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TELECOM COMMUNICATIONS INC
Form 10QSB
May 20, 2002

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 for the quarterly period ended March 31, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 for the transition period from _____ to _____

COMMISSION FILE NUMBER 333-62236

TELECOM COMMUNICATIONS, INC.

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

Indiana

35-2089848

(State or other jurisdiction of
incorporation or organization)

(IRS Employer identification
No.)

827 S. Broadway, Los Angeles, CA 90014

(Address of principal executive offices)

(213) 489-3486

(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 requirements for the past 90 days. Yes No

Number of shares of common stock outstanding as of
May 18, 2002: 10,000,000

ITEM 1. FINANCIAL STATEMENTS

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TELECOM COMMUNICATIONS, INC.
BALANCE SHEETS
AT MARCH 31, 2002 (UNAUDITED) AND SEPTEMBER 30, 2001

	(Unaudited) March 31, 2002	September 30, 2001
ASSETS		

CURRENT ASSETS		

Cash in banks (Note 4)	\$ 18,918	\$
Inventory (Note 5)	4,000	
TOTAL CURRENT ASSETS	22,918	
	-----	-----
PROPERTY AND EQUIPMENT, NET.	-0-	
	-----	-----
TOTAL ASSETS	\$ 22,918	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES		

Income taxes payable (Note 14)	\$ 8,517	\$
TOTAL CURRENT LIABILITIES.	8,517	
	-----	-----
STOCKHOLDERS' EQUITY (NOTE 15)		

Common stock (\$.001 par value, 80,000,000 shares authorized: 10,000,000 issued and outstanding)	10,000	
Preferred stock (\$.001 par value, 20,000,000 shares authorized: none issued and outstanding).	-0-	
Additional paid-in-capital	-0-	
Retained earnings.	4,401	
TOTAL STOCKHOLDERS' EQUITY	14,401	
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 22,918	\$
	=====	=====

The accompanying notes are an integral part of these financial statements

TELECOM COMMUNICATIONS, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2002 AND 2000

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	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Six Months Ended March 31, 2002	Six Months Ended March 31, 2001
INCOME (NOTE 2):				
Phone calls	\$ 38,801	\$ 65,332	\$ 69,924	\$ 87,430
Lotto tickets (net)	1,624	4,645	3,430	4,645
Bus tokens	97,258	128,191	195,451	240,000
Bus passes	1,573	22,372	3,657	37,000
Checks cashed	2,569	2,863	4,064	5,000
Money grams	1,135	1,158	3,386	2,000
TOTAL	\$ 142,960	\$ 224,561	\$ 279,912	\$ 377,000
COST OF GOODS SOLD				
Phone call costs	18,247	34,995	33,428	45,000
Bus token costs	88,540	127,437	177,985	225,000
Bus pass costs	1,501	21,674	3,499	36,000
TOTAL COST OF SALES	108,288	184,106	214,912	306,000
GROSS PROFIT	\$ 34,672	\$ 40,455	\$ 65,000	\$ 71,000
OPERATING EXPENSES:				
General and administrative	\$ 36,162	\$ 40,360	50,976	52,000
TOTAL EXPENSES	36,162	40,360	50,976	52,000
OPERATING INCOME	(1,490)	95	14,024	18,000
INCOME TAX (PROVISION) BENEFIT	(4,747)	(818)	(8,517)	(2,000)
NET INCOME	\$ (6,237)	\$ (723)	\$ 5,507	\$ 15,000
Net income per common share basic & fully diluted	\$ **	\$ **	\$ **	\$ **
Weighted average common shares outstanding	10,000,000	10,000,000	10,000,000	10,000,000

**Less than \$.01

The accompanying notes are an integral part of these financial statements

TELECOM COMMUNICATIONS, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED MARCH 31, 2002 AND 2001

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	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		

Net income	\$ 5,507	\$ 15,952
Adjustments to reconcile net income to net cash used in operating activities:		
Common stock issued for services	-0-	-0-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses.	(12,509)	2,661
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(7,002)	18,613
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		

