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INNOFONE COM INC
Form 10QSB
May 21, 2004

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

(Mark One)

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

For the quarterly period ended March 31, 2004

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 registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

3470 Olney-Laytonsville Rd., Suite 118, Olney, MD

(Address of principal executive office)

98-0202313

(I.R.S. Employer Identification No.)

20832

(Zip Code)

(301) 774-8294

(Registrant's telephone number, including area code)

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

The number of shares outstanding of each of Issuer's classes of common equity as of December 31, 2002.

Common Stock at Par Value \$0.001

6,002,892

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| Title of Class | Number of Shares | |
|---|------------------|-------|
| Transitional Small Business Disclosure Format | yes | no X |
| | ----- | ----- |

This document is made up of 15 pages.

INNOFONE.COM, INC.

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PART I - FINANCIAL STATEMENTS

Item 1. Financial Statements

(Stated in United States dollars)

I N N O F O N E . C O M ,
I N C O R P O R A T E D

For the quarter ended March 31, 2004
(Unaudited)

INNOFONE.COM, INCORPORATED

(Stated in United States dollars)

March 31, 2004 with comparative figures as at March 31, 2003

| | March 31, 2004 | March 31, 2003 |
|---|----------------|----------------|
| | (unaudited) | (unaudited) |
| Assets | | |
| Current assets: | | |
| Prepaid expenses and deposits | \$ 0 | \$ 0 |
| | | 0 |
| Investment in 908651 Alberta Ltd. | 210,000 | 210,000 |
| | \$ 210,000 | \$ 210,000 |
| Liabilities and Shareholders' Deficiency | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 212,572 | \$ 0 |
| Due to officers and directors | 0 | 300,000 |
| | 212,572 | 300,000 |
| Shareholders' deficiency: | | |
| Share capital (note 2): | | |
| Common shares | 4,877,319 | 4,854,522 |

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| | | |
|-------------------------------|--------------|--------------|
| Preferred shares | 1,250 | 1,250 |
| Additional paid-in capital | 8,941,423 | 7,841,593 |
| ----- | | |
| | 13,819,992 | 12,697,365 |
| Deficit | (13,822,564) | (13,436,637) |
| ----- | | |
| | (2,572) | (90,000) |
| Future operations (note 1(a)) | | |
| Subsequent event (note 5) | | |
| ----- | | |
| | \$ 210,000 | \$ 210,000 |
| ===== | | |

See accompanying notes to financial statements.

INNOFONE.COM, INCORPORATED

(Stated in United States dollars)

For the three months ended March 31, 2004 with comparative figures for the three months ended March 31, 2003.

| | Three months ended | |
|--|--------------------|----------------|
| | March 31, 2004 | March 30, 2003 |
| | (unaudited) | (unaudited) |
| Sales | \$ - | \$ - |
| Cost of sales | - | - |
| ----- | | |
| Gross profit | - | - |
| Forgiveness of debt | 104,000 | - |
| Selling, general and administrative expenses | - | 800,000 |

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| | | |
|--|-----------|-----------|
| | 104,000 | 800,000 |
| Net income (loss) | 104,000 | 0 |
| Basic net loss per share | \$ nil | \$ nil |
| Weighted average number of common shares outstanding | 4,955,891 | 6,002,892 |

See accompanying notes to financial statements.

INNOFONE.COM, INCORPORATED

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

Three months ended March 31, 2004 with comparative figures for the three months ended March 31, 2003

| Common shares | Preferred shares | Additional paid-in capital | Common share purchase warrants | Deficiency |
|---------------|------------------|----------------------------|--------------------------------|------------|
|---------------|------------------|----------------------------|--------------------------------|------------|

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| | | | | | |
|---|-----------|----------|--------------|------|--------------|
| Balance June 30, 2001 | 4,772,715 | 1,250 | 7,098,052 | - | (13,654,8 |
| Convertible notes converted to stock | 520 | | 415,480 | - | |
| Stock options exercised | 475 | - | (427) | - | |
| Issuance of stock for equipment | 146 | - | 7,154 | - | |
| Issuance of stock for Digital Micro Distribution Canada Inc. | 67,000 | - | - | - | |
| Convertible notes converted to stock | 666 | | 199,334 | | |
| Net earnings | | | | | 335,9 |
| Balance, June 30, 2002 | 4,841,522 | 1,250 | 7,719,593 | - | (13,318,9 |
| Net loss for the three months ended March 30, 2003 | | | | | (117,7 |
| Stock issued for debt conversations | 2,300 | | 647,700 | | |
| Stock issued for legal services | 500 | | 1,887 | | |
| Stock issued for consulting | 26,378 | | 180,932 | | |
| Balance, June 30, 2003 | 4,870,788 | \$ 1,250 | \$ 8,550,112 | \$ - | \$ (13,436,6 |
| Stock issued for consulting | 4,031 | | 143,811 | | |
| Stock issued to director | 2,500 | | 247,500 | | |
| Net loss | | | | | |
| Balance March 31, 2004 | 4,877,319 | 1,250 | 8,941,423 | | |

See accompanying notes to financial statements.

