.

With few exceptions, the company is generally no longer subject to U.S. federal, state, local or non-U.S. income tax examinations by tax authorities for years before 2004. The following describes the open tax years, by major tax jurisdiction, as of January 1, 2007:

United States      2004 – Present  
(a)

(a) Includes federal as well as state or similar local jurisdictions, as applicable.

**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 9. Long-Term Debt**

Long-term debt consists of the following at September 30, 2008 and December 31, 2007 respectively:

	2008	2007
Note Payable to bank in monthly installments of \$261, including interest at 4.5%, through August 2009.	\$ 3,071	\$ 5,492
Note payable to Key Bank bears interest at 9.25% and is due on demand.	4,845	4,845
	7,916	10,337
Less: Current portion	(7,916)	(8,091)
Total	\$ 0	\$ 2,246

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**DATONE, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008 AND DECEMBER 31, 2007**

**Note 10. Going Concern Considerations**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplates the Company as a going concern. However, the Company has sustained substantial operating losses in recent years. The company has a current ratio of .049 for the period ended September 30, 2008, and has a deficit in stockholders' equity. The Companies ability to continue as a going concern is dependent upon obtaining the additional capital as well as additional revenue to be successful in its planned activity. The Company is actively pursuing alternative financing and has had discussions with various third parties, although no firm commitments have been obtained. In the interim, shareholders of the Company have committed to meeting its minimal operating expenses. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide them with the opportunity to continue as a going concern.

These financial statements do not reflect adjustments that would be necessary if the Company were unable to continue as a "going concern". While management believes that the actions already taken or planned, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

If the Company were unable to continue as a "going concern", then substantial adjustments would be necessary to the carrying values of assets, the reported amounts of its liabilities, the reported revenues and expenses, and the balance sheet classifications used.

**Note 11. Pro Forma Earnings Per Share**

The following table outlines what the pro forma earnings per share will be based on the shares of Datone, Inc. that will be distributed in the spin-off transaction.

	For the Nine Months ended September 30, 2008	For the Nine Months ended September 30, 2007
Net Income (Loss)	\$ (117,814)	\$ (63,808)
Shares	4,963,226	4,963,226
EPS	\$ 0.02	\$ 0.01

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **Forward Looking Statements**

Some of the information in this section contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- o discuss our future expectations;
- o contain projections of our future results of operations or of our financial condition;  
and
- o state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

### **Organization and Basis of Presentation**

Datone, Inc. is currently a provider of both privately owned and company owned payphones (COCOT's) and stations in New York. The Company receives revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, the Company also receives revenues from the service and repair of privately owned payphones, sales of payphone units and the sales of prepaid phone cards.

### **Critical Accounting Policies**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. The amounts of assets and liabilities reported in our consolidated balance sheet, and the amounts of revenues and expenses reported for each of our fiscal periods, are affected by estimates and assumptions which are used for, but not limited to, the accounting for allowance for doubtful accounts, goodwill and intangible asset impairments, restructurings, inventory and income taxes. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of our consolidated financial statements.

### **Revenue Recognition**

The Company derives its primary revenue from the sources described below, which includes non-coin revenues, coin collections, and service and repair revenue.

Non-coin call revenue includes commissions from operator service telecommunications companies and commissions for toll free calls from all payphones. The commissions for operator services are paid 45 days in arrears. Dial Around

compensation is billed quarterly and received three and one half months behind the billed quarter. GAAP (SAB No. 101) requires the Company to recognize revenue when earned. The Company records a monthly accrual and adjusts the revenue to actual on a quarterly basis. The revenue is estimated monthly, based on prior quarter's actual receipts. We use prior quarter receipts as estimates because there has not been a significant change to total payphones in the previous few quarters. Also, historical figures have shown the revenue earned is not far different than estimates made.

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Coin calls represent calls paid for by customers who deposit coins into the payphones. Coin call revenue is recorded as the actual amount of coins collected from the payphones.

Service and Repair Sales are billable as soon as the services are rendered for the customer.