Shareholder distributions.	-0-	(20,203)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	-0-	(20,203)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.	(7,002)	(1,590)
	-----	-----
CASH AND CASH EQUIVALENTS:		

Beginning of period.	25,920	2,443
	-----	-----
End of period.	\$ 18,918	\$ 853
	-----	-----

The accompanying notes are an integral part of these financial statements

TELECOM COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2002 (UNAUDITED)

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company's financial position at March 31, 2002, the results of operations for the three and six month periods ended March 31, 2002 and 2001, and cash flows for the six months ended March 31, 2002 and 2001. The results for the period ended March 31, 2002, are not necessarily indicative of the results to be expected for the entire fiscal year ending September 30, 2002.

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NOTE 1. ABOUT THE COMPANY

Telecom Communications of America was founded as a sole proprietorship in 1995 by Michelle Hiromoto with the assistants and management of her father Tak Hiromoto. The purpose of the company was to provide low cost access to long distance carriers for individuals needing to call Latin and South America. The company operates on the Internet as opposed to using conventional long distance carriers to facilitate lower costs that are passed on to the customers. Many of the extra fees that are found in conventional long distance systems are avoided this way. In addition the company also provides various services such as check cashing, money wiring, the sale of bus tokens and passes, and tickets from California Lottery known as Lotto.

NOTE 2. REVENUE RECOGNITION

SAB 101 identifies basic criteria that must be met for revenue recognition. There must be the following items:

- A. Persuasive evidence of an arrangement exists;
- B. Delivery has occurred or service has been rendered.
- C. The seller's price to the buyer is fixed or determinable;
- D. Collectability is reasonably assured.

Except for check cashing, all transactions are done on a cash basis with fixed prices made clear to the buyer prior to the transaction. All products are paid for immediately upon receipt or completion of phone calls. All monies received are not refundable. EITF 99-19 requires that sales recognized on a gross basis be for an item or service where the merchant takes total risk for the product or service as opposed to an agent relationship wherein earnings are simply a commission received as a representative who bears no risk. Phone calls, Bus Passes, and Tokens, are reported at gross while Lotto Tickets, Money Grams and Check Cashing are reported at net. Checks cashed are limited to local individuals known by the owners as local employees with two types of I.D. required. On one occasion \$5,000 worth of checks did bounce which were later determined to be counterfeit.

This incident was isolated and has not been repeated because of the controls being used. For this reason bad checks are minimal. All cashed checks are deposited the same evening and clear the next day so there are no material receivables. There is a fee of 1.7% of the amount cashed.

NOTE 3. ACCOUNTING METHOD

The company uses the accrual method of accounting.

NOTE 4. BANKING POLICY

Funds are kept in two banks so no more than \$100,000 is in any one account.

NOTE 5. INVENTORY VALUATION

The average inventories on any given day are as follows:

Bus Passes	\$ 500
Bus Tokens	2,000
Lotto Scratcher	1,500
Total	<u>\$ 4,000</u>
	=====

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NOTE 6. RECEIVABLES

There are no receivables as all business is done for cash. See Note 2.

NOTE 7. ASSETS

All capitalized assets are fully depreciated while new ones are currently being leased.

NOTE 8. LIABILITIES

There are no loans outstanding and no material payables other than income taxes accrued.

See Note 14.

NOTE 9. LOANS AND LEASES

Although no loans are outstanding, the Company does have a computer lease requiring a monthly payment of \$911.00. This lease is good thru July 1, 2003. Although there is a purchase option at the end of the lease for \$3,600 this is not small enough to be considered a bargain purchase option which would require lease capitalization Statement No. 13 which requires capitalization and depreciation of certain leases. No capitalization of the lease will be done. The Company is also leasing its occupancy thru December 31, 2003. Both obligations are broken down as follows:

Computer Lease				
Balance on	07/01/2001	thru 09/30/2001	\$	2,733
Balance on	10/01/2001	thru 09/30/2002		10,932
Balance on	10/01/2002	thru 07/01/2003		8,199
Total			\$	<u>21,864</u>
				=====

Occupancy Lease				
Balance on	07/01/2001	thru 09/30/2001	\$	5,400
Balance on	10/01/2001	thru 09/30/2002		22,300
Balance on	10/01/2002	thru 09/30/2003		23,500
Balance on	10/01/2003	thru 12/31/2003		6,000
Total			\$	<u>57,200</u>
				=====

NOTE 10. RELATED PARTY TRANSACTIONS

There have been no related party transactions.

