

TC02-041



1776 I Street, NW
Ninth Floor
Washington, DC 20006
Phone: 202.756.4833
Facsimile: 202.756.1513

RECEIVED

APR 22 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

April 19, 2002

BY FEDERAL EXPRESS

South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

**Re: ePHONE Telecom, Inc.
Application for a Authorization to Provide Resold Interexchange
Telecommunications Services Throughout the State of South Dakota**

Dear Sir/Madame,

Enclosed for submission is an original and ten (10) copies of ePHONE Telecom Inc.'s ("Applicant") application in connection with its request to provide resold interexchange telecommunications services throughout the State of South Dakota. Also enclosed is an additional copy. Please date stamp this copy and return in the enclosed self-addressed stamped envelope.

Please contact me or Karen Overman with any questions you may have regarding this submission. Karen can be reached by telephone on (703) 251-4878, by facsimile on (703) 691-2502 or via e-mail at koverman@telecom-legal.com.

Respectfully submitted,

Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.
Telecom Legal Services International, Inc.
1776 I Street, NW – 9th Floor
Washington, D.C. 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

Enclosures

Before the
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION
500 East Capitol Avenue
Pierre, SD 57501-5070

RECEIVED

APR 22 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
ePHONE TELECOM, INC. FOR)
AUTHORIZATION TO PROVIDE RESOLD)
INTEREXCHANGE TELECOMMUNICATIONS)
SERVICES THROUGHOUT THE STATE OF)
SOUTH DAKOTA)

APPLICATION FOR CERTIFICATE OF AUTHORITY

ePHONE Telecom, Inc. (“ePHONE” or “Company”) hereby requests authority to provide emerging competitive interexchange telecommunications services on a resold basis throughout the State of South Dakota. ePHONE seeks approval to provide a variety of advanced IP telephony services to consumers and small businesses utilizing its state of the art IP gateways, along with the resold transmission facilities of licensed facilities-based carriers and/or Internet service providers (ISPs). Approval of the instant petition would enable ePHONE to bring the advantages of state of the art, high quality IP services to a broad category of intrastate long distance users in South Dakota.

In support of its application ePHONE submits the following information:

Corporate Information:

ePHONE was incorporated under the laws of the State of Florida on May 3, 1996,¹ and maintains its principle place of business at 1145 Herndon Parkway, Herndon, VA 20170.²

ePHONE's registered agent in the State of South Dakota is CT Corporation Systems, located at 319 S. Coteau Street, Pierre, South Dakota 57501.

ePHONE is a publicly traded company and has no shareholders with greater than a 20 percent interest.

¹ A copy of the Certificate of Good Standing from the State of Florida, along with the Articles of Incorporation and By Laws of ePHONE are attached hereto as Exhibit A.

² A copy of ePHONE's Certificate of Authority to Do Business as a Foreign Corporation in South Dakota is attached as Exhibit B.

Description Of Operations:

Pursuant to its FCC Section 214 authorization, ePHONE currently offers enhanced IP telephony services via its owned-and-operated IP gateways located in: New York, New York; Los Angeles, California; and Miami, Florida. These IP gateways are managed by ePHONE through its state of the art network operations center (NOC) located at the company headquarters in Herndon, Virginia. ePHONE employs a variety of proprietary systems in its network and recently enhanced its network performance through the addition of Cisco and Sun Microsystems components.

ePHONE intends to utilize traditional telephony connections, as well as the Internet, to provide intrastate interexchange service to customers in South Dakota. ePHONE is interconnected with a variety of carriers authorized to provide facilities-based or resold services within South Dakota, such as Global Crossing. ePHONE intends offer services statewide.

As an initial matter, ePHONE intends to offer a variety of prepaid IP telephony services through either a monthly calling plan, where customers are billed in advance for service via a credit card or direct debit, or through prepaid calling cards. Customers may obtain these services without changing their interexchange carrier and may utilize these services from any touch-tone phone. These services are described in full in the ePHONE proposed tariff, which has been submitted with this Application. In the future, ePHONE may expand its portfolio of services to include post-paid VOIP services, Internet access and e-mail services.

ePHONE Contact Information:

Main Numbers:

Telephone: 703-787-7000

Fax: 703-787-7007

Customer Service and Customer Dispute Resolution:

Person Responsible: Robert Case, VP Customer Service

Toll-Free Numbers: 1-866-873-7500

Regulatory Matters:

Cheryl Lynn Schneider

Counsel for ePHONE Telecom

Telecom Legal Services International, Inc.

1776 I Street, NW

Ninth Floor

Washington, DC 20006

Customer Complaints: ePHONE will handle customer billing and customer service matters as follows. In-house computer systems track all customer records. Customer complaints are logged in the MIND billing system, or if action is required, in the remedy

trouble ticketing systems. Any customer complaints involving refunds or credits are handled at the mid-management level.

Other State Authorizations:

ePHONE is in the process of applying for authority to provide intrastate interexchange service in the District of Columbia and in each of the 48 contiguous United States. The company has not been denied registration or certification in any of these jurisdictions. ePHONE is a carrier in good standing with the Federal Communications Commission.

Marketing:

ePHONE intends to market its services through traditional channels such as, print advertising, direct mail campaigns, telemarketing sales agents and retail outlets. The company is still in the process of developing sales brochures and does not have materials available for public distribution at this time. ePHONE has no plans to engage in multilevel marketing.

Federal Tax Identification Number: 0980204749

Complaints:

ePHONE has had complaints filed against it in Florida, Alabama, Texas, Ohio and West Virginia. In each instance, customers had placed orders for ePHONE interstate long distance service by contacting a telemarketing service. These customers then sought to cancel service without penalty after the period for such cancellations had expired. ePHONE issued refunds to these customers in each instance as a gesture of goodwill, even though the terms and conditions of service do not permit such refunds. ePHONE also has an informal complaint pending against it at the Federal Communications Commission for a similar situation. The company has already issued a refund in that case.

Technical, Financial and Management Capability:

ePHONE has a highly experienced management team with the managerial and technical background necessary to operate a successful telecommunications company. The company's senior management is as follows:

Carmine Tagliatela, Jr., President and CEO

Charlie Rodriguez, CFO and Corporate Secretary

Sonny Souvannavong, Chief Technology Officer

Roy Olmstead, Executive Vice President and General Manager

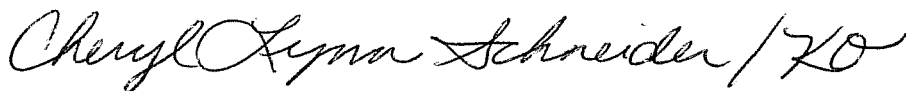
Robert Case, Vice President Operations and Customer Service

The resumes of the above managers are attached hereto as Exhibit C.

Information regarding ePHONE's financial qualifications is contained in Exhibit D to this application.

In conclusion, ePHONE submits that its entry into the telecommunications interexchange marketplace will benefit customers in South Dakota by bringing the benefits of advanced IP telephony services to those consumers and small business customers who often are the last to be able take advantage of such state of the art services.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lynn Schneider / 70".

Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.

EXHIBIT A

CERTIFICATE OF GOOD STANDING

ARTICLES OF INCORPORATION

BY LAWS

State of Florida



Department of State

I certify from the records of this office that EPHONE TELECOM, INC., is a corporation organized under the laws of the State of Florida, filed on May 3, 1996.

The document number of this corporation is P96000039673.

I further certify that said corporation has paid all fees due this office through December 31, 2002, that its most recent annual report/uniform business report was filed on January 21, 2002, and its status is active.

I further certify that said corporation has not filed Articles of Dissolution.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Twelfth day of February, 2002



CR2EO22 (1-99)

Katherine Harris

Katherine Harris
Secretary of State

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
EPHONE TELECOM, INC.**

2002 JAN 29 PM 3:36
SECRETARY OF STATE
TALLAHASSEE, FLORIDA

FILED

It is hereby certified that:

1. The name of the corporation is ePHONE Telecom, Inc (the "Corporation").
2. Article IV of these Amended and Restated Articles of Incorporation contains an amendment to the Articles of Incorporation of the Corporation originally filed with the Secretary of State of the State of Florida on April 30, 1996 that was required to be approved by the shareholders of the Corporation.
3. Such amendment was approved and adopted at a duly called meeting of the shareholders of the Corporation on August 23, 2000.
4. Such amendment was approved by the affirmative vote of the holders of a sufficient number of shares (i.e., a majority) of the Corporation's outstanding common stock.
5. The following Amended and Restated Articles of Incorporation of ePHONE Telecom, Inc. amends and restates the provisions of and supersedes the Articles of Incorporation originally filed with the Secretary of State of the State of Florida on April 30, 1996 in its entirety:

**ARTICLE I
CORPORATE NAME**

The name of the Corporation is ePHONE Telecom, Inc.

**ARTICLE II
PURPOSE**

The Corporation shall be organized for any and all purposes authorized by the laws of the State of Florida.

**ARTICLE III
PERIOD OF EXISTENCE**

The period during which the Corporation shall continue is perpetual.

**ARTICLE IV
SHARES**

The capital stock of this corporation shall consist of 150,000,000 shares of common stock, \$.001 par value.

**ARTICLE V
DIRECTORS AND OFFICERS**

The business of this corporation shall be managed by its Board of Directors. The number of such directors shall be not be less than one (1) and, subject to such minimum may be increased or decreased from time to time in the manner provided in the By-Laws. The Board of Directors shall be elected by the shareholders of the corporation at such time and in such manner as provided in the By-Laws.

**ARTICLE VI
DENIAL OF PREEMPTIVE RIGHTS**

No shareholder shall have any right to acquire shares or other securities of the Corporation except to the extent such right may be granted by an amendment to these Articles of Incorporation or by a resolution of the Board of Directors.

**ARTICLE VII
AMENDMENT OF BYLAWS**

Anything in these Articles of Incorporation, the By-Laws, or the Florida Corporation Act notwithstanding, bylaws shall not be adopted, modified, amended or repealed by the shareholders of the Corporation except upon the affirmative vote of a simple majority vote of the holders of all the issued and outstanding shares of the corporation entitled to vote thereon.

**ARTICLE VIII
SHAREHOLDERS**

8.1. Inspection of Books The board of directors shall make reasonable rules to determine at what times and places and under what conditions the books of the Corporation shall be open to inspection by shareholders or a duly appointed representative of a shareholder.

8.2. Control Share Acquisition. The provisions relating to any control share acquisition as contained in Florida Statutes now, or hereinafter amended, and any successor provision shall not apply to the Corporation.

8.3. Quorum. The holders of shares entitled to one-third of the votes at a meeting of shareholders shall constitute a quorum.

8.4. Required Vote. Acts of shareholders shall require the approval of holders of 50.01 % of the outstanding votes of shareholders.

**ARTICLE IX
LIABILITY AND INDEMNIFICATION OF DIRECTORS AND OFFICERS**

To the fullest extent permitted by law, no director or officer of the Corporation shall be personally liable to the Corporation or its shareholders for damages for breach of any duty owed to the Corporation or its shareholders. In addition, the Corporation shall have the power, in its By-Laws or in any resolution of its stockholders or directors, to undertake to indemnify the officers and directors of this corporation against any contingency or peril as may be determined to be in the best interests of this corporation, and in conjunction therewith, to procure, at this corporation's expense, policies of insurance.

**ARTICLE X
CONTRACTS**

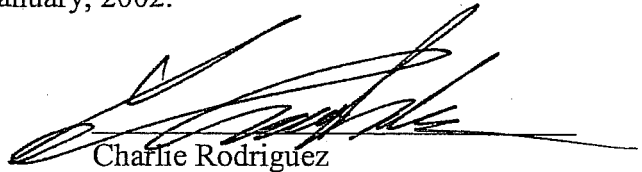
No contract or other transaction between this corporation and any person, firm or corporation shall be affected by the fact that any officer or director of this corporation is such other party or is, or at some time in the future becomes, an officer, director or partner of such other contracting party, or has now or hereafter a direct or indirect interest in such contract.

**ARTICLE XI
RESIDENT AGENT**

The name and address of the resident agent of the Corporation is:

CT Corporation System
1200 South Pine Island Road
Plantation, Florida 33324

IN WITNESS WHEREOF, I have hereunto subscribed to and executed these
Articles of Incorporation on this 3 day of January, 2002.

A handwritten signature in black ink, appearing to read 'Charlie Rodriguez', written over a horizontal line.

Charlie Rodriguez
Vice President—Corporate Affairs
and Secretary

ADOPTED BY
BOARD OF DIRECTORS
ON SEPT 26, 2000

BY-LAWS
OF
ePHONE TELECOM, INC.

A Florida Corporation

ARTICLE I.

Offices

SECTION 1. Registered Office. The registered office of ePHONE Telecom, Inc. (hereinafter called the "Corporation") within the State of Florida shall be c/o CT Corporation System, 1200 South Pine Island Road, Plantation, Florida 33324.

SECTION 2. Other Offices. The Corporation may also have offices at 1145 Herndon Parkway, Herndon, Virginia 20170 and such place or places as the Board of Directors shall from time to time determine or the business of the Corporation may require.

ARTICLE II.

Meetings of Shareholders

SECTION 1. Place of Meetings. All meetings of the shareholders shall be held at any such place, either within or without the State of Florida, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof.

SECTION 2. Annual Meeting. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may come before the meeting shall be held at such time and place as shall be determined by the Board of Directors and stated in the notice of the meeting.

SECTION 3. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Board or by the Secretary upon the written request of the holders of not less than fifty percent of the outstanding stock of the Corporation entitled to vote at the meeting. *Could be held by phone*

SECTION 4. Notice of Meetings. Notice of meetings of shareholders shall be given as required by applicable law.

SECTION 5. Quorum. ~~One~~ One third in voting power of the outstanding shares of the Corporation shall constitute a quorum. When a quorum is once present to organize a meeting of shareholders, it is not broken by the subsequent withdrawal of any shareholders. The holders of a majority of the shares of stock present in person or represented by proxy at any meeting of shareholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.

SECTION 6. Organization. At every meeting of shareholders, the President or, in his absence or inability to act, the person whom the President shall appoint, shall act as chairman of the meeting. The Secretary or, in his absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

SECTION 7. Order of Business. The order of business at all meetings of the shareholders shall be as determined by the chairman of the meeting.

SECTION 8. Voting. Unless otherwise provided in the Amended and Restated Articles of Incorporation, every shareholder of record shall be entitled at every meeting of shareholders to one vote for each share of capital stock standing in his name on the record of shareholders. If the Amended and Restated Articles of Incorporation

provides for more or less than one vote for any share, on any matter, every reference in these By-Laws or the Florida Business Corporation Act to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

At any meeting of shareholders (at which a quorum was present to organize the meeting), all matters, except as otherwise provided by law or by the Amended and Restated Articles of Incorporation or by these By-Laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon, whether or not a quorum is present when the vote is taken. All elections of directors shall be by written ballot unless otherwise provided in the Amended and Restated Articles of Incorporation. In voting on any other question on which a vote by ballot is required by law or is demanded by any shareholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the shareholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be viva voce. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with applicable law.

SECTION 9. Inspectors. The Board of Directors may, in advance of any meeting of shareholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute

the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be shareholders.

SECTION 10. Written Action. Unless otherwise provided in the Amended and Restated Articles of Incorporation, any action required by the Florida Business Corporation Act to be taken at any annual or special meeting of shareholders of the Corporation, or any action which may be taken at any annual or special meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing.

ARTICLE III.

Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

SECTION 2. Number, Qualifications, Election and Term of Office. The Board shall consist of not less than three nor more than nine members, as determined by the Board by resolution from time to time. Members of the Board need not be residents of the State of Florida and need not be shareholders of the Corporation. Directors shall be elected at the annual meeting of the shareholders and the term of office of each director shall be until the next annual meeting of shareholders and the election and qualification of a successor.

SECTION 3. Place of Meetings. Meetings of the Board of Directors shall be held at such place or places, within or without the State of Florida, as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting.

SECTION 4. Annual Meeting. The Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable after each annual meeting of shareholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such other time or place (within or without the State of Florida) as shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article III.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by statute or these By-Laws.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by the President or at the request of a majority of the directors.

SECTION 7. Notice of Meetings. Notice of each special meeting of the Board of Directors (and of each regular meeting for which notice shall be required) shall be given by the Secretary as hereinafter provided in this Section 7, in which notice shall be stated the time and place of the meeting. Except as otherwise required by these By-Laws, such notice need not state the purposes of such meeting. Notice of each such meeting shall be mailed, postage prepaid, to each director, addressed to him at his residence or usual place of business, by first class mail, at least two days before the day on which such meeting is to be held, or shall be sent addressed to him at such place by telegraph, cable, telex, telecopier or other similar means, or be delivered to him personally or be given to him by telephone or other similar means, at least twenty-four hours before the time at which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting, except when he shall attend for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8. Quorum and Manner of Acting. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of

the Board of Directors, and, except as otherwise expressly required by statute or the Amended and Restated Articles of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. The directors shall act only as a Board and the individual directors shall have no power as such.

SECTION 9. Organization. At each meeting of the Board of Directors, the President or, in his absence, another director chosen by a majority of the directors present shall act as chairman of the meeting and preside thereat. The Secretary or, in his absence, any person appointed by the chairman shall act as secretary of the meeting and keep the minutes thereof.

SECTION 10. Resignations. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. Vacancies. Any vacancy in the Board of Directors, whether arising from death, resignation, removal (with or without cause), an increase in the number of directors or any other cause, may be filled by the vote of a majority of the directors then in office, though less than a quorum, or by the sole remaining director or by the shareholders at the next annual meeting thereof or at a special meeting thereof. Each director so elected shall hold office until his successor shall have been elected and qualified.

SECTION 12. Removal of Directors. Any director may be removed, either with or without cause, at any time, by the holders of at least $\frac{66}{100}$ of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote at an election of directors.

SECTION 13. Compensation. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity.

SECTION 14. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in

the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Amended and Restated Articles of Incorporation, adopting an agreement of merger or consolidation, recommending to the shareholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the shareholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws of the Corporation; and, unless the resolution designating it expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

SECTION 15. Action by Consent. Unless restricted by the Amended and Restated Articles of Incorporation, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be.

SECTION 16. Telephonic Meeting. Unless restricted by the Amended and Restated Articles of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV.

Officers

SECTION 1. Number and Qualifications. The officers of the Corporation shall be elected by the Board of Directors and shall consist of a President, a Secretary and such Vice Presidents and other officers and assistant officers as the Board of Directors of the Corporation may from time to time appoint, or authorize the President to appoint.

SECTION 2. Tenure. Officers and assistant officers of the Corporation may, but need not, also be members of the Board. Each officer shall hold his office until his successor is elected and qualified or until his earlier death, resignation or removal in the manner specified in this Section 2 of Article IV of these By-Laws. Any officer elected or appointed by the Board may be removed by the Board with or without cause. In addition, however, any officer or assistant officer appointed by the President and, if the President is so authorized by the Board, any officer or assistant officer appointed by the Board of the Corporation, may be removed from office by the President upon such terms as the President may specify in writing to such officer. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. Should any vacancy occur among the officers by reason of any of the specified acts or events, the position shall be filled by appointment made by the Board or by the President, if he is so authorized by the Board. Any individual may be elected to, and may hold, more than one office of the Corporation.

SECTION 3. Duties. The powers and duties of the several officers shall be as provided from time to time by resolution or other directive of the Board. In the absence of such provisions, the respective officers shall have the powers and shall discharge the

duties customarily and usually held and performed by like officers of corporations similar in organization and business purposes to the Corporation.

SECTION 4. Compensation. Officers may be paid such reasonable compensation as the Board may from time to time authorize and direct.

ARTICLE V.

Stock Certificates and Their Transfer

SECTION 1. Stock Certificates. Certificates representing shares of the Corporation shall be in such form (consistent with applicable law) as shall be determined by the Board. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor on such terms and indemnity to the Corporation as the Board may prescribe.

SECTION 2. Transfers of Stock. Transfer of shares of the Corporation shall be made in the manner specified in the Uniform Commercial Code. The Corporation shall maintain stock transfer books, and any transfer shall be registered thereon only on request and surrender of the stock certificates representing the transferred shares, duly endorsed. The Corporation shall have the absolute right to recognize as the owner of any shares of stock issued by it, the person or persons in whose the name the certificate representing such shares stands according to the books of the Corporation for all proper

corporate purposes, including the voting of the shares represented by the certificate at a regular or special meeting of shareholders, and the issuance and payment of dividends on such shares.

SECTION 3. Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 4. Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 5. Fixing the Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares

of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Florida.

ARTICLE VI.

Indemnification

SECTION 1. Indemnification. (1) Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact: (i) that he or she is or was a director or officer of the Corporation, or (ii) that he or she, being at the time a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (collectively, "another enterprise"), whether either in case (i) or case (ii) the basis of such proceeding is alleged action or inaction (a) in an official capacity as a director or officer of the Corporation, or as a director, trustee, officer, employee or agent of such other enterprise, or (b) in any other capacity related to the Corporation or such other enterprise while so serving as a director, trustee, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Florida Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the

Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including without limitation attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith. The persons indemnified by this paragraph (1) of this Article VI are hereinafter referred to as "indemnitees." Such indemnification as to such alleged action or inaction shall continue as to an indemnitee who has after such alleged action or inaction ceased to be a director or officer of the Corporation, or director, officer, employee or agent of such other enterprise; and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in paragraph (2) of this Article VI with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or portion thereof) initiated by such indemnitee only if such proceeding (or portion thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Article VI (a) shall be a contract right; (b) shall not be affected adversely to any indemnitee by any amendment of these By-Laws with respect to any action or inaction occurring prior to such amendment; and (c) shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if and to the extent the Florida Business Corporation Act requires, an advancement of expenses incurred by an indemnitee shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial

decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article VI or otherwise.

(2) If a claim under paragraph (1) of this Article VI is not paid in full by the Corporation within sixty days after it has been received in writing by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses only upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the Florida Business Corporation Act. Neither the failure of the Corporation (including the Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Florida Business Corporation Act, nor an actual determination by the Corporation (including the Board of Directors, independent legal

counsel, or its shareholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to have or retain such advancement of expenses, under this Article VI or otherwise, shall be on the Corporation.

(3) The rights to indemnification and to the advancement of expenses conferred in this Article VI shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Amended and Restated Articles of Incorporation, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

(4) The Corporation ~~may~~ ^{will} maintain insurance, at its expense, to protect itself and any director, trustee, officer, employee or agent of the Corporation or another enterprise (as defined in paragraph (1) of this Article VI) against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Florida Business Corporation Act.

(5) The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses, to any employee or agent of the Corporation (or any person serving at the Corporation's request as a director, trustee, officer, employee, or agent of another enterprise) or to persons who are or were a director, officer, employee or agent of a

constituent corporation absorbed by the Corporation in a consolidation or merger or who is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another enterprise, in each case as determined by the Board to the fullest extent of the provisions of this Article VI in cases of the indemnification and advancement of expenses of directors and officers of the Corporation, or to any lesser extent (or greater extent, if permitted by law) determined by the Board of Directors.

ARTICLE VII.

General Provisions

SECTION 1. Dividends. Subject to the provisions of statute and the Amended and Restated Articles of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by statute or the Amended and Restated Articles of Incorporation.

SECTION 2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may, from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which it was created.

SECTION 3. Seal. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors.

SECTION 4. Fiscal Year. The fiscal year of the Corporation shall be fixed, and once fixed, may thereafter be changed, by resolution of the Board of Directors.

SECTION 5. Checks, Notes, Drafts, Etc. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

SECTION 6. Execution of Contracts, Deeds, Etc. The Board may authorize any officer, employee or agent to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. Such authority may be general or confined to specific instances, or otherwise limited, and if the Board so provides may be delegated by the person so authorized.

SECTION 7. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board. Such authority may be general or confined to specific instances and if the Board so provides may be delegated by the person so authorized.

SECTION 8. Voting of Stock in Other Corporations. Unless otherwise provided by resolution of the Board of Directors, the President, from time to time, may (or may appoint one or more attorneys or agents to) cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation. In the event one or more

attorneys or agents are appointed, the President may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent. The President may, or may instruct the attorneys or agents appointed to, execute or cause to be executed in the name and on behalf of the Corporation and under its seal or otherwise, such written proxies, consents, waivers or other instruments as may be necessary or proper in the circumstances.

ARTICLE VIII.

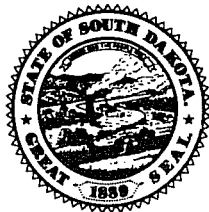
Amendments

These By-Laws may be amended or repealed or new By-Laws adopted (a) by the affirmative vote of the holders of shares having not less than a majority of the voting power of the outstanding shares of the Corporation entitled to vote thereon at any annual or special meeting of shareholders or (b) by the affirmative vote of at least a majority of the members of the Board of Directors at a regular or special meeting thereof as provided by Article III of these By-Laws. Any by-law made by the Board of Directors may be amended or repealed by action of the shareholders at any annual or special meeting of shareholders.

EXHIBIT B

CERTIFICATE OF AUTHORITY

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

Certificate of Authority

ORGANIZATIONAL ID #: FB025992

I, **JOYCE HAZELTINE**, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of **ePHONE Telecom, Inc.** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this February 26, 2002.



Joyce Hazeltine

Joyce Hazeltine
Secretary of State



Secretary of State
 State Capitol
 500 E. Capitol Ave.
 Pierre SD 57501
 Phone 605-773-4845
 Fax 605-773-4550

FILE NO. _____

RECEIPT NO. _____

RECEIVED

FEB 26 '02

S.D. SEC. of STATE

Application for Certificate of Authority

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

Filed this 26th day of Feb., 2002
Joseph Hazelton
 SECRETARY OF STATE

(1) The name of the corporation is ePHONE Telecom, Inc.
(exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is _____

(3) State where incorporated Florida Federal Taxpayer ID# 098020479

(4) The date of its incorporation is 05/03/1996 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is 1200 South Pine Island Road, Plantation, Florida Zip Code 33324
 mailing address if different from above is: _____ Zip Code _____

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Street, Pierre, South Dakota Zip Code 57501
 and the name of its proposed registered agent in the State of South Dakota at that address is C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)
To provide telecommunications services and technology to customers and to engage in other activities related to telecommunications and the internet.

(8) The names and respective addresses of its directors and officers are: **SEE ATTACHMENT**

Name	Officer Title	Street Address	City	State	Zip
Carmine Tagliatela, Jr.	Pres./CEO/Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Charlie Rodriguez	CFO/Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
John G. Fraser	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Sheldon B. Kamins	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Lawrence M. Codacovi	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>150,000,000</u>	<u>Common</u>	<u>None</u>	<u>\$.001</u>
_____	_____	_____	_____
_____	_____	_____	_____

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>30,290,165</u>	<u>Common</u>	<u>No series</u>	<u>\$.001</u>
_____	_____	_____	_____
_____	_____	_____	_____

(11) The amount of its stated capital is \$ 30,290.16
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the Secretary of State or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

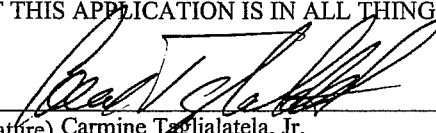
(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated October 23, 2001



 (Signature) Carmine Tagliatela, Jr.
 President


 (Title)

STATE OF Va

COUNTY OF Fairfax

I, Karen L. Overman, a notary public, do hereby certify that on this 23rd day of October, 2001, personally appeared before me Carmine Tagliatela, Jr. who, being by me first duly sworn, declared that he/she is the President of ePHONE Telecom, Inc., that he/she signed the foregoing document as officer of the corporation, and the statements therein contained are true.

04/30/2003
My Commission Expires

Karen L. Overman 
 (Notary Public)

Notarial Seal

The Consent of Appointment below must be signed by the registered agent listed in number six.

Attachment to South Dakota
Application for Certificate of Authority

Officers & Directors

- | | | |
|----|-------------------|----------------------|
| 1. | Full Name: | Robert G. Clarke |
| | Officer/Director: | Director |
| | Business Address: | 1145 Herndon Parkway |
| | City: | Herndon |
| | State: | Va |
| | ZIP Code: | 20170-5535 |

Consent of Appointment by the Registered Agent

I, C T Corporation System, hereby give my consent to serve as the registered
(name of registered agent)
agent for ePHONE Telecom, Inc.
(corporate name)

Dated Feb 14, 2002

C T Corporation System
By: Judith Kenschuck
(signature of registered agent)

The proper filing fee must accompany the application. Make checks payable to the Secretary of State.

FEE SCHEDULE

Authorized capital stock of	25,000	or less	\$ 90
Over \$25,000 and not exceeding	100,000		110
Over \$100,000 and not exceeding	500,000		130
Over \$500,000 and not exceeding	1,000,000		150
Over \$1,000,000 and not exceeding	1,500,000		200
Over \$1,500,000 and not exceeding	2,000,000		250
Over \$2,000,000 and not exceeding	2,500,000		300
Over \$2,500,000 and not exceeding	3,000,000		350
Over \$3,000,000 and not exceeding	3,500,000		400
Over \$3,500,000 and not exceeding	4,000,000		450
Over \$4,000,000 and not exceeding	4,500,000		500
Over \$4,500,000 and not exceeding	5,000,000		550

For each additional \$500,000, \$40 in addition to \$550.

For purposes only of computing fees under this section, the dollar value of each authorized share having a par value shall be equal to par value and the value of each authorized share having no par value shall be equal to one hundred dollars per share. The maximum amount charged under this subdivision may not exceed sixteen thousand dollars.

FILING INSTRUCTIONS:

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or its president, or any other officer. **One original and one photocopy of the application must be submitted.**

The application must be accompanied by an **original, currently dated, CERTIFICATE OF FACT** or a **CERTIFICATE OF GOOD STANDING** from the Secretary of State in the state where incorporated. A photocopy of a certificate is not acceptable. It should be dated within ninety (90) days of submitting it to our office.

South Dakota law requires every corporation to continuously maintain a resident of this state as the registered agent (number six on the application). The registered agent's address is considered the registered office address of the corporation in South Dakota. A complete street address must be listed for service of process.

The Consent of Registered Agent portion must be signed by the South Dakota registered agent.

Mail the application, certificate, and filing fee to the Secretary of State, Corporate Division, 500 E. Capitol Avenue, Pierre, SD 57501-5070. The duplicate and a Certificate of Authority will be returned for your records.