## **NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2007**

### Revenue

Our total revenue decreased by \$23,806 or approximately 19.29%, from \$123,404 in the Nine months ended September 30, 2007 to \$99,598 in the Nine months ended September 30, 2008. This decrease was primarily attributable to a decrease in commission revenue. As well as a reduced number of payphones coupled with increased competition from wireless communication service.

Our commissions decreased by \$16,121 or approximately 67.1%, from \$24,026 in the Nine months ended September 30, 2007 to \$7,905 in the Nine months ended September 30, 2008. This decrease was primarily attributable to a lower volume of payphones in our network.

Our coin call revenue decreased by \$419 or approximately 1.43%, from \$28,781 in the Nine months ended September 30, 2007 to \$29,200 in the Nine months ended September 30, 2008. The increase in coin call revenue was primarily attributable to an increase in number of phone calls made.

Our non-coin call revenue, which consists primarily of dial-around revenue increased \$2,030 or approximately 4.57% from \$44,419 in the Nine months ended September 30, 2007 to \$46,449 in the Nine months ended September 30, 2008. This increase was primarily attributed to a higher volume of toll free calling (ex. 1-800,1-888,1-877,1-866 calls in this quarter.

Service and Repair Sales decreased by \$9,296 or approximately 36.09.2% to \$16,463 for the Nine months ended September 30, 2008 from \$25,759 for the same period in 2007. This decrease is due to less payphones to repair and service because the number of payphones have decreased, the number of payphones breaking down and requiring repair is consequently less.

For the Nine months ended September 30, 2008, we have a total of 164 company-owned payphones. We only receive service revenue for company-owned payphones and repair revenue for privately-owned payphones. Some privately-owned payphones represent unprofitable locations that we previously owned but have since sold to the site owner.

### Cost of Revenue

Our overall cost of sales decreased by \$15,556 or approximately 28.1%, from \$55,528 in the Nine months ended September 30, 2007 to \$39,972 in the Nine months ended September 30, 2008. This decrease in our overall cost is primarily due to less depreciation being recorded due to our assets being fully amortized.

Our telecommunication costs decreased by \$2,206 or approximately 5.43% from \$40,613 in the Nine months ending September 30, 2007 to \$38,407 for the Nine months ending September 30, 2008. This was due to some new payphones being installed in new locations. This increase has been offset somewhat by our strategy to remove unprofitable payphones, resulting in lower revenue and commissions and also, lower telecommunication costs.



Our ongoing strategy is to identify and remove unprofitable payphones. Once a low revenue payphone is identified, we offer the site owner an opportunity to purchase the equipment. If the site owner does not purchase the payphone, we remove it from the site

Our contractor's fees decreased by \$2,234 or approximately 100% to \$0 in the Nine months ending September 30, 2008 from \$2,234 for the Nine months ending September 30, 2007. This decrease is due to the decrease in our use of outside contractors.

Depreciation expense decreased by \$11,691 or approximately 95.98% to \$490 in the Nine months ending September 30, 2008 from \$11,181 for the Nine months ending September 30, 2007. This decrease is due to certain assets being fully depreciated and our on going strategy of identifying unprofitable payphones, and selling them to the site owners. Once a payphone is sold to the site owner, it is removed from our assets and depreciation schedules. We own telephone equipment and motor vehicles, which provide a service for a number of years. The term of service is commonly referred to as the "useful life" of the asset. Because an asset such as telephone equipment or motor vehicle is expected to provide service for many years, it is recorded as an asset, rather than an expense, in the year acquired. A portion of the cost of the long-lived asset is reported as an expense during the cost of an asset to expense over its life in a rational and systematic manner.

Our cost of sales for repairs and service supplies decreased in the Nine months ending September 30, 2008 by \$242 or approximately 100% to \$0 from \$242 for the Nine months ending September 30, 2007. This decrease in repairs and service cost is a direct result of using less material to repair phones.