NOTE 11. LITIGATION

There is no litigation at this time either threatened or pending.

NOTE 12. PRE-PAID ITEMS AND DEPOSITS

There are no large deposits on any assets or prepaid insurance.

NOTE 13. PAYROLL

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Prior to incorporation there were no payrolls as ownership took draws as any sole proprietorship does. After incorporation the officers will be paid as professional, independent contractors. Therefore, there are no payroll tax issues to be concerned about at this time.

NOTE 14. INCOME TAX PROVISION

Provision for income taxes is based on corporate rates for both state and federal taxes. Corporate rates are used for the statements prior to incorporation for consistency. The rates are calculated as follows:

Federal rates:

The first \$50,000	@	15%	percent.
The next \$25,000	@	25%	percent.
The balance	@	35%	percent.

State rates:

California rate of 9.3%.

NOTE 15. INCORPORATION

On December 21, 2000, the Company was acquired by MAS Acquisition XXI Corp. Following APB No. 16, this type of acquisition is commonly called a "reverse merger" wherein the smaller private operating company, Telecom Communications of America, merges into a non-operating shell corporation, MAS Acquisition XXI Corp., which had no assets, resulting in the owner's/manager's, Tak Hiromoto continuing to have effective operating control of the new combined company, Telecom Communications, Inc. The shareholders of the former shell only continue as passive investors. The accounting was accomplished by adjusting the balance sheet into a corporate style as opposed to a sole proprietorship with simple recognition of the assets and liabilities as they were in the former financial statements of the sole proprietorship. The equity section is adjusted by taking all owner's capital and reclassifying it as Additional Paid in Capital. The Common Stock issued is recognized at its par value of .001 as per the offering. Ten million shares were issued totaling \$10,000 but no cash was received. The offsetting entry is to reduce Additional Paid in Capital by the \$10,000. The financial statements presented here represent the activities of the smaller operating company.

As mentioned, ten million shares have been issued at a par value of .001. A total of 100 million shares are authorized with 80 million as common shares and 20 million as preferred. The preferred stock will not be convertible so once issued no dilution of Earnings per Share will be needed. The company intends to raise additional capital through the issuance of stock to enable it to expand. Management estimates that \$50,000 is needed to move forward the first year. Of the ten million shares issued, nine million were issued to Tak Hiromoto. He then transferred one million shares to Herman Alexis & Co., Inc. for assisting the company. The remaining one million shares are broken down with 977,500 owned by MAS Capital, Inc. and the remaining 22,400 owned by a large number of small investors.

NOTE 16. FACILITATION OF MERGER

The joining of the companies was accomplished by an introduction to MAS Acquisition XXI Corp. by Herman Alexis & Co., Inc. to the Hiromotos. Neither party knew each other before this introduction.

NOTE 17. GOING CONCERN

As mentioned in Note 15, management estimates that \$50,000 is needed to

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effectively expand and operate the company for the first year. Although the company has operated successfully for seven years, ownership draws have produced a capital deficiency that raises substantial doubt about the company's ability to continue as a going concern. The future is unpredictable. The financial statements are presented on the going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The company's ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by entrance into established markets and the competitive environment in which the company operates. The financial statements prepared here have not been adjusted to reflect possible future events and their effect on the recoverability and classification of assets or the amounts and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the company to continue as a going concern.

NOTE 18. EARNINGS PER SHARE

The company calculates net income or Earnings per Share as required by SFAS No. 128. Earnings per share are calculated by dividing net income by the average number of outstanding shares. No shares are convertible so dilution is not an issue.