INNOFONE.COM, INCORPORATED

Statement of Changes in Financial Position
(Stated in United States dollars)

For the quarter ended March 31, 2004 with comparative figures for the three months ended
March 30, 2003

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| | March 31, 2004 | March 30, 2003 |
|--|----------------|----------------|
| | (unaudited) | (unaudited) |
| Cash flows provided by (used in): | | |
| Operations: | | |
| Net earnings (loss) | \$ 104,000 | \$ 0 |
| Change in non-cash operating working capital | | |
| Prepaid expenses and deposits | 0 | 0 |
| Accounts payable and accrued liabilities | (104,000) | 0 |
| | 0 | 0 |
| Financing: | | |
| Due to officers and directors | - | 300,000 |
| | - | 300,000 |
| Increase (decrease) in cash and cash equivalents | nil | nil |
| Cash and cash equivalents, beginning of period | nil | nil |
| Cash and cash equivalents, end of period | \$ nil | \$ nil |

See accompanying notes to financial statements

1. BASIS OF PRESENTATION

Going Concern Issue

These financial statements have been prepared on a going concern basis and do not include any adjustments to the measurement and classification of the recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The company has experienced several continuous years of operating losses. The Company's ability to realize its assets and discharge its liabilities in the normal course of business is dependent upon continued support. The Company is also dependent on an infusion of equity from potential shareholders. The Company is currently attempting to obtain additional financing from its existing shareholders and other strategic investors to continue its operations. However, there can be no assurance that the Company will obtain sufficient additional funds from these sources.

The conditions cause substantial doubt about the Company's ability to continue as a going concern. A failure to continue, as a going concern would require that stated amounts of assets and liabilities be reflected on a liquidation basis that could differ from the going concern basis.

Bulletin Board Listing

In January 2001, the Company completed a Registration Statement that has been 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 National Association of Securities Dealings over-the-counter Bulletin Board.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States, the more significant of which are outlined below.

Use of Estimates

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

INNOFONE.COM, INCORPORATED
Notes to Financial Statements
(Stated in United States Dollars)
March 31, 2004
=====

Foreign Currency Translation

The Company's reporting currency is the United States dollar because the Company is a United States corporation and it is trading publicly in the United States. The statements of operations are translated into United States dollars using the average exchange rate for the year. The balance sheets are translated into United States dollars using the year-end exchange rate.

Stock Option Plans

The Company applies the fair value based method of accounting prescribed by SFAS No. 123, Accounting for Stock-Based Compensation in accounting for its stock options granted to both employees and non-employees. As such, compensation expense is recorded on the date of grant based on the fair value of the award and is recognized over the service period.

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

3. CAPITAL STOCK

The number of outstanding shares of the Company as at December 31, 2003 is computed as follows:

INNOFONE.COM, INCORPORATED
 Notes to Financial Statements
 (Stated in United States Dollars)
 March 31, 2004

| | Common | Preferred |
|---|---------------|-------------|
| Outstanding Shares as at June 30, 2000 | 20,750,000 | 2,500,000 |
| Shares issued in exchange for legal fees | 1,403,333 | - |
| Options exercised in exchange for marketing costs | 30,000 | - |
| Options exercised | 430,000 | - |
| Promissory notes converted to common stock | 3,851,500 | - |
| Common stock subscribed | 1,000,004 | - |
| Preferred stock to be converted to common stock | 3,750,000 | (1,250,000) |
| Outstanding Shares as at June 30, 2001 | 31,214,837 | 1,250,000 |
| Shares issued in exchange for equipment | 146,000 | - |
| Options exercised | 475,000 | - |
| Shares issued to DMD CANADA shareholders | 67,000,000 | - |
| Shares issued on conversion of debt | 1,186,668 | - |
| Outstanding Shares as at June 30, 2002 | 100,022,505 | 1,250,000 |
| Shares issued in exchange for consulting fees | 23,357,826 | - |
| Shares issued in exchange for legal fees | 500,000 | - |
| Reverse stock split: 175 shares for one share | (123,172,444) | - |
| Share issuance on conversion of debt | 2,300,000 | - |
| Share issuance on exchange for consulting fees | 3,021,800 | - |
| Reverse stock split: 20 shares for one share | (5,728,203) | - |
| Outstanding shares as at June 30, 2003 | 301,484 | 1,250,000 |
| Share issuance for consulting fees | 2,690,028 | - |
| Outstanding shares as at September 30, 2003 | 2,991,512 | 1,250,000 |
| Share issuance for consulting fees | 1,428,758 | - |
| Share issuance for Director | 2,500,000 | - |