Attachment to

Application for Certificate of Authority for a Foreign Corporation

Officers & Directors

1. Full Name: Carmine Tagliatela, Jr.
Officer/Director: Officer, Director
Officer's Title: Pres./CEO
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

2. Full Name: Charlie Rodriguez
Officer/Director: Officer, Director
Officer's Title: CFO & Secy.
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

3. Full Name: James Meadows
Officer/Director: Officer
Officer's Title: Exec. V.P./COO
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

4. Full Name: Sheldon B. Kamins
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

5. Full Name: Lawrence M. Codacovi
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

6. Full Name: Robert G. Clarke
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

7. Full Name:
Officer/Director:
Business Address:
City:
State:
ZIP Code:

John G. Fraser
Director
1145 Herndon Parkway
Herndon
Va
20170

EXHIBIT C

MANAGEMENT RESUMES

ePHONE TELECOM, INC.

MANAGEMENT RESUMES

Carmine Tagliatela Jr. - President and Chief Executive Officer.

Prior to joining ePHONE, Mr. Tagliatela was President and Chief Operating Officer of TELRON Communications and was responsible for the day-to-day operations of the company, the development of service offerings, and the expansion of services into new markets. Mr. Tagliatela has also held Executive Vice President positions at TELRON and CompassRose International, Inc., a boutique international telecommunications consulting firm. He served as Director, International Public Policy and Regulatory Affairs at MCI Telecommunications Corporation where he developed and implemented MCI's regulatory and business strategy for access to international markets. He was a member of an expansion team devoted to broadening MCI's presence in the global market. At ePHONE, Mr. Tagliatela is responsible for the day-to-day operations of the company, formulating its strategic direction and implementing new partnerships.

James R. Meadows, Jr. – Chief Operating Officer & Executive Vice President

Mr. Meadows previously served as the Former President, PrimeTec International, Inc.; Former Director Government Affairs, Capital Network System, Inc.; Member of the Board of Directors for Versatel Telecom, a facilities based integrated telecommunications company in the Netherlands; Former Board Member of Comptel, largest competitive telecommunications trade association in the USA; Former President and Board Member, America's Carriers Telecommunications Association (merged with Comptel); Member Advisory Board of Ashely Laurent, of Austin, TX, provides integrated network security software.

Charlie Rodriguez - Director, Chief Financial Officer, and Vice President, Corporate Affairs

Mr. Rodriguez previously served as Vice President of Corporate Affairs and Corporate Secretary of ePHONE Telecom from June 1999 to April 16, 2000. Before his return to ePHONE, Mr. Rodriguez was appointed Vice President, Corporate Affairs of 7bridge Systems of Hong Kong and President of 7bridge Systems America, Inc. He is also a Director with Management Services of Arizona, a business consulting company specializing in mergers, acquisitions, and financing. Prior to MSA, he served as Chief Financial Officer for Zephyr Technologies, Inc., a biometrics and smartcard software integration company. From January to November 1997, Mr. Rodriguez served as a member of

the board of directors with Wave Rider Communications, Inc., a wireless communication company, and as President and Chief Executive Officer from May 1995 to January 1997. Mr. Rodriguez has a Masters in Business Administration.

Sonny Souvannavong - Chief Technology Officer. Mr.

Souvannavong will be responsible for directing ePHONE's global technology development and deployment. Prior to joining ePHONE, Mr. Souvannavong was Vice-President of Technology at Ecom Telecom, where he successfully designed, procured and rolled out a global multi-service network with presence in North America, Europe and Asia. Additionally, at Ecom he implemented Operational Support System tools, a Global Network Management Center, a global billing system and IT systems that were compatible with most major vendor software. From 1995-1999 Mr. Souvannavong held senior level positions with Facilicom International and Birch & Davis Associates, where he served as Director of Information Services and Division Director of Information Technology respectively. In both environments he was charged with managing sizable teams of developers, engineers and programmers. Mr. Souvannavong brings with him a diverse range of education including an MBA and advanced Networks certifications from Microsoft, Cisco, Checkpoint and Novell.

Robert D. Case - Vice President, Operations and Customer Service.

Mr. Case is responsible for the planning, deployment, operation, and management of ePHONE's global VoIP network. Previously, Mr. Case was Chief Information Officer with The Capital Markets Company, overseeing the company's Information Technology, Enterprise Resource Planning, and IP-based systems. Prior to that, Mr. Case was Director, Internet Systems with Global TeleSystems Group (GTS) in London, UK, where he was involved in GTS's Internet strategy, CLEC IP business development, vendor trials of IP telephony platforms, and managed the negotiations of international private line leased circuits. Mr. Case started his career with the Space Shuttle Program and was involved in payload program management and training. Mr. Case has a Bachelors of Science in Aerospace Engineering from the University of Virginia and is currently pursuing an Executive MBA program at the Georgetown University.

EXHIBIT D

FINANCIAL

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

Proc-Type: 2001,MIC-CLEAR

Originator-Name: webmaster@www.sec.gov

Originator-Key-Asymmetric:

MFgwCgYEVQgBAQICAF8DSgAwRwJAW2sNKK9AVtBzYZmr6aGj1WyK3XmZv3dTINen
TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB

MIC-Info: RSA-MD5,RSA,

CNgknuwFwApzcKCY47LCuFlMcftDWgx3MaJQq32yNes1d1dov3sbPURldLjjuIGu
2fB2ifnQgk5jpnAGdk1a2Q==

<SEC-DOCUMENT>0001005444-02-000067.txt : 20020416

<SEC-HEADER>0001005444-02-000067.hdr.sgml : 20020416

ACCESSION NUMBER: 0001005444-02-000067

CONFORMED SUBMISSION TYPE: 10KSB

PUBLIC DOCUMENT COUNT: 4

CONFORMED PERIOD OF REPORT: 20011231

FILED AS OF DATE: 20020415

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	EPHONE TELECOM INC
CENTRAL INDEX KEY:	0001085082
STANDARD INDUSTRIAL CLASSIFICATION:	SERVICES-BUSINESS SERVICES,
IRS NUMBER:	980204749
STATE OF INCORPORATION:	FL
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10KSB
SEC ACT:	1934 Act
SEC FILE NUMBER:	000-27669
FILM NUMBER:	02610815

BUSINESS ADDRESS:

STREET 1:	1145 HERNDON PARKWAY
STREET 2:	SUITE 100
CITY:	HENDON
STATE:	VA
BUSINESS PHONE:	5406619898

MAIL ADDRESS:

STREET 1:	SUITE 1000
STREET 2:	355 BARRARD ST
CITY:	VANCOUVER BC CANADA
STATE:	A6

</SEC-HEADER>

<DOCUMENT>

<TYPE>10KSB

<SEQUENCE>1

<FILENAME>main.txt

<DESCRIPTION>10KSB FOR EPHONE

<TEXT>

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-0001
FORM 10-KSB

(MARK ONE)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001

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

Commission File Number 0-27669

ePHONE Telecom, Inc.
(Name of small business issuer in its charter)

Florida -----	98-0204749 -----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1145 Herndon Parkway, Suite 100 Herndon Virginia -----	20170 -----
(Address of principal executive offices)	(Zip Code)

(703)-787-7000
Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:

None -----	None -----
(Title of each Class)	(Name of each exchange on which registered)

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$0.001 PAR VALUE

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for the year ended December 31, 2001 were \$3,589,840. Aggregate market value of voting stock held by non-affiliates of 32,920,713 shares outstanding at December 31, 2001 was approximately \$6,255,000. Amount was computed using the average bid and ask price as of December 31, 2001, which was \$0.19. As of December 31, 2001, a total of 32,987,381 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - None

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

<PAGE>

ePHONE TELECOM, INC.

FORM 10-KSB

INDEX

<TABLE>
<CAPTION>

Part I

<S>	
Item 1.	Description of Business.....
Item 2.	Description of Properties.....
Item 3.	Legal Proceedings
Item 4.	Submission of Matters to a Vote of Security Holders

Part II

Item 5.	Market for Common Equity and Related Stockholder Matters.....
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....
Item 7.	Financial Statements.....
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....

Part III

Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.....
Item 10.	Executive Compensation.....
Item 11.	Security Ownership of Certain Beneficial Owners and Management...
Item 12.	Certain Relationships and Related Transactions.....
Item 13.	Exhibits and Reports on Form 8-K.....
Registrant Signatures

</TABLE>

<PAGE>

FORWARD LOOKING STATEMENTS

Certain information in this report including statements made in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Business" and elsewhere contain "forward-looking statements". All statements other than statements of historical fact are "forward-looking statements", including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any

statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may", "will", "expects", "plans", "anticipates", "estimates", "potential", or "continue", or the negative thereof or other comparable terminology. Although ePHONE believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in these forward-looking statements.

Forward-looking statements include but are not limited to:

- o Expectations and estimates as to completion dates of the Network of Regional gateways ePHONE is installing and the Network;
- o ePHONE's ability to implement successfully ePHONE's operating strategy as described in the business plan of ePHONE;
- o Future financial performance as estimated in ePHONE's financial projections;
- o ePHONE's forecasts of customer or market demand;
- o Highly competitive market conditions;
- o Changes in or developments under laws, regulations and licensing requirements in regions ePHONE is installing gateways; and
- o Changes in telecommunications technology.

This list of categories of forward-looking statements should not be construed as exhaustive. ePHONE will not update or revise any forward-looking statements.

Certain factors that could cause ePHONE's forward-looking statements not to be correct and cause ePHONE's actual results to materially vary from projections made in forward-looking statements are set forth in Section E (Risk Factors) of Item 6 below.

<PAGE>

PART I

ITEM 1. DESCRIPTION OF BUSINESS

A. Overview

ePHONE was incorporated pursuant to the laws of the State of Florida, effective May 3, 1996, as IRA Fund Brokers Corp., changed its name to IFB Corp. on April 6, 1998 and on March 22, 1999, IFB Corp changed its name to ePHONE Telecom, Inc.

The development of ePHONE's current business plan essentially commenced as of June 2001. From the date of incorporation until November, 1998 ePHONE did no business and made no attempt to develop any business. From November 1998 until December 31, 1999, ePHONE focused its efforts on the review of business opportunities and from January 1, 2000 to June of 2001 focused on the development of the business model that was a precursor to the current business plan.

On March 31, 2000, ePHONE entered into a Strategic Alliance Agreement and License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with these agreements ePHONE acquired certain fixed assets from Array Telecom and obtained an exclusive license for all Voice over Internet Protocol technology that had been developed by Array Telecom for a period of five years.

The Array Telecom business model that was proved to be based on a technology that could not be economically implemented. This technology consisted of proprietary Voice Over Internet Protocol (VOIP) gateways, calling card and network management software that was intended to be used with customer premises equipment (CPE) VOIP gateways. Several contracts had been signed and the network was deployed in several European cities by the third quarter of 2000. After extensive testing was conducted, ePHONE concluded that the network provided inadequate quality and functionality. The system did not have an integrated billing capability. The third party billing solution being bridged to the proprietary system was too cumbersome to support the necessary day-to-day activities of billing, PIN generation and reporting. Further, no provision in the system could be made for the management of a network of CPE devices, which had needed to be managed as a separate billing entity. Furthermore, it was determined that the equipment supported a very limited set of telecommunications protocols, making it difficult or impossible to interconnect with other carriers.

ePHONE underwent an evaluation of alternatives, costs involved, probabilities of success and determined that it would be in the company's best interests to transition to state of the art technologies that were in production and could be deployed rapidly. In this regard, ePHONE made a strategic decision that the Array Technology systems should be integrated with Cisco and Sun Microsystems products with a Mind CTI billing system. The combination of cutting edge technology would immediately broaden the range of services that could be provided and allow ePHONE to compete in the retail and wholesale market. A new strategy was developed to overcome the deficiencies of the Array Telecom system and implementation commenced in May of 2001. The new network was then built in seventy-five (75) days and was generating revenue in 90 days.

Due to ongoing integration and migration issues, the viability of the Array technology as well as ePHONE's original strategy was questioned. The respective time and effort spent on the implementation of the two networks led management quickly to the conclusion that the Array network should be abandoned and to commit fully to a network based on Cisco equipment.

ePHONE commenced commercial operations utilizing the new strategy of a Cisco network in August of 2001 and has generated revenues of over \$3.5 million in 2001.

B. STRATEGIC PLAN

ePHONE's strategy is to become a next generation global facilities based marketing and sales oriented telecommunications carrier providing a full complement of telecommunications and data services utilizing the efficiency and reliability of new generation VOIP based telecommunication technologies.

<PAGE>

This entails operating as a wholesale carrier, interexchange carrier and as a retail services provider. Using a private Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), ePHONE has developed the capability to provide voice and data transmission and other telephony features at high quality and low cost. ePHONE's role as an Interexchange Carrier allows ePHONE to capitalize on inexpensive wholesale termination rates, which can be further leveraged into retail products in order to increase overall margins.

ePHONE has developed this strategy to take advantage of the current market conditions while positioning itself to accommodate future developments and trends. The key elements are simple individually but require the technology, management expertise and experience to take advantage of them. ePHONE believes it has gained a significant competitive advantage through its ability to:

- o Capitalize on the oversupply of bandwidth to continually build out and improve its network by utilizing leased lines to provide a reliable, high quality transmission facility. This is achieved with slightly higher cost than the cost of using the Internet as the transport medium while providing a managed network environment with superior call quality.
- o Utilize the latest standards based technologies to deploy a network capable of interfacing to both legacy networks (traditional telephone networks) and the variety of VOIP networks being deployed.
- o Introduce higher margin retail products such as ePHONE's Unlimited Domestic Calling Program, reseller program, proprietary products to enhance and provide ease of customer calling on the ePHONE network, DSL reseller program, 1+ dialing services and prepaid calling cards.
- o Build traffic volume through wholesaling minutes to other carriers.
- o Aggregate traffic to increase volumes to certain geographic destinations which results in decreased cost per minute.
- o Open new markets while decreasing termination costs. A distinct advantage of ePHONE's technology is the ability to rapidly and inexpensively deploy nodes or Points of Presence (POPs), which decrease the cost of terminating traffic as well as providing the opportunity to originate traffic.

ePHONE has developed a strategy that builds one element upon the other to decrease the company's costs of providing service while increasing market penetration. ePHONE also employs a channel distribution model based on the development of partnerships both domestically and internationally. ePHONE's philosophy is to create and sustain ePHONE as a facilities based marketing and sales oriented telecommunications company.

C. BUSINESS PLAN

ePHONE's plan is to become a global telecommunications carrier providing a full complement of telecommunications services, including a variety of retail services, wholesale arbitrage and data services, using Voice over Internet Protocol ("VOIP") technology over both the Internet and private leased circuits. ePHONE believes it can differentiate itself from the competition through innovative marketing approaches and techniques while utilizing state of the art technologies to provide a comprehensive array of competitive service offerings.

ePHONE's planned approach has four components:

- o Utilization of high quality fiber lines provided by leased circuits and use of the Internet where appropriate to carry telecommunications traffic and to link nodes in the network.
- o Deliver a range of innovative products and services using its network.
- o Compete as an interexchange carrier to ensure the most competitive rates are available for the retail products.
- o Develop direct international connections to further enhance our ability to compete in the wholesale market while further improving margins on retail products.

As of the end of fiscal year 2001 ePHONE had deployed two network nodes, New York and Herndon, and is supporting six revenue generating retail programs as well as wholesale arbitrage traffic. ePHONE is interconnected with 18 carriers for origination of revenue generating traffic and termination of traffic both domestically and internationally. The six retail programs consist of five calling card programs targeted at the US, Mexico, the Philippines, Israel and Africa and the "Unlimited" Program. The Unlimited Program is a telemarketing

driven domestic calling program providing unlimited continental US calling for \$54.90 per month.

<PAGE>

ePHONE's revenues for the fiscal year ending December 31, 2001 were \$3,589,840. With the exception of approximately \$500,000 generated from the sale of equipment in the first quarter of 2001, the revenue was generated from the new core business between August and the end of December.

ePHONE plans to introduce a new product in early Q2 of 2002 named eTRANSPORT ("eTRANSPORT"). The eTRANSPORT is a piece of equipment that is installed between the phone and the incoming phone line at the customer premises (CPE or Customer Premises Equipment). ePHONE's service to the customer is virtually the same as the 1+ long distance service, however it is prepaid with the added benefit of portability. The device is a transportable 1+ prepaid long distance service from phone to phone which allows call costs to be charged to the same prepaid service.

ePHONE has worked closely with the designer and manufacturer of eTRANSPORT and has integrated the device with our network. ePHONE has secured the exclusive rights to the version of the device that works with our network, which provides functionality and has a speed of connection that is faster than previous versions of the device. ePHONE is working with marketing entities to introduce the product to market through home shopping TV channels and large retail chains that are the after market distribution channels for products marketed "As Seen on TV".

ePHONE plans to position the service so the end user may save as much as 70% off their equal access based 1+ service. Currently, competitive long distance services are offered by service providers, who require the customer to sign an agreement in which the service provider then uses as authorization to order the carrier providing the actual circuits to the customer's premises to route all long distance calls to that service provider. The approach ePHONE is taking does not require any inter carrier or service provider coordination. The customer can use ePHONE's service regardless of which long distance carrier they are currently using, and they do not need to change carriers or inform them that they are using the ePHONE service.

ePHONE believes its aggressive approach to marketing and sales is as important as the technologies being employed. ePHONE has assembled a management team with diverse telecommunications experience and expertise. ePHONE is committed to staying at the leading edge of telecommunications and information technologies but believes its real competitive advantage will be sustained through a creative and innovative approach to acquiring and maintaining customers and channel distribution partners.

ePHONE plans for 2002 and beyond are to continue to build its network capacity, geographic coverage and utility while continuing to introduce new products and services. ePHONE's wholesale activities are focused on two fronts: increasing the support of different telecommunications protocols and pursuing international direct interconnections. Direct interconnections are located either over the Internet, or where economically feasible, over leased circuits to ePHONE's or a partner's equipment located in other countries. ePHONE believes the termination rates obtained through "directs" will lower termination costs which in turn will increase margins on both wholesale and retail programs. The development of direct interconnections is the focus of the franchise program wherein partners are solicited to install equipment in their own country but the equipment becomes a part of the ePHONE network and the revenues generated by the equipment are shared.

D. NETWORK

ePHONE believes the development of IP telephony as a viable technology for providing telecommunications services is significant not only because of the

reduction in costs, but also because of the enhanced services that it facilitates. Unlike legacy telecommunication systems, which are currently used by most providers of telecommunications services, IP telephony systems are open, and thereby, allow the integration of numerous services on a single platform. This integration provides significant cost advantages. Inherent in the conversion of voice to data over an IP network is an effective and efficient compression of the conversation. Effectively this means an increase in utilization of bandwidth or capacity, which translates into a decreased cost.

ePHONE's plan is for their network to be deployed worldwide, and it will consist of the following main elements:

- o The use of a high quality IP backbone provided by a combination of leased lines and the Internet to carry telecommunications traffic and to link nodes in the network.
- o Strategically placing nodes in the network that interface with end-users and provide the actual services ePHONE will offer Points of Presence (POPs).

<PAGE>

- o Co-location of Nodes in special facilities to allow low cost interconnection to a variety of PSTN and IP network providers.
- o Global Network Management Center (GNMC). From this centralized point of command, ePHONE's technical staff will use their best efforts to ensure uninterrupted operation of ePHONE's network and services. The GNMC will also serve as a collection point for billing information used in invoicing for services rendered.

1. IP Backbone

In order to deliver high quality voice services that are comparable to traditional public telephone services, ePHONE requires a high quality IP backbone to carry traffic between its POPs. Currently, ePHONE is utilizing a 100 megabit per second dedicated IP bandwidth from Cogent between POPs.

The technology ePHONE employs allows the use of international and domestic private leased circuits until a more economical transport mechanism is available and provides the flexibility to move to new technologies as they evolve and become practical. Because of a VOIP technology called Real Time Protocol "RTP" header compression, the use of private leased circuits allows ePHONE to double the amount of traffic ePHONE can carry over a given bandwidth of circuit. This technology enables ePHONE to realize even more savings in the transport of traffic than an Internet only competitive carrier.

2. Points of Presence (POPs)

In each region where ePHONE establishes a presence, equipment will be deployed. Each POP will interface to the IP Backbone in order to provide the numerous services that ePHONE intends to offer. The key components of each of our POPs will be the following:

- o Network routers used to connect the POP as a whole to the IP backbone. These routers will allow access to our IP backbone by any device that is part of the company network. Such devices include gateways, and other sub-components of our switch.
- o The PSTN/IP gateway that serves as the interface between the local PSTN (or other traditional telecommunications provider) and our IP backbone. This VOIP gateway is the bridge between our network and the existing public telephone network.

Application servers are used to deliver actual services to the end user. Similar

to a web server, application servers will be used to host the applications that end users interact with. These servers are centrally located and accessed by the POPs either over the Internet or via the ePHONE network.

ePHONE proposes to deploy 4 more POPs during the course of 2002, Los Angeles (installed during Q1) Miami, London and Frankfurt. These six POPs will form the core of ePHONE's network. A second tier of POPs placed under the auspices of the franchise program is intended to provide direct termination to and access from various countries where the placement of such POPs are technically feasible and economically profitable. ePHONE expects to be able to place an additional 15 local access POPs per year under its Franchise and Partnership program. (Section J: Partnership Programs)

3. Global Network Management Center (GNMC)

The GNMC is the centralized command center from which ePHONE's technical staff manages the various components of the network, as well as all other services being provided. The GNMC is staffed 24 hours a day, 7 days a week. The GNMC, which is connected to the network via a high-speed dedicated IP connection, will provide the following services:

- o Real-time collection of call detail record (CDR) information from all ePHONE POPs.
- o Consolidation of all billing information generated by ePHONE POPs located throughout the network.
- o Back office functions such as account setup, management, termination, and billing.
- o IP network monitoring, to ensure, to the extent possible, that the IP backbone delivers consistently high quality performance and results.
- o Monitoring of each POP in the network to ensure availability. Such monitoring will not be limited to monitoring on the IP network, but also PSTN availability of a given ePHONE POP.

<PAGE>

- o Monitoring carrier interconnects to ensure adequate quality of service and availability of termination to the contracted destinations.
- o Deployment of new services to ePHONE POPs.
- o Bandwidth monitoring and planning activities to determine the appropriate timing and structure of improvements to our network infrastructure.
- o Coordination of the deployment of new ePHONE POPs, and extensions of the IP backbone to include new regions.

The GNMC is fully established and operational and is located in ePHONE's corporate headquarters in Herndon, Virginia.

E. MARKETING

ePHONE plans to offer a wide range of telecommunications services to carriers and end users throughout the world. The fundamental service that ePHONE will provide is the ability to reduce telecommunications costs through the use of IP telephony technology. In order to provide such services economically, ePHONE will utilize a worldwide IP network that will be used to transmit calls. ePHONE's network will handle long distance traffic, both for carrier customers, and for calls between our retail customers and the larger population connected to the public switched telephone network (PSTN).

ePHONE believes companies such as ITXC, iBasis, and Net2Phone have demonstrated the viability of selling long distance telephone services using IP telephony technology. However, ePHONE plans to offer significantly differentiated retail products and services. We believe there are three broad categories in which ePHONE delivers services that are more compelling than the straightforward long distance calling services being offered currently by IP telephony carriers.

These categories are:

- o Marketing differentiated services.

These products are differentiated more by how they are distributed and sold than the underlying technologies. Moving telephony services into mass marketing channels and adapting the products either technically or commercially to offer an innovative product tailored to the specific distribution channel is what distinguishes these products from other offerings. Examples of this are the Unlimited Program and the soon to be launched eTRANSPORT program.

- o Enhanced services.

Through integration of IP telephony products based on open standards, ePHONE plans to provide a significantly greater depth of services beyond simple long distance calling, including services such as international roaming, roaming 1+ dialing, online billing and verification. Because of the open architecture, ePHONE is also positioned to add services such as unified messaging, "Follow Me" and "Find Me" services in the very near term.

- o Access technology.

At present, the only means provided by IP telephony carriers to access their networks, is an access number that must be manually dialed. While companies using IP telephony products enjoy one-stage dialing, they are required to deploy their own networks in order to do so, and as a result, can typically only call between area codes where they have Points of Presence (POPs). ePHONE, in conjunction with our partners, has developed the capacity for access devices to be used in addition to the normal PSTN-based access methods. These devices will allow ePHONE to deliver services providing an ease of use only seen with 1+ service.

F. PRODUCTS AND SERVICES

- o Specialty Products

These services are customized to the requirements of a specific distribution channel or marketing program. Examples of these programs are the Unlimited Program and the soon to be launched eTRANSPORT product.

<PAGE>

These products are driven by the marketing approach rather than technology. The underlying technologies are standard prepaid services, however, the marketing approach or channel differentiates the product and thereby creates a competitive advantage resulting in high margins.

For example, eTRANSPORT, an exclusive patented device with a microchip that does not require a separate power source, is used to produce a product that works for all practical purposes the same as a 1+ dialing program. In addition, the product is mobile since it can be used from almost any 1 or 2 line phone in the domestic US.

As the network is expanded ePHONE believes these products can be exported to international markets thus leveraging the development effort that has gone into the definition and launch of the product in the US.

- o 1+ and ISDN services

ePHONE is currently developing these products for introduction in Q3 of 2002. They require ePHONE to become licensed as a CLEC (Competitive Local Exchange Carrier) in order to provide services in specific geographies. ePHONE intends to develop a true retail base that can be developed as a market for other value added products. The resale of another service provider's fixed network services allows us to "own" the customer as ePHONE becomes responsible for monthly billing and customer service.

- o Prepaid Calling Cards

Since each POP is capable of providing interactive voice response ("IVR"), balance announcements, real-time billing with automatic cutoff and other key features, no additional investment is required in order to use the network to provide prepaid calling card services.

Prepaid calling cards offer a range of products targeted at different markets and distribution channels. Competitive rates and extensive distribution channels allow cards to be tailored to each of these markets:

- o Local Community Cards

Targeted at local community calling groups with specific calling destinations distributed through small retail stores or neighborhood contacts.

- o Promotional Cards

Cards sold to a corporate entity to promote their product as a promotional item.

- o Travel Cards

These cards allow a consumer to make calls from a number of specified countries at rates that are lower than the consumer would otherwise be required to pay.

- o NPO - non profit organization products

These products are tailored to the "affinity" market. They provide an alternative revenue source for non-profit organizations.

- o International Cards

As second tier local access POPs are put in place, franchise partners are able to market their own prepaid products in the call originating country.

- o Customized Online Billing

Because ePHONE's network is built on Internet Protocol (IP) technology, it is able to deliver transactional and e-commerce applications identical to those used by web-based retailers. Since all POPs collect billing information in real-time, with immediate transmission of billing information to the GNMC, ePHONE is able to provide online services, such as, allowing a customer to review their bills, sign up for new plans and services, or make changes to existing services. This service also provides immediate feedback to end users on the benefits and savings.

This service has been further extended with the addition of an IVR (Interactive Voice Response system) that provides similar services for users over the phone,

allowing them to sign up for new services and providing information on the status of their accounts.

<PAGE>

G. INTEREXCHANGE CARRIER AND DIRECTS

ePHONE believes the provision of competitive retail products is dependant on its ability to obtain competitive rates from suppliers. ePHONE believes it can obtain these competitive rates by positioning itself as a wholesale service provider and an interexchange carrier. ePHONE buys from carriers and sells to other carriers with the intent of making a margin on the transaction.

Providing these services allows ePHONE to increase traffic volumes as well as making bilateral arrangements for both the origination and termination of traffic with a specific carrier, thereby, reducing the financial exposure in both directions. ePHONE believes this also increases the number of carriers with whom ePHONE can contract.

ePHONE has established relationships with a base of carriers who provide services ranging from local access, 800 access and international terminations. ePHONE has established contractual relationships with Global Crossing Bandwith, Inc., Teleglobe U.S.A., Bell South Long Distance, Encore Telecommunications Inc. (Vonova), Intelco Communication (Cescom), MCI-Worldcom, and several other carriers. The relationship with other carriers is very dynamic and requires an ongoing presence in the market to track rates and develop relationships as new routes or more competitive rates become available.

The interconnection with other carriers is being done at our facilities in New York and Los Angeles. ePHONE is located in a carrier hotel that provides local access to a number of carriers and inexpensive access to local loops in New York and Los Angeles that can be used to interconnect with virtually any carrier located in the city. These interconnections are done via leased lines between switches. ePHONE is also using the Internet to connect to some carriers whose switches are not located in New York or Los Angeles.

ePHONE has established a network of interconnections that is sufficient for the current business plan purposes and can increase its capacity within days. ePHONE can terminate calls to any destination in the world and has very competitive rates through contracted carriers for access and egress in the domestic US. ePHONE is able to offer competitive products in the retail market and to terminate traffic on behalf of other carriers competitively.

A number of the larger carriers (tier 1 carriers) were not available during 2001 as prospective customers because ePHONE did not support SS7. SS7 is a signaling protocol that has been adopted as a standard by many of the larger carriers and all suppliers to large carriers have to support SS7. ePHONE purchased the SS7 equipment and software needed to support SS7 and completed installation during the second quarter of 2002. This has opened to ePHONE a more lucrative market since may tier 1 carriers require the support of SS7 with carriers they interconnect to.

ePHONE believes it can further improve its rates to international destinations by interconnecting with carriers or service providers in those international locations. This is the focus of ePHONE's franchise program. It encourages companies in international locations to install compatible equipment and provide access to the local telephone network (PSTN) and to become part of the ePHONE network. These "directs" bypass intermediaries and allow ePHONE to benefit from lower termination rates as well as providing access for retail products in that location.

H. SUPPLIERS

A significant amount of technology and management experience was required to create the network and deliver services to end-users. Although ePHONE may need to find the technical expertise to create some systems, its strategy is to enhance the current technology team by partnering with other companies that provide the required technology and can meet ePHONE's requirements. A list of the partners and suppliers that ePHONE uses are:

- o Cisco Systems, Inc.

The equipment used in ePHONE's POPs is virtually all Cisco manufactured. Cisco offers an extensive array of VOIP products, IP routers and switches. These products can be combined in a variety of different ways to provide the desired network functionality. ePHONE's technology team believes they have developed an architecture that provides superior functionality and flexibility. This architecture has been propagated throughout ePHONE's core network.

<PAGE>

- o Mind CTI, LTD

Mind CTI is an Israeli company that has developed a billing system used in both data and voice applications. It also provides access control, authorization and configuration capabilities. It allows ePHONE to define a hierarchy of relationships between carriers, distributors, service providers and anyone else with whom ePHONE deals with to provide services, either as a customer or provider. The Cisco equipment handles the routing and sending of traffic while the Mind CTI system keeps track of what happened throughout the network and what the cost was and who should be charged.

- o Immix Telecom, Inc.