The following represents the calculation of earnings per share:

	For the three months ended March 31,		For the six months ended March 31,	
BASIC & DILUTED*	2002	2001	2002	2001
-----	-----	----	----	----
Net income	\$ (6,237)	\$ (723)	\$ 5,507	\$ 15,952
Less- preferred stock dividends	--	--	--	--
	-----	-----	-----	-----
Net income	\$ (6,237)	\$ (723)	\$ 5,507	\$ 15,952
Weighted average number of common shares	10,000,000	10,000,000	10,000,000	10,000,000
	-----	-----	-----	-----
Basic & diluted earnings per share	\$ **	\$ **	\$ **	\$ **
	=====	=====	=====	=====

*There were no common stock equivalents for either period presented.

** Less than \$.01

NOTE 19. DEFERRED TAXES

According to SFAS 109, the objectives of accounting for income taxes are to recognize (a) the amount of taxes payable or refundable for a current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statements or tax returns. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carry forwards. Measurements of current and deferred tax liabilities and assets are based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. If a tax deferral occurs, the measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits

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that, based on available evidence, are not expected to be realized. At this time, there are no such deferrals. See Note 14 for calculations of current tax year liabilities based on existing rates.

NOTE 20. SEGMENT REPORTING

Currently the company reports only one segment on the financial statements, as there is only one central location of business and not multiple locations or departments. SFAS 131 defines an operating segment, in part, as a component of an enterprise whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. The chief operating decision maker is not necessarily a single person, but is a function that may be performed by several persons.

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

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Readers of this report are cautioned not to put undue reliance on "forward looking" statements, which are by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

DESCRIPTION OF BUSINESS

Business Development

Telecom Communications Inc. was incorporated on January 6, 1997 in the State of Indiana under the corporate name MAS Acquisition XXI Corp. Prior to December 21, 2000, we were a blank check company seeking a business combination with unidentified business. On December 21, 2000, we acquired Telecom Communications of America which was a sole proprietorship doing business in Los Angeles, California since August 15, 1995 and changed our name to Telecom Communications Inc. In connection with this acquisition, Aaron Tsai, our former sole officer and director was replaced by Telecom Communications of America's owners and associates. We issued 9,000,000 shares of our common stock or 90% of our total outstanding common shares after giving effect to the acquisition. MAS Capital Inc. returned 7,272,400 shares of common stock for cancellation without any consideration.

Our principal executive offices are located at 827 S. Broadway, Los Angeles, CA 90014. Our telephone number is (213) 489-3486.

Overview

Our main business is to provide low cost telephone calls over the Internet to individuals and businesses. Our services enable our customers to make low cost telephone calls over the Internet using the traditional telephone. In September 1999, we introduced a service that enables international and domestic calls to be made over the Internet using traditional telephones. Long distance calls made using our services are often substantially less expensive than long

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distance calls routed over traditional voice network. Following illustrate a typical cost for our customers. In summary, our cost of 9.5 cents per minute compared with 17 cents per minute using traditional phones taking in considerations for the monthly basic service charges for the traditional phone services.

Illustration: (based on telephone services in our area)

Our cost per minute = 9.5

Traditional phone services cost per minute = 7 cents (without basic fees)

Assumptions: Residential long distance charge for the month is \$10.78 for 154 minutes (domestic call). Customer is using plans such as MCI 7 Cents anytime residential plan.

Additional costs for Traditional long distance charges:

MCI 7 Cents anytime residential plan	\$ 6.95
12% Federal Excise Tax	1.32
40% State & Local Taxes	4.36
.004% Federal, State & Local Surcharges	0.04
25% Federal Universal Service Fee	2.61
.23% CA High cost Fund-B Surcharges	0.25
.005% CA Universal Life Tel Service Surcharges	0.05
.003% CA Relay Service and Communication Device Fund	0.03
.006% CA 911 Local	0.07
-----	-----
TOTAL	\$15.68

To calculate traditional phone cost, we took the traditional long distance charges for the month of \$10.78 plus the monthly fees of \$15.68 and divide the result by 154 minutes which gives 17 cents per minute.

$\$10.78 + \$15.68 = \$26.46$ divided by 154 minutes = 17 cents.

In this illustration, our customers would save 7.5 cents per minute using our services. The basic fees may vary for different areas and we do not have that information at this time. For International calls, you have a higher savings due to higher tariff on traditional phone calls.

