

OWNERTEL INC  
Form 10QSB  
November 13, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-QSB**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2002

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 333-66360

**OWNERTEL, INC.**

(Exact name of small business issuer in its charter)

**Georgia**

(State or other jurisdiction of  
incorporation or organization)

**58-2634747**

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

**1413 S. Howard Ave., Suite 209, Tampa, Florida**

(Address of principal executive offices)

**33606**

(Zip code)

**(813) 253-3353**

(Issuer's telephone number, including area code)

**2870 Peachtree Rd., #176, Atlanta, GA 30305**

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

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 requirements for the past 90 days. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the Issuer's Common Stock outstanding as of November 13, 2002 was 20,128,886.

Transitional Small Business Disclosure Format (check one): Yes  No **PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****OWNERTEL, INC.****Consolidated Balance Sheet****Unaudited**

	<u>September 30, 2002</u>	<u>December 31, 2001</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 22,361	\$ 105
Accounts receivable	15,733	
Prepaid expenses	156,275	35,844
	<u>                    </u>	<u>                    </u>
Total current assets	194,369	35,949
Goodwill	667,500	667,500
	<u>                    </u>	<u>                    </u>
	\$ 861,869	\$ 703,449
	<u>                    </u>	<u>                    </u>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
Current liabilities		
Notes payable	\$ 44,000	\$ 45,000
Accounts payable	91,006	73,260
Accrued interest	2,743	19,657
Other accrued expenses	14,000	1,000
	<u>                    </u>	<u>                    </u>
Total current liabilities	151,749	138,917
	<u>                    </u>	<u>                    </u>
Minority interest	8,748	
Stockholders' equity (deficit)		
Preferred stock, \$.001 par value, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, \$.001 par value, 100,000,000 shares authorized, 18,427,886 issued and outstanding at September 30, 2002 and 17,138,000 issued and outstanding at December 31, 2001		
	18,428	17,138
Additional paid-in capital	3,997,760	3,017,965
Stock subscription receivable	(2,000)	(2,000)
Deficit accumulated in the developmental stage	(3,312,816)	(2,468,571)

	September 30, 2002	December 31, 2001
Total stockholders' equity	701,372	564,532
Commitments and contingencies	\$ 861,869	\$ 703,449

See accompanying notes to unaudited financial statements.

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**OWNERTEL, INC.**

**Consolidated Statement of Operations**

	Unaudited			
	Three Months Ended		Nine Months Ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Revenues	\$ 72,712	\$ 72,712	\$ 72,712	\$ 72,712
Cost of revenues	11,800	11,800	11,800	11,800
Gross profit	60,912	60,912	60,912	60,912
Expenses				
General and administrative	61,093	2,328,713	893,823	2,328,713
Operating loss	(181)	(2,328,713)	(832,911)	(2,328,713)
Interest expense	1,100	2,586	2,586	2,586
Loss before minority interest	(1,281)	(2,328,713)	(835,497)	(2,328,713)
Minority interest	8,748	8,748	8,748	8,748
Net loss and comprehensive loss	\$ (10,029)	\$ (2,328,713)	\$ (844,245)	\$ (2,328,713)
Basic and diluted earnings per share	\$ (0.00)	\$ (0.14)	\$ (0.05)	\$ (0.14)
Weighted average shares outstanding	18,427,886	17,088,000	17,998,141	17,088,000

See accompanying notes to unaudited financial statements.

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**OWNERTEL, INC.**

## Consolidated Statement Of Changes In Stockholders' Equity

## Unaudited

	Common Stock		Additional paid-in capital	Accumulated deficit	Stock subscription receivable	Total
	Shares	Amount				
Balances, beginning		\$	\$	\$	\$	\$
Issuance of stock in formation of company, July 2, 2001	15,093,000	15,093	(13,093)		(2,000)	
Services contributed in formation of company			2,323			2,323
Services contributed by stockholder			780			780
Issuance of stock in exchange for services	1,573,333	1,573	2,340,927			2,342,500
Issuance of stock in connection with acquisition	445,000	445	667,055			667,500
Issuance of stock in exchange for cash	26,667	27	19,973			20,000
Net loss and comprehensive loss				(2,468,571)		(2,468,571)
Balances, December 31, 2001	17,138,000	17,138	3,017,965	(2,468,571)	(2,000)	564,532
Services contributed by stockholder			1,170			1,170
Issuance of stock in exchange for services	946,000	946	708,554			709,500
Issuance of stock in exchange for cash, net of offering costs	703,886	704	269,711			270,415
Stock issued in exchange for services later canceled	(360,000)	(360)	360			
Net loss and comprehensive loss				(844,245)		(844,245)
Balance, September 30, 2002	18,427,886	\$ 18,428	\$ 3,997,760	\$ (3,312,816)	\$ (2,000)	\$ 701,372

See accompanying notes to unaudited financial statements.