Our cost of sales for travel decreased in the Nine months ending September 30, 2008 by \$1,646 or approximately 100% to \$0 from \$1,646 for the Nine months ending September 30, 2007. This decrease in travel cost is a direct result of having to travel less to repair phones.

Our commissions expense increased by \$817 or approximately 316.67% to \$1,075 in the Nine months ending September 30, 2008 from \$258 for the Nine months ending September 30, 2007.

#### Operating Expenses

Operating expenses increased by \$14,728 or approximately 10.31% to \$157,596 for the Nine months ended September 30, 2008 compared to \$142,868 for the same period in 2007. This was due to the fees we pay our accountants and attorneys for performing they're services.

Salaries and related payroll taxes increased by \$10,736 or approximately 39.68% to \$37,791 for the Nine months ended September 30, 2008 compared to \$27,055 for the same period in 2007. This increase is due to employee taking payroll on a regular basis.

Our insurance expense decreased by \$4,739 or approximately 46.16% to \$5,527 for the Nine months ended September 30, 2008 compared to \$10,266 for the same period in 2007. This decrease was due to decreases in premiums.

Rent decreased by \$277 or approximately .61% to \$45,000 for the Nine months ended September 30, 2008 compared to \$45,277 for the same period in 2007. This decrease is due to a new lease signed in 2007.

Professional fees increased by \$47,715 or approximately 849.93% to \$53,329 for the Nine months ended September 30, 2008 compared to \$5,614 for the same period in 2007. These are fees we pay to accountants and attorneys throughout the year for performing various tasks.

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Bad debt expense decreased by \$44,320 or approximately 100% to \$0 for the Nine months ended September 30, 2008 compared to \$44,320 for the same period in 2007. These were receivables written off that were deemed uncollectible.

Our telephone, utilities, office, and vehicle expenses, together account for a increase of \$5,236 or approximately 62% from \$13,616 for the Nine months ended September 30, 2008 compared to \$8380 for the same period in 2007.

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Interest Expense

Interest expense, net, decreased \$2,701 or approximately 12.01% for the Nine months ended September 30, 2008 to \$19,784 from \$22,485 for the Nine months ended September 30, 2007. This decrease was due to less interest-rate debt.

Net Loss from Operations

We had net loss of \$117,814 for the Nine months ended September 30, 2008 as compared to a net loss after taxes of \$63,808 for the Nine months ended September 30, 2007. This decrease was primarily due to a increase in operating expenses for the year ended September 30, 2008. The increases were related to rent and professional fees, this will remain consistent in future years.

*LIQUIDITY AND CAPITAL RESOURCES*

September 30, 2008 Compared with December 31, 2007

Our primary liquidity and capital resource needs are to finance the costs of our operations, to make capital expenditure.

As of September 30, 2008, we had \$0 cash on hand, compared to \$0 as of September 30, 2007.

We believe that we will continue to need investing and financing activities to fund operations.

Net cash used in operating activities was \$158,050 during the Nine-month period ended September 30, 2008, mainly representative of the net loss incurred during 2008. Cash was used in operations. This compares to net cash used in operating activities of \$93,415 for the Nine-month period ended September 30, 2007 which resulted from a decrease in accounts payable and related party. The Company used cash to pay down AP and Related party payables.

Net cash provided by investing activities was \$0 during Nine-month period ended September 30, 2008. This compares to net cash provided by investing activities of \$34,233 for the Nine-month period ended September 30, 2007, mainly representing the proceeds received from the sale of telephone equipment.

Net cash provided by financial activities was \$158,050 during Nine-month period ended September 30, 2008, mainly representing the proceeds from notes and related party payables. This compares to net cash used by financing activities of \$59,182 the Nine-month period ended September 30, 2007 due to payments on notes and related party payables.

Our expenses to date are largely due to rents for the office space and the cost of sales for telephone communication costs.