We intend to expand our business through acquisitions. Currently, we have one telephone calling center with one server located in Los Angeles, California.

We have only a limited operating history upon which you can evaluate our business and prospects. We have achieved limited profitability, and expect to continue to achieve limited profitability in the year 2001 and subsequent fiscal periods. We will need to significantly increase our revenues in order to achieve greater profitability, which may not occur. Even if we do achieve greater profitability, we may be unable to sustain or increase profitability on a quarterly or annual basis in the future.

Industry Background

The Internet is experiencing unprecedented growth as a global medium for communications and commerce. Internet telephony has emerged as a low cost alternative to traditional long distance calls. Internet telephone calls are less expensive than traditional domestic and international long distance calls primarily because these calls are carried over the Internet and therefore bypass a significant portion of local and international long distance tariffs. The fees and tariffs that are eliminated for our services can be itemized as follows:

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- * Calling Plans Charge
- * Carrier Access Charge
- * Federal Excise Tax
- * State and local Tax
- * Federal, State and local surcharge
- * Federal Universal Service fee
- * California High Cost Fund-B surcharge
- * California Universal Lifeline Telephone Service surcharge
- * California Relay Service and Common Device fund
- * California 911 Local charge

The technology by which Internet phone calls are made is also more cost-effective than the technology by which traditional long distance calls are made. The growth of Internet telephony has been limited to date due to poor sound quality attributable to technological issues such as delays in packet transmission and network capacity limitations. However, recent improvements in packet-switching technology, new software algorithms and improved hardware have substantially reduced delays in packet transmissions.

Products and Services

Presently, we have one telephone calling center located in Los Angeles, California. This center has 6 phone booths each with its own traditional telephone set, table and chair. Phone calls made from these booths are routed through our computer server and Internet connection to a third party servers which provide the interconnection to their established network which enables telecommunications over Internet Protocol (IP) data networks using their software, hardware and related components. The third party providing this service is Inter-Tel.net, Inc. with whom Telecom has a contractual agreement.

We do not rely solely on customers visiting our telephone calling center. We also have 24 phone lines attached to our server which enables customers accessing our services using telephones away from our location by calling in to our telephone calling center to be re-routed to our Internet connections. In addition, the following products and services are also offered at our telephone calling center:

- * Money wiring service
- * Check cashing
- * Sales of Lotto tickets
- * Automatic Telling Machine (ATM)
- * Faxing services
- * Sales of telephone cards

Business Strategies

We hope to grow rapidly through franchising our existing operations and through acquisitions. We have not made any specific business plan for franchising our existing operations and we have no prior experience in franchising. Currently, we do not have prospective franchisees or acquisition targets that are targeted for acquisitions.

Key elements of the company's business strategy are:

- * Acquiring and consolidating geographically disparate and usually smaller independent Internet Telephone Service Providers.
- * Developing and offering additional value-added products and services to customers. For example, offering long distance international calls over the

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Internet using cellular phones.

- * Selling franchises of our telephone calling center concept throughout the West Coast and in other areas of high concentration of immigrants.
- * Building customer loyalty and gaining market share through brand recognition.
- * Expansion of our sales and marketing operation.

Marketing Strategy

We currently market our products in several areas. Our marketing efforts include newspaper advertisements and advertisements in publications that potential customers from Latin American countries are likely to see. Other advertising such as flyers targeting a particular market segment are developed to compliment and expand the impact of our marketing program.

Our marketing strategy for the future will consist of using medias designed to reach mass audiences such as audio spot advertisements, video clips and banner advertising on the Internet as well as advertising targeted toward specific markets using radio, television and other publications.

Competition

We have nearly two years of experience building and fine tuning Internet based telephone call services using traditional telephones at a calling center environment. We believe we have the ability to deploy information technology at a faster rate and with fewer errors than new entrants into this field. We have basic billing capabilities to accommodate the more complex commercial transactions in which we intend to engage in the future. We already have in place network management tools and a secure web site capable of taking new account orders in real-time. With our billing package, we can bill customers for their telephone calls at any interval that they desire. We can send out bills on a weekly, bi-weekly or monthly basis. Many Commercial transactions need to be billed differently. We use an internal billing system that was designed for our telephony system. The transactions that we intend to bill for are charges that would normally appear on the telephone bill. We will be offering long distance telephone service to our commercial as well as our retail customers. We can bill for transactions by time of day, date, even charge a surcharge on holidays.