Immix is a Florida corporation selling autodialers and other access devices. Immix produces the device being used for the eTRANSPORT program. ePHONE has developed a very close working relationship with Immix that has allowed ePHONE to closely integrate the eTRANSPORT with the ePHONE network to provide seamless customer access. ePHONE's contract with Immix provides for an exclusive right to distribute the specific device ePHONE has developed in conjunction with Immix.

- o Switch and Data

ePHONE has contracted with Switch and Data to provide co-location facilities in New York, Miami and Los Angeles. Switch and Data operates "Carrier Hotels" which are facilities set up to provide a location to house telecommunications switches. They possess all the attributes required in the form of security, uninterruptible power, air conditioning and proximity to other carriers and telecommunications facilities.

- o Carriers

As an interexchange carrier ePHONE interconnects with a number of other carriers. These relationships are fluid, depending on where ePHONE can obtain the best rates and to whom ePHONE can sell rates at any given point in time. Though other carriers as a group are extremely important to ePHONE, no one carrier is in a position to be considered critical to ePHONE's success.

I. COMPETITION

The market for Internet voice, fax and other value-added services is competitive. Internet protocol and Internet telephony service providers, such as ITXC Corp., route traffic to destinations worldwide and compete directly with

ePHONE, along with Internet telephony service providers Net2Phone. In addition, major telecommunications carriers, such as AT&T, Deutsche Telekom, MCI WorldCom and Qwest Communications, have all entered or announced plans to enter the Internet telephony market. Many of these companies are larger than ePHONE and have substantially greater managerial and financial resources than we do. Competition in ePHONE's markets can be expected to continue and may adversely affect our profitability. ePHONE cannot assure that we will be able to compete successfully against competitors and may lose customers or fail to grow our business as a result of this competition.

For the present, the following companies focusing on the use of VoIP technology are our main competitors:

- o The Internet Telephone Exchange Carrier (ITXC)

ITXC is a clearinghouse for Internet telephony service providers and operates ITXC.net. Since April of 1998, ITXC has been used to provide traditional carriers' international call completion with sufficient quality for carriers to serve their phone-to-phone customers. ITXC has reportedly installed 167 POPs in 45 countries and 101 cities.

- o iBasis

iBasis was founded in 1996 to provide Internet Protocol (IP) telephony service to telecommunication carriers around the globe. The company has POPs in Asia, Europe, the Middle East, and the Americas. iBasis is in wholesale Internet telephony service.

- o Net2Phone

Net2Phone began as a subsidiary of IDT Corporation and is a provider of voice over public Internet communications services. Net2Phone enables its customers to place telephone calls from their computers, telephones, or fax machines to any telephone or fax machine in the world. By routing calls via the public Internet, Net2Phone enables users to save money on their international phone rates. Net2Phone developed a proprietary Gateway technology for IP voice services offered by the company.

<PAGE>

Net2Phone's product offerings include PC-to-phone service, IP telephony service for phone or fax and Real-time PC-to-fax solution. Its network currently reaches 30 countries and expects to be operational in 25 additional countries by the end of 2002.

- o DeltaThree

Founded in 1996, DeltaThree manages a network dedicated to the transmission of voice over IP. Its services include PC-to-phone, unified messaging, global access calling cards, and voice greetings accessible from the company's communications portal. DeltaThree currently operates a network of 37 international POPs.

J. PARTNERSHIP PROGRAMS

A key element in our overall ePHONE strategy is the Partnership Program. ePHONE's Partnership Program is designed to facilitate the rapid deployment and sales of products and services with a minimum capital investment by ePHONE. There are two elements to our Partnership Program, the Franchise Partner Program and the Sales Agent Program.

- o Franchise Partner Program

The Franchise partner program focuses on the rapid expansion of our network. The program is designed to allow interested parties to participate in the deployment

of ePHONE's network by providing capital used to locate an ePHONE POP in a given area. Once that POP is deployed, ePHONE's Franchise Partner then performs marketing of our services, taking a share of any profits generated by that ePHONE switch.

o Sales Partner Program

Under this program, ePHONE recruits resellers who make no capital investment but specialize in selling services. Sales Partners are required to commit to minimum sales targets for each of our services that they sell. However, Sales Partners will be paid a commission based on sales.

K. GOVERNMENT APPROVALS AND REGULATIONS

ePHONE is currently in possession of a Federal Communications Commission 214 license which allows ePHONE to provide telecommunications services in the United States and as an international carrier. ePHONE has obtained, has filed for, or is in the process of filing for licenses with the individual states within the domestic US for provision of intrastate services.

ePHONE's need for licenses in other countries will depend on whether ePHONE operates as a foreign company in those locations or whether ePHONE partners with licensed local partners.

L. PATENTS, TRADEMARKS AND ROYALTY AGREEMENTS

ePHONE does not have any patents, trademarks, licenses or protective agreements. ePHONE has trademarked its logo in Canada.

M. RESEARCH & DEVELOPMENT ACTIVITIES

ePHONE is not undertaking any pure research and development. ePHONE's activities in this respect consist of working with the products ePHONE has purchased and licensed from suppliers in order to integrate them into a network and back office. In this effort ePHONE has found it necessary to develop tools and processes for its own use in the administration and management of the Network. These activities will continue as its business requirements grow and change.

N. EMPLOYEES

As of December 31, 2001, ePHONE had 20 full-time employees in the Virginia office, including 2 in Development, 7 in Network Operations, 5 in Marketing and 6 in Administrative and Accounting. In addition, ePHONE had 9 part-time employees and 1 individual providing service to us as independent consultant. As ePHONE's business and development efforts expand, additional personnel will be engaged, either as employees or as contract service suppliers.

P

ITEM 2. DESCRIPTION OF PROPERTIES

ePHONE leases approximately 7,400 square feet for the principal executive offices, which are located at 1145 Herndon Parkway; Suite 100, Herndon, Virginia 20170. Base rent for the current premises is approximately \$14,500 per month subject to annual increases of three percent. The lease requires ePHONE to pay a portion of the property taxes and certain operating expenses. Management believes that the current and anticipated facilities are suitable and adequate for operations.

ITEM 3. LEGAL PROCEEDINGS

Litigation with former officer

Mr. Charles Yang joined ePHONE in July 1999, as President and Chief Operating

Officer in part due to Mr. Yang's strong representations that he could bring to ePHONE extensive business connections, and that those connections could be converted into sales for ePHONE. The Board subsequently concluded that Mr. Yang did not have the potential that they originally believed he had - which is part of the reason for the breakdown of the relationship with Mr. Yang. For further information regarding ePHONE's relationship with Mr. Yang, see Section B of Item 12 below.

Mr. Yang ceased providing services to ePHONE as of January 31, 2000. Mr. Yang's positions as President and Chief Operating Officer of ePHONE were formally terminated March 9, 2000.

During 1999, ePHONE accrued a liability totaling \$300,000 in connection with a settlement offer made to Mr. Yang to resolve this matter. On March 23, 2001, the Company entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Mr. Yang to resolve all claims and disputes between the Company and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from the Company. Pursuant to the terms of the Settlement Agreement, the Company agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of the Company's common stock.

ePHONE did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to pay Mr. Yang an additional \$75,000 and issue an additional 100,000 shares of our common stock. The \$225,000 due Mr. Yang as of December 31, 2001 will be paid in 30 monthly installments of \$7,500, beginning in 2002.

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Other than disclosed above, ePHONE is not involved in, nor has knowledge of, any threatened or pending legal proceedings against it.

<PAGE>

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on December 12, 2001. There were two agenda items submitted to a vote of security holders:

1. Election of Mr. Shelly Kamins to the Board of Directors and reelection of Mr. Robert Clarke, John Fraser, Charlie Rodriguez and Carmine Taglialatela to the

Board of Directors.

2. Proposal to ratify Grant Thornton, LLP as ePHONE's independent public accountants for fiscal year 2001.

The result of the voting stockholders were as follows:

<TABLE>

<CAPTION>

1.	Directors	Clarke	Fraser	Rodriguez
	-----	-----	-----	-----
<S>		<C>	<C>	<C>
	Against	1,000	3,000	0
	For	17,251,827	17,249,827	17,252,827
	Abstain	22,550	22,550	22,550
2.	Proposal	For	Against	Abstain
	-----	---	-----	-----
		17,262,177	5,200	8,000

</TABLE>

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 12, 2000 and prior to December 15, 1999, the common shares did trade and currently trades on the OTC Bulletin Board - under the symbol "EPHO". From December 15, 1999 until June 11, 2000, the common shares traded on the National Quotation Bureau's Electronic Quotation Service (the "Pink Sheets") under the symbol "EPHO". Shares of the common stock do not trade on any stock exchange or any other market.

The following table sets forth the closing high and low bid prices of the common stock for each quarter within the last two years as reported by publicly available sources to which ePHONE has access. The quotations reflect inter-dealer prices and do not represent retail mark-ups, markdowns, commissions, and may not reflect active transactions.

Market Information

<TABLE>

<CAPTION>

2000:

<S>

First Quarter.....
Second Quarter.....
Third Quarter.....
Fourth Quarter.....

2001:

First Quarter.....
Second Quarter.....
Third Quarter.....
Fourth Quarter.....

</TABLE>

As of December 31, 2001 there were 204 holders of record of the common stock. This does not reflect persons or entities that hold stock in "Street" name or through various brokerage firms.

<PAGE>

ePHONE has not paid any cash dividends on common stock and at present does not intend to pay cash dividends in the foreseeable future. ePHONE plans to retain

earnings, if any, to use in the operation of the business and to fund future growth.

Unregistered Securities

During February 2002, ePHONE issued 10,000 shares to Rudy Ryckewaert in exchange for consulting services rendered valued at \$2,200.

During March 2001 and January 2002, ePHONE issued 500,000 shares of common stock to Mr. Charles Yang in connection with a settlement agreement further described in legal proceedings.

During November 2001 and January 2002, ePHONE issued 200,000 shares of common stock to Mr. Kuba Farbiarz in exchange for marketing consulting services rendered.

During November 2001, ePHONE issued 538,973 shares to PITRFA, Inc, in connection with a marketing and distribution agreement.

The issuances were made pursuant to available exemptions from the registration provisions of the Securities Act of 1933, as amended (specifically, Section 4(2) of the Securities Act) and relevant Blue Sky statutes.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Fiscal Year 2001 was one of transition for us. Management's decision in the second quarter to introduce Cisco equipment and to begin implementing a private network, as opposed to exclusively using the Internet for transport, proved to be fundamental to the generation of our telephony based revenues. We began carrying production traffic, both wholesale and retail in the third quarter of 2001. This major milestone marked the first time we have produced revenue from the provision of telecommunications services in our history.

Our core strategy had been to deploy and manage a global Internet telephony services network using the Array series of products and customer premises equipment (Business Direct and Business Connect services). The Array network, after more than 12 months of effort was not able to support production traffic. This called into question the viability of the Array technology as well as our original strategy. The respective time and effort spent on the implementation of the network led management quickly to the conclusion that the Array network must be integrated and a migration strategy developed for a network based on Cisco equipment.

Our decision to deploy the new network was based on several underlying factors described in Part I Item I Business, that were seen as providing a broader based business strategy and one that worked in conjunction with our original plan. It also surpassed the Array network in areas where it was deficient, primarily carrier interconnectivity and billing functionality. Our new network has provided supplemental revenues by allowing wholesale arbitrage and increasingly competitive rates for the retail programs being deployed.

Our new network was deployed and brought into production in 75 days.

Results of Operations - Years ended December 31, 2001 and 2000

Our net loss and net loss per share were (\$7,021,000) and (\$0.28) and (\$13,701,000) and (\$0.94) and for the years ended December 31, 2001 and 2000, respectively.

<PAGE>

During the third quarter in 2001, we began recognizing revenue under our

"Unlimited Program" telecommunications program and our wholesale strategy. This coupled with the significant reduction of non-cash general and administrative costs during 2001 compared to 2000 were the primary reasons for the significant decrease in our net loss

Revenues

Revenues increased from \$590,000 in 2000 to \$3,590,000 in 2001. The majority of the increase is attributed to the Company's "Unlimited Access" Program and our wholesale strategy, which began in mid August. These programs accounted for 86% of ePHONE's revenue for the year ended December 31, 2001 and did not account for any revenue during 2000. During December 2001, cash collections of \$367,000 were considered pre-paid and are reflected in the Current Liability section of the Balance Sheet as "Deferred Revenue". As ePHONE continues to focus on retail and wholesale offerings, sales of equipment are not expected to be significant in the future. The \$513,000 revenue from the sales of equipment in Q1 of 2001 is not likely to reoccur.

Cost of Revenues

Cost of Revenues increased from \$412,000 in 2000 to \$2,501,000 in 2001. For the year ended December 31, 2001, cost of goods sold represented commissions, activation fees and processing charges related to our telecommunications services program. Prior to the third quarter of fiscal year 2001, cost of goods sold was related to telecommunications equipment sales. Gross margin for the year ended December 31, 2001 and 2000 was 30%. Our gross margin percentage will likely fluctuate higher in the future due to changes in our sales mix.

Sales and marketing

Sales and marketing expense decreased from \$1,853,000 in 2000 to \$1,212,000 in 2001. During 2000, our sales and marketing expenses included compensation paid to consultants for market studies and competitive intelligence of the Internet telephony market place in several countries where we were deploying our network. There were no similar expenditures incurred during 2001. Currently, sales and marketing expense consists primarily of marketing commissions and salaries.

General and administrative

General and administrative expense increased from \$4,787,000 in 2000 to \$5,485,000 in 2001. We expect general and administrative expenses to level off or decrease in the future. Due to our changes in the business plan, non-recurring expenses related to the write off of the Array Telecom license in the amount of \$1,180,000 were incurred in 2001.

Write-off of Array Telecom License

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required us to pay additional minimum royalty fees for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years.

<PAGE>

The shortened life gave rise to a deferred royalty obligation representing the

difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments, which were scheduled to be made over a five-year period.

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial has responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 accrued royalties plus interest. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 during the year ended December 31, 2001.

We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License and related assets and liabilities of \$1,180,000 at December 31, 2001.

Income taxes

There was no provision for federal or state income taxes for the period from our inception due to our operating losses. At December 31, 2001, we had net operating loss carryforwards for income tax purposes. A valuation allowance has been established and, accordingly, no benefit has been recognized for our net operating losses and other deferred tax assets.

Results of Operations - Years ended December 31, 2000 and 1999

Revenues

During fiscal year 2000, ePHONE introduced its Array Series 3000 gateway to the market. The Company earned \$590,000 in revenue from the sale of these gateways to equipment customers during 2000. One customer purchased approximately 90% of the gateways ePHONE sold in 2000. ePHONE had no revenue during 1999.

Cost of Revenues

The cost of the Array gateways sold during 2000 totaled \$412,000, which represents a gross margin of 30%.

Sales and Marketing

Sales and marketing expense increased \$1,631,000, from \$219,000 in 1999 to \$1,853,000 in 2000. This increase in selling and marketing expenses is attributed to the introduction of the Array Series 3000 gateway to the marketplace and costs incurred by ePHONE in its preparation for the deployment of its global Internet telephony network. Such costs included cash amounts paid to consultants of \$1,050,000 for market studies and competitive intelligence of the Internet telephony marketplace in several countries in which ePHONE is deploying its network. The Company also issued stock options and warrants with a value of \$903,000 to these consultants and have included this amount as an expense in the statement of operations as non-cash compensation.

General and Administrative

General and administrative expenses increased \$3,818,000 from \$969,000 in 1999 to \$4,787,000 in 2000. The increase is attributable to increased costs incurred on research and development associated with the development of ePHONE's network, software support and development fees, royalties associated with the Array Technology license agreement, and increased legal and accounting fees associated

with raising capital to fund operations. General and administrative costs for 2000 included \$666,000 of amortization and depreciation expenses related to amortization of the Array technology and depreciation of equipment. Also included in 2000 general and administrative costs is \$1,030,000 of one-time costs incurred in connection with signing bonuses that it paid to certain employees of Comdial when it acquired the Array technology totaling \$350,000 and a payment of \$680,000 to ePHONE Technologies, Inc., a company formed by the certain executive officers which were terminated in December 2000.

<PAGE>

Non-Cash Compensation

Non cash compensation represents the value assigned to equity securities issued to employees and non-employees in exchange for services as follows.

<TABLE>

<CAPTION>

<S>

Stock options and warrants issued to consultants (see "Sales and Marketing")	<
Stock options issued to executive officers	\$
Stock issued to former executive officers and consultants	

\$

</TABLE>

- (1) During 2000, ePHONE granted options to two executive officers which vested on the date of grant and had a fair market value on that date of \$2,864,000. These two officers terminated their employment with the Company during late 2000, and the stock awards were cancelled as provided in their separation agreements.
- (2) ePHONE issued 3,666,488 shares of its common stock to former executive officers and consultants of the Company who would have been eligible to receive shares of common stock under the performance share plan that was cancelled by the Company.

Liquidity And Capital Resources

Since December 31, 2001, we have raised \$690,000 from the exercise warrants we had issued in connection with the sale of special warrants in 1999 for the purchase of 3,448,913 shares of our common stock. On March 30, 2002, the warrants for the purchase of 9,115,161 shares of our common stock expired unexercised. The proceeds from the exercise of these warrants, along with our operations during the first quarter 2002 increased our cash from \$36,000 at December 31, 2001 to \$684,000 at March 31, 2002, and improved our working capital deficiency from \$1,621,000 at December 31, 2001 to a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 at March 31, 2002.

Since we commenced commercial operations utilizing our new strategy based upon a Cisco-based network in August of 2001 we have generated service revenue of over \$3,000,000 from August to December 2001. In the first quarter of 2002, we billed and collected approximately \$4,900,000. Our liquidity continues to improve and as of April 11, 2002 we had a total of \$1,273,000 of cash on hand. We plan to expand our current products and services in 2002 and introduce new products and services. We have been successful in generating net income from operations since we deployed our new Cisco-based network in August 2001. Our anticipated future cash flows from operations is largely dependent upon our ability to achieve our revenue and gross profit objectives from our current products and services and introduction of new products we plan to launch in 2002. We believe that based on our current level of operations, the cash flows we are generating from operations together with the \$690,000 we received from the exercise of warrants described above is sufficient for our current operations.

It is important to point out that since our inception, we have accumulated a deficit of \$22,341,000, and that we funded our operations, prior to our generating service revenues beginning in August 2001, primarily with the proceeds we raised in our special warrant offering in 2000, from the exercise of warrants during 2001 of \$305,000, and from limited equipment sales. We do not currently have a line of credit or any other credit facility available to us.

While our service revenue sales continues to increase during the first quarter of 2002, and while management anticipates that growth in service revenue will continue in 2002, we cannot assure you that this will happen. Future prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the telecommunications industry. To address these risks and achieve profitability and increased sales levels, we must, among other things, continue to establish and increase market acceptance of our products, respond effectively to competitive pressures, offer high quality customer service and support, and successfully introduce, on a timely basis, new products and enhancements of our existing products.

<PAGE>

We anticipate, based on our present plans and assumptions, that our current cash balances and projected level of 2002 operations will be sufficient to enable us to sustain our current and planned operations for at least the next 12 months, and will not need to raise additional funding. However, we cannot assure you that this will hold true.

For the year ended December 31, 2001, we used \$3,747,000 of cash for our operating activities. The principal differences between the cash we used in operations and our 2001 net loss of \$7,021,000 were (i) reduction for non-cash expenses including depreciation and amortization and stock issued for compensation; (ii) increases in our accounts payable and deferred revenue balances; and (iii) the write-off of our Array Telecom License and the disposal of obsolete inventory and equipment in December 31, 2001.

For the year ended December 31, 2001, investing activities provided \$1,960,000 of cash as a result of the redemption of \$2,194,000 of marketable securities and release of \$520,000 of restricted cash, offset by payments to purchase fixed assets. Our financing activities generating \$305,000 in cash from the exercise of stock purchase warrants for the purchase of 848,243 shares of our common stock.

For the year ended December 31, 2001, we had a net decrease in cash from operating, investing and financing activities of \$1,490,000. At December 31, 2001, we had \$36,000 of cash and a working capital deficit of \$1,621,000.

We have one equipment commitment totaling \$46,000 for a Sun Microsystems server which expires in July 2003.

On April 20, 2000, we closed an offering of Special Warrants, receiving net proceeds of approximately \$12,205,000. The total number of Special Warrants we sold in that offering was 13,780,837. The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they held by the same percentage ("Redemption Right"). In addition, each special warrant holder received an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of March 31, 2001, all special warrant holders exercised their Redemption Rights, and we returned \$1,895,000 to these investors. We completed the registration of our common stock in Canada, and our investors exercised their special warrants causing us to issue 13,436,317 shares

of our common stock and warrants to purchase 13,436,317 shares of our common stock for \$1.60 per share.

During the year ended December 31, 2001, we raised \$305,000 from the exercise of warrants for the purchase of 848,243 shares of our common stock.

During the third quarter of 2001, we decided to provide our warrant holders with an enticement to exercise their warrants by reducing the exercise price of the warrants we issued on the exercise of the special warrants and for all other outstanding warrants from exercise prices ranging between \$1.60 - \$0.50 per share to \$0.35 per share. We further reduced the exercise price of the warrants to \$0.20 in 2002 to better reflect the market price of our common stock. As noted above, during 2002 warrant holders exercised warrants for the purchase of 3,448,913 shares of our common stock for \$690,000.

Stock Compensation Activity During 2001

On February 14, 2001, the Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered under a consulting agreement. The stock options have an exercise price of \$0.50, vested immediately and expire in three years. The market value of our common stock at the grant date was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the quarter ended March 31, 2001.

<PAGE>

As further described in Legal Proceedings, we entered into a Settlement agreement with Charles Yang on March 23, 2001. Pursuant to the terms of the agreement, we agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock. We recorded \$180,000 in expense related to this settlement during the three months ended March 31, 2001. The fair value of the stock issued was \$80,000 and is recorded as non-cash compensation in the statement of operations. We did not make the required payments to Mr. Yang by July 23, 2001 and therefore were required to issue an additional 100,000 shares of our common stock in accordance with a Modification of the original Settlement Agreement entered into between us and Mr. Yang. The fair value of the additional shares totaled \$30,000 and is recorded as non-cash compensation in the December 31, 2001 statement of operations.

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement ("Agreement") with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the Agreement, PITRFA will market and distribute ePHONE's prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the

issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PITRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of the Agreement.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer's stock option agreement from March 31, 2002 to October 1, 2002.

Stock Compensation Activity During 2000

On May 5, 2000, the Board of Directors adopted the 2000 Long-Term Incentive Plan and reserved 6,000,000 shares of common stock for issuance under the Plan. During 2000, ePHONE granted 1,500,000 stock options to two officers of ePHONE, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, ePHONE recorded compensation expense totaling \$2,865,000. These two officers terminated employment with ePHONE in December 2000 and a total of 6,747,307 stock options were cancelled as provided for in the officers' Separation Agreements. The balance of 5,247,307 stock options did not vest during the year and hence did not have any impact on the financial statements. On May 9, 2000, ePHONE granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

<PAGE>

On May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, ePHONE granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and has been recorded by ePHONE as non-cash compensation included in general and administrative expense during 2000.

On July 12, 2000, ePHONE's Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of ePHONE common stock would have been issued. Concurrently, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of ePHONE common stock in consideration to certain individuals who would have been eligible to receive shares of common stock under the performance share plan. ePHONE recorded a \$3,700,000 charge related to the granting of these shares of common stock.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is

effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

Risk Factors

The risks and uncertainties described below are not the only ones facing the company. Additional risks not presently known or that ePHONE currently considers insignificant may also impair ePHONE's business operations in the future. ePHONE's business, financial condition and plan of operations could be materially adversely affected by any of the following risks. The trading price of shares of ePHONE's common stock could decline due to any of these risks.

- o The market for ePHONE's common stock is limited

There is currently only a limited trading market for ePHONE's common stock. ePHONE common stock trades on the OTC Bulletin Board under the symbol "EPHO," which is a limited market in comparison to the NASDAQ National Market, the American Stock Exchange and other national securities exchanges.

ePHONE cannot assure investors that the common stock will ever qualify for inclusion on the NASDAQ National Market or that more than a limited market will ever develop for the common stock.

- o Penny stock rules limit the liquidity of ePHONE's common stock
- <PAGE>

ePHONE's common stock may now and in the future be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended (referred to herein as the Exchange Act). These rules regulate broker-dealer practices for transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These additional penny stock disclosure requirements are burdensome and may reduce the trading activity in the market for ePHONE's common stock. As long as the common stock is subject to the penny stock rules, holders of such ePHONE common stock may find it more difficult to sell their securities.

- o An investment in ePHONE may be diluted

ePHONE may issue a substantial number of shares of ePHONE common stock without investor approval. Any such issuance of ePHONE securities in the future could reduce an investor's ownership percentage and voting rights in ePHONE and further dilute the value of his or her investment.

In 2001 and 2000, ePHONE incurred net losses of approximately \$7,021,129 and \$13,701,000, respectively. ePHONE's ability to achieve and sustain profitable operations depends on many circumstances. If ePHONE does not achieve and sustain profitability, its ability to respond effectively to market conditions, to make capital expenditures and to take advantage of business opportunities could be affected. In addition, ePHONE's prospects must be considered in light of the risks encountered by companies like ours developing products and services in new and rapidly evolving markets. ePHONE's failure to perform in these areas could have a material adverse effect on the business, plan of operations and financial condition.

- o ePHONE's failure to acquire, integrate and operate new technology could harm their competitive position

The telecommunications industry is characterized by rapid and significant technological advancements and the related introduction of new products and services. ePHONE does not possess significant intellectual property rights with respect to the technologies we use, and we are dependent on third parties for the development of and access to new technology. The effect of technological changes on ePHONE's business plan cannot be predicted. In addition, it is impossible for ePHONE to predict with any certainty whether demand for VoIP services in the future markets will develop or will prove to be an economical and efficient technology that is capable of attracting customer usage. Failure by ePHONE to obtain and adapt to new technology in the future markets could have a material adverse effect on their business and plan of operations.

- o ePHONE does not presently intend to pay dividends on our common stock

ePHONE has never paid dividends on our common stock and does not presently intend to pay cash dividends on our common stock. Any future decisions as to the payment of dividends will be at the discretion of ePHONE's Board of Directors, subject to applicable law. See "Dividend Policy."

- o Telecommunications related stock prices have been especially volatile and this volatility may depress ePHONE's stock price

The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of the stocks of high technology and Telecommunications-related companies, including companies

<PAGE>

like ePHONE, and which may be unrelated or disproportionate to the operating performance of particular companies. Factors such as quarterly variations in actual or anticipated operating results, changes in earnings estimates by analysts, market conditions in the industry, analysts' reports, announcements by competitors, regulatory actions or other events or factors, including the risk factors described in this annual report and general economic conditions may have a significant effect on the market price of ePHONE's common stock. This broad market and industry volatility may reduce the value of ePHONE's common stock, regardless of ePHONE's operating performance. Due to this volatility, the value of ePHONE's common stock could decrease.

- o ePHONE's articles of incorporation provide their officers and directors with certain indemnification.

ePHONE's Articles of Incorporation provide that our directors and officers will not be personally liable to ePHONE or its shareholders for money damages for breach of the fiduciary duty of care as a director or officer.

Thus, under certain circumstances, neither ePHONE nor the shareholders would be able to recover damages even if directors take actions that harm ePHONE.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder in this report is set forth in the "Index to the Financial Statements" on F-1.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 9. Directors, Executive Officers, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) of the exchange act

Directors and Executive Officers

The directors and executive officers, their ages and positions held as of March 1, 2002 are listed below. Each director serves until the next annual meeting of the stockholders or unless they resign earlier. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

Name	Age	Position Held
Robert G. Clarke	57	Chairman of the Board of Directors
Carmine Tagliatalatela Jr.	54	President and Chief Executive Officer, Director
Charlie Rodriguez	56	Chief Financial Officer and Director
James Meadows	49	Chief Operating Officer
Sonny Souvannavong	34	Chief Technology Officer
John Fraser	54	Director
Sheldon Kamins	54	Director
Larry Codacovi	68	Director

The following describes the business experience during the past five years of ePHONE's Directors and Executive Officers, including for each director, other directorships held in reporting companies.

Robert G. Clarke. On December 12, 2001, Mr. Clarke was reelected as Chairman of the Board of Directors and President and Chief Executive Officer and served in both of those capacities until Carmine Tagliatalatela Jr. was appointed President and Chief Executive Officer on July 1, 2001.

<PAGE>

During the last five years, Mr. Clarke has served as a Director and as President and Chief Executive Officer at various times, including serving as the Chairman of the Board of Directors from August 9, 1999 to a meeting of the Board of Directors on July 21, 2000, and from December 1, 2000 to December 12, 2001. Mr. Clarke also served as the President and Chief Executive Officer from December 1, 2000 to April 1, 2001, March 9, 2000 until April 1, 2000 and from June 3, 1999 to August 8, 1999.

Mr. Clarke has also acted an independent business consultant, assisting high technology start-up companies with public and private financings, business planning, assembling management teams and business opportunity assessments. Mr. Clarke holds a Bachelor of Commerce degree from Memorial University and Master of Business Administration from the University of Western Ontario.

Carmine Tagliatalatela, Jr. On April 1, 2001 Mr. Tagliatalatela was appointed President and Chief Operating Officer of ePHONE and elected to the Board of Directors. Effective July 1, 2001, Mr. Tagliatalatela was appointed Chief Executive Officer of ePHONE. Prior to joining ePHONE Mr. Tagliatalatela was

President and Chief Operating Officer of TELRON Communications, responsible for the day-to-day operations of the company and the development of service offerings and expansion of services into new markets. Mr. Tagliatela has also held executive Vice President positions at TELRON and CompassRose International Inc. At CompassRose he managed a team of professionals on a variety of client assignments requiring extensive international telecommunications experience and expertise in strategic business development, public policy and regulatory matters. Mr. Tagliatela has secured, on behalf of clients, service authorizations in off shore markets and advised senior management on courses of action for the development of their telecommunications business. Between 1989-1997 he was Director International Public Policy and Regulatory Affairs at MCI Telecommunications Corporation where he developed and implemented MCI's regulatory and business strategy for access to international markets and was a member of an expansion team devoted to expanding MCI's presence in the global market. Mr. Tagliatela holds a BA Economics from Hunter College, City University of New York and a MBA Finance/Marketing from Fordham University.