We believe that our results of financing activities will provide us with the necessary funds to satisfy our liquidity needs for the next 6 months. To the extent that such funds are insufficient, our principal stockholder has agreed to fund our operations for the next Nine-month period and beyond in the form of a loan or loans. However, there is no formal agreement with our principal stockholder, Greenwich Holdings LLC in writing or otherwise to do so and accordingly may not be enforced against Greenwich Holdings, Inc. in the event that it decides not to continue to fund the Company.

Working Capital

As of September 30, 2008, we had total assets of \$34,432 and total liabilities of \$577,912, which result in working deficit of \$(549,312) as compared to total assets of \$35,045 and total liabilities of \$542,685 resulting in a working deficit of \$(511,718) as of September 30, 2007.

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**THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2007**

Revenue

Our total revenue decreased by \$9,061 or approximately 22.83%, from \$39,685 in the three months ended September 30, 2007 to \$30,624 in the three months ended September 30, 2008. This decrease was primarily attributable to a decrease in commission revenue. Also a decrease in the number of payphones we operated coupled with the increased competition from wireless services.

Our commissions increased by \$913 or approximately 47.92%, from \$1,906 in the three months ended September 30, 2007 to \$2,819 in the three months ended September 30, 2008. This increase was primarily attributable to a higher call volume on the operator service traffic.

Our coin call revenue decreased by \$1,070 or approximately 10.37%, from \$10,320 in the three months ended September 30, 2007 to \$9,250 in the three months ended September 30, 2008. The decrease in coin call revenue was primarily attributable to a decreased number of phones resulting in decrease in revenue..

Our non-coin call revenue, which consists primarily of dial-around revenue, decreased \$6,351 or approximately 33.60% from \$18,900 in the three months ended September 30, 2007 to \$12,549 in the three months ended September 30, 2008. This decrease was primarily attributed to a change in the accrual method based on actual receipts received in the previous year,

Service and Repair Sales decreased by \$2,553 or approximately 29.83% to \$6,006 for the three months ended September 30, 2008 from \$8,559 for the same period in 2007. This decrease is due to less payphones to repair and service because the number of payphones have decreased, the number of payphones breaking down and requiring repair is consequently less.

For the three months ended September 30, 2008, we have a total of 164 company-owned payphones. We only receive service revenue for company-owned payphones and repair revenue for privately-owned payphones. Some privately-owned payphones represent unprofitable locations that we previously owned but have since sold to the site owner.

Cost of Revenue

Our overall cost of sales decreased by \$12,685 or approximately 57.19%, from \$22,182 in the three months ended September 30, 2007 to \$9,497 in the three months ended September 30, 2008. This decrease was primarily attributable to a decrease in commission revenue. This decrease in our overall cost is primarily due to less depreciation being recorded due to our assets being fully amortized.

Our telecommunication costs decreased by \$7,818 or approximately 46.88% from \$16,678 in the three months ending September 30, 2007 to \$8,860 for the three months ending September 30, 2008. This was due to some new payphones being installed in new locations. This decrease is due to lower telecommunication costs.

Our ongoing strategy is to identify and remove unprofitable payphones. Once a low revenue payphone is identified, we offer the site owner an opportunity to purchase the equipment. If the site owner does not purchase the payphone, we remove it from the site. At the same time, our plan is to continue to look out for ideal locations with high traffic to install our payphones, which is evidenced by our increased telecommunication costs as a result of installing new phones for the three months ended September 30, 2008 over the same period in 2007.

Our contractor's fees decreased by \$880 or approximately 100% to \$0 in the three months ending September 30, 2008 from \$880 for the three months ending September 30, 2007. This decrease is due to the decrease in our use of outside contractors.

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Depreciation expense decreased by \$5,026 or approximately 96.84% to \$164 in the three months ending September 30, 2008 from \$5,190 for the three months ending September 30, 2007. This decrease is due to certain assets being fully depreciated and our on going strategy of identifying unprofitable payphones, and selling them to the site owners. Once a payphone is sold to the site owner, it is removed from our assets and depreciation schedules. We own telephone equipment and motor vehicles, which provide a service for a number of years. The term of service is commonly referred to as the "useful life" of the asset. Because an asset such as telephone equipment or motor vehicle is expected to provide service for many years, it is recorded as an asset, rather than an expense, in the year acquired. A portion of the cost of the long-lived asset is reported as an expense during the cost of an asset to expense over its life in a rational and systematic manner.