We believe our competitive strength is the ability to build a bridge for a segment of the urban population to access Internet based telephone communication services. We also believe we can move faster than larger telephone companies in identifying and taking advantage of market opportunities as Internet based telephone communication services continues to evolve at a rapid pace.

Long Distance Market

The long distance telephony market and, in particular, the Internet telephony market, is highly competitive. There are several large and numerous small competitors and we expect to face continuing competition based on price and service offerings from existing competitors and new market entrants in the future. The principal competitive factors in the market include price, quality of service, breadth of geographic presence, customer service, reliability, network capacity and the availability of enhanced communications services. Our competitors include AT&T, MCI WorldCom, Sprint, Net2Phone and other telecommunications carriers.

Many of our competitors have substantially greater financial, technical and

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marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we have. As a result, certain of these competitors may be able to adopt more aggressive pricing policies, which could hinder our ability to market our Internet telephony services.

Web-Based Internet Telephony Services

As consumers and telecommunications companies have grown to understand the benefits that may be obtained from transmitting voice over the Internet, a substantial number of companies have emerged to provide voice over the Internet. In addition, companies currently in related markets have begun to provide voice over the Internet services or adapt their products to enable voice over the Internet services. These related companies may potentially migrate into the Internet telephony market as direct competitors or could become competitors if we move towards their current markets through our stated intention to grow by acquisition.

Internet Telephony Service Providers

During the past several years, a number of companies have introduced services that make Internet telephony services available to businesses and consumers. AT&T Jens (a Japanese affiliate of AT&T), deltathree.com (a subsidiary of RSL Communications), I-Link, iBasis (formerly known as VIP Calling), ICG Communications, IPVoice.com, ITXC and OzEmail (which was acquired by MCI WorldCom) provide a range of voice over the Internet services. These companies offer PC-to-phone or phone-to-phone services which could be adapted to provide a similar service to the services we offer. Some, such as AT&T Jens and OzEmail, offer these services within limited geographic areas.

Intellectual Property

We do not currently own or hold any patents, trademarks, licenses, franchises concessions, royalty agreements or labor contracts.

Government Regulation

- Regulation of Internet Access Service

We provide Internet access, in part, by using telecommunications services provided by carriers. Terms, conditions and prices for telecommunications service are subject to economic regulation by State and Federal agencies. We, as an Internet Access Provider, are not currently subject to direct economic regulation by the Federal Communications Commission (FCC) or any State regulatory body other than the type and scope of regulation that is applicable to businesses generally.

In April 1998 the FCC reaffirmed that Internet Access Providers should be classified as unregulated "Information Service Providers" rather than regulated "Telecommunication Providers" under the terms of the Federal Telecommunication Act of 1996. As a result, we are not subject to Federal regulations that apply to telephone companies and similar carriers simply because we provide our services using telecommunications service provided by a third party carrier. To date, no State has attempted to exercise economic regulations over Internet Access Providers.

Governmental regulatory approaches and policies to Internet Access Providers and others that use the Internet to facilitate Data and Communication Transmissions

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are continuing to develop and in the future we could be exposed to regulation by the FCC or other Federal agencies or by State regulatory agencies or bodies. For example, the FCC has expressed an intention to consider whether to regulate providers of voice and fax service that employ the Internet or Internet Packet Switching as "Telecommunications Providers" even though Internet access itself would not be regulated. The FCC is also considering whether providers of Internet based telephone services should be required to contribute towards the Universal Service Fund, which subsidizes telephone service for rural and low income consumers, or should pay carrier access charges on the same basis as applicable to regulated telecommunications providers. To the extent that we engage in the provision of Internet or Internet Protocol base telephone or fax service, we may become subject to regulations promulgated by the FCC or State with respect to such activities. We cannot assure potential investors that such regulations would not adversely affect our ability to offer certain enhanced business services in the future.