Charlie Rodriguez. On December 1, 2000, Mr. Rodriguez was elected as a Director and appointed as Chief Financial Officer and Vice President - Corporate Affairs. Mr. Rodriguez previously served as Vice-President of Corporate Affairs and Corporate Secretary from June 1999 to April 2000. Mr. Rodriguez is also the President of Management Services of Arizona, a business consulting company specializing in mergers, acquisitions and financing. Prior to joining ePHONE, Mr. Rodriguez served as the Chief Financial Officer for Zephyr Technologies, Inc., biometrics and smartcard software integration companies. Mr. Rodriguez was a member of the board of directors of Wave Rider Communications, Inc. (WAVC - otc.bb), a wireless communication company, from January to November 1997, and served as its President and Chief Executive Officer from May 1995 to January 1997. Mr. Rodriguez holds a Bachelor of Science in Accounting and Masters in Business Administration Accounting from the University of Arizona.

James Meadows. James R. Meadows, Jr. was appointed Chief Operating Officer & Executive Vice President on February 1, 2002. Prior to joining ePHONE, Mr. Meadows served as President of PrimeTec International, Inc. from September 1999 to June 2000 where he previously was the Executive Vice President since February 1997. From September 1989 to February 1997 Mr. Meadows was the former Director of Government Affairs, Capital Network System, Inc. Currently, Mr. Meadows is a member of the Board of Directors for Versatel Telecom (VSVA - NASDAQ), a facilities based integrated telecommunications company in the Netherlands and a member of the Advisory Board of Ashely Laurent, of Austin, TX, an integrated network security software company. Historically, Mr. Meadows served as a Board Member of Comptel, the largest competitive telecommunications trade association in the USA, and was the former President and Board Member of America's Carriers Telecommunications Association.

Sonny Souvannavong. Sonny Souvannavong was hired as Chief Technology Officer on April 16, 2001. Prior to joining ePHONE, Mr. Souvannavong was the Vice President of Technology for Ecocom from January 2000 to April 2001. Mr. Souvannavong also served as the Director of Information Services for Facilicom International from October 1997 to January 2000. From February 1995 to October 1997, Mr. Souvannavong was the Division Director of Information Technology for Birch & Davis Associates. Mr. Souvannavong also was a Professor of Computer Information Systems and Networking at the Strayer University in Washington, D.C. from January 2000 to December 2000. Mr. Souvannavong holds a Bachelor of Science in Marketing from Virginia Commonwealth University in Richmond Virginia and a MBA from Strayer University in Washington DC and is certified in Microsoft, Cisco, Novell, and Sun Systems.

<PAGE>

John G. Fraser. Mr. Fraser has been a director of ePHONE since June 1999. Prior to joining ePHONE, Mr. Fraser was Vice-Chairman of KPMG Canada, Chartered Accountants. Mr. Fraser held various positions within KPMG Canada from November 1976 until February 1998. Mr. Fraser has a Masters in Business Administration from University of Pittsburgh and a Bachelor of Commerce and Administration from

Victoria University, Wellington, New Zealand.

Sheldon Kamins. Mr. Kamins was appointed as a member of the Board of Directors on October 11, 2001. Mr. Kamins has been a real estate developer in the greater metropolitan Washington, D.C. area and a venture capitalist assisting technology and other companies with public and private financing. Mr. Kamins holds a Juris Doctor degree from the Georgetown University Law Center.

Larry M. Codacovi. Mr. Codacovi was appointed as a member of the Board of Directors on January 1, 2002. Prior to joining ePHONE, Mr. Codacovi was Chairman of Pangea Ltd., a pan-European fiber optic network spanning northern Europe from 1999 to 2002. From 1988 to 1999, Mr. Codacovi served as Senior Vice President International Services for MCI WorldCom with the responsibility for expanding MCI's global reach. Mr. Codacovi previously served as Executive Vice President and a Board Member with RCA Global Communications. From 1980 to 1988, Mr. Codacovi continued in that position under the GE acquisition of RCA.

Other Matters

On April 1, 2001 ePHONE accepted the resignation from former board member Fariborz Ghadar. On August 27, 2001, ePHONE accepted resignations from former board members Anthony Balinger and Walter Pickering.

Roy Olmsted, ePHONE's former Executive Vice President and General Manager, resigned effective December 31, 2001.

B. Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act") requires officers and directors of a company with securities registered pursuant to Section 12 of the 1934 Act, and persons who own more than 10% of the registered class of such company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the subject company with copies of all Section 16(a) forms filed. Not all reports required to be filed under Section 16 have been filed.

<PAGE>

Item 10. EXECUTIVE COMPENSATION

<TABLE>

<CAPTION>

Name and Principal Position at Fiscal Year End	Year	Annual Compensation		Other Annual Compensation (\$)	Awards (Sh)
		Salary (\$)	Bonus (\$)		
<S>	<C>	<C>			<C>
Robert Clarke	2001	(1) --	--	--	(1)
Chairman of the Board of Directors and former Chief Executive Officer	2000	(1) --	--	--	
	1999	(1) --	--	--	
Carmine Tagliatela	2001	(2) 185,000	50,000	--	(2)
President and Chief Executive Officer					
Charlie Rodriguez	2001	(3) 137,000	--	--	(3)
Chief Financial	2000	(3) 19,000	--	--	

Officer	1999	--	--	--
Roy Olmsted	2001	141,000	--	--
Former Executive Officer and General Manager				(
Sonny Souvannavong	2001	(5)87,000	--	--
Chief Technology Officer				

</TABLE>

- (1) Mr. Clarke served as Chief Executive Officer and President at various times during 2001, 2000 and 1999. While serving as an executive officer, Mr. Clarke received no cash compensation. However, a company in which he has a controlling interest, received consulting payments totaling \$25,000, \$68,000 and \$48,000 in 2001, 2000 and 1999, respectively. Included in the total options awarded to Mr. Clarke during 2001 are 1,000,000 stock options that were originally granted to Mr. Clarke in 2000. The exercise price of these stock options was reduced from \$0.50 to \$0.35 in September 2001. Due to the repricing, the options are being characterized as an additional 2001 grant for purposes of this presentation.
- (2) Mr. Carmine Taglialatela was appointed President and Chief Operating Officer and began employment with ePHONE on April 1, 2001. Mr. Taglialatela was appointed Chief Executive Officer on July 1, 2002. The amounts paid to Mr. Taglialatela from April through December are based on an annual salary of \$200,000. Of the total stock options issued to Mr. Taglialatela, 600,000 were issued in April 2001 with an exercise price of \$0.50 and were subsequently repriced to \$0.35.
- (3) Mr. Charlie Rodriguez began as ePHONE's Chief Financial Officer in December 2000. The amounts paid to Mr. Rodriguez are based on an annual salary of \$145,000. In 2000, ePHONE paid \$36,000 in consulting payments to a Company controlled by Mr. Rodriguez prior to his employment with ePHONE. Included in the total options awarded to Mr. Rodriguez during 2001 are 250,000 stock options that were originally granted in 1999 in consideration for consulting services rendered to the Company. The exercise price of these options was reduced in the current year from \$0.50 to \$0.35.

<PAGE>

- (4) Mr. Olmsted ceased employment with the Company effective December 31, 2001. During December 2001, ePHONE extended the expiration date of Mr. Olmsted's stock options, which have an exercise price of \$0.50, from March 31, 2001 to October 1, 2001.
- (5) Mr. Souvannavong began as ePHONE's Chief Technology Officer during April 2001. The amounts paid to Mr. Souvannavong are based on an annual salary of \$125,000.

Option Grants for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option grants during the last fiscal year.

<TABLE>

<CAPTION>

Name	Number of Securities Underlying Options/ SARs Granted (#)	% of Total Options/ SARs Granted to Employees in Fiscal Year	Exerc Base (\$
------	--	---	----------------------

<S>	<C>	<C>	<
Robert Clarke	(1)1,000,000	(1)10.90%	0
Robert Clark	350,000	3.81%	0
Carmine Tagliatalatela Jr.	1,600,000	17.45%	0
Charlie Rodriguez	(1)250,000	(1)2.72%	0
Charlie Rodriguez	1,100,000	11.99%	0
Roy Olmsted	333,333	3.63%	0
Sonny Souvannavong	275,000	2.99%	0

- (1) These options were repriced as previously described. For purposes of this presentation, the percentage of total options issued to each executive officer is based on the proportion that the number of options granted to each executive bears to the total number of options granted to all employees during the fiscal year plus the sum of all repriced options or 9,168,693 (5,268,693 options granted to all employees plus 3,900,000 repriced options).

Option Exercises and Values for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option exercises during Fiscal 2001 and the status of their options on December 31, 2001.

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexer at Fi
------	---	--------------------------

<S>	Exercisable	Unexercisable	Exercisable
<C>			
Robert Clarke	1,350,000	--	--
Carmine Tagliatalatela	1,240,000	360,000	--
Charlie Rodriguez	1,350,000	--	--
Roy Olmsted	333,333	--	--
Sonny Sovannavong	75,000	200,000	--

Compensation of Directors

Non-employee directors received no cash compensation during 2001 and were paid \$8,000 in 2000. With the exception of Mr. Fraser who received 350,000 stock options with an exercise price of \$0.35, directors received 50,000 stock options with an exercise price of \$0.35 during 2001. Directors are reimbursed for expenses they incur in attending meetings at the board or any board committee.
<PAGE>

In addition to making the consulting payments to a companies controlled by Mr. Clarke and Mr. Rodriguez as mentioned above, ePHONE made consulting payments of \$43,000 and \$36,000 to a company controlled by Mr. John Fraser during 2001 and 2000, respectively.

Employment Agreements

At December 31, 2000, ePHONE was not party to employment agreements with any of its officers or employees.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT

The following tables set forth information, as of December 31, 2001, with respect to the beneficial owners of our common stock for:

- o each person or group of persons, who we know beneficially own more than 5% of any class of our outstanding stock;
- o each of our executive officers named in the Summary Compensation Table;
- o each of our directors; and
- o all executive officers and directors as a group.

In general, under the SEC's rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security or has the power to dispose or direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days.

<PAGE>

<TABLE>

<CAPTION>

Name and Address of Holder -----	Shares of common stock beneficially owned -----
<S>	<C>
Robert Clarke C-2, Bayview Court 49 Mount Davis Road Hong Kong Chairman of the Board	1,416,668 (1)
Carmine Taglialatela 10430 Deerfoot Drive Great Falls, VA 22060 President and Chief Executive Officer	1,240,000 (2)
Charlie Rodriguez 1662 W. Petunia Place Tucson, Arizona 85737 Director, Chief Financial Officer	1,350,000 (2)
John Fraser 104 Elm Avenue Toronto, Ontario M4W 1P2 Director	666,668 (3)
Sonny Souvannavong 2230 George C. Marshall Drive, #1001 Falls Church, Virginia 22043 Chief Technology Officer	75,000 (2)
Roy Olmsted 13 Plainsman Road Mississauga, Ontario L5N 1C4	333,333 (2)

Former Chief Operation Officer

Executive Officers and Directors as a Group of 6	5,081,669
Desjardins Securities Inc. 2 Complex Desjardins E Tower Montreal, Quebec H5BIJ	1,740,248
Brouillette Charpentier 1100 Rene-Levesque Blvd. West Montreal, Quebec H3B 5C9	2,773,295 (4)
Kinked Investments 625 Rene Levesque Blvd., Suite 205 Montreal, Quebec H3B 1R2	2,175,520 (5)

</TABLE>

<PAGE>

- (1) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 1,350,000 shares of common stock.
- (2) Consists of options to acquire shares of common stock.
- (3) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 600,000 shares of common stock.
- (4) Consists of 1,329,545 shares of common stock and 1,443,750 warrants to purchase shares of common stock.
- (5) Consists of warrants to purchase shares of common stock.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended 2001, 2000 and 1999, ePHONE paid \$25,000, \$68,000 and \$48,000, respectively, for management services provided by a company in which Chairman of the Board of Directors Robert Clarke has a controlling interest. During 2000, \$56,000 of sales was made to a company in which Mr. Clarke has an interest.

As described under Executive Compensation, ePHONE made consulting payments to companies controlled by Mr. Fraser and Mr. Rodriguez. The payments to Mr. Rodriguez were made in 2000 before his employment with the Company as Chief Financial Officer.

During 2001, we paid \$100,000 as provided for in a Service and Development Agreement with 7bridge Systems, LTD. Mr. Clarke, John Fraser and Charlie Rodriguez have an interest in 7Bridge Capital Limited which owns 7Bridge Systems, LTD.

Item 13. Exhibits and Reports on Form 8-K

The following documents are filed as part of this Form 10-KSB:

<TABLE>
<CAPTION>

A. Exhibits

Exhibit No.	Description
-----	-----
<S>	<C>

3.1.....	Articles of Incorporation (1)
3.2.....	Amendment to Articles of Incorporation (1)
3.3.....	Bylaws (1)
3.4.....	Amended and Restated Articles of Incorporation (2)
10.1.....	Specimen of form of Option Incentive Agreement (1)
10.2.....	Agency Agreement dated as of March 16, 2000 betwee Capital.com, Inc. (3)
10.3.....	ePHONE Telecom, Inc. 2000 Long-Term Incentive Plan
10.4.....	Employment Agreement with James Meadows, Chief Ope herewith)
10.5.....	Employment Agreement with Carmine Taglialatela, Pr Executive officer (filed herewith)
24.....	Powers of Attorney (filed herewith)
99.1.....	Settlement Agreement and Mutual General Release be ePHONE Telecom, Inc., dated March 23, 2001 (5)
99.2.....	Modification to Settlement Agreement and Mutual Ge Charlie Yang and ePHONE Telecom, Inc., dated March
99.3.....	Press release, dated April 3, 2001, issued in conn Carmine Taglialatela Jr. as President and Chief C

</TABLE>

<PAGE>

- (1) Previously filed as an exhibit to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on October 15, 1999.
- (2) Previously filed as an exhibit to Amendment No. 2 to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on January 5, 2000.
- (3) Previously filed as an exhibit to Amendment No. 5 to ePHONE's Form 10-SB, filed with the Securities Exchange Commission on June 5, 2000.
- (4) Previously filed as an exhibit to ePHONE's form SB-2 filed with the Securities and Exchange Commission.
- (5) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 16, 2001.
- (6) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 13, 2001.

B. Reports on Form 8-K:

On April 13, 2001, ePHONE filed with the Commission a current report on 8-K related to the Settlement Agreement entered into by and between Mr. Charles Yang and ePHONE Telecom, Inc., dated March 23, 2001.

On April 16, 2001, ePHONE filed with the Commission a current report on 8-K related to the appointment of Carmine Taglialatela Jr. as President and Chief Executive Officer.

<PAGE>

SIGNATURE PAGE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

ePHONE Telecom, Inc.
(Registrant)

By /s/ Carmine Taglialatela, Jr.

(Carmine Taglialatela, Jr., CEO)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Date -----
By /s/ Carmine Taglialatela, Jr. ----- (Carmine Taglialatela, Jr., CEO, Director) (Principal Executive Officer)	April 12, 2002
By /s/ Charlie Rodriguez ----- (Charlie Rodriguez, Chief Financial Officer) (Principal Financial and Accounting Officer)	April 12, 2002
By /s/ Robert G. Clarke* ----- (Robert G. Clarke, Chairman)	April 12, 2002
By /s/ John Fraser* ----- (John Fraser, Director)	April 12, 2002
By /s/ Shelly Kamins* ----- (Shelly Kamins, Director)	April 12, 2002
By /s/ Larry Codacovi* ----- (Larry Codacovi, Director)	April 12, 2002

*By: Charlie Rodriguez

Attorney-In-Fact

<PAGE>

<TABLE>
<CAPTION>

Index to Financial Statements

<S>

Report of Independent Certified Public Accountants.....

Balance Sheets as of December 31, 2001 and 2000.....

Statements of Operations for the Two Years Ended
December 31, 2001 and 2000.....

Statements of Stockholders' (Deficit) Equity and
Comprehensive Income (Loss) for the Years
Ended December 31, 2001 and 2000.....

Statements of Cash Flows for the Years Ended
December 31, 2001 and 2000.....

Notes to Financial Statements.....

</TABLE>

F-1

<PAGE>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of ePHONE Telecom, Inc.

We have audited the accompanying balance sheets of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Vienna, Virginia

February 15, 2002 (except for notes 2 and 13 as to which the date is April 11,

2002)

F-2

<PAGE>

ePHONE Telecom, Inc.

Balance Sheets

<TABLE>
<CAPTION>

	20

Current Assets:	
<S>	<C>
Cash and cash equivalents	\$
Investment in marketable securities	
Restricted cash	
Accounts receivable, net of allowance for returns of \$116,405 at December 31, 2001	
Inventory	
Other receivables	

Total Current Assets	
Property and equipment, net	
Array Telecom Lease, net	
Other Assets	

Total Assets	\$

Liabilities and Stockholders' (Deficit) Equity:	
Current Liabilities:	
Accounts payable	\$
Accrued liabilities	
Deferred revenue	
Capital lease obligation, current portion	
Customer advances	

Total Current Liabilities	

Deferred royalty obligation	
Capital lease obligation, net of current portion	
Other long term obligation, net of current portion	
Commitments and Contingencies	

Stockholders' (Deficit) Equity:	
Common stock, par value \$0.001:	
150,000,000 shares authorized, 32,987,381 and	
17,453,848 issued and outstanding at December 31, 2001	
and 2000, respectively.	
Additional paid-in capital	2
Accumulated other comprehensive income	
Accumulated deficit	(22)

Total Stockholders' (Deficit) Equity	-----
Total Liabilities and Stockholders' (Deficit) Equity	\$

</TABLE>

See accompanying notes to financial statements
F-3

<PAGE>

ePHONE Telecom, Inc.

Statements of Operations

<TABLE>
<CAPTION>

	Yea
	200

<S>	<C>
Service revenue	\$
Product revenue	\$

Total revenues	
Operating expenses	
Cost of service revenue	
Cost of product revenue	
Sales and marketing	
General and administrative	
Non-cash compensation	
Write off of Array Telecom license and disposal of obsolete	
inventory and equipment, net	

Total operating expenses	1

Loss from operations	(7)
Interest and other (income), net	

Net loss	\$ (7)

Loss per share--(basic and diluted)	\$

Weighted average number of common	

shares outstanding

2

</TABLE>

See accompanying notes to financial statements

F-4

<PAGE>

ePHONE Telecom, Inc.

Statements of Stockholders' Equity (Deficit) and
Other Comprehensive Income (Loss)

<TABLE>

<CAPTION>

	Common Shares		Additional Paid-In Capital	Accur Ot Compre Income
	Shares	Amount		
Balance, <S>	<C>	<C>	<C>	
December 31, 1999	13,170,667	\$ 13,171	\$ 1,375,954	\$
Common stock issued for cash	179,333	179	134,321	
Exercise of stock purchase warrants	92,400	92	115,408	
Sale of special warrants for cash, net	--	--	12,149,571	
Stock and warrants issued in exchange for services	4,011,448	4,012	4,565,267	
Employee stock options	--	--	2,864,166	
Net loss	--	--	--	
Change in unrealized gain	--	--	--	
Total comprehensive loss	--	--	--	
	-----	-----	-----	-----
Balance, December 31, 2000	17,453,848	17,454	21,204,687	
Stock options issued in exchange for services	--	--	90,545	
Common stock issued in legal settlement	500,000	500	109,500	
Common stock issued in exchange for services	748,973	749	147,466	
Proceeds from issuance of common stock	848,243	848	304,437	
Conversion of Special Warrants	13,436,317	13,436	(13,436)	
Net Loss	--	--	--	
Change in unrealized gain	--	--	--	
Total comprehensive loss	--	--	--	

	-----	-----	-----	-----
	-----	-----	-----	-----
Balance,				
December 31, 2001	32,987,381	\$ 32,987	\$ 21,843,199	\$
	=====	=====	=====	=====
	=====	=====	=====	=====

</TABLE>

See accompanying notes to financial statements

F-5

<PAGE>

ePHONE Telecom, Inc.

Statements of Cash Flows

<TABLE>

<CAPTION>

Cash Flows from Operating Activities:

<S>

<C>

\$ (

Net loss

Adjustments to reconcile net loss to net cash flows from
operating activities:

Depreciation and amortization

Stock issued for services rendered

Stock option benefits charged to operations

Allowance for sales returns

Deferred royalty expense

Realized gain

Inventory reserve

Write down of investment in ePHONE Technologies, Inc.

 Write off of Array Telecom license and the disposal
 of obsolete inventory and equipment

Changes in operating assets and liabilities:

Accounts receivable and other receivables

Inventory

Other assets

Accounts payable

Accrued liabilities

Deferred revenue

Due to related parties

Customer deposits

Net Cash Flows Used in Operating Activities

Cash flows from investing activities:

Purchase of fixed assets

Purchase of Array Telecom license

Purchase of investments

Redemption of marketable securities

Deposit to restricted cash, net

Investment in ePHONE Technologies, Inc.

Net cash flows provided by (used in) investing activities

Cash flows provided by financing activities:

Proceeds from issuance of common stock

Proceeds from issuance of special warrants, net	
Repayments on capital lease	-----
Net cash flows provided by financing activities	-----
Net (decrease) increase in cash and cash equivalents	(
Cash and cash equivalents, beginning of year	-----
Cash and cash equivalents, end of year	\$

</TABLE>

See accompanying notes to financial statements
F-6

<PAGE>

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

ePHONE Telecom, Inc. ("ePHONE") was incorporated in 1996 under the laws of the State of Florida, and is traded on the OTC Electronic Bulletin Board operated by the National Association of Securities Dealers, Inc. under the trading symbol "EPHO". We were a development stage company, as defined in Statement of Financial Accounting Standard No. 7 until we began generating revenues from our principal business activities during August 2001.

We provide telecommunication services to retail and wholesale customers. Our vision is to become a global telecommunications carrier providing a full complement of telecommunications services, including phone-to-phone one-step dialing, using Voice over Internet Protocol ("VoIP") technology. Using a call origination approach that involves its own Customer Premise Equipment ("CPE"), and a combination of its own dedicated Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), we plan to develop the capacity to provide voice and fax transmission and other telephony features at high quality and low cost.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about amounts that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

SUPPLEMENTAL CASH FLOW INFORMATION AND NON CASH INVESTING AND FINANCING ACTIVITIES

For the years ended December 31, 2001 and 2000, we paid no income taxes or interest. During the year ended December 31, 2001, we entered into capital lease obligations totaling \$46,509.

INVENTORY

Inventory consists primarily of component parts held for resale and is stated at the lower of cost, utilizing the weighted average method, or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years. Routine repairs and maintenance are expensed as incurred.

F-7

<PAGE>

INVESTMENTS IN MARKETABLE SECURITIES

We classify marketable securities as available for sale. The securities consist of debt securities, which are stated at fair value, with net unrealized gains or losses on the securities recorded as accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the securities. Realized gains were \$45,470 in 2001. There were no realized gains in 2000.

INVESTMENT IN EPHONE TECHNOLOGIES, INC.

Our investment in 20% of the outstanding common stock of ePHONE Technologies, Inc. (ePHONE Tech) is accounted for using the cost method. We do not exercise significant influence over ePHONE Tech's operating or financial activities.

IMPAIRMENT OF LONG-LIVED ASSETS

We review long-lived assets 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 the assets to the expected future net cash flows generated by the assets. If the 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. During the years ended December 31, 2001 and 2000, our analyses indicated that there was an impairment of long lived assets associated with the Array Telecom License, as described in Note 6, and our investment in ePHONE Tech, as described in Note 7.

REVENUE RECOGNITION

We recognize telecommunication services revenues over the period services are provided. Monthly recurring telecommunications services are billed in advance. Any portion of our services that is billed for which we have not yet provided services is recorded as deferred revenue.

Product sales are recognized upon shipment. Typical terms of sale do not provide the customer with the right of return except for defective products, which are covered by the warranty of the original equipment manufacturer. The Company also generated revenues from product licenses and services. Product license revenues were generally recognized upon product shipment provided that no significant post-delivery obligations existed and payment was due within one year. Advance payments of product licenses and services were reported as unearned revenue until all conditions for revenue recognition are met. The majority of our customers prepay for their services. We establish an allowance for doubtful accounts based upon factors, which include historical trends and other information.

STOCK-BASED COMPENSATION

We account for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the our common stock and the exercise price.

We account for non-employee stock-based awards in which services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measured. We determined the value of stock grants made to both employees and non-employees based on the quoted market price of our common stock on the date of grant. We determine the fair value of warrants and options we granted to non-employees using the Black-Scholes option pricing model.

F-8

INCOME TAXES

Deferred income taxes result primarily from temporary differences between financial and income tax reporting. Deferred tax assets and liabilities are determined based on the differences between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce the deferred tax asset to that portion that is expected to more likely than not be realized.

NET LOSS PER SHARE

We report basic and diluted loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Diluted earnings per share is computed by dividing net loss by the weighted average number of shares adjusted for the potential dilution that could occur if stock options, warrants and other convertible securities were exercised or converted into common stock.

For the years ended December 31, 2001 and 2000, options and warrants to purchase 24,661,540 and 9,654,377 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144

supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

RECLASSIFICATIONS

Certain 2000 balances and disclosures have been reclassified to conform to the 2001 presentation.

F-9

<PAGE>

NOTE 2 - OPERATIONS

As shown in the accompanying financial statements, we have incurred operating losses since our inception, and have accumulated a deficit of \$22,341,000 at December 31, 2001. Our continued existence is dependent upon our ability to develop profitable operations, continue to successfully introduce our products to market and if necessary, obtain additional financing to fund future operations. As described in Note 13, in March 2002, existing investors in the Company exercised outstanding warrants, purchasing 3,448,913 shares of the Company's common stock for \$690,000.

Management believes that together with our cash on hand, proceeds from the warrants exercised in 2002, and cash flow from our planned level of 2002 operations that we have sufficient resources to enable us to sustain our current and planned level of operations for at least the next 12 months without the need for additional investment capital.

During the three months ended March 31, 2002, we received cash payments from customers totaling \$4,063,000. At March 31, 2002 we had a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 as described in Note 13.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001 and 2000 we incurred costs for management services provided by companies in which certain directors of ours have a controlling interest and incurred consulting fees to certain directors of ours totaling \$74,000 and \$110,000, respectively.

During the year ended December 31, 2001, we paid \$248,000 to ePHONE Technologies, Inc., a company we hold a 20% equity interest in, for consulting services. We also paid \$25,000 in consulting fees to one of our officers, and paid \$100,000 as provided for in a Service and Deployment Agreement with 7bridge Systems, LTD, a related party, a company in which our Chairman of the Board and Chief Financial Officer have an interest in.

NOTE 4 - MARKETABLE INVESTMENTS

Our available for sale investments consisted of debt instruments issued by federal and state government agencies. During the year ended December 31, 2001, we redeemed the remaining \$2,194,000 of available-for-sale debt securities. During the year ended December 31, 2000, we redeemed \$650,000 of available for sale debt securities. Contractual maturities were as follows at December 31, 2000:

<TABLE>

<CAPTION>

December 31, 2000

	Cost	Market Value
<S>	<C>	<C>
Mature within one year.....	\$ 1,557,131	\$ 1,588,92
Mature within one to five years.....	591,556	581,97
	-----	-----
Total available- for-sale securities.....	\$ 2,148,687	\$ 2,170,90
	=====	=====

</TABLE>

F-10

<PAGE>

NOTE 5 - PROPERTY AND EQUIPMENT AND CAPITAL LEASE OBLIGATION

At December 31, 2001 and 2000, property and equipment consisted of the following:

<TABLE>

<CAPTION>

	December 31, 2001
<S>	<C>
Computer equipment.....	\$ 198,785
Furniture and fixtures.....	340,986
Telecommunications equipment.....	322,303
Other equipment.....	711,022

	1,573,096
Less: accumulated depreciation.....	(276,535)

Property and equipment, net.....	\$1,296,561
	=====

</TABLE>

Property and equipment includes a capitalized lease asset and accumulated depreciation on the capitalized lease asset of \$46,509 and \$7,306, respectively, at December 31, 2001. There were no capitalized lease assets as of December 31, 2000. Payments for the capital lease obligation by fiscal year are as follows:

Year ending December 31,

2002.....	\$ 29,295
2003.....	17,089

Total gross payments.....	46,393
Less amount representing interest.....	(7,891)

	38,502
Less current portion.....	(22,663)

Long-term portion of capitalized lease obligation	\$ 15,839
	=====

Depreciation expense (including depreciation on the capitalized lease asset during 2001) was \$230,928 and \$110,548 for the years ended December 31, 2001 and

2000, respectively.

NOTE 6 - ARRAY TELECOM LICENSE AND DEFERRED ROYALTY OBLIGATION

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required that we pay additional minimum royalty fees of \$2,180,000 for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years. The shortened life gave rise to a deferred royalty obligation representing the difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments which were scheduled to be made over a five-year period.

F-11

<PAGE>

During the third quarter of 2001, we filed for arbitration against Comdial as further described in Note 10. We had made royalty payments of \$90,000 and had remaining future minimum royalty payments of \$2,090,000 at the time of the License Agreement termination. We have accrued royalty fees of \$225,000, which represents the unpaid royalty fees up to the License Agreement termination date. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 (\$410,000 at December 31, 2000) during the year ended December 31, 2001. We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License of \$1,109,295 at December 31, 2001. We have presented the net effect of the write off of the Array License and the reversal of the deferred royalty obligation along with a write-off of other Array Telecom technology assets in the statement of operations.

NOTE 7 - TRANSACTION WITH AND INVESTMENT IN EPHONE TECHNOLOGIES, INC.

On December 1, 2000, in connection with the termination of certain executive officers of our Company, we entered into a Support and Development Agreement with ePHONE Technologies, Inc (ePHONE Tech), a company formed by the terminated executive officers in December 2000. Under this Agreement, ePHONE Tech provided us with Internet telephony technology support and development services at an hourly rate plus reimbursements for certain support services, as defined in the agreement. The term of the agreement was one year and included renewal options for consecutive one-year terms, which we have elected not to exercise.

As provided for in the agreement, we purchased a 20% equity interest in ePHONE Tech. Since the agreement contained a provision, allowing ePHONE Tech to repurchase our equity interest for \$185,000 at any time prior to the third anniversary of the agreement, we recorded the equity investment in ePHONE Tech at \$185,000. The remaining portion of the \$880,000 (which consisted of \$865,000 in cash and \$15,000 in equipment) or \$695,000, we incurred in connection with the termination of these executive officers was included in general and administrative expense for the year ended December 31, 2000.

At December 31, 2001, we recognized an impairment write-down of substantially

all of the remaining carrying value of this investment. The write-down totaled \$184,000 and is recorded as general and administrative expense in the Statement of Operations at December 31, 2001. The remaining carrying value of this investment is \$1,000 and is recorded as a non-current other asset at December 31, 2001.