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## OWNERTEL, INC.

## Consolidated Statement of Cash Flows

## Unaudited

	Nine Months Ended	
	Sept. 30, 2002	Sept. 30, 2001
Cash from operating activities		
Net loss	\$ (844,245)	\$ (2,328,713)
Stock issued in exchange for services	709,500	2,325,000
Services contributed in formation of Company		3,323
Services contributed by stockholder	1,170	390
Minority interest	8,748	
Adjustments to reconcile net loss to net cash provided by operating activities:		
Increase in accounts receivable	(15,733)	
Increase in prepaid expenses	(120,431)	

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	<u>Nine Months Ended</u>	
Increase in accounts payable	17,746	
Decrease in accrued expenses	(3,914)	
	<u>          </u>	<u>          </u>
Net cash used in operating activities	(247,159)	
	<u>          </u>	<u>          </u>
Cash from financing activities		
Proceeds from notes payable	37,500	
Repayments of notes payable	(38,500)	
Proceeds from issuance of common stock	270,415	
	<u>          </u>	<u>          </u>
Net cash provided by financing activities	269,415	
	<u>          </u>	<u>          </u>
Net increase in cash and cash equivalents	22,256	
Cash and cash equivalents, beginning of period	105	
	<u>          </u>	<u>          </u>
Cash and cash equivalents, end of period	\$ 22,361	\$
	<u>          </u>	<u>          </u>

No income taxes or interest were paid during the period.

See accompanying notes to unaudited financial statements.

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**OWNERTEL, INC.**  
**Notes to Consolidated Financial Statements**

**Unaudited**

**(1) Summary of Significant Accounting Policies and Practices**

*(a) Basis of Presentation*

The accompanying financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, as filed with the Securities and Exchange Commission (File No. 333-66360).

In August 2002, OwnerTel, formerly a development stage company, formed K2 Network, Inc. ("K2") to market the Company's website and debit card products in addition to its telecommunication products. The Company owns 60% of K2. The accompanying financial statements include the accounts of K2 since inception. All intercompany balances and transactions have been eliminated in consolidation.

**(2) Stockholders' Equity**

*Common Stock*

In connection with its Initial Public Offering, the Company issued 605,113 shares of its common stock at \$0.75 per share. Net proceeds to the Company after offering costs were approximately \$196,335 in the period ended March 31, 2002.

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From January 2002 to March 2002, the Company issued 696,000 shares of its common stock in exchange for services performed by various consultants and recorded a charge of \$418,125 in the period ended March 31, 2002, prepaid expenses of \$84,375 for services to be performed and payment of accrued interest of \$19,500.

From April 2002 to June 2002, the Company issued 250,000 shares of its common stock in exchange for services performed by various consultants and recorded a charge of \$187,500 in the three months ended June 30, 2002.

From May 2002 to June 2002, the Company issued 98,773 shares of its common stock at \$0.75 per share in connection with a private placement. Net proceeds to the Company were approximately \$74,080 in the three months ended June 30, 2002.

### (3) Uncertainties

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company is in the early stages of implementing its business plan and has not yet established sources of revenues sufficient to achieve profitability and pay current operating expenses. Management intends to provide the necessary operating capital through sales of its common stock and growth of sales of its telecommunication services. The ability of the Company to continue as a going concern during the next year depends on the successful completion of the Company's efforts to raise capital and grow sales of its telecommunication services. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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## Item 2. Management's Discussion and Analysis or Plan of Operation.

### Forward-Looking Statements

From time to time, we include some forward-looking statements that involve substantial risks and uncertainties and other factors which may cause our operational and financial activity and results to differ from those expressed or implied by these forward-looking statements. In many cases, you can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," "plan," "intend" and "continue," or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial condition, or state other "forward-looking" information.

You should not place undue reliance on these forward-looking statements. The sections captioned "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Plan of Operations," as well as any cautionary language, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

In this Report, "Company," "OwnerTel," "we," "us," "our," and "ours" refer to OwnerTel, Inc.

### Plan of Operation

We are currently in the early stages of implementing our business plan and have not yet established sources of revenues sufficient to achieve profitability and pay current operating expenses. We intend to provide the necessary operating capital through sales of our common stock and growth of sales of our telecommunication services.