Our cost of sales for travel increased in the three months ending September 30, 2008 by \$19 or approximately 100% to \$19 from \$ 0 for the three months ending September 30, 2007. This increase in travel cost is a direct result of having to travel to repair phones.

Our commissions expense increased by \$473 or approximately 473% to \$473 in the three months ending September 30, 2008 from \$0 for the three months ending September 30, 2007. This increase was due a new location who receives a monthly commission.

#### Operating Expenses

Operating expenses decreased by \$6,392 or approximately 10.18% to \$56,391 for the three months ended September 30, 2008 compared to \$62,783 for the same period in 2007. This was due to fees we pay our accountants and attorneys throughout the year.

Salaries and related payroll taxes increased by \$3,387 or approximately 43.74% to \$11,131 for the three months ended September 30, 2008 compared to \$7,744 for the same period in 2007. This increase is due to an increase in salary.

Our insurance expense decreased by \$7,086 or approximately 105.07% to \$(342) for the three months ended September 30, 2008 compared to \$6,744 for the same period in 2007.

Rent decreased by \$30,071 or approximately 66.72% to \$15,000 for the three months ended September 30, 2008 compared to \$45,071 for the same period in 2007. This decrease is due to a new lease signed in 2007.

Professional fees increased by \$23,187 or approximately 1320.12% to \$23,356 for the three months ended September 30, 2008 compared to \$169 for the same period in 2007. These are fees we pay to accountants and attorneys throughout the year for performing various tasks.

Our telephone, utilities, office, and vehicle expenses, together account for a increase of \$3,187 or approximately 108 % from \$2,940 for the three months ended September 30, 2008 compared to \$6,127 for the same period in 2007.

#### Interest Expense

Interest expense, net, increased \$2,022 or approximately 35.63% for the three months ended September 30, 2008 to \$7,697 from \$5,675 for the three months ended September 30, 2007. This increase was due to higher interest-rate debt.

#### Net Loss from Operations

We had net loss of \$42,961 for the three months ended September 30, 2008 as compared to a net loss after taxes of \$50,955 for the three months ended September 30, 2007. This decrease was primarily due to an increase in operating expenses for the year ended September 30, 2008. The increases were related to rent and professional fees, this will remain consistent in future years.

**Item 3. Quantitative and Qualitative Disclosure About Market Risks.**

Not Applicable.

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#### **Item 4. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended the ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

(b) Changes in internal controls.

There have been no significant changes in our internal controls or other factors that could significantly affect such controls and procedures subsequent to the date we completed our evaluation. Therefore, no corrective actions were taken.

## **PART II - OTHER INFORMATION**

#### **Item 1. Legal Proceedings.**

To the best knowledge of the Company's officers and directors, the Company is currently not a party to any pending legal proceedings.

#### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors previously disclosed under item 1 of the Company's Registration Statement on Form SB as initially filed with the United States Securities and Exchange Commission on February 1, 2008.

#### **Item 2. Unregistered sales of Equity Securities and Use of Proceeds.**

None.

#### **Item 3. Defaults Upon Senior Securities.**

None.

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

None.

#### **Item 5. Other Information.**

None.



**Item 6. Exhibits.**

(a) Exhibits:

\*3.1 Certificate of Incorporation.

\*3.2 By-Laws.

31.1 Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002.

32.1 Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002.

32.2 Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002.

\* Filed as an exhibit to the Company's Registration Statement on Form SB, as initially filed with the Securities and Exchange Commission on February 1, 2008, and incorporated herein by this reference.

**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, there unto duly authorized.

Dated: November 12 , 2008

**DATONE, INC.**

By: /s/ Craig Burton  
Craig Burton  
President, Chief Executive  
Officer