NOTE 8 - ACCRUED LIABILITIES AND LONG TERM OBLIGATION

Accrued expenses consist of the following:

<TABLE>

<CAPTION>

	Decembe
	2001

<S>	<C>
Accrued vacation	\$ 32,411
Accrued compensation	35,443
Redeemable special warrants	--
Accrued legal fees	147,300
Other obligation, current portion	82,500
Comdial obligation	225,576
Other	131,535

	\$ 654,765
	=====

</TABLE>

At December 31, 2000, certain special warrant holders had not exercised their right to redeem a portion of their original investment, as described in Note 9. All of these warrant holders subsequently exercised this right during 2001.

We were involved in arbitration, resulting from the termination of our former President and Chief Operating Officer, Mr. Charles Yang. A breakdown in the relationship between Mr. Yang and us developed in early 2000 and he ceased providing any services to us on January 31, 2000. Mr. Yang was formally terminated on March 9, 2000.

F-12

<PAGE>

On March 23, 2001, we entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Charles Yang to resolve all claims and disputes between ePHONE and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from ePHONE. Pursuant to the terms of the Settlement Agreement, we agreed to pay Mr. Yang \$400,000 in cash installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock as further described in Note 9. We had previously accrued \$300,000 during 1999, and the additional \$100,000 liability related to the settlement was accrued during the year ended December 31, 2001.

We did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to issue Mr. Yang an additional 100,000 shares of our common stock, as further described in Note 9, and pay an additional \$75,000, which is recorded as a general and administrative expense as of December 31, 2001. The total amount due Mr. Yang of \$225,000 will be repaid in 30 monthly installments of \$7,500 beginning in 2002. Payments by fiscal year are as follows:

Year ending December 31,

2002.....	\$ 82,500
2003.....	90,000
2004.....	52,500

	225,000
Current portion included in accrued liabilities..	(82,500)

Long-term obligation.....	\$ 142,500
	=====

NOTE 9 - STOCKHOLDERS' EQUITY

COMMON STOCK

Beginning in November 1999 and ending in February 2000, we sold a total of 1,350,000 "units" for \$0.75 a unit to investors outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended (referred to herein as the Securities Act). Each "unit" consisted of one share of our common stock and one warrant to purchase an additional share of common stock at \$1.25. On September 12, 2001, our Board of Directors approved a resolution to reduce the exercise price of the warrant included with each unit to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. During the year ended December 31, 2001 and 2000, investors exercised warrants for the purchase of 848,243 and 92,400 shares of our common stock, respectively. We received \$134,500 and \$878,000 for the sale of the units during 2000 and 1999, respectively, and \$296,885 and \$115,500 for the exercise of the warrants in 2001 and 2000, respectively. During December 2001, we also received \$8,400 for the exercise of warrants for which shares of common stock will be issued in 2002. The warrants expire March 30, 2002.

During May 2000, the Company issued 345,000 shares of stock to a consultant as further described under non-employee stock compensation.

F-13

<PAGE>

On July 12, 2000, our Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of Company common stock would have been issued for no additional consideration if we were to meet certain performance objectives by the end of fiscal year 2002. The performance share plan was rescinded because of changes in our business plan since the adoption of the performance share plan. Concurrently with rescinding the performance share plan, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of our common stock to four individuals who are former executive officers and consultants who would have been eligible to receive shares of common stock under the performance share plan. Our stockholders approved the issuance of these shares and an amendment to our Articles of Incorporation, increasing the number of authorized shares of common stock from 50,000,000 to 150,000,000 at the Annual Meeting of Stockholders on August 23, 2000. The shares of common stock were granted in consideration for services rendered to us during the period from the fourth quarter of 1998 through the first quarter of 2000. We recorded a \$3,700,000 charge during 2000 related to the granting of these shares of common stock.

On March 23, 2001, we entered into a Settlement Agreement with Charles Yang, which was subsequently modified in January 2002 as described in Note 8. In accordance with the Settlement Agreement and subsequent Modification Agreement, we issued a total of 500,000 shares of our common stock to Mr. Yang. The fair value of these shares totaled \$110,000 and is recorded as non-cash compensation

expense as of December 31, 2001.

During August 2001, 13,436,317 Special Warrants were converted into 13,436,317 shares of our common stock as described under Special Warrants below.

During October and November 2001, we issued 200,000 shares of our common stock to a consultant who provided marketing and business development services to ePHONE as further described under non-employee stock compensation below.

During November 2001, we issued 538,973 shares of our common stock to PITRFA, Inc., a marketing and distribution company, as further described under non-employee stock compensation below.

During February 2002, we negotiated a settlement agreement with a former consultant in which we were required to issue 10,000 shares of common stock in exchange for past services rendered. The fair value of the common stock was \$2,200 and is recorded as general and administrative expense as of December 31, 2001.

SPECIAL WARRANTS

In early 2000, we sold a total of 13,780,837 special warrants to investors outside of the United States pursuant to Regulation S under the Securities Act. Each special warrant was purchased for \$1.10, and each special warrant when exercised entitled the holder to one share of common stock for no additional consideration and one purchase warrant to purchase an additional share of common stock for \$1.60. Holders of special warrants were originally entitled to receive up to 13,780,837 shares of common stock in the aggregate upon exercise of the special warrants and up to an additional 13,780,837 shares of common stock in the aggregate upon exercise of the purchase warrants. The purchase warrants expire on March 30, 2002.

In connection with the sale of special warrants described above, we granted GroomeCapital.com, Inc., which served as our agent in the sale of the special warrants, compensation warrants to purchase 889,251 units exercisable into 889,251 shares of common stock and 889,251 warrants at \$1.10 per unit. The warrant received with each unit is exercisable into a share of common stock at \$1.60 per share. We also issued options to purchase 250,000 shares of common stock at \$0.60 per share. The compensation warrants and options expire on March 30, 2002.

F-14

<PAGE>

The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently; each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they are holding by the same percentage ("Redemption Right"). In addition, each special warrant holder had the right to receive an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of December 31, 2001, all special warrant holders exercised their Redemption Right and we returned \$1,894,865 to these investors.

On August 13, 2001 final receipts from the regulators of the British Columbia, Alberta, Ontario and Quebec provinces in Canada were received for the registration prospectus dated August 7, 2001. Each Special Warrant was then deemed converted, as provided for in the special warrant agreement, into one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$1.60 per share expiring on March 30, 2002, for no additional consideration. Upon exercise of the special warrants, taking into consideration

the exercise of Redemption Rights by all the investors, and the issuance of additional shares of our common stock equal to 10% of the special warrant holders initial investment, we issued a total of 13,436,317 shares of common stock and stock purchase warrants for the purchase of up to 13,436,317 shares of our common stock for \$1.60 per share to these investors. On September 26, 2001, our Board of Directors approved a resolution to reduce the price of the stock purchase warrants to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. Proceeds from the Special Warrant offering totaled \$12,149,571, net of \$1,114,485 in offering costs and \$1,894,865 returned to shareholders upon the exercise of their Redemption Right. Certain warrant holders exercised their warrants in 2002 as described under subsequent events below.

NON-EMPLOYEE STOCK COMPENSATION ISSUED IN EXCHANGE FOR SERVICES RECEIVED

As partial consideration for services rendered under a consulting agreement entered into on May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, we granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and was recorded as non-cash compensation during the year ended December 31, 2000.

On May 9, 2000, we granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

On February 14, 2001, our Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered. The stock options have an exercise price of \$0.50, vest immediately and expire in three years. The market value of the our common stock at the grant date was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the year ended December 31, 2001.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

F-15

<PAGE>

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement "Agreement" with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the agreement, PITRFA will market and distribute ePHONE's prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second

tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PITRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of this Agreement.

The following table summarizes information for non-employee stock options and stock purchase warrants granted for services, and issued in connection with private placements we have completed:

<TABLE>

<CAPTION>

	Year Ended December 31, 2001		
	Number of Shares	Weighted Average Price	Nur
<S>	<C>	Per Share	<C>
Beginning balance.....	4,385,684	\$0.91	
Granted (including Special Warrant Conversion in 2001)			
	13,886,317	\$0.35	
Exercised.....	(848,243)	\$0.35	
Cancelled.....	--	--	
Ending balance.....	17,423,758	\$0.42	
	=====	=====	

</TABLE>

EMPLOYEE STOCK COMPENSATION

During 1999, we granted 2,250,000 options to purchase common stock at \$.50 per share to certain directors and officers.

On May 5, 2000, our Board of Directors adopted the 2000 Long-Term Incentive Plan (the "Plan") and reserved 6,000,000 shares of common stock for issuance under the Plan. The Plan provides for grants and awards of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock and incentive shares to officers, key employees, directors, persons hired to be employees, and who the Board determines will be officers or key employees upon commencement of employment, and consultants or independent contractors for rendering key services. The Board will determine the exercise price per share of the Common Stock purchasable under a stock option and the options will have various vesting schedules ranging from immediate vesting to vesting on specified dates and over various periods of time. In general, options granted under this plan will expire in ten years from the date of grant.

During 2000, we granted 1,500,000 stock options to two officers, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, we recorded compensation expense totaling \$2,865,000. These two officers terminated employment with us in December 2000 and a total of 6,747,307 in accumulated stock option awards were canceled as provided for in their Separation Agreements.

In connection with the termination of these two officers, all other outstanding unvested stock options became immediately vested pursuant to a provision in the Plan.

F-16

<PAGE>

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees. Since the repricing we have accounted for these options using variable accounting. We have

not recorded any compensation expense in connection with this repricing since the new exercise price has been higher than or equal to the market price.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer's stock option agreement from March 31, 2002 to October 1, 2002.

The following table summarizes information concerning our stock options:

<TABLE>

<CAPTION>

	Years Ended December	
	----- 2001 -----	
	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
Beginning balance.....	5,268,963	\$0.81
Granted.....	5,713,333	0.41
Exercised.....	--	--
Cancelled.....	(3,784,244)	0.90
	-----	-----
Ending balance.....	7,197,782	\$0.40
	=====	=====

</TABLE>

The following table summarizes information about stock options issued to employees, outstanding at December 31, 2001:

<TABLE>

<CAPTION>

Range of Exercise Prices	Number of Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Num
	-----	-----	-----	-----
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
\$0.35 to \$0.35...	5,700,000	6 years	\$0.35	
\$0.50 to \$0.50...	1,273,333	9 years	\$0.50	
\$0.60 to \$1.09...	196,449	8 years	\$1.09	
\$1.09 to \$1.59...	28,000	9 years	\$1.44	
	-----	-----	-----	
	7,197,782	7 years	\$0.40	
	=====	=====	=====	

</TABLE>

Had compensation expense for our plan been determined based on the fair value at the grant date for plan awards consistent with the provisions of SFAS No. 123, our net loss and net loss per common share outstanding would have been the pro forma amounts indicated below:

<TABLE>

<CAPTION>

	Year Ended Decem
	----- 2001 -----
<S>	<C>
Net loss -- as reported.....	\$ (7,021,129)
Net loss -- pro forma.....	\$ (7,724,071)
Net loss per share -- as reported.....	\$ (0.28)
Net loss per share - pro forma.....	\$ (0.31)

</TABLE>

F-17

<PAGE>

The weighted-average fair values of each option at the date of grant for 2001 and 2000 was \$0.16 and \$1.04, respectively, and were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used in 2001 and 2000: dividend yield of 0%; expected volatility of 150% in 2001 and 2000; risk-free interest rate of 4.08% in 2001 and 6.22% in 2000; and expected lives of 3 years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Herndon Office Lease

The following is a schedule of future minimum payments with respect to the Herndon, Virginia office lease:

Year Ending December 31,	
2002.....	179,004
2003.....	184,374
2004.....	62,061

Total future minimum payments.....	\$ 425,439
	=====

Rent expense was \$165,258 and \$128,527 for the years ended December 31, 2001 and 2000, respectively.

NOTE 11 - INCOME TAXES

As we have incurred losses since our inception, no provision for US federal or state income taxes have been recorded in any period.

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets for federal and state income taxes are as follows:

<TABLE>

<CAPTION>

	2001	Year Ended Decem
<S>	<C>	
Net operating loss carryforwards....	\$6,407,000	
Excess of book over tax - Array		
Telecom license amortization.....	--	
Non-cash compensation.....	543,000	
Investment write-down	343,000	
Deferred royalty obligation.....	--	
Other.....	46,000	
Less valuation allowance.....	(7,339,000)	

Net deferred tax asset.....	\$ --	
	=====	

</TABLE>

F-18

<PAGE>

Realization of deferred tax assets is dependent upon future earnings, if any. We have recorded a full valuation allowance against our deferred tax assets since we believe it is more likely than not that these assets will not be realized. No income tax benefit has been recorded for all periods presented because of the valuation allowance.

At December 31, 2001, we have available, for U.S. income tax purposes, net operating loss carryforwards of approximately \$16,428,000 which can be used to offset future taxable income through 2019. There can be no assurance that we will realize the benefit of the net operating loss carryforward. In addition, our utilization of our net operating loss carryforward may be limited pursuant to Internal Revenue Code Section 382, due to cumulative changes in ownership in excess of 50% within a three year period.

NOTE 12 SIGNIFICANT CUSTOMER

For the year ended December 31, 2001 and 2000, 11% and 90% of sales, respectively, were to one customer. As of December 31, 2000, 97% of accounts receivable was from this same customer. We did not have accounts receivable with this customer as of December 31, 2001.

Note 13 SUBSEQUENT EVENT

In late March 2002, the Company received approximately \$690,000 for the exercise of warrants for the purchase of 3,450,000 shares of common stock which had been issued in connection with the sale of Special Warrants described in Note 9. On March 31, 2002, the remaining warrants for the purchase of 9,115,000 shares of common stock expired unexercised.

F-19

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.4
<SEQUENCE>4
<FILENAME>exhibit10_4.txt
<DESCRIPTION>EXHIBIT 10_4
<TEXT>

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, effective this 1st day of February, 2002 ("Effective Date"), between ePHONE Telecom, Inc. (the "Company") and James Meadows (the "Executive") to be entitled, Executive Vice President and Chief Operating Officer.

WITNESSETH

WHEREAS, the Company wishes to hire the Executive as an employee of the Company to provide the services hereinafter set forth; and

WHEREAS, the Executive is willing to become an employee of the Company upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the promises and the mutual agreements contained herein, intending to be legally bound, the parties agree as follows:

1. DEFINITIONS

The following words and terms shall have the meanings set forth below for the purposes of this Agreement:

1.1. Affiliates. "Affiliates" of the Company, or a person "affiliated" with the Company, are any persons or entities which, directly or indirectly, through one or more intermediaries, controls or are controlled by or are under common control with, the persons or entities specified.

1.2. Base Salary. "Base Salary" shall have the meaning set forth in Section 3.1 hereof.

1.3. Cause. Termination of the Executive's employment for "Cause" shall mean: (a) failure of the Executive to perform assigned duties or to follow the directives and policies set forth by the President and Chief Executive Officer or Board of Directors; (b) conduct of the Executive, which, if proven, would constitute a crime involving breach of professional ethics or moral turpitude or a felony of any type; (c) conduct of the Executive which injures the business or reputation of the Company; (d) conduct of the Executive which compromises the Executive's ability to perform his job duties; (e) actions or omissions on the part of the Executive that constitute a material breach of any provision of this Agreement.

1.4. Change in Control of the Company. "Change in Control of the Company" shall mean a change in control that is of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation

14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or any successor thereto, whether or not the Company is registered under the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred if any person or entity other than the Executive, the Company, or any of its Affiliates or associates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty-one percent (51%) or more of the combined voting power of the Company's then outstanding securities.

1.5. Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of the Executive's death, (ii) if the Executive's employment is terminated for Cause or Disability, the date specified in the Notice of Termination, and (iii) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or as specified in such Notice.

<PAGE>

1.6. Disability. Termination of the Executive's employment based on "Disability" shall mean termination of the Executive's employment because he is unable to perform the essential functions of his position with or without accommodation due to a disability (as such term is defined in the Americans with Disabilities Act) for three (3) months in the aggregate during any twelve (12) month period. This definition and this Section 1.6 shall be interpreted and applied consistently with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law.

1.7. Notice of Termination. With the exception of termination due to the Executive's death, any purported termination of the Executive's employment by the Company for any reason or by the Executive for any reason, shall be communicated by a written "Notice of Termination" to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a dated notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, (iii) specifies a Date of Termination, which shall be not less than thirty (30) days after such Notice of Termination is given, except in the case of the Company's termination of Executive's employment for Cause, for which the Date of Termination may be the date of the notice; and (iv) is given in the manner specified in Section 9.2 hereof.

1.8. Qualifying Termination. A "Qualifying Termination" shall mean a termination of the Executive's employment by the Executive for any reason that occurs on the effective date of a Change of Control of the Company or within six (6) full calendar months following the effective date of a Change of Control of the Company

2. EMPLOYMENT

2.1. Agreement and Term. The Company hereby employs the Executive and the Executive hereby accepts said employment and agrees to render services to the Company on the terms and conditions set forth in this Agreement. The term of this Agreement shall commence on February 1, 2002, and shall continue from that date until February 1, 2005 ("Expiration Date") unless terminated earlier by either the Company or the Executive as hereinafter provided. If either the Company or the Executive does not wish to renew this Agreement when it expires, or if either the Company or the Executive wishes to renew this Agreement on different terms than those contained herein, it or he shall give written notice of such intent to the other party at least sixty (60) days prior to the Expiration Date. In the absence of such notice, this Agreement shall be renewed on the same terms and conditions contained herein for a term of one (1) year from the Expiration Date. The parties expressly agree that designation of a term and renewal provisions in this Agreement does not in any way limit the right of the parties to terminate this Agreement at any time as hereinafter provided.

2.2. Duties. During the term of this Agreement, the Executive shall devote his full working time and attention and use his best efforts to further the interests of the Company. The Executive shall perform such services for the Company as is consistent with his position and as directed, from time to time, by the Company. The Executive's initial title shall be Executive Vice President and Chief Operating Officer. During the term of this Agreement the Executive may use such titles as assigned and approved by the Company. The Executive shall not, during the term of the Agreement, be employed or involved in any other business activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage, except for volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Executive may wish to serve.

3. COMPENSATION AND BENEFITS

3.1. Base Salary. The Company shall pay the Executive an initial base salary of twelve thousand five hundred dollars (\$12,500) per month (one hundred and fifty thousand dollars (\$150,000) per year) ("Base Salary") until the Company's earnings before taxes, depreciation and amortization and excluding acquisitions ("EBTDA"), as determined in accordance with generally accepted accounting principles and consistent with the Company's past practices ("EBTDA"),

<PAGE>

exceeds five hundred thousand dollars (\$500,000) for the year 2002, at which time the Company shall increase the Executive's Base Salary to one hundred seventy five thousand dollars (\$175,000) per year. Thereafter, the Company will review the Executive's Base Salary on December 31 of each year of the term of the Agreement.

3.2. Incentive Bonus. In addition to Base Salary, for the year ending December 31, 2002, the Executive shall be eligible for the incentive bonus described in Exhibit A, attached hereto and incorporated by reference as if fully set forth herein. For each year thereafter, the Company shall establish the criteria by which the Executive shall be eligible for an incentive bonus on or before January 31st of each year of the term of the Agreement.

3.4. Stock Options. The Executive shall be eligible to participate in any stock option plan established by the Board of Directors for Executives of the Company in accordance with the terms of the Company's stock option plan and the Executive's stock option agreement.

3.5. Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

3.6. Personnel Policies & Benefit Plans. Except as otherwise provided herein, the Executive's employment shall be subject to the personnel policies which apply generally to the Company's employees as the same may be interpreted, adopted, revised or deleted from time to time, during the term of this Agreement, by the Company in its sole discretion. During the term of the Agreement, the Executive shall be entitled to participate in any Company benefit plans on the same basis as other executive level employees of the Company. The Company reserves the right to change, alter, or terminate benefits, plans and carriers in its sole direction. All matters of eligibility for coverage or benefits under any health, hospitalization, life, disability, or other insurance plan, program or policy shall be determined in accordance with the provisions of the plan, program, or policy; the Company shall not be liable to the Executive, his/her family, heirs, executors, or beneficiaries, for any payment payable or claimed to be payable under any such benefit plan, program, or policy.

4. SUPPORT AND EXPENSES

4.1. Office. The Company shall provide the Executive with secretarial services and furnished offices in the Herndon, Virginia area, and in such other location, if any, in which the Executive hereafter agrees to perform services on behalf of the Company, all of which shall be consistent with the Executive's duties and sufficient for the efficient performance of those duties.

4.2. Expenses. The Company shall reimburse the Executive or otherwise provide for or pay for all pre-approved reasonable expenses incurred by Executive in furtherance of, or in connection with the business of the Company, subject to such reasonable documentation and other limitations as may be established by the Board of Directors.

5. TERMINATION

5.1. Termination Due to Death. If the Executive's employment is terminated by reason of the Executive's death, compensation pursuant to Section 3.1 of this Agreement shall expire effective the date of the Executive's death. The entitlement of any beneficiary of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.
<PAGE>

5.2. Termination Due to Disability. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time due to the Executive's Disability. If the Executive's employment is terminated due to Disability, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination.

5.3. Termination by the Company for Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for Cause. If the Executive's employment is terminated by the Company for Cause, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.4. Termination by the Company Other Than for Death, Disability, or Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for any reason. If the Executive's employment is terminated by the Company for reasons other than death, Disability, or Cause, and if the Executive executes a general release with language acceptable to the Company on or before the effective Date of Termination and complies with the provisions of Section 5.8 of this Agreement, the Company shall pay the Executive an amount equal to six (6) months of the Executive's Base Salary in a lump sum payable within fifteen (15) business days following the effective date of such release or as mutually agreed by the Company and Executive. The Company shall not be required to pay any amount under this Section unless the Executive executes a general release in a form acceptable to the Company and such release becomes effective.

5.5 Termination by the Executive. The Executive shall be entitled to terminate his employment and this Agreement at any time for any reason. If the Executive terminates his employment, compensation pursuant to Section 3.1 of this Agreement shall expire as of the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.6. Qualifying Termination. The Executive shall be entitled to terminate his employment and this Agreement for a Change in Control. In the event of a Qualifying Termination, the Executive shall be entitled to the benefits described in Section 5.4 of this Agreement.

5.7. Cooperation with Company After Termination of Employment. Following termination of the Executive's employment for any reason, the Executive shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other Executives of the Company as may be designated by the Company.

5.8. Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this Section 5, if at any time during the course of this Agreement the parties by mutual consent decide to terminate it, they shall do so by separate agreement setting forth the terms and conditions of such termination.

6. NON-DISCLOSURE AND AUTHORIZATION TO DEDUCT PAY

6.1. The parties hereto have entered into a Non-Disclosure, Non-Competition and Assignment Agreement (NDNCA), which is attached hereto as Exhibit B, which may be amended by the parties from time to time. The provisions of the NDNCA are intended by the parties to survive and do survive termination or expiration of this Employment Agreement.

6.2. The Executive has also executed simultaneously with this Agreement the Authorization to Deduct from Pay, which is attached hereto as Exhibit C.

<PAGE>

7. EXECUTIVE'S REPRESENTATIONS AND WARRANTIES

7.1. No Conflict of Interest. The Executive warrants that he is not, to the best of his knowledge and belief, involved in any situation that might create, or appear to create, a conflict of interest with loyalty to or duties for the Company.

7.2. Notification of Materials or Documents from Other Employers. The Executive further warrants that he has not brought and will not bring to the Company or use in the performance of responsibilities at the Company any materials or documents of a former employer that are not generally available to the public, unless he has obtained express written authorization from the former employer and the Company for their possession and use.

7.3. Notification of Other Post-Employment Obligations. The Executive also understands that, as part of his employment with the Company, the Executive is not to breach any obligation of confidentiality that he has to former employers, and agrees to honor all such obligations to former employers during employment with the Company. The Executive warrants that he is subject to no employment agreement or restrictive covenant preventing full performance of duties under this Agreement.

7.4. Indemnification For Breach. In addition to other remedies that the Company might have for breach of this Agreement, the Executive agrees to indemnify and hold the Company harmless from any breach of the provisions of this Section 7.

8. ARBITRATION

8.1. Exclusive Remedy. The parties agree that any dispute between the parties relating to the Executive's performance of his obligations herein or to the termination of this Agreement, with the exception of Section, or the Executive's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act

of 1967, the Americans With Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Executive Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment with the exception of any dispute arising out of or related to conduct defined in Section 1.3(b), Sections 6 and 8, shall be resolved by arbitration in the Washington, DC metropolitan area, in accordance with the National Employment Arbitration Rules of the American Arbitration Association, as modified by the provisions of this Section 8. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its exclusive remedy, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement.

8.2. Arbitrator's Authority. In reaching her/her decision, the arbitrator shall have no authority to add to, detract from, or otherwise modify any provision of this Agreement. The arbitrator shall submit with the award a written opinion, which shall include findings of fact and conclusions of law. Judgment upon the award rendered by the arbitrator may be entered in any court having competent jurisdiction.

8.3. Effect of Arbitrator's Decision: Arbitrator's Fees. The decision of the arbitrator shall be final and binding between the parties as to all claims that were or could have been raised in connection with the dispute, to the full extent permitted by law. In all cases in which applicable federal law precludes a waiver of judicial remedies, the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute. The arbitrator's fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be paid equally by the parties.

<PAGE>

8.4. Indemnification. In the event that either party breaches this arbitration agreement and attempts to resolve in court claims covered by this provision, they agree to indemnify the other party for all legal costs and attorney's fees incurred to defend such action in court and to enforce the provisions of the arbitration clause.

8.5. Continuing Nature of Agreement to Arbitrate. The parties acknowledge and agree that their obligations under this arbitration agreement survive the termination of this Agreement and continue after the termination of the employment relationship between the Executive and the Company.

9. GENERAL PROVISIONS

9.1. Assignment. The Company may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any Company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, if in any such case said Company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights and obligations hereunder. The Executive may not assign or transfer this Agreement or any rights or obligations hereunder.

9.2. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, if to the Company, addressed to its corporate headquarters at the time notice is given, "Attention Board of Directors"; if to the Executive, addressed to his home address as

listed in the Company's records at the time notice is given.

9.3. Amendment and Waiver. No provision of this Agreement may be amended or waived unless (i) such amendment or waiver is in writing and signed by each of the parties hereto.

9.4. Non-Waiver of Breach. No failure by either party to declare a default due to any breach of any obligation under this Agreement by the other, nor failure by either party to act quickly with regard thereto, shall be considered to be a waiver of any such obligation, or of any future breach.

9.5. Severability. In the event that any provision or portion of this Agreement, with the exception of Sections 2 and 3, shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

9.6. Governing Law. To the extent not preempted by Federal law, the validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined accordance with the law of the Commonwealth of Virginia.

9.7. Entire Agreement. This Agreement contains all of the terms agreed upon by the Company and the Executive with respect to the subject matter hereof and supersedes all prior agreements, arrangements and communications between the parties dealing with such subject matter, whether oral or written.

9.8. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the Company, including any Company or Company with which the Company may merge or consolidate.
<PAGE>

9.9. Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date and year first written above.

The Company:

ePHONE Telecom, Inc.

By:

Title:

The Executive:

James Meadows

<PAGE>

EXHIBIT A
INCENTIVE BONUS PLAN FOR 2001

The Executive shall be eligible for an incentive bonus for the calendar year ending December 31, 2002 based on the Company's achievement of the following net sales:

Net Sales:	Incentive Bonus Amount
Between \$ and \$:	

Between \$ and \$
 Between \$ and \$
 Over \$

The amount of the Company's Net Sales shall be determined for the year ending December 31, 2002 in accordance with generally accepted accounting principles and consistent with the Company's past practices. For purposes of this Incentive Bonus Plan, Net Sales shall be defined as Gross Sales Less Returns and shall not include any amounts for sales derived by acquisitions. The Company in its sole discretion shall determine the amount of Net Sales and such determination shall be final, binding, and conclusive. The entire Incentive Bonus, if any, shall be payable within thirty (30) days of the Company's receipt of its year-end audited financial report. The Executive must be employed by the Company at the time the Incentive Bonus is payable in order to be eligible for the Incentive Bonus.

In the event the Executive's employment is terminated pursuant to Section 5.1, 5.2, 5.4, 5.6 or 5.9 of this Agreement prior to the date the Incentive Bonus is payable, the amount of the Incentive Bonus, if any, will be prorated for the number of days that Executive was employed during the fiscal year.

<PAGE>

EXHIBIT B

NON-DISCLOSURE, NON-COMPETITION AND ASSIGNMENT AGREEMENT

THIS AGREEMENT (the "Agreement") is entered into on this _____ day of _____, 200__ by and between _____ ("Employee"), and _____ Ltd. (the "Company").

This Agreement shall be effective as of the date of employment of a new employee, or in the case of a current employee, on the date signed by the employee ("Effective Date").

RECITALS

WHEREAS, Employee is, or is about to become, an employee of the Company, and will have access to the Company's private and proprietary information;

WHEREAS, in order to protect the Company's proprietary information, in which the Company has made a substantial investment, and to protect the Company from unfair competition involving disclosure of that information, Employee has agreed to enter into this Agreement;

NOW, THEREFORE, in consideration of continued employment, and other good and valuable consideration, receipt of which is hereby acknowledged, Employee and the Company, intending to be legally bound, agree as follows:

1. **Proprietary Information.** Employee acknowledges that Employee has or will have access to confidential Company proprietary information, including but not limited to, for example: the operating systems used by the Company and maintenance thereof, information or data relating to the creation, development, characteristics, implementation and

marketing of any Company product or service or business operation, including without limitation methods of operation, product capabilities, product design, details of contacts with customers, consultants, suppliers or employees, customer lists, the identity of customers and prospective customers, products, proposed products, former products, costs, profit margins, business plans, strategies, forecasts, unpublished financial information, budgets, projections, the identity of employees and their expertise and salaries, designs, drawings, Inventions (defined below), discoveries, improvements, research or development, test results, specifications, formulas, data, know-how, formats, copyrights, trade secrets, software, computer code or files, marketing methods, patents and/or patent applications, policies, plans, personnel, suppliers, competitors, markets or other specialized information or proprietary matters relating to the business of Company ("Proprietary Information"). Proprietary Information shall be broadly defined. It includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or in which it contemplates engaging. It also includes all information of which the unauthorized disclosure is or could be detrimental to the interests of the Company, whether or not such information is identified as Proprietary Information by the Company.