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Outstanding shares as at December 31, 2003 6,920,270 1,250,000
=====

The Company's authorized capital stock consists of 950,000,000 shares of common stock and 25,000,000 shares of preferred stock each with a par value of \$0.001 per share. The Company is in the process of increasing the authorized capital for its common shares. The 1,250,000 shares of issued preferred stock are voting, convertible as described further below to shares of common stock on a 3 for 1 basis at the option of the holder based on certain revenue targets being met and participate equally as to dividends with each share of common stock. If after five years the performance criteria have not been met, the remaining shares of preferred stock are convertible into one half of a share of common stock. Any dividends declared and paid by the Company would be declared and paid in United States dollars.

INNOFONE.COM, INCORPORATED
Notes to Financial Statements
(Stated in United States Dollars)
March 31, 2004
=====

3. CAPITAL STOCK (continued)

The remaining 1,250,000 shares of preferred stock can be converted into 3,750,000 shares of common stock when the Company reaches \$7,000,000 Canadian in cumulative revenue. For accounting purposes, the conversion of the shares of preferred stock includes both a non-performance element (equal to one half of the share of preferred stock converted) and a performance element (equal to the balance). If and when additional shares of common stock are issued based upon meeting the performance criteria, the fair value of any such additional shares of common stock will be recognized as a deemed distribution against equity in the period when the performance criteria is met. Until these targets are met, the shares of preferred stock remain outstanding with all rights and restrictions continuing.

Item 2. Management's Discussion and Analysis For the Quarter ended March 31,

2004

Forward-Looking Statements

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 quarter ended March 31, 2004, filed with the SEC on May 19, 2004. This quarterly report includes forward-looking statements within the meaning of 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.

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Forward-looking statements include, but are not limited to:

Our expectations regarding collectable receivables from Innofone Canada is low.

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-QSB might not occur. Readers should carefully review the risk factors described in the previously filed Form 10-KSB and in any other documents the Company files from time to time with the Securities and Exchange Commission, including any future Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB.

Overview

Innofone.com Inc. currently operates out of Maryland with mailing address of 3470 Olney-Laytonsville Rd., Suite 118, Olney, MD 20832.

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The Company currently does not have sufficient funds with which to sustain its operations. The company plans to issue restricted 144 stock to try and raise operating capital for the company. There is no assurance that this can be done. There is little chance that the company will receive a dividend from the bankruptcy of its previously owned subsidiary, Innofone Canada.

The Company is currently reviewing and implementing new disclosure controls and procedures to ensure that they fully comply with the new Securities Exchange Act Rules 13a-15 and 15d-15.

- (a) Plan of Operations
- (b) Acquisitions
- (c) Future

The company plans to look for new acquisitions and will not invest or operate any current or previously owned subsidiaries.

The company has relocated to Maryland and may change it's offices again if the company is successful in finding a new acquisition.

The Company currently has a going concern issue, as there are insufficient assets or prospective cash flows to fund its liabilities. While the Company is hopeful that it can raise money through the sail of stock, there are no assurances that this can be achieved, it cannot be determined if the company will be able to meet its current or future obligations.

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Due to the going concern issues and lack of sufficient operating funds, Mr Richardson is currently funding operations.

(b) Results of Operations

As reflected in the company's statement of operations the company has recorded no sales for the year and the company does not currently conduct any operations.

The company has paid off old debt holders with stock pursuant to the terms of a 2001 agreement. The current officers and directors are covering all expenses of the company via short-term loans and advances which have been and will continue to be paid off in stock until the company has the cash flow to cover these expenses. These services include the preparation of company filings, the search of acquisition targets and legal expenses.

Liquidity and Capital Resources

As previously mentioned, the company has a going concern issue, as there are insufficient assets or prospective cash flows to fund its liabilities. The effect of this on the company is grave and the future of the company is in great peril.

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PART II - OTHER INFORMATION.

Item 1. Legal Proceedings.

There are currently no legal proceedings against the company at this time.

Item 2. Change in Securities.

The company issued an additional 3,928,758 shares in the second quarter in exchange for consulting services and directors' fees.

Item 3. Defaults Upon Senior Securities.

There was no material default in payments of any Senior Securities it has all been paid in full with stock.

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

There were no matters requiring a vote of security holders during this period.

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Item 5. Other Information.

The company has paid off old debt pursuant to the terms of 2001 agreement. The company continues to pay officers and directors in stock. The company is looking for a viable acquisition and is in discussions with several candidates.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INNOFONE.COM, INC.

Date: May 19, 2004

By: /s/ Frederic Richardson

Frederic Richardson, President