- Regulation of Internet Content

Due to the increase in popularity and use of the Internet by broad segments of the population it is possible that laws and regulations may be adopted with respect to web site content, privacy pricing, encryption standards, consumer protection, electronic commerce, taxation, copyright infringement and other intellectual property issues. We cannot predict the effect, if any, that any future regulatory changes or developments may have on the demand for our access or enhanced business service.

Employees

We believe that the success of our business will depend, in part, on our ability to attract, retain and motivate highly qualified sales, technical and management personnel, and upon the continued service of our senior management personnel. As of the date of this registration statement, we have two full-time and three-part time employees. Two full-time employees are responsible for management and marketing, one part-time employee is responsible for book keeping and sales, two other part-time employees are responsible for sales and other day to day operations. The three part-time employees are sons and daughter of Mr. Tak Hiromoto and Mrs. Elizabeth Hiromoto. We consider our employee relations to be good and we have never experienced any work stoppages. We can not assure you that we will be able to successfully attract, retain and motivate a sufficient number of qualified personnel to conduct our business in the future.

RESULTS OF OPERATIONS

Net Income

The Company had a net loss of \$6,237 for the three months ended March 31, 2001, versus a net loss of \$723 for the same period ended March 31, 2001, an increase of \$5,514. The change in net income for the period was primarily attributable to a decrease in gross profit \$5,783 due to less revenues during the quarter.

The Company had net income of \$5,507 for the six months ended March 31, 2002, versus net income of \$15,952 for the same period ended March 31, 2001, a decrease of \$10,445. The change in net income for the period was primarily attributable to a decrease in gross profit \$6,126 due to less revenues during the quarter and an increase in income taxes of \$5,586 due to the Company's new tax structure after its revocation of its S-corporation status with the Internal Revenue Service.

Sales

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Revenues were \$142,960 for the three months ended March 31, 2001, versus \$224,561 for the three months ended March 31, 2001, a decrease of \$81,601 or 36%. Revenues were \$279,912 for the six months ended March 31, 2002, versus \$377,938 for the six months ended March 31, 2001, a decrease of \$98,026 or 26%. The decrease in sales for both periods was primarily due to competitive prices within the telecommunications industry. Gross margins remained relatively constant for both periods.

Expenses

Total expenses were \$36,162 for the three months ended March 31, 2002, versus \$40,360 for the three months ending March 31, 2001, a decrease of \$4,198 or 10%. Total expenses for the six months ended March 31, 2002 were \$50,976, versus \$52,513 for the six months ended March 31, 2001, a decrease of \$1,537 or 3%. The Company realized a slight increase in its total expenses during fiscal year 2001 due to its effort to gain active trading status on the Over-the-Counter Bulletin Board (OTC BB).

Liquidity and Capital Resources

On March 31, 2002, the Company had cash of \$18,918 and working capital of \$14,401. This compares with cash of \$853 and a working capital deficit of \$1,820 at March 31, 2001. The increase in working capital was due to an increase in cash partially offset by an increase in income taxes payable.

Net cash used in operating activities was \$7,002 for the six months ended March 31, 2002 as compared with net cash provided by operating activities of \$18,613 for the six months ended March 31, 2001. The difference in 2002 was primarily attributable to a decrease in net income of \$10,445 and an increase of \$15,170 in income taxes payable during 2002.

Cash provided by financing activities totaled \$-0- for the six months ended December 31, 2001 as compared with net cash used in financing activities of \$20,203 for the six months ended December 31, 2000. Cash used in financing activities during 2001 consisted solely of shareholder distributions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None

Item 5. Other Information

During February 2002, the Company located a market maker to submit a filing with the National Association of Security Dealers to quote the Company's common stock on the Over-the-Counter Bulletin Board. However, there can be no assurance that a market will be established or maintained.

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Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

None.

b) Reports on Form 8-K

None.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELECOM COMMUNICATIONS, INC.

/s/ Tak Hiromoto

Date: May 18, 2002

Tak Hiromoto
President and Director