- A. Employee agrees to keep secret and retain in strictest confidence all Proprietary Information. Employee shall not at any time during or after employment, except with the express

<PAGE>

prior written consent of the President, directly or indirectly disclose, communicate or divulge any Proprietary Information to any person, or use any Proprietary Information, for the benefit of him/herself or any person other than the Company. Employee agrees that this promise shall never expire.

- B. Employee acknowledges that the Company would be severely damaged if Employee used or disclosed Proprietary Information for any purpose other than the Company's authorized business purposes. To prevent Employee from breaking the promise not to disclose this information, accidentally or intentionally, Employee further agrees that, for a period of two years from the termination of Employee's Company employment, Employee will not accept any employment or engage in any activity, without the Company's written consent, if the loyal and complete fulfillment of Employee's duties would inherently require Employee to reveal or utilize trade secrets or other Company proprietary information which Employee has promised not to disclose, as reasonably determined by Company. Employee agrees to discuss such other employment or activities with the President of the Company before undertaking them.
- C. The restriction contained in paragraph 1.A shall not apply to any Proprietary Information that (i) was known by the Employee on or prior to the commencement of Employee's employment with the Company, (ii) was developed by the Employee independently, without the use of any Proprietary Information of Company, or (iii) on or prior to the Effective Date, through no fault of the Employee, becomes publicly known from another source that is under no obligation of confidentiality to the Company. Except as disclosed on Schedule 1 to this Agreement, Employee does not know anything about the Company's Proprietary Information, other than the information he or she has learned from the Company. Employee has also disclosed on Schedule 1 a complete list of all Inventions (defined below) proprietary to Employee and which Employee wants to exclude from the application of this Agreement. The Company agrees to receive

and hold all such disclosures in confidence.

- D. Employee agrees not to remove any materials relating to the work performed at the Company without the prior written permission of the President of the Company. Employee agrees to return all such material and/or Proprietary Information in Employee's possession to the Company immediately upon request, and in any event upon termination of employment. Employee shall thereafter make no further use, either directly or indirectly, of any such materials and/or Proprietary Information.
- E. All works prepared, created or furnished by Employee, or to which Employee has contributed or contributes during the term of his or her engagement by the Company, are and shall constitute "works made for hire" within the meaning of the United States Copyright Law, and

<PAGE>

accordingly, all present and future right, title and interest in and to all such works throughout the world, in any and all media now known or hereafter developed, including but not limited to all copyrights (and all renewals and extensions thereof), shall vest in and belong solely to Company.

- F. If any of the works described in Paragraph E or any of Employee's contribution(s) thereto shall not, for any reason, at any time, qualify as "works made for hire," Employee hereby irrevocably assigns and conveys to the Company all present and future right, title and interest in and to all such works, throughout the world, in any and all media now known or hereafter developed, including but not limited to all copyrights therein (and all renewals and extensions thereof) along with all causes of action, including those for infringement, known or unknown, which have accrued or will accrue, from the conception or creation of each such work.
- G. Without limiting the scope of the foregoing, Employee hereby assigns, transfers and conveys to the Company all right, title and interest throughout the world, in any and all media now known or hereafter developed, in and to all information, concepts, matter or material which Employee conceives, creates, develops or contributes to, including but not limited to any and all ideas, designs, inventions and/or patentable matter created or conceived by Employee during his or her engagement by Company, along with all causes of action, known or unknown, which have accrued or will accrue, from the conception or creation of any or all of the foregoing.
- H. Employee further agrees to disclose to the Company in writing, within 30 days of discovery, development or production, any and all inventions, discoveries, developments, improvements, designs, processes, techniques, know-how, data, works of authorship or other tangible work product, and original materials, whether or not patentable or registerable under copyright or similar statutes, made, conceived, reduced to practice, or learned by Employee (either alone or jointly with others) during the period of his or her employment, that are related to or useful in the business of the Company, or which result from or are related to tasks assigned to Employee by the Company or the use of premises, equipment or materials owned, leased, or otherwise acquired or used by the Company (all of the foregoing are referred to herein as "Inventions"). Employee acknowledges and agrees that all Inventions belong to

and shall be the sole property of the Company and shall be Inventions of the Company subject to the provisions of this Agreement. Employee irrevocably assigns to the Company all right, title, and interest Employee may have or may acquire in and to all Inventions, including, without limitation, copyright, trademark, trade secret, patent, and work rights, along with all causes of action, known or unknown, which have accrued or will accrue, from the conception or creation of any or all of the foregoing. Employee acknowledges and agrees that no rights relating to any Invention are reserved to Employee.

<PAGE>

- I. Employee agrees to sign and deliver to the Company (either during or after his or her employment) such other documents as the Company considers desirable to evidence or effect the assignment of all rights of Employee, if any, in any Inventions to the Company and the Company's ownership of such Inventions. In the event the Company is unable to secure Employee's signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright, or other right or protection relating to any Invention, whether due to mental incapacity or any other cause, Employee hereby irrevocably designates and appoints the Company and each of its duly authorized officers and agents as his or her agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protections with the same force and effect as if executed and delivered by the Employee.
- J. Employee will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others. Employee represents and warrants that he or she has returned all property and confidential information belonging to others, and that all works prepared, created or furnished by Employee, or to which Employee has contributed or contributes during the term of his or her engagement by Company, have been and shall be original and do not and shall not infringe or violate the rights of any other person or entity under any laws, including but not limited to any copyright, trademark, trade secret and/or patent laws, anywhere in the world.
- K. Employee shall indemnify, defend and hold the Company, its employees, officers, directors, agents, representatives, licensees and customers (including, without limitation, other staff members of Company) harmless from and against any and all losses, costs, expenses and fees (including reasonable attorneys' fees) arising from or in connection with any direct or third-party claim(s), action(s) or proceeding(s) which arise in connection with a knowing, intentional act by the Employee which results in an actual or threatened breach of Employee's warranties, representations or covenants set forth herein. Without in any way limiting the foregoing, it is expressly understood and agreed that Company shall have the right, but not the obligation, to retain counsel of its own choice in connection with any such third-party claim(s), action(s) or proceeding(s).
2. Covenant Not to Solicit Employees. Employee agrees not to solicit for employment (or to assist with such solicitation), or to hire (including employment as a full-time or part-time employee or as a consultant) any employee or former employee of the Company, for a six-month period

after the termination of Employee's employment with the Company. The restrictions set forth in this paragraph apply to the solicitation or hiring of any person who is, or within the six months before the termination of Employee's employment, was an employee or consultant of the Company.

<PAGE>

3. **Covenant Not to Solicit Customers.** Employee agrees not to solicit (or to assist with such solicitation) any customer or client of the Company to forego purchasing the Company's products or services and/or switch to another company's products or services, for a one year period after the termination of Employee's employment with the Company. For the purpose of this paragraph, the terms "customer" and "client" include any person, private entity or governmental entity (or employee or agent thereof), within or outside the United States of America, with whom the Company does or has done business, to whom the Company's products or services have been provided or sold, whom the Company has solicited for funds, and/or to whom the Company is making, has made, or plans or has planned to make business contacts or sales calls, within the one year before the termination of Employee's employment, and with whom the Employee has had direct or indirect contact or whose business Employee has worked on or supervised.
4. **Covenant Not to Compete.** During the term of the Employee's Company employment, the Employee shall not engage in any way, directly or indirectly, in any activities or business in competition with or any way detrimental or adverse to the Company, its business, or its operations. Employee agrees that for six months after the termination of Employee's Company employment, Employee (including any entity controlled by Employee, and any agent or employee of Employee) shall not compete with the Company, or, directly or indirectly, own, manage or control, or participate in the ownership, management, or control of any corporation, partnership, proprietorship, firm, association or other business entity which competes with the Company, without first obtaining the prior written consent of the President of the Company. Expiration of the six month period herein shall in no way limit or abridge any proprietary or other rights which the Company may have in law or in equity.
5. **Injunctive Relief.** Employee expressly agrees and understands that any breach by Employee of this Agreement will result in irreparable harm to the Company, and that the damages flowing from such breach cannot be adequately measured in monetary terms. Employee further expressly acknowledges that the remedy at law for any breach by Employee of this Agreement will be inadequate. Accordingly, it is agreed that the Company shall be entitled, among other remedies, to immediate injunctive relief, including a temporary restraining order, preliminary injunction and permanent injunction for any such breach or threatened breach. In addition to this injunctive relief, a breach of any covenant of Employee contained herein shall also give rise to such monetary damages as are available in law or equity.
6. **No Hardship on Employee.** Employee has carefully considered the nature and extent of the restrictions upon him or her and the rights and remedies conferred upon the Company under this Agreement, and hereby acknowledges and agrees that the same are reasonable in time and territory, are designed to eliminate unfair business practices that otherwise would be unfair to Company, are fully required to protect the legitimate interests of the Company and do not confer a benefit upon the Company disproportionate to the detriment imposed upon Employee.
7. **Prior Commitments.** Employee has no other agreements, relationships, or commitments to any other person or entity that conflict with Employee's obligations to the Company under this Agreement.

8. Severable Provisions. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions or parts thereof shall nevertheless be binding and enforceable.

<PAGE>

In the event that any provision of this Agreement is deemed unenforceable, the Company and Employee agree that a court of competent jurisdiction shall reform such provision to the extent necessary to cause it to be enforceable to the maximum extent permitted by law. The Company agrees that they desire the court to reform such provision, and therefore agree that the court will have jurisdiction to do so and that they will abide by what the court determines.

9. Assignment. Employee's duties under this Agreement shall not be assignable or delegable by Employee without the prior written consent of the Company.
10. Binding Agreement. The rights and obligations of the Company and Employee under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company, and to the extent legally permissible, to and upon the heirs, legal representatives and assigns of Employee.
11. Waiver. Any party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party thereafter from enforcing any provision of this Agreement. The rights granted the parties herein are cumulative and the waiver by a party of any single remedy shall not constitute a waiver of such party's right to assert any other legal remedies.
12. Governing Law. This Agreement is made in Virginia and shall be governed and construed according to the laws of the Commonwealth of Virginia.
13. Entire Agreement. This Agreement constitutes the sole and entire agreement of the parties with respect to the subject matter hereof, supersedes all prior understandings and agreements relating to the subject matter hereof and may not be modified except in writing, signed by all parties.
14. Attorneys' Fees. In the event either party hereto finds it necessary to employ legal counsel or to bring an action at law or other proceeding against the other party to enforce any of the terms, covenants or conditions hereof, the party prevailing in any such action or other proceeding shall be paid all reasonable attorneys' fees by the other party as well as costs.
15. Consideration. Employee acknowledges that he or she has not been promised, and shall not claim, any additional or special payment not set forth specifically herein, for compliance with the covenants and agreements contained herein.

<PAGE>

IN WITNESS WHEREOF, the parties hereto have executed this Agreement. Employee acknowledges that he or she has read and understands this Agreement.

Witnessed by:

EMPLOYEE:

(Print Full Name)

(Print Full Name)

COMPANY

By:

<PAGE>

Schedule 1

Prior Knowledge of Company's Proprietary Information

Excluded Inventions

<PAGE>

EXHIBIT C

TO: ePhone Telecom, Inc.
1145 Herndon Parkway
Herndon, Virginia 20170

RE: Authorization to Deduct from Pay

The undersigned, James Meadows (Employee), hereby confirms that:

- 1) That he has accepted a position as an employee of ePhone Telecom, Inc. ("ePhone"); and
- 2) Employee acknowledges that during the course of his employment ePhone will provide him with the equipment and other tools necessary to perform his duties, including, but not limited to, computing equipment, cell phone, pager, credit or calling cards (the "Business Tools"), all of which are and shall remain the sole and exclusive property of ePhone, notwithstanding that Employee may be responsible for the settling of all balances with any third party vendors who provided services for any of the Business Tools;
- 3) Employee acknowledges and agrees that he shall return any and all Business Tools and repay any outstanding balances due on any accounts associated with the Business Tools, upon termination of employment with ePhone, regardless of the circumstances of such termination.
- 4) In the event that Employee fails to return any or all of the Business Tools or to satisfy any associated accounts as of the effective date of his termination, ePhone shall be entitled, and Employee hereby expressly authorizes ePhone, to withhold from and offset against Employee's pay, including regular pay, vacation pay, bonuses, severance pay or other compensation, any amounts due ePhone from Employee. For the purposes hereof, the value of equipment not returned by Employee shall be calculated based on its book value as consistently applied by ePhone to its other business equipment. ePhone shall be entitled to use such funds to pay the outstanding balances of any credit or other accounts for which ePhone is a guarantor or otherwise ultimately liable, even if such accounts are not overdue as of the Employee's termination date.
- 5) Nothing contained herein shall be deemed to be a waiver of ePhone's rights to pursue Employee for any balance owing to ePhone for Business Tools after application of all wages or other payments due Employee on termination.

This authorization is made in favor of ePhone this ____ day of _____, 20____
by:

Employee Signature

Printed Name

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.5

<SEQUENCE>5
<FILENAME>exhibit10_5.txt
<DESCRIPTION>EXHIBIT 10_5
<TEXT>

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, effective this 1st day of April, 2001 ("Effective Date"), between ePHONE Telecom, Inc. (the "Company") and Carmine Taglialatela (the "Executive").

WITNESSETH

WHEREAS, the Company wishes to retain the Executive to provide the services hereinafter set forth; and

WHEREAS, the Executive is willing to provide services to the Company upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the promises and the mutual agreements contained herein, intending to be legally bound, the parties agree as follows:

1. DEFINITIONS

The following words and terms shall have the meanings set forth below for the purposes of this Agreement:

1.1. Affiliates. "Affiliates" of the Company, or a person "affiliated" with the Company, are any persons or entities which, directly or indirectly, through one or more intermediaries, controls or are controlled by or are under common control with, the persons or entities specified.

1.2. Base Salary. "Base Salary" shall have the meaning set forth in Section 3.1 hereof.

1.3. Cause.

1.3.1. Termination of the Executive's employment for "Cause" shall mean termination because of the Executive's: (a) failure to follow the directives of the Board of Directors which failure is not cured, in the reasonable judgment of the Board of Directors, within thirty (30) days after written notice given to the Executive by the Board of Directors; (b) conduct which, if proven, would constitute a crime involving breach of professional ethics or moral turpitude or a felony of any type; (c) violation of any company policy or other conduct which injures the business or reputation of the Company; (d) conduct which compromises the Executive's ability to perform his job duties; (e) failure of the Executive to perform to the best of his abilities a substantial portion of the Executive's duties and responsibilities assigned or delegated, which failure is not cured, in the reasonable judgment of the Board of Directors, within thirty (30) days after written notice given to the Executive by the Board of Directors; (f) material breach of any provision of this Agreement.

1.3.2. Cause shall be determined in good faith by the affirmative vote of a majority of the whole Board of Directors of the Company (excluding the Executive if he is a member of the Board) only after the Executive has been provided a reasonable opportunity to make a presentation to the Board of Directors which presentation may be with counsel.

<PAGE>

1.4. Change in Control of the Company. "Change in Control of the Company" shall mean a change in control that is of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or any successor thereto, whether or not the Company is registered under the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred if any person or entity other than the Executive, the Company, or any of its Affiliates or associates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty-one percent (51%) or more of the combined voting power of the Company's then outstanding securities.

1.5. Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of the Executive's death, (ii) if the Executive's employment is terminated for Cause or Disability, the date specified in the Notice of Termination, and (iii) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or as specified in such Notice.

1.6. Disability. Termination of the Executive's employment based on "Disability" shall mean termination of the Executive's employment because he is unable to perform the essential functions of his position with or without accommodation due to a disability (as such term is defined in the Americans with Disabilities Act) for six (6) months in the aggregate during any twelve (12) month period. This definition and this Section 1.6 shall be interpreted and applied consistently with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law.

1.7. Notice of Termination. With the exception of termination due to the Executive's death, any purported termination of the Executive's employment by the Company for any reason or by the Executive for any reason, shall be communicated by a written "Notice of Termination" to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a dated notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, (iii) specifies a Date of Termination, which shall be not less than thirty (30) days after such Notice of Termination is given, except in the case of the Company's termination of Executive's employment for Cause, for which the Date of Termination may be the date of the notice; and (iv) is given in the manner specified in Section 9.2 hereof.

1.8. Qualifying Termination. A "Qualifying Termination" shall mean a termination of the Executive's employment by the Executive for any reason which occurs on the effective date of a Change of Control of the Company or within six (6) full calendar months following the effective date of a Change of Control of the Company

2. EMPLOYMENT

2.1. Agreement and Term. The Company hereby employs the Executive and the Executive hereby accepts said employment and agrees to render services to the Company on the terms and conditions set forth in this Agreement. The term of this Agreement shall commence on April 1, 2001, and shall continue from that date until April 1, 2004 ("Expiration Date") unless terminated earlier by either the Company or the Executive as hereinafter provided. If either the Company or the Executive does not wish to renew this Agreement when it expires, or if

<PAGE>

either the Company or the Executive wishes to renew this Agreement on different terms than those contained herein, it or he shall give written notice of such

intent to the other party at least sixty (60) days prior to the Expiration Date. In the absence of such notice, this Agreement shall be renewed on the same terms and conditions contained herein for a term of one (1) year from the Expiration Date. The parties expressly agree that designation of a term and renewal provisions in this Agreement does not in any way limit the right of the parties to terminate this Agreement at any time as hereinafter provided.

2.2. Duties. During the term of this Agreement, the Executive shall devote his full working time and attention and use his best efforts to further the interests of the Company. The Executive shall perform such services for the Company as is consistent with his position and as directed, from time to time, by the Company. The Executive's initial title shall be President and Chief Operating Officer. During the term of this Agreement the Executive may use such titles as assigned and approved by the Company. The Executive shall not, during the term of the Agreement, be employed or involved in any other business activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage, except for volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Executive may wish to serve.

3. COMPENSATION AND BENEFITS

3.1. Base Salary. The Company shall pay the Executive an initial base salary of fifteen thousand dollars (\$15,000) per month (one hundred and eighty thousand dollars (\$180,000) per year) ("Base Salary") until the Company's earnings before taxes, depreciation and amortization and excluding acquisitions ("EBTDA"), as determined in accordance with generally accepted accounting principles and consistent with the Company's past practices ("EBTDA"), exceeds two hundred and fifty thousand dollars (\$250,000) for the year 2001, at which time the Company shall increase the Executive's Base Salary to two hundred and fifty thousand dollars (\$250,000) per year. Thereafter, the Company will review the Executive's Base Salary and December 31 of each year of the term of the Agreement.

3.2. Incentive Bonus. In addition to Base Salary, for the year ending December 31, 2001, the Executive shall be eligible for the incentive bonus described in Exhibit A, attached hereto and incorporated by reference as if fully set forth herein. For each year thereafter, the Company shall establish the criteria by which the Executive shall be eligible for an incentive bonus on or before January 31st of each year of the term of the Agreement.

3.3. Signing Bonus. The Executive shall be entitled to a signing bonus of twenty-five thousand dollars (\$25,000), payable on or before March 31, 2001.

3.4. Stock Options. The Executive shall be eligible to participate in any stock option plan established by the Board of Directors for Executives of the Company in accordance with the terms of the Company's stock option plan and the Executive's stock option agreement.

3.5. Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

3.6. Personnel Policies & Benefit Plans. Except as otherwise provided herein, the Executive's employment shall be subject to the personnel policies which apply generally to the Company's employees as the same may be interpreted, adopted, revised or deleted from time to time, during the term of

<PAGE>

this Agreement, by the Company in its sole discretion. During the term of the Agreement, the Executive shall be entitled to participate in any Company benefit plans on the same basis as other executive level employees of the Company. The

Company reserves the right to change, alter, or terminate benefits, plans and carriers in its sole direction. All matters of eligibility for coverage or benefits under any health, hospitalization, life, disability, or other insurance plan, program or policy shall be determined in accordance with the provisions of the plan, program, or policy; the Company shall not be liable to the Executive, his/her family, heirs, executors, or beneficiaries, for any payment payable or claimed to be payable under any such benefit plan, program, or policy.

4. SUPPORT AND EXPENSES

4.1. Office. The Company shall provide the Executive with secretarial services and furnished offices in the Herndon, Virginia area, and in such other location, if any, in which the Executive hereafter agrees to perform services on behalf of the Company, all of which shall be consistent with the Executive's duties and sufficient for the efficient performance of those duties.

4.2. Expenses. The Company shall reimburse the Executive or otherwise provide for or pay for all pre-approved reasonable expenses incurred by Executive in furtherance of, or in connection with the business of the Company, subject to such reasonable documentation and other limitations as may be established by the Board of Directors.

5. TERMINATION

5.1. Termination Due to Death. If the Executive's employment is terminated by reason of the Executive's death, compensation pursuant to Section 3.1 of this Agreement shall expire effective the date of the Executive's death. The entitlement of any beneficiary of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.2. Termination Due to Disability. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time due to the Executive's Disability. If the Executive's employment is terminated due to Disability, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination.

5.3. Termination by the Company for Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for Cause. If the Executive's employment is terminated by the Company for Cause, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.4. Termination by the Company Other Than for Death, Disability, or Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for any reason. If the Executive's employment is terminated by the Company for reasons other than death, Disability, or Cause, and if the Executive executes a general release with language acceptable to the Company on or before the effective Date of Termination and complies with the provisions of Section 5.8 of this Agreement, the Company shall pay the Executive an amount equal to twelve (12) months of the Executive's Base Salary in a lump sum payable within fifteen (15) business days following the effective date of such release or, as mutually agreed between the Company and the Executive, in twelve (12) equal monthly installments. The Company shall not be required to pay any amount under this Section unless the Executive executes a general release in a form acceptable to the Company and such release becomes effective.

<PAGE>

5.5 Termination by the Executive. The Executive shall be entitled to terminate his employment and this Agreement at any time for any reason. If the Executive terminates his employment compensation described in Section 3.1 of this Agreement shall expire as of the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in

accordance with the provisions of such plan.

5.6. Qualifying Termination. The Executive shall be entitled to terminate his employment and this Agreement for a Change in Control. In the event of a Qualifying Termination, the Executive shall be entitled to the benefits described in Section 5.4 of this Agreement.

5.7. Cooperation with Company After Termination of Employment. Following termination of the Executive's employment for any reason, the Executive shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other Executives of the Company as may be designated by the Company.

5.8. Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this Section 5, if at any time during the course of this Agreement the parties by mutual consent decide to terminate it, they shall do so by separate agreement setting forth the terms and conditions of such termination.

6. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

The parties hereto have entered into a Confidentiality and Non-Competition Agreement attached hereto as Exhibit B which may be amended by the parties from time to time. The provisions of the Confidentiality and Non-Competition Agreement are intended by the parties to survive and do survive termination or expiration of this Employment Agreement.

7. EXECUTIVE'S REPRESENTATIONS AND WARRANTIES

7.1. No Conflict of Interest. The Executive warrants that he is not, to the best of his knowledge and belief, involved in any situation that might create, or appear to create, a conflict of interest with loyalty to or duties for the Company.

7.2. Notification of Materials or Documents from Other Employers. The Executive further warrants that he has not brought and will not bring to the Company or use in the performance of responsibilities at the Company any materials or documents of a former employer that are not generally available to the public, unless he has obtained express written authorization from the former employer and the Company for their possession and use.

7.3. Notification of Other Post-Employment Obligations. The Executive also understands that, as part of his employment with the Company, the Executive is not to breach any obligation of confidentiality that he has to former employers, and agrees to honor all such obligations to former employers during employment with the Company. The Executive warrants that he is subject to no employment agreement or restrictive covenant preventing full performance of duties under this Agreement.

<PAGE>

7.4. Indemnification For Breach. In addition to other remedies which the Company might have for breach of this Agreement, the Executive agrees to indemnify and hold the Company harmless from any breach of the provisions of this Section 7.

8. ARBITRATION

8.1. Exclusive Remedy. The parties recognize that litigation in federal or state courts or before federal or state administrative agencies of disputes arising out of the Executive's employment with the Company or out of this Agreement, with the exception of Section 6, may not be in the best interests of either the Executive or the Company, and may result in unnecessary costs,

delays, complexities, and uncertainty. The parties agree that any dispute between the parties arising out of or relating to the Executive's employment, or to the negotiation, execution, performance or termination of this Agreement or the Executive's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Executive Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment with the exception of any dispute arising out of or related to Sections 6 and 8, shall be resolved by arbitration in the Washington, DC metropolitan area, in accordance with the National Employment Arbitration Rules of the American Arbitration Association, as modified by the provisions of this Section 8. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its exclusive remedy, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement. By election of arbitration as the means for final settlement of all claims, the parties hereby waive their respective rights to, and agree not to, sue each other in any action in a Federal, State or local court with respect to such claims, but may seek to enforce in court an arbitration award rendered pursuant to this Agreement. The parties specifically agree to waive their respective rights to a trial by jury, and further agree that no demand, request or motion will be made for trial by jury.

8.2. Notice and Selection of Arbitrator. Within thirty (30) days after the occurrence of an event giving rise to a dispute subject to this provision, the aggrieved party shall provide the other party with a detailed written statement of all facts pertaining to the dispute and shall permit the other party thirty (30) days within which to investigate and consider the facts and to resolve the matter informally. Thereafter, an aggrieved party who wishes to proceed to arbitration shall have an additional ninety (90) days within which to so notify the other party in writing. This notice shall include a clear, concise statement of the facts, the issues to be resolved by the arbitrator and the desired remedy. Within ten (10) days after delivery of a written notice requesting arbitration, the Company will contact the Executive, or his designated representative, to select an arbitrator. If the parties cannot agree on an arbitrator, they shall select an arbitrator from a list provided by the American Arbitration Association in accordance with its rules.

8.3. Witnesses and Documents. Fourteen (14) days prior to the arbitration hearing, the parties shall exchange a list of witnesses to be called and a list of the documents they intend to introduce into evidence at the hearing.

<PAGE>

Upon request, the Company will supply to the Executive a copy of the Executive's personnel file, including any internal, non-privileged memoranda which may be relevant to the dispute. All such files and documents will be maintained in a confidential manner by the Executive, shall be used only for preparation of the arbitration case, and shall be returned to the Company at the close of the hearing.

8.4. Arbitration Procedure. In the arbitration proceeding, each party shall be entitled to retain its own counsel, to present evidence and cross-examine witnesses, to purchase a stenographic record of the proceedings, and to submit post-hearing briefs. The opinion and award of the arbitrator shall be requested by the parties within forty-five (45) days of the submission of the post-hearing briefs, which shall be due thirty (30) days from the close of the arbitration.

8.5. The Executive's Remedies. If the arbitrator finds that the Executive was terminated in violation of law or this Agreement, the parties

agree that the arbitrator acting hereunder shall be empowered to provide the Executive with equitable and/or legal remedies, including compensatory damages and back pay. "Back pay" shall include all forms of compensation payable to the Executive by the Company, the cost of all fringe benefits, and prejudgment interest at the rate of ten percent (10%) per annum on such claims.

8.6. Arbitrator's Authority. In reaching her/her decision, the arbitrator shall have no authority to add to, detract from, or otherwise modify any provision of this Agreement. The arbitrator shall submit with the award a written opinion which shall include findings of fact and conclusions of law. Judgment upon the award rendered by the arbitrator may be entered in any court having competent jurisdiction.

8.7. Effect of Arbitrator's Decision: Arbitrator's Fees. The decision of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute, to the full extent permitted by law. The arbitrator's fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be paid by the Company, provided however that at the Executive's request he may pay up to one-half (1/2) the fees and expenses.

8.8. Indemnification. The parties agree that in the event that either party breaches this arbitration agreement and attempts to resolve in court claims covered by this provision, the breaching party will indemnify the other party for all legal costs and attorney's fees incurred to defend such action in court and to enforce the provisions of the arbitration clause.

8.9. Continuing Nature of Agreement to Arbitrate. The parties acknowledge and agree that their obligations under this arbitration agreement survive the termination of this Agreement and continue after the termination of the employment relationship between the Executive and the Company.

9. GENERAL PROVISIONS

9.1. Assignment. The Company may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any Company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, if in any such case said Company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights and obligations hereunder. The Executive may not assign or transfer this Agreement or any rights or obligations hereunder.

<PAGE>

9.2. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, if to the Company, addressed to its corporate headquarters at the time notice is given, "Attention Board of Directors"; if to the Executive, addressed to his home address as listed in the Company's records at the time notice is given.

9.3. Amendment and Waiver. No provision of this Agreement may be amended or waived unless (i) such amendment or waiver is in writing and signed by each of the parties hereto.

9.4. Non-Waiver of Breach. No failure by either party to declare a default due to any breach of any obligation under this Agreement by the other, nor failure by either party to act quickly with regard thereto, shall be considered to be a waiver of any such obligation, or of any future breach.

9.5. Severability. In the event that any provision or portion of this Agreement, with the exception of Sections 2 and 3, shall be determined to be

invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

9.6. Governing Law. To the extent not preempted by Federal law, the validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined accordance with the law of the Commonwealth of Virginia.

9.7. Entire Agreement. This Agreement contains all of the terms agreed upon by the Company and the Executive with respect to the subject matter hereof and supersedes all prior agreements, arrangements and communications between the parties dealing with such subject matter, whether oral or written.

9.8. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the Company, including any Company or Company with which the Company may merge or consolidate.

9.9. Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date and year first written above.

The Company:

ePHONE Telecom, Inc.

By:
Title:

The Executive:

Carmine Taglialatela

<PAGE>

EXHIBIT A
INCENTIVE BONUS PLAN FOR 2001

The Executive shall be eligible for an incentive bonus for the calendar year ending December 31, 2001 based on the Company's achievement of the following net sales:

Net Sales: -----	Incentive Bonus Amount -----
Between \$2,500,000 and \$5,000,000:	\$20,000
Between \$5,000,001 and \$7,500,000	\$25,000
Between \$7,500,001 and \$10,000,000	\$30,000
Over \$10,000,001	\$45,000

The amount of the Company's Net Sales shall be determined for the year ending December 31, 2001 in accordance with generally accepted accounting principles and consistent with the Company's past practices. For purposes of this Incentive Bonus Plan, Net Sales shall be defined as Gross Sales Less Returns and shall not include any amounts for sales derived by acquisitions. The amount of Net Sales shall be determined by the Company in its sole discretion and such determination shall be final, binding, and conclusive. The entire Incentive Bonus, if any,

shall be payable within thirty (30) days of the Company's receipt of its year-end audited financial report. The Executive must be employed by the Company at the time the Incentive Bonus is payable in order to be eligible for the Incentive Bonus.