### Liquidity and Capital Resources

At September 30, 2002, OwnerTel had working capital of \$42,620. We anticipate that we will have a working capital deficit throughout the startup phase of operations. OwnerTel expects to receive revenues from local and long distance and internet services provided to its own customers and from commissions under a certain marketing agreement with TransNet Connect, Inc. Our operating expenses consist primarily of costs of local and long distance and internet services, salaries and wages, commissions, payroll taxes, telephone expense, office expense and other miscellaneous expenses. Salaries and wages and the related payroll taxes for OwnerTel's two employees are estimated to be approximately \$150,000 per year. OwnerTel's two employees have agreed to forego their salary until such time as we have raised \$250,000. Commissions are paid to agents of OwnerTel only after the cash has been received for the services sold by the agents. The other expenses of OwnerTel are estimated to be less than \$30,000 per year.

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We raised net proceeds in our Initial Public Offering of approximately \$236,000. Management expects these net proceeds, in addition to cash flow generated from operations, will be sufficient to pay all costs and expenses excluding salaries and wages and related payroll taxes through December 31, 2003. For the foreseeable future, most, if not all, of our operating expenses are believed to be variable expenses, which will increase or decrease in connection with our volume of business. These expenses include, but are not limited to, local and long distance telephone expense, office supplies and other miscellaneous expenses. We believe that our revenues less the costs of our revenues and commissions payable will be sufficient to cover our variable expenses. However, there can be no assurance that our revenue less the cost of our revenue and commissions payable will be sufficient to cover these variable expenses.

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### **Inflation**

Management does not believe that inflation will have a material effect on operating results. Although increases in long distance and telecommunication services and other operating costs could adversely affect our operations, we believe that we will be able to modify our operating procedures or increase prices to offset increases in its operating costs.

### **Controls and Procedures**

(a) Evaluation of disclosure controls and procedures. Within 90 days before filing this report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are the controls and other procedures that the Company has designed to ensure that it records, processes, summarizes and reports in a timely manner the information the Company must disclose in its reports filed under the Securities Exchange Act. William G. Head, III, President and Elizabeth Crews, Chief Financial Officer, reviewed and participated in this evaluation. Base on this evaluation, Mr. Head and Ms. Crews concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective.

(b) Internal controls. Since the date of the evaluation described above, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect those controls, including any corrective actions with regard to significant deficiencies an material weakness.

## **PART II OTHER INFORMATION**

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

The Company is not currently a party to any legal proceedings.

### **Item 2. Changes in Securities.**

None.

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

None.

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

No matters were submitted to a vote of the Company's stockholders during the third quarter ended September 30, 2002.

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

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Effective September 21, 2002 the Company and TransNet Connect, Inc. agreed to amend the Option and Services Agreement, dated September 21, 2001, to extend the term of the option grant until December 31, 2002.

**Item 6. Exhibits and Reports on Form 8-K.**

- (a)
- Exhibits
    - 10.1 First Amendment to Option and Services Agreement
    - 99.1 Certification of Periodic Report
    - 99.2 Certification of Periodic Report
- (b)
- Reports on Form 8-K
  - None.

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**SIGNATURES**

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

OWNERTEL, INC.

Date: November 13, 2002

By:

/s/ WILLIAM G. HEAD, III

William G. Head, III  
*President*

Date: November 13, 2002

By:

/s/ ELIZABETH CREWS

Elizabeth Crews  
*Chief Financial and Accounting Officer*

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-QSB of OwnerTel, Inc. for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof, I, William G. Head, III, Chief Executive Officer of registrant, certify, pursuant to 18



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U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002, that:

- (1) I have reviewed this quarterly report on Form 10-QSB of OwnerTel, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of registrant as of, and for, the periods presented in this quarterly report; and
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By:

/s/ WILLIAM G. HEAD, III

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William G. Head, III  
Chief Executive Officer

This certification accompanies this Quarterly Report on Form 10-QSB pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-QSB of OwnerTel, Inc., for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof, I, Elizabeth Crews, Chief Financial Officer of registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002, that:

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(1) I have reviewed this quarterly report on Form 10-QSB of OwnerTel, Inc.;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of registrant as of, and for, the periods presented in this quarterly report; and

(4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002

By:

/s/ ELIZABETH CREWS

\_\_\_\_\_  
Elizabeth Crews  
Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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### QuickLinks

#### PART I. FINANCIAL INFORMATION

##### Item 1. Financial Statements.

##### OWNERTEL, INC. Consolidated Statement of Cash Flows Unaudited

Item 2. Management's Discussion and Analysis or Plan of Operation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Item 2. Changes in Securities.

Item 3. Defaults Upon Senior Securities.

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

Item 5. Other Information.

Item 6. Exhibits and Reports on Form 8-K.

SIGNATURES

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