In the event the Executive's employment is terminated pursuant to Section 5.1, 5.2, 5.4, 5.6 or 5.9 of this Agreement prior to the date the Incentive Bonus is payable, the amount of the Incentive Bonus, if any, will be prorated for the number of days that Executive was employed during the fiscal year.

\73546v01

</TEXT>
 </DOCUMENT>
 <DOCUMENT>
 <TYPE>EX-99
 <SEQUENCE>6
 <FILENAME>exhibit99.txt
 <DESCRIPTION>POWER OF ATTORNEY
 <TEXT>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Tagliatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his

or her hand as of the date specified.

Dated: April 10, 2002

/s/ Robert G. Clarke

Print Name: Robert G. Clarke

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Taglialatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ Larry Codacovi

Print Name: Larry Codacovi

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Taglialatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ Shelly Kamins

Print Name: Shelly Kamins

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Taglialatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ John Fraser

Print Name: John Fraser

</TEXT>

</DOCUMENT>

</SEC-DOCUMENT>

-----END PRIVACY-ENHANCED MESSAGE-----

ePHONE TELECOM, INC.

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO COMMUNICATIONS SERVICES WITHIN

THE STATE OF SOUTH DAKOTA

Applicable in the State of South Dakota

Issued in compliance with the Order of the South Dakota Public Utilities Commission
in Case No. _____, Issued April 19, 2002

Issued: April 19, 2002
Issued By: Manager Rates and Tariffs
1145 Herndon Parkway
Herndon, VA 20170

Effective: May 19, 2002

TABLE OF CONTENTS

INDEX

SECTION 1 - APPLICATION OF TARIFF

SECTION 2 - EXPLANATION OF TERMS

SECTION 3 - GENERAL RULES AND REGULATIONS

SECTION 4 - INTERLATA TOLL SERVICES

SECTION 5 - RATES

EXPLANATION OF NOTES

- (C) Indicates Changed Regulation
- (D) Indicates Discontinued Rate or Regulation
- (I) Indicates Rate Increase
- (M) Indicates Move in Location of Text
- (N) Indicates New Rate or Regulation
- (R) Indicates Rate Reduction
- (T) Indicates Change of Text Only

CONTENTS

Section 1 - APPLICATION OF TARIFF

	Page
1.1 Application of Tariff.....	2
1.1.1 Service Territory.....	2
1.1.2 Availability.....	2

Section 1 - APPLICATION OF TARIFF

1.1 Application of Tariff

This Tariff sets forth the regulations and rates applicable to services provided by ePHONE Telecom, Inc. ("ePHONE"), as follows:

The furnishing of intrastate interexchange communications services by virtue of one-way and/or two-way information transmission between points within the State of South Dakota.

1.1.1 Service Territory

ePHONE will provide service throughout the entire State of South Dakota.

1.1.2 Availability

Service is available where facilities permit.

Section 2 - EXPLANATION OF TERMS

Certain terms used generally throughout this Tariff are defined below. The terms defined in this Tariff include the plural as well as the singular. Unless otherwise expressly stated, the words “herein,” “hereof,” “hereunder” and other similar words refer to this Pricing Guide as a whole and not to any particular subsection. The words “include” and “including” shall not be construed as terms of limitation.

Charges: The rates and charges, including but not limited to Usage Charges, Monthly Charges, and Termination Charges, assessed the Customer in accordance with this Tariff.

Company: ePHONE Telecom, Inc.

Commission: The Public Utility Commission of South Dakota.

Customer: A person, firm, corporation or any other entity that orders Service and is responsible for the payment of Charges and compliance with the Company’s regulations. A person, firm, corporation or any other entity that reasonably appears to be acting with the Customer’s authority shall be deemed to be acting on behalf of the Customer

Flat Rate Service

The type of exchange service provided at a monthly rate with an unlimited number of calls within a specified primary calling area.

Intellectual Property: Patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, inventions, copyrights and copyright rights, processes, formulae, logos, trade secrets, industrial models, customer lists, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

Monthly Charge: A flat charge assessed the Customer each month for the use of the Company’s Service.

Operational Service Date: The date when any Service, or any part of it, is first made available to the Customer by the Company or the date when the Customer first starts to use such Service (or any part of it), whichever date is the earlier.

Other Facilities Supplier: An entity other than the Company that provides facilities or services in connection with the Service furnished by the Company under this Pricing Guide and not as a part of a joint undertaking with the Company to furnish Service under this Pricing Guide.

Issued: April 19, 2002
Issued By: Manager Rates and Tariffs
1145 Herndon Parkway
Herndon, VA 20170

Effective: May 19, 2002

Section 2 -EXPLANATION OF TERMS (Cont'd)

PIN: Personal Identification Number. The PIN is a unique code assigned to a Customer of Company prepaid calling card services. The PIN is used to access the Company network for the purpose of placing calls through a Company prepaid calling card.

Resale of Service: The subscription to communications service and facilities by one entity and the reoffering of communications service to others (with or without 'adding value') for profit.

Service Order: The submission of a Company order form containing billing, technical and other descriptive information designed to enable the Company to furnish Service to the Customer.

State: The State of South Dakota.

Telephone Call: A voice connection between two or more telephone stations through the public switched exchange system.

Usage Charge: A charge assessed the Customer for the use of the Company's Service. Usage Charges are assessed per second or minute of use or multiple thereof, as specified in Section 5 of this Tariff.

CONTENTS

Section 3 - GENERAL RULES AND REGULATIONS

	Page
3.1 Undertaking of the Company	2
3.1.1 Scope	2
3.1.2 Availability of Service	2
3.1.3 Liability of the Company	2
3.2 Obligations of the Customer	5
3.2.1 Use of Service.....	5
3.2.2 Ownership and Intellectual Property Rights	5
3.2.3 Minimum Service Period.....	5
3.2.4 Payment for Services	6
3.3 Suspension or Termination of Service	9
3.3.1 Suspension by the Company.....	9
3.3.2 Termination by the Company	9
3.3.3 Termination by the Customer	10
3.4 Performance Credits for Service Interruptions.....	11

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY

3.1.1 Scope

The Company undertakes to provide Service between the points described herein, in accordance with the terms and conditions set forth in this Tariff. The Company shall maintain sole and absolute discretion over the routing of Service furnished hereunder.

3.1.2 Availability of Service

Service is available twenty-four (24) hours per day, seven (7) days per week, subject to the availability of facilities and subject to transmission, atmospheric, topographical and like conditions. The Company may limit or interrupt the use of Service because of (i) the lack of transmission medium capacity, (ii) the need to perform maintenance, modifications, upgrades, relocations, testing or other similar activities necessary for the provision of Service, or (iii) any cause beyond its control. The Company reserves the right, when necessary, to arrange for Service to be furnished through the facilities of Other Facilities Suppliers or other entities or through the use of agents or subcontractors.

3.1.3 Liability of the Company

3.1.3.1 Except as stated in this Section 3.1.3, the Company shall not be liable for damages of any kind, including without limitation consequential, special or indirect damages, arising out of or related to events, acts, rights or privileges contemplated in this Tariff. This Tariff does not limit the liability of the Company for willful misconduct, if established as a result of judicial or administrative proceedings.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.2 THE COMPANY MAKES NO WARRANTY, EITHER EXPRESSED OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, CONCERNING THE COMPANY'S SERVICES, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. THE COMPANY DOES NOT AUTHORIZE ANYONE, WHETHER A COMPANY EMPLOYEE, AGENT, SUB-CONTRACTOR, OR OTHERWISE, TO MAKE A WARRANTY OF ANY KIND ON ITS BEHALF AND THE CUSTOMER SHOULD NOT RELY ON ANY SUCH STATEMENT. NEITHER THE COMPANY NOR ANY OF ITS SUBCONTRACTORS OR SUPPLIERS WILL BE LIABLE TO THE CUSTOMER FOR LOST REVENUES, LOST PROFITS, LOST DATA, OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGE OR FOR LOSS, DAMAGE OR EXPENSE DIRECTLY OR INDIRECTLY ARISING FROM THE CUSTOMER'S OR ANY OTHER PARTY'S USE OF OR INABILITY TO USE SERVICES EITHER SEPARATELY OR IN COMBINATION WITH OTHER EQUIPMENT OR FOR LOSS OF ANY KIND, WHETHER OR NOT THE COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE OR LOSS, NOR SHALL ANY RECOVERY AGAINST THE COMPANY, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE, STRICT LIABILITY OR OTHERWISE) BE GREATER IN AMOUNT THAN THE CHARGES PAID BY THE CUSTOMER TO THE COMPANY UNDER THIS TARIFF. THE CUSTOMER ASSUMES ALL RISKS AND LIABILITY FOR LOSS, DAMAGE OR INJURY TO PERSONS OR PROPERTY OF THE CUSTOMER OR OTHERS ARISING OUT OF USE OR POSSESSION OF THE SERVICES PROVIDED UNDER THIS TARIFF.

3.1.3.3 The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to any acts of God, fire, lightning, explosion, flood, extreme weather conditions or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; any national emergencies, insurrections, riots or wars; or any labor difficulties.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.4 The Company shall not be liable for any act or omission of Other Facilities Suppliers or for any damages, including Usage Charges, the Customer may incur as a result of the unauthorized use or misuse of the Service. Unauthorized use or misuse includes, but is not limited to, the unauthorized use or misuse of Service by the Customer, the Customer's employees, third parties, or the public. The Company does not warrant or guarantee that it can prevent unauthorized use or misuse, and the Customer is responsible for controlling access to, and use of, the Service.

3.1.3.5 The Company shall also not be liable for: (a) the interception or breach in privacy or security of any Service or communications provided under this Tariff; (b) libel, slander, or infringement of copyright arising from or in connection with the transmission of communications by means of the Service provided by the Company; or (c) infringement of patents or trade secrets arising from the combination, connection, or use of the Service with Customer-provided equipment, facilities or services.

3.1.3.5 Each provision of this Tariff limiting or excluding liability operates separately and survives independently of the others.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER

3.2.1 Use Of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The customer may advise its customers that a portion of its service is provided by the Company, but the customer shall not represent that the Company jointly participates with the customer in the provision of the service.

3.2.2 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

3.2.3 Minimum Period of Service

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tariffed rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services

3.2.4.1 The Customer is responsible for payment of all Charges for Service furnished by the Company to the Customer. Charges for each Service shall commence on its Operational Service Date. All Charges for services shall be paid within 30 days of the date of the Company invoice (the "Due Date"). Usage Charges shall be assessed in arrears. Monthly Charges will be assessed in advance. The Company shall send invoices to the Customer at the address specified in the Service Order. The Customer shall provide the Company 30 days' advance notice in writing of any change in the invoice address. The Company will implement the change as soon as reasonably practicable. The Customer's responsibility for timely payment of all Charges is not changed due to the Customer's failure to receive an invoice.

3.2.4.2 The Customer shall not be excused from paying the Company for Service provided to the Customer or any portion thereof on the basis that unauthorized use or misuse occurred over the Service. The Customer shall indemnify and hold harmless the Company against all costs, expenses, claims or actions arising from unauthorized use or misuse of any nature of the Service. If the Company initiates legal proceedings to collect any amount due hereunder and the Company substantially prevails in such proceedings, then the defendant Customer shall pay the reasonable counsel fees and costs of the Company in prosecuting such proceedings and appeals.

3.2.4.3 State and local sales, use, excise and other taxes and surcharges, where applicable, shall be added to the Charges contained herein, unless the Customer provides a properly executed certificate of exemption from such taxes and surcharges. It shall be the responsibility of the Customer to pay these taxes and to accept the liability of any such unpaid taxes that may become applicable. The amounts resulting from taxes, fees, or exactions imposed against the Company, its property, or its operations, excepting only taxes imposed generally on corporations, shall be billed to its customers pro rata by the company when applicable.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.4 The Customer may be required to provide suitable security, including but not limited to a deposit or other such advance payment, to be held by the Company as a guaranty of the payment of Charges. Such security may be applied at any time, at the option of the Company, in payment of any unpaid Charges for Service furnished to the Customer or in payment of applicable Termination Charges. Such a deposit will not exceed an amount equal to an aggregate of three (3) months' recurring and nonrecurring charges for all Services.

3.2.4.5 The Company, upon the termination of Service, will refund within sixty (60) days the Customer's deposit, or the balance in excess of unpaid Charges, if any, for Service. In addition, the fact that a deposit has been made neither relieves the Customer from complying with the Company's regulations or from the prompt payment of bills nor constitutes a waiver or modification of the regulations of the Company providing for the termination of Service for nonpayment of any sums due the Company for Service rendered.

3.2.4.6 When the Customer disputes a bill for the Company's Service, the Customer shall: (i) pay any undisputed portion of the bill or, at the Customer's election, pay the disputed portion pending resolution of the dispute; (ii) advise the Company in writing that the bill or any portions thereof are disputed by the Customer; and (iii) provide a written explanation of the basis for the dispute within 30 days of the invoice date in question. The Company will review the Customer's bill and notify the Customer within a reasonable time of the outcome of its review. If the Company agrees with the Customer, it shall credit the Customer's account for any disputed amounts paid by the Customer. If the Company disagrees with the Customer, any disputed amount unpaid by the Customer shall become payable upon notice to the Customer.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.7 The Customer shall be responsible for the payment of a Returned Check Charge of \$10.00 when the bank returns a check that has been presented to the Company by a customer in payment for charges.

3.2.4.8 Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill. Late payment charges do not apply to: (a) those portions (and only those portions) of unpaid balances that are associated with disputed amounts; and (b) final accounts.

3.2.4.9 The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge. Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE

3.3.1 Suspension by the Company

The Company may, without incurring any liability, suspend Service to the Customer if such action is necessary to protect Company employees, agents, sub-contractors, facilities, equipment or Service; provided, however, that the Company shall make reasonable efforts to give the Customer prompt advance notice of any such suspension where possible. Upon non-payment of any sum owing to the Company for more than 30 days beyond the date of invoice for Service or upon violation of any of the terms or conditions governing the furnishing of Service under this Tariff, the Company may, by 24 hours advance notice to the Customer in the case of post-paid services or without notice to prepaid Customers, suspend the furnishing of Service under this Tariff without incurring any liability. Suspension for cause does not relieve the Customer of any obligation to pay Charges that have accrued. Should the Company restore Service after suspension, the Customer shall be responsible for the payment of any Charges, including reconnection charges or other costs, associated with the suspension and restoration of Service.

3.3.2 Termination by the Company

The Company may terminate Service to the Customer for cause, without incurring any liability: (a) after suspension of Service for nonpayment, if such non-payment is not corrected within two (2) days following the suspension of Service; (b) when the Company has reason to believe that the Customer is not in compliance with any provision of this Tariff; (c) when the Company has reason to believe that the Customer provided false or misleading information to the Company in connection with a Service Order; (d) when the Company has reason to believe that the Customer has used or has attempted to use the Service for an illegal, immoral or unlawful purpose; or (e) following the initiation by or against the Customer of a proceeding in bankruptcy, reorganization, insolvency, receivership or assignment for the benefit of creditors. Termination for cause does not relieve the Customer of any obligation to pay Charges that have accrued for Service provided under this Tariff.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE (cont'd)

3.3.3 Termination by the Customer

The Customer may terminate service according to the conditions of that service as stated under Section 4, Service Offerings.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.4 PERFORMANCE CREDITS FOR SERVICE INTERRUPTIONS

No Performance Credits are available for service interruptions. In the event of an interruption of service, no credit shall be given to Customer calls made through an unrelated service provider.

CONTENTS

Section 4 - INTERLATA TOLL SERVICES

	Page
4.1 General	2
4.1.1 Description	2
4.1.2 Timing of Calls	2
4.1.3 Promotional Trial Services	2
4.2 Prepaid Services	3
4.2.1 Flat Rate Service.....	3
4.2.1.1 Unlimited Long Distance Calling Plan	3
4.2.2 Metered Service	5
4.2.2.1 Prepaid Calling Cards.....	5

Section 4 - INTERLATA TOLL SERVICES

4.1 GENERAL

4.1.1 Description

InterLATA toll service is furnished for communication between telephones located in different LATAs within the State in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this Tariff.

IntraLATA toll calling includes the following types of calls: direct dialed, calling card, collect, 3rd number billed, special toll billing, requests to notify of time and charges, person to person calling and other station to station calls.

4.1.2 Timing Of Calls

Unless otherwise indicated, all calls are timed in one- minute increments and all calls that are fractions of a minute are rounded up to the next whole minute. Call timing ends when the calling station "hangs up," thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

4.1.3 Promotional Trial Services

The Company may establish temporary promotional programs wherein it may waive or reduce nonrecurring or recurring charges, to introduce a present or potential customer to a service not previously subscribed to by the customer. During a Promotional Trial, the service is provided to all eligible customers who ask to participate. Appropriate notification of the promotion will be made to all eligible customers by using direct mail, broadcast or print media, direct contact or other comparable means of notification. The Company retains the right to limit the size and scope of a Promotional Trial.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES

4.2.1 Flat Rate Service

4.2.1.1 Unlimited Long Distance Calling Plan

4.2.1.1.1 General Description

The Unlimited Long Distance Calling Plan is a residential prepaid service that allows a Customer to place unlimited US intrastate and interstate domestic interstate calls during a 30-day period for a fixed Monthly Charge. The Customer may place calls from a fixed residential phone, payphone or cellular phone (additional charges from the Customer's cellular service provider may apply) using an 800 number supplied by the Company.

4.2.1.1.2 Service Ordering

A Customer may order the Unlimited Long Distance Calling Plan through telemarketing channels or directly by calling Customer Service at 1-866-873-7500. Once a valid Service Order has been placed, the Company will provide the Customer with an 800-access number and a PIN.

4.2.1.1.3 Service Restrictions

The Unlimited Long Distance Calling Plan is available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Simultaneous calls using a single PIN are prohibited.

4.2.1.1.4 Service Period

After placing a valid Service Order, the Customer is entitled to utilize the Unlimited Long Distance Calling Plan for a 10-day period, during which no charges shall apply. Following the 10-day trial period, the Company shall charge the Customer the Monthly Charges set forth in Section 5 of this Tariff for each 30-day period (Service Period). The Service Period may begin at any point in a given month. The service period continues until terminated in accordance with the terms set forth in this Tariff.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Flat Rate Service (cont'd)

4.2.1.1 Unlimited Long Distance Calling Plan (cont'd)

4.2.1.1.5 Payment

Payment is made through automatic debit from the bank account specified by the Customer or through automatic charges to an approved credit card. By placing a Service Order, Customer expressly agrees to permit the Company to debit the specified bank account or to charge designated credit card the at the beginning of each Service Period.

4.2.1.1.6 Termination by the Customer

The Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30-day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.1.1.7 Termination by the Company

In addition to its rights under Section 3.3.2 of this Tariff, the Company shall have the right to terminate service immediately in the event that Customer has insufficient funds available when the Company attempts to collect the Monthly Charge through the debit of the Customer bank account or credit card.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Metered Service

4.2.1.1 Prepaid Calling Cards

The Company offers a variety of metered prepaid calling cards that allow residential a Customer to place calls to locations within the State (as well other interstate and international locations) using a toll free or local access number and PIN supplied by the Company to reach the Company calling platform. These cards are available in face value denominations of \$5.00, \$10.00 and \$20.00. Usage Charges and other surcharges as set forth in Section 5 of this Tariff apply to each call placed with a metered prepaid calling card.

4.2.1.1.1 Service Ordering

A Customer may purchase the metered prepaid calling cards Card through Company distributors and affiliated retailers. Cards are sold through distribution channels and are activated prior to sale to the end user.

4.2.1.1.2 Service Restrictions

Metered prepaid calling cards are available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Calls from payphones and cellular phones are permitted, but may be subject to additional charges. Simultaneous calls using a single PIN are prohibited.

4.2.1.2 Service Period

Metered prepaid calling cards are valid for 4 months from the date the Customer activates the card. The card may not be recharged or reactivated once the Service Period has expired. No refunds or credits are available for unused value remaining on a card upon expiration. If the card balance is lower than the estimated minimum cost for the call, the Customer will be notified prior to placing the call and the call will not be allowed to proceed.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Metered Service (cont'd)

4.2.1.1 Prepaid Calling Cards (cont'd)

4.2.1.1.3 Charging

The Company will debit from the remaining face value of a Customer's card the appropriate Usage Charge and surcharge for each call placed based upon the destination number and duration of the call. The Usage Charges and surcharges for the metered prepaid cards are set forth in Section 5 of this Tariff.

CONTENTS

Section 5 - RATES

	Page
5.1 Prepaid Services	2
5.1.1 Flat Rate Service.....	2
5.1.1.1 Unlimited Long Distance Calling Plan.....	2
5.1.2 Metered Service	3
5.1.2.1 Prepaid Calling Cards	3

Section 5 - RATES

5.1 PREPAID SERVICES

5.1.1 Flat Rate Service

5.1.1.1 Unlimited Long Distance Calling Plan

The Customer shall pay the Company \$49.95 per Service Period for the Unlimited Long Distance Plan, which includes intrastate and interstate calls. In addition, the Company shall charge the Customer a service fee of \$4.95 per Service Period to maintain the Customer's account.

Section 5 - RATES

5.1 PREPAID SERVICES

5.1.2 Metered Service

5.1.2.1 Prepaid Calling Cards

5.1.2.1.1 Standard Rates

The Company shall charge the customer a rate of \$.10 per minute for calls placed to a destination number located within the State.

5.1.2.1.2 Standard Surcharges

- (a) The Company shall charge the customer a per call connect fee of \$.49.
- (b) The Company shall charge the customer a surcharge of \$.02 per minute for each call made using the Company supplied toll free access number.

5.1.2.1.3 Promotional Calling Card Rates

- (a) Promotional Rate No. 1
For certain prepaid calling cards the Company will waive the standard connect fee.
- (b) Promotional Rate No. 2
For certain prepaid calling cards the Company will charge a per minute rate of \$.059 per minute. Standard connect fees apply.
- (c) Promotional Rate No. 3
For certain prepaid calling cards the Company will charge a per minute rate of \$.039 per minute and the company will charge a discounted per call connect fee of \$.39.
- (d) Promotional Rate No. 4
For certain prepaid calling cards the Company will charge a per minute rate of \$.029 per minute. Standard connect fees apply.

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of April 18, 2002 through April 24, 2002

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705 Fax: 605-773-3809

ELECTRIC

EL02-006 In the Matter of the Filing by Otter Tail Power Company for Approval of a Contract with Deviations with the City of New Effington.

On April 22, 2002, Otter Tail Power Company filed with the Commission a municipal contract with the City of New Effington effective May 1, 2002, and Otter Tail Power Company's summary List of Contracts with Deviations. The municipal contract for the City of New Effington was updated because the old contract will expire on May 1, 2002. The new contract does not include any new rates that would be considered a deviation.

Staff Analyst: Heather Forney
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/03/02

EL02-007 In the Matter of the Application of Xcel Energy for Approval to Renew the Customer Buyback Program.

Northern States Power Company d/b/a Xcel Energy (Xcel) is requesting the Commission renew its Customer Buyback Program. The original program tariff was approved by the Commission on July 20, 2000 and expired December 31, 2001. This renewal would allow Xcel to purchase energy from its large customers who curtail their load.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/10/02

TELECOMMUNICATIONS

TC00-196 In the Matter of the Application of Z-Tel Communications, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

On April 22, 2002, the Commission received a filing from Z-Tel Communications (Z-Tel) whereby Z-Tel, to amend its certificate of authority, posted a \$25,000 bond in order to receive Commission approval to provide prepaid services. Z-Tel requested that the Commission reinstate the company's ability to obtain advance payments from customers.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/03/02

TC02-039 In the Matter of the Application of North By NortheastCom LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

North By NortheastCom LLC is seeking a Certificate of Authority to provide interexchange telecommunication services in South Dakota. The Applicant plans to offer nationwide directory assistance with call completion, long distance transport and enhanced directory services.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Docketed: 04/18/02
Intervention Deadline: 05/10/02

TC02-040 In the Matter of the Filing by Ionex Communications North, Inc. for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.

Ionex Communications North, Inc. has filed a request for an exemption from developing Company-specific cost-based switched access rates contained in ARSD 20:10:27:07. The Company indicates that it does not have the available resources to determine company-specific cost-based intrastate switched access rates. Ionex is also requesting a waiver from the process to determine switched access rates under ARSD 20:10:27:12.

Staff Analyst: Heather Forney
Staff Attorney: Karen Cremer
Date Docketed: 04/18/02
Intervention Deadline: 05/10/02

TC02-041 In the Matter of the Application of ePHONE Telecom, Inc. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

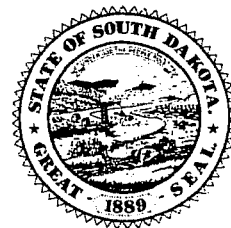
On April 22, 2002, ePHONE Telecom, Inc. filed an application for a Certificate of Authority to provide resold interexchange telecommunications service throughout South Dakota. ePHONE intends to utilize traditional telephony connections, as well as the internet, to provide intrastate interexchange service. They intend to offer a variety of prepaid IP telephony services through either a monthly calling plan, where customers are billed in advance for service, or through prepaid calling cards.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 04/22/02
Intervention Deadline: 05/10/02

**You may receive this listing and other PUC publications via our website or via internet e-mail.
You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc>**



South Dakota Public Utilities Commission



State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070
VIA FAX: 202-756-1513

April 22, 2002

Ms. Cheryl Lynn Schneider
Attorney at Law
Telecom Legal Services International, Inc.
1776 I Street N.W., 9th Floor
Washington, DC 20006

RE: Application for Certificate of Authority
ePHONE Telecom, Inc.

Dear Ms. Schneider:

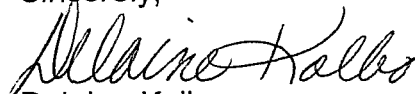
We received your Application for a Certificate of Authority to operate as an interexchange telecommunications company in the state of South Dakota. Pursuant to SDCL 49-31-3, telecommunication companies shall submit a \$250 application fee when filing:

SDCL 49-31-3. Each telecommunications company that plans to offer or provide interexchange telecommunications service shall file an application for a certificate of authority with the commission pursuant to this section. Telecommunications companies seeking to provide any local exchange service shall submit an application for certification by the commission pursuant to §§ 49-31-1 through 49-31-89. Applications required by this section shall be filed by the company no less than sixty days before its initiation of telecommunications service in this state. The commission shall have the exclusive authority to grant a certificate of authority. Each telecommunications company shall submit a two hundred fifty dollar application fee with its application which shall be deposited into the gross receipts tax fund established pursuant to § 49-1A-2.

We cannot take any action on your application until we receive the applicable fee.

Thank you for your cooperation in this matter.

Sincerely,


Delaine Kolbo
Legal Secretary

Capitol Office

Telephone (605)773-3201
FAX (605)773-3809

**Transportation/
Warehouse Division**

Telephone (605)773-5280
FAX (605)773-3225

Consumer Hotline

1-800-332-1782

**TTY Through
Relay South Dakota**

1-800-877-1113

Internet Website

www.state.sd.us/puc

Jim Burg
Chairman

Pam Nelson
Vice-Chairman
Bob Sahr
Commissioner

Debra Elofson
Executive Director

Harlan Best
Martin C. Bettmann
Sue Cichos

Karen E. Cremer
Christopher W. Downs

Terry Emerson
Michele M. Farris
Marlette Fischbach
Heather K. Forney

Kelly D. Frazier
Mary Giddings
Mary A. Healy
Lisa Hull

Dave Jacobson
Amy Kayser
Bob Knadle

Delaine Kolbo
Gregory A. Rislov
Keith Senger
John Smith

Rolayne Ailts Wiest

TC02-041



1776 I Street, NW
Ninth Floor
Washington, DC 20006
Phone: 202.756.4833
Facsimile: 202.756.1513

May 3, 2002

BY FEDERAL EXPRESS

South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

**Re: ePHONE Telecom, Inc.
Application for a Authorization to Provide Resold Interexchange
Telecommunications Services Throughout the State of South Dakota**

Dear Sir/Madame,

Pursuant to your letter dated April 22, 2002, enclosed please find a check in the amount of \$250.00 to cover the filing fee associated with ePHONE Telecom, Inc.'s above referenced application.

Please contact me or Karen Overman with any questions you may have concerning this matter. Karen can be reached by telephone on (703) 251-4878, by facsimile on (703) 691-2502 or via e-mail at koverman@telecom-legal.com.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Lynn Schneider / 20".

Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.
Telecom Legal Services International, Inc.
1776 I Street, NW – 9th Floor
Washington, D.C. 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

Enclosure



ePHONE Telecom, Inc. 04-00
 1145 Herndon Pkwy
 Suite 100
 Herndon, VA 20170

BANK OF AMERICA
 68-1/510 - 4505 VA

2929

DATE	AMOUNT
4/26/2002	\$250.00

PAY

Two Hundred Fifty Dollars And 00 Cents

TO THE
 ORDER
 OF

SOUTH DAKOTA PUBLIC UTILITIES
 STATE CAPITOL BUILDING
 500 EAST CAPITOL AVENUE
 PIERRE SD 57501-5070

[Handwritten Signature]

 AUTHORIZED SIGNATURE



Security
 Feature
 Drawn
 on Back

⑈002929⑈ ⑆051000017⑆ 004419298657⑈



1776 I Street, NW
Ninth Floor
Washington, DC 20006
Phone: 202.756.4833
Facsimile: 202.756.1513

July 8, 2002

BY FEDERAL EXPRESS

South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

**Re: Application of ePHONE Telecom, Inc. for a Certificate of Authority
South Dakota PUC Docket TC02-041**

Dear Sir/Madame:

We are in receipt of a letter from staff dated May 10, 2002 regarding ePHONE Telecom, Inc.'s ("Applicant" or "Company") above referenced application. This application has been revised pursuant to ARSD 20:10:24:02. Each item has been addressed in the order that it appears in the rules. Enclosed please find an original and ten (10) copies of the application and attachments.

In addition to the amended application and attachments, below please find responses to the requested items in staff's letter dated May 10, 2002.

1. Verify that the tax identification number submitted with the application is a valid number.

ePHONE Telecom, Inc.'s federal tax identification number is: 0980204749

2. The company is required to submit a balance sheet, income statement, and a cash flow statement.

See Attachment A.

3. Replace the language in Section 3.1.3.1 of the tariff to read "Except as stated in this Section 3.1.3, the liability of the Company shall be determined in accordance with SDCL 49-13-1, 49-13-1.1, and any other applicable law."

Applicant's tariff has been amended to reflect the above referenced language.

RECEIVED

JUL 09 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

4. In Section 3.1.3.2 omit everything except “The company does not authorize anyone, whether a company employee, agent, sub-contractor, or otherwise, to make a warranty of any kind on its behalf and the customer should not rely on any such statement.”

Applicant’s tariff has been amended to reflect the above referenced language.

5. Remove everything except the first sentence in Section 3.2.4.2 of the tariff.

Applicant’s tariff has been amended to reflect the above referenced language.

6. Section 3.2.4.4 of the tariff must be in accordance with ARSD 20:10:08:05.

Applicant’s tariff has been amended and is in accordance with ARSD 20:10:08:05.

7. Section 3.2.4.5 of the tariff must be in accordance with ARSD 10:10:08:10.

Applicant’s tariff has been amended and is in accordance ARSD 10:10:08:10.

8. In Section 3.2.4.6 the customer should be given 180 days in which to dispute a bill.

Applicant’s tariff has been amended to reflect the above referenced language.

9. Section 3.3.1 of the tariff must be in accordance with ARSD 20:10:10.

Applicant’s tariff has been amended to reflect the above referenced language.

10. In Section 3.4 explain why no credit is available for service interruptions.

The services the Company intends to provide under the proposed tariff are not guaranteed any particular level of service availability. As such, the Company does not offer credits for outages or other service interruptions. At this time, the Company intends to offer only prepaid services, which operate along side of any other long distance or local service provider to which the Customer subscribes. Thus, in the event of a network outage or other interruption of service, the Customer is still able to place calls through its underlying long distance service provider or through any number of alternative prepaid service providers. Because the service is prepaid, the Customer retains the dollar value of the prepaid service as it stood at the time of the interruption and the Customer does not lose the ability to place calls. Under these circumstances, there is nothing for the Company to credit. The other practical limitation to providing credits for service interruption is the fact that for certain services, like prepaid calling cards, the Company does not have sufficient information in its database to contact the Customer to offer any such credits.

11. In Section 4.1.3, the Commission must be notified of all promotional trial services.

Section 4.1.3 has been revised to reflect that the Commission will be notified of all promotional trial services.

12. In Section 4.2.1.2 of the tariff, a 4-month expiration date for a prepaid calling card is relatively short. Explain why only 4 months time is given to use the card. Is the customer aware of this expiration date prior to purchasing the card?

The time period in which a customer must utilize the full value of a prepaid calling card is made clear on the back of each card. Customers purchase these cards with the full disclosure that the card expires four (4) months from the date of activation. These cards often contain advertised promotional rates for calls to certain destinations. Because the cost of providing service is in constant flux, with costs going down more often than not, the Company prefers to offer shorter promotions that allow it to introduce new, more cost effective products for its customers. This allows the Company to remain competitive and offer attractive services to its customers.

13. In Section 5.1.2.1.2(b) the company shall charge the customer a surcharge of \$.02 per minute for each call made using the Company supplied toll free access number. Explain how a prepaid card call would be made without accessing a toll free access number.

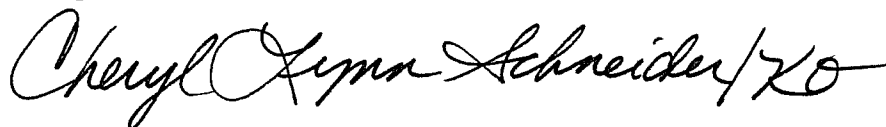
In certain locations, customers may be able to place prepaid calling card calls by dialing a local number to access the Company's network instead of a toll free number. The company will increase the availability of local access calling in response to demand.

14. Provide copies of marketing materials and the prepaid card sold to consumers.

See Attachment B.

Please do not hesitate to contact me should you have any further questions or require additional information.

Respectfully submitted,



Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.
Telecom Legal Services International, Inc.
1776 I Street, N.W. – 9th Floor
Washington, D.C. 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

Enclosures

**Before the
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION
500 East Capitol Avenue
Pierre, SD 57501-5070**

IN THE MATTER OF THE APPLICATION OF)
ePHONE TELECOM, INC. FOR)
AUTHORIZATION TO PROVIDE RESOLD)
INTEREXCHANGE TELECOMMUNICATIONS)
SERVICES THROUGHOUT THE STATE OF)
SOUTH DAKOTA)

APPLICATION FOR CERTIFICATE OF AUTHORITY

ePHONE Telecom, Inc. (“ePHONE” or “Company”) hereby requests authority to provide emerging competitive interexchange telecommunications services on a resold basis throughout the State of South Dakota. ePHONE seeks approval to provide a variety of advanced IP telephony services to consumers and small businesses utilizing its state of the art IP gateways, along with the resold transmission facilities of licensed facilities-based carriers and/or Internet service providers (ISPs). Approval of the petition would enable ePHONE to bring the advantages of state of the art, high quality IP services to a broad category of intrastate long distance users in South Dakota.

In support of its application ePHONE submits the following information pursuant to Section 20:10:24:02 of the SDR:

1. The name, address, and telephone number of the applicant;

ePHONE Telecom, Inc.
1145 Herndon Parkway
Herndon, VA 20170
(703) 787-7000

2. The name under which the applicant will provide these services if different than in subdivision (1) of this section;

ePHONE Telecom, Inc. will be providing services under the same name.

3. If the applicant is a corporation:

- (a) The state in which it is incorporated, the date of incorporation, and a copy of its certificate of incorporation or, if it is an out-of-state corporation, a copy of its

certificate of authority to transact business in South Dakota from the Secretary of State;

ePHONE was incorporated under the laws of the State of Florida on May 3, 1996. A copy of the Certificate of Good Standing from the State of Florida, along with the Articles of Incorporation and By Laws of ePHONE are attached hereto as Attachment C.

- (b) The location of its principal office, if any, in this state and the name and address of its current registered agent; and

Principal Office:

1145 Herndon Parkway
Herndon, VA 20170

Registered Agent:

CT Corporation Systems
319 S. Coteau Street
Pierre, South Dakota 57501.

- (c) The name and address of each corporation, association, partnership, cooperative, or individual holding a 20 percent or greater ownership or management interest in the applicant corporation and the amount of character of the ownership or management interest;

ePHONE is a publicly traded company and has no shareholders with greater than a 20 percent interest.

4. If the applicant is a partnership, the name, title, and business address of each partner, both general and limited;

The Applicant is not a partnership and therefore the question above does not apply.

5. A description of the telecommunication services the applicant intends to offer;

As an initial matter, ePHONE intends to offer a variety of prepaid IP telephony services through either a monthly calling plan, where customers are billed in advance for service via a credit card or direct debit, or through prepaid calling cards. Customers may obtain these services without changing their interexchange carrier and may utilize these services from any touch-tone phone. These services are described in full in the ePHONE proposed tariff, which has been submitted with this Application. In the future, ePHONE may expand its portfolio of services to include post-paid VOIP services, Internet access and e-mail services.

6. A detailed statement of the means by which the applicant will provide its services;

Pursuant to its FCC Section 214 authorization, ePHONE currently offers enhanced IP telephony services via its owned-and-operated IP gateways located in: New York, New York; Los Angeles, California; and Miami, Florida. These IP gateways are managed by ePHONE through its state of the art network operations center (NOC) located at the company headquarters in Herndon, Virginia. ePHONE employs a variety of proprietary systems in its network and recently enhanced its network performance through the addition of Cisco and Sun Microsystems components.

ePHONE intends to utilize traditional telephony connections, as well as the Internet, to provide intrastate interexchange service to customers in South Dakota. ePHONE is interconnected with a variety of carriers authorized to provide facilities-based or resold services within South Dakota, such as Global Crossing. ePHONE intends offer services statewide.

7. The geographic areas in which the services will be offered or a map describing the service area;

ePHONE Telecom, Inc. intends on providing service throughout the state of South Dakota.

8. Current financial statements of the applicant including a balance sheet, income statement, and cash flow statement; a copy of the applicant's latest annual report; a copy of the applicant's report to stockholders; and a copy of the applicant's tariff with the terms and conditions of service;

Refer to Attachment A for financial information.

Refer to Attachment D for Applicant's tariff.

9. The names, addresses, telephone number, fax number, e-mail address, and toll free number of the applicant's representatives to whom all inquiries must be made regarding complaints and regulatory matters and a description of how the applicant handles customer billings and customer service matters;

Customer Service and Customer Dispute Resolution:

Person Responsible: Robert Case, VP Customer Service

Toll-Free Numbers: 1-866-873-7500

Telephone: 703-787-7000

Fax: 703-787-7007

E-mail: ephonecard@ephonetelecom.com

Regulatory Matters:

Cheryl Lynn Schneider
Counsel for ePHONE Telecom
Telecom Legal Services International, Inc.
1776 I Street, NW – 9TH Floor
Washington, DC 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

ePHONE will handle customer billing and customer service matters as follows. In-house computer systems track all customer records. Customer complaints are logged in the MIND billing system, or if action is required, in the remedy trouble ticketing systems. Any customer complaints involving refunds or credits are handled at the mid-management level.

10. A list of the states in which the applicant is registered or certified to provide telecommunications services, whether the applicant has ever been denied registration or certification in any state and the reasons for any such denial, a statement as to whether or not the applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified; and a detailed explanation of why the applicant is not in good standing in a given state, if applicable;

ePHONE is certified in the following states to provide resold interexchange telecommunications services:

Colorado, Idaho, Iowa, Texas, Michigan, Montana, New Mexico, New York, Ohio, Oregon, District of Columbia, Washington, Wyoming, and Maryland.

ePHONE has not been denied registration or certification in any state.

The Company is in good standing with all state regulatory agencies where it is certified.

11. A description of how the applicant intends to market its services, its target market, whether the applicant engages in any multilevel marketing, and copies of any company brochures used to assist in the sale of services;

ePHONE intends to market its services through traditional channels such as, print advertising, direct mail campaigns, telemarketing sales agents and retail outlets. The company is still in the process of developing sales brochures and does not have materials available for public distribution at this time. ePHONE has no plans to engage in multilevel marketing.

12. Cost support for rates shown in the company's tariff for all noncompetitive or emerging competitive services;

Not applicable.

13. Federal tax identification number;

Federal Employee Identification Number: 0980204749

14. The number and nature of complaints filed against the applicant with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered;

Attachment E.

15. A written request for waiver of those rules the applicant believes to be inapplicable.

ePHONE requests that the Commission provide a waiver and allow it to maintain its books and records in accordance with Generally Accepted Accounting Principles (GAAP), rather than follow the Uniform System of Accounts, and to keep all books, records, documents and other writings incident to the conduct of business in the State of South Dakota at the ePHONE corporate offices in Herndon, Virginia. Given that ePHONE does not plan to establish a separate office in the State of South Dakota and does not intend to maintain separate facilities for the provision of services throughout the State, it would be more efficient and cost-effective for the company to maintain an integrated and standardized accounting system using GAAP. Similarly, it would be more efficient and cost effective for ePHONE to house all of its records at its corporate offices in Virginia, where all of its finance and accounting personnel are located.

Respectfully submitted,

A handwritten signature in black ink that reads "Cheryl Lynn Schneider" followed by a stylized flourish or initials.

Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.
Telecom Legal Services International, Inc.
1776 I Street, N.W. – 9th Floor
Washington, D.C. 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

ATTACHMENT A

SEC FORM 10-K

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

Proc-Type: 2001,MIC-CLEAR

Originator-Name: webmaster@www.sec.gov

Originator-Key-Asymmetric:

MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGj1WyK3XmZv3dTINen

TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB

MIC-Info: RSA-MD5, RSA,

CNgnkuwFwApzcKCY47LCuFlMcftDWgx3MaJOq32yNes1d1dov3sbPURldLjjuIGu

2fB2ifnQgk5jpnAgDk1a2Q==

<SEC-DOCUMENT>0001005444-02-000067.txt : 20020416

<SEC-HEADER>0001005444-02-000067.hdr.sgml : 20020416

ACCESSION NUMBER: 0001005444-02-000067

CONFORMED SUBMISSION TYPE: 10KSB

PUBLIC DOCUMENT COUNT: 4

CONFORMED PERIOD OF REPORT: 20011231

FILED AS OF DATE: 20020415

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:	EPHONE TELECOM INC
CENTRAL INDEX KEY:	0001085082
STANDARD INDUSTRIAL CLASSIFICATION:	SERVICES-BUSINESS SERVICES,
IRS NUMBER:	980204749
STATE OF INCORPORATION:	FL
FISCAL YEAR END:	1231

FILING VALUES:

FORM TYPE:	10KSB
SEC ACT:	1934 Act
SEC FILE NUMBER:	000-27669
FILM NUMBER:	02610815

BUSINESS ADDRESS:

STREET 1:	1145 HERNDON PARKWAY
STREET 2:	SUITE 100
CITY:	HENDON
STATE:	VA
BUSINESS PHONE:	5406619898

MAIL ADDRESS:

STREET 1:	SUITE 1000
STREET 2:	355 BURRARD ST
CITY:	VANCOUVER BC CANADA
STATE:	A6

</SEC-HEADER>

<DOCUMENT>

<TYPE>10KSB

<SEQUENCE>1

<FILENAME>main.txt

<DESCRIPTION>10KSB FOR EPHONE

<TEXT>

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-0001
FORM 10-KSB

(MARK ONE)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001

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

Commission File Number 0-27669

ePHONE Telecom, Inc. (Name of small business issuer in its charter)

Florida 98-0204749 (State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

1145 Herndon Parkway, Suite 100 Herndon Virginia 20170 (Address of principal executive offices) (Zip Code)

(703)-787-7000 Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:

None None (Title of each Class) (Name of each exchange on which registered)

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$0.001 PAR VALUE

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. [X] Yes [] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

Issuer's revenues for the year ended December 31, 2001 were \$3,589,840. Aggregate market value of voting stock held by non-affiliates of 32,920,713 shares outstanding at December 31, 2001 was approximately \$6,255,000. Amount was computed using the average bid and ask price as of December 31, 2001, which was \$0.19. As of December 31, 2001, a total of 32,987,381 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - None

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

<PAGE>

ePHONE TELECOM, INC.

FORM 10-KSB

INDEX

<TABLE>
<CAPTION>

Part I

<S>	
Item 1.	Description of Business.....
Item 2.	Description of Properties.....
Item 3.	Legal Proceedings
Item 4.	Submission of Matters to a Vote of Security Holders

Part II

Item 5.	Market for Common Equity and Related Stockholder Matters.....
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....
Item 7.	Financial Statements.....
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....

Part III

Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.....
Item 10.	Executive Compensation.....
Item 11.	Security Ownership of Certain Beneficial Owners and Management...
Item 12.	Certain Relationships and Related Transactions.....
Item 13.	Exhibits and Reports on Form 8-K.....
Registrant Signatures

</TABLE>

<PAGE>

FORWARD LOOKING STATEMENTS

Certain information in this report including statements made in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Business" and elsewhere contain "forward-looking statements". All statements other than statements of historical fact are "forward-looking statements", including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any

statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may", "will", "expects", "plans", "anticipates", "estimates", "potential", or "continue", or the negative thereof or other comparable terminology. Although ePHONE believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in these forward-looking statements.

Forward-looking statements include but are not limited to:

- o Expectations and estimates as to completion dates of the Network of Regional gateways ePHONE is installing and the Network;
- o ePHONE's ability to implement successfully ePHONE's operating strategy as described in the business plan of ePHONE;
- o Future financial performance as estimated in ePHONE's financial projections;
- o ePHONE's forecasts of customer or market demand;
- o Highly competitive market conditions;
- o Changes in or developments under laws, regulations and licensing requirements in regions ePHONE is installing gateways; and
- o Changes in telecommunications technology.

This list of categories of forward-looking statements should not be construed as exhaustive. ePHONE will not update or revise any forward-looking statements.

Certain factors that could cause ePHONE's forward-looking statements not to be correct and cause ePHONE's actual results to materially vary from projections made in forward-looking statements are set forth in Section E (Risk Factors) of Item 6 below.

<PAGE>

PART I

ITEM 1. DESCRIPTION OF BUSINESS

A. Overview

ePHONE was incorporated pursuant to the laws of the State of Florida, effective May 3, 1996, as IRA Fund Brokers Corp., changed its name to IFB Corp. on April 6, 1998 and on March 22, 1999, IFB Corp changed its name to ePHONE Telecom, Inc.

The development of ePHONE's current business plan essentially commenced as of June 2001. From the date of incorporation until November, 1998 ePHONE did no business and made no attempt to develop any business. From November 1998 until December 31, 1999, ePHONE focused its efforts on the review of business opportunities and from January 1, 2000 to June of 2001 focused on the development of the business model that was a precursor to the current business plan.

On March 31, 2000, ePHONE entered into a Strategic Alliance Agreement and License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with these agreements ePHONE acquired certain fixed assets from Array Telecom and obtained an exclusive license for all Voice over Internet Protocol technology that had been developed by Array Telecom for a period of five years.

The Array Telecom business model that was proved to be based on a technology that could not be economically implemented. This technology consisted of proprietary Voice Over Internet Protocol (VOIP) gateways, calling card and network management software that was intended to be used with customer premises equipment (CPE) VOIP gateways. Several contracts had been signed and the network was deployed in several European cities by the third quarter of 2000. After extensive testing was conducted, ePHONE concluded that the network provided inadequate quality and functionality. The system did not have an integrated billing capability. The third party billing solution being bridged to the proprietary system was too cumbersome to support the necessary day-to-day activities of billing, PIN generation and reporting. Further, no provision in the system could be made for the management of a network of CPE devices, which had needed to be managed as a separate billing entity. Furthermore, it was determined that the equipment supported a very limited set of telecommunications protocols, making it difficult or impossible to interconnect with other carriers.

ePHONE underwent an evaluation of alternatives, costs involved, probabilities of success and determined that it would be in the company's best interests to transition to state of the art technologies that were in production and could be deployed rapidly. In this regard, ePHONE made a strategic decision that the Array Technology systems should be integrated with Cisco and Sun Microsystems products with a Mind CTI billing system. The combination of cutting edge technology would immediately broaden the range of services that could be provided and allow ePHONE to compete in the retail and wholesale market. A new strategy was developed to overcome the deficiencies of the Array Telecom system and implementation commenced in May of 2001. The new network was then built in seventy -five (75) days and was generating revenue in 90 days.

Due to ongoing integration and migration issues, the viability of the Array technology as well as ePHONE's original strategy was questioned. The respective time and effort spent on the implementation of the two networks led management quickly to the conclusion that the Array network should be abandoned and to commit fully to a network based on Cisco equipment.

ePHONE commenced commercial operations utilizing the new strategy of a Cisco network in August of 2001 and has generated revenues of over \$3.5 million in 2001.

B. STRATEGIC PLAN

ePHONE's strategy is to become a next generation global facilities based marketing and sales oriented telecommunications carrier providing a full complement of telecommunications and data services utilizing the efficiency and reliability of new generation VOIP based telecommunication technologies.

<PAGE>

This entails operating as a wholesale carrier, interexchange carrier and as a retail services provider. Using a private Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), ePHONE has developed the capability to provide voice and data transmission and other telephony features at high quality and low cost. ePHONE's role as an Interexchange Carrier allows ePHONE to capitalize on inexpensive wholesale termination rates, which can be further leveraged into retail products in order to increase overall margins.

ePHONE has developed this strategy to take advantage of the current market conditions while positioning itself to accommodate future developments and trends. The key elements are simple individually but require the technology, management expertise and experience to take advantage of them. ePHONE believes it has gained a significant competitive advantage through its ability to:

- o Capitalize on the oversupply of bandwidth to continually build out and improve its network by utilizing leased lines to provide a reliable, high quality transmission facility. This is achieved with slightly higher cost than the cost of using the Internet as the transport medium while providing a managed network environment with superior call quality.
- o Utilize the latest standards based technologies to deploy a network capable of interfacing to both legacy networks (traditional telephone networks) and the variety of VOIP networks being deployed.
- o Introduce higher margin retail products such as ePHONE's Unlimited Domestic Calling Program, reseller program, proprietary products to enhance and provide ease of customer calling on the ePHONE network, DSL reseller program, 1+ dialing services and prepaid calling cards.
- o Build traffic volume through wholesaling minutes to other carriers.
- o Aggregate traffic to increase volumes to certain geographic destinations which results in decreased cost per minute.
- o Open new markets while decreasing termination costs. A distinct advantage of ePHONE's technology is the ability to rapidly and inexpensively deploy nodes or Points of Presence (POPs), which decrease the cost of terminating traffic as well as providing the opportunity to originate traffic.

ePHONE has developed a strategy that builds one element upon the other to decrease the company's costs of providing service while increasing market penetration. ePHONE also employs a channel distribution model based on the development of partnerships both domestically and internationally. ePHONE's philosophy is to create and sustain ePHONE as a facilities based marketing and sales oriented telecommunications company.

C. BUSINESS PLAN

ePHONE's plan is to become a global telecommunications carrier providing a full complement of telecommunications services, including a variety of retail services, wholesale arbitrage and data services, using Voice over Internet Protocol ("VOIP") technology over both the Internet and private leased circuits. ePHONE believes it can differentiate itself from the competition through innovative marketing approaches and techniques while utilizing state of the art technologies to provide a comprehensive array of competitive service offerings.

ePHONE's planned approach has four components:

- o Utilization of high quality fiber lines provided by leased circuits and use of the Internet where appropriate to carry telecommunications traffic and to link nodes in the network.
- o Deliver a range of innovative products and services using its network.
- o Compete as an interexchange carrier to ensure the most competitive rates are available for the retail products.
- o Develop direct international connections to further enhance our ability to compete in the wholesale market while further improving margins on retail products.

As of the end of fiscal year 2001 ePHONE had deployed two network nodes, New York and Herndon, and is supporting six revenue generating retail programs as well as wholesale arbitrage traffic. ePHONE is interconnected with 18 carriers for origination of revenue generating traffic and termination of traffic both domestically and internationally. The six retail programs consist of five calling card programs targeted at the US, Mexico, the Philippines, Israel and Africa and the "Unlimited" Program. The Unlimited Program is a telemarketing

driven domestic calling program providing unlimited continental US calling for \$54.90 per month.

<PAGE>

ePHONE's revenues for the fiscal year ending December 31, 2001 were \$3,589,840. With the exception of approximately \$500,000 generated from the sale of equipment in the first quarter of 2001, the revenue was generated from the new core business between August and the end of December.

ePHONE plans to introduce a new product in early Q2 of 2002 named eTRANSPORT ("eTRANSPORT"). The eTRANSPORT is a piece of equipment that is installed between the phone and the incoming phone line at the customer premises (CPE or Customer Premises Equipment). ePHONE's service to the customer is virtually the same as the 1+ long distance service, however it is prepaid with the added benefit of portability. The device is a transportable 1+ prepaid long distance service from phone to phone which allows call costs to be charged to the same prepaid service.

ePHONE has worked closely with the designer and manufacturer of eTRANSPORT and has integrated the device with our network. ePHONE has secured the exclusive rights to the version of the device that works with our network, which provides functionality and has a speed of connection that is faster than previous versions of the device. ePHONE is working with marketing entities to introduce the product to market through home shopping TV channels and large retail chains that are the after market distribution channels for products marketed "As Seen on TV".

ePHONE plans to position the service so the end user may save as much as 70% off their equal access based 1+ service. Currently, competitive long distance services are offered by service providers, who require the customer to sign an agreement in which the service provider then uses as authorization to order the carrier providing the actual circuits to the customer's premises to route all long distance calls to that service provider. The approach ePHONE is taking does not require any inter carrier or service provider coordination. The customer can use ePHONE's service regardless of which long distance carrier they are currently using, and they do not need to change carriers or inform them that they are using the ePHONE service.

ePHONE believes its aggressive approach to marketing and sales is as important as the technologies being employed. ePHONE has assembled a management team with diverse telecommunications experience and expertise. ePHONE is committed to staying at the leading edge of telecommunications and information technologies but believes its real competitive advantage will be sustained through a creative and innovative approach to acquiring and maintaining customers and channel distribution partners.

ePHONE plans for 2002 and beyond are to continue to build its network capacity, geographic coverage and utility while continuing to introduce new products and services. ePHONE's wholesale activities are focused on two fronts: increasing the support of different telecommunications protocols and pursuing international direct interconnections. Direct interconnections are located either over the Internet, or where economically feasible, over leased circuits to ePHONE's or a partner's equipment located in other countries. ePHONE believes the termination rates obtained through "directs" will lower termination costs which in turn will increase margins on both wholesale and retail programs. The development of direct interconnections is the focus of the franchise program wherein partners are solicited to install equipment in their own country but the equipment becomes a part of the ePHONE network and the revenues generated by the equipment are shared.

D. NETWORK

ePHONE believes the development of IP telephony as a viable technology for providing telecommunications services is significant not only because of the

reduction in costs, but also because of the enhanced services that it facilitates. Unlike legacy telecommunication systems, which are currently used by most providers of telecommunications services, IP telephony systems are open, and thereby, allow the integration of numerous services on a single platform. This integration provides significant cost advantages. Inherent in the conversion of voice to data over an IP network is an effective and efficient compression of the conversation. Effectively this means an increase in utilization of bandwidth or capacity, which translates into a decreased cost.

ePHONE's plan is for their network to be deployed worldwide, and it will consist of the following main elements:

- o The use of a high quality IP backbone provided by a combination of leased lines and the Internet to carry telecommunications traffic and to link nodes in the network.
- o Strategically placing nodes in the network that interface with end-users and provide the actual services ePHONE will offer Points of Presence (POPs).

<PAGE>

- o Co-location of Nodes in special facilities to allow low cost interconnection to a variety of PSTN and IP network providers.
- o Global Network Management Center (GNMC). From this centralized point of command, ePHONE's technical staff will use their best efforts to ensure uninterrupted operation of ePHONE's network and services. The GNMC will also serve as a collection point for billing information used in invoicing for services rendered.

1. IP Backbone

In order to deliver high quality voice services that are comparable to traditional public telephone services, ePHONE requires a high quality IP backbone to carry traffic between its POPs. Currently, ePHONE is utilizing a 100 megabit per second dedicated IP bandwidth from Cogent between POPs.

The technology ePHONE employs allows the use of international and domestic private leased circuits until a more economical transport mechanism is available and provides the flexibility to move to new technologies as they evolve and become practical. Because of a VOIP technology called Real Time Protocol "RTP" header compression, the use of private leased circuits allows ePHONE to double the amount of traffic ePHONE can carry over a given bandwidth of circuit. This technology enables ePHONE to realize even more savings in the transport of traffic than an Internet only competitive carrier.

2. Points of Presence (POPs)

In each region where ePHONE establishes a presence, equipment will be deployed. Each POP will interface to the IP Backbone in order to provide the numerous services that ePHONE intends to offer. The key components of each of our POPs will be the following:

- o Network routers used to connect the POP as a whole to the IP backbone. These routers will allow access to our IP backbone by any device that is part of the company network. Such devices include gateways, and other sub-components of our switch.
- o The PSTN/IP gateway that serves as the interface between the local PSTN (or other traditional telecommunications provider) and our IP backbone. This VOIP gateway is the bridge between our network and the existing public telephone network.

Application servers are used to deliver actual services to the end user. Similar

to a web server, application servers will be used to host the applications that end users interact with. These servers are centrally located and accessed by the POPs either over the Internet or via the ePHONE network.

ePHONE proposes to deploy 4 more POPs during the course of 2002, Los Angeles (installed during Q1) Miami, London and Frankfurt. These six POPs will form the core of ePHONE's network. A second tier of POPs placed under the auspices of the franchise program is intended to provide direct termination to and access from various countries where the placement of such POPs are technically feasible and economically profitable. ePHONE expects to be able to place an additional 15 local access POPs per year under its Franchise and Partnership program. (Section J: Partnership Programs)

3. Global Network Management Center (GNMC)

The GNMC is the centralized command center from which ePHONE's technical staff manages the various components of the network, as well as all other services being provided. The GNMC is staffed 24 hours a day, 7 days a week. The GNMC, which is connected to the network via a high-speed dedicated IP connection, will provide the following services:

- o Real-time collection of call detail record (CDR) information from all ePHONE POPs.
- o Consolidation of all billing information generated by ePHONE POPs located throughout the network.
- o Back office functions such as account setup, management, termination, and billing.
- o IP network monitoring, to ensure, to the extent possible, that the IP backbone delivers consistently high quality performance and results.
- o Monitoring of each POP in the network to ensure availability. Such monitoring will not be limited to monitoring on the IP network, but also PSTN availability of a given ePHONE POP.

<PAGE>

- o Monitoring carrier interconnects to ensure adequate quality of service and availability of termination to the contracted destinations.
- o Deployment of new services to ePHONE POPs.
- o Bandwidth monitoring and planning activities to determine the appropriate timing and structure of improvements to our network infrastructure.
- o Coordination of the deployment of new ePHONE POPs, and extensions of the IP backbone to include new regions.

The GNMC is fully established and operational and is located in ePHONE's corporate headquarters in Herndon, Virginia.

E. MARKETING

ePHONE plans to offer a wide range of telecommunications services to carriers and end users throughout the world. The fundamental service that ePHONE will provide is the ability to reduce telecommunications costs through the use of IP telephony technology. In order to provide such services economically, ePHONE will utilize a worldwide IP network that will be used to transmit calls. ePHONE's network will handle long distance traffic, both for carrier customers, and for calls between our retail customers and the larger population connected to the public switched telephone network (PSTN).

ePHONE believes companies such as ITXC, iBasis, and Net2Phone have demonstrated the viability of selling long distance telephone services using IP telephony technology. However, ePHONE plans to offer significantly differentiated retail products and services. We believe there are three broad categories in which ePHONE delivers services that are more compelling than the straightforward long distance calling services being offered currently by IP telephony carriers.

These categories are:

- o Marketing differentiated services.

These products are differentiated more by how they are distributed and sold than the underlying technologies. Moving telephony services into mass marketing channels and adapting the products either technically or commercially to offer an innovative product tailored to the specific distribution channel is what distinguishes these products from other offerings. Examples of this are the Unlimited Program and the soon to be launched eTRANSPORT program.

- o Enhanced services.

Through integration of IP telephony products based on open standards, ePHONE plans to provide a significantly greater depth of services beyond simple long distance calling, including services such as international roaming, roaming 1+ dialing, online billing and verification. Because of the open architecture, ePHONE is also positioned to add services such as unified messaging, "Follow Me" and "Find Me" services in the very near term.

- o Access technology.

At present, the only means provided by IP telephony carriers to access their networks, is an access number that must be manually dialed. While companies using IP telephony products enjoy one-stage dialing, they are required to deploy their own networks in order to do so, and as a result, can typically only call between area codes where they have Points of Presence (POPs). ePHONE, in conjunction with our partners, has developed the capacity for access devices to be used in addition to the normal PSTN-based access methods. These devices will allow ePHONE to deliver services providing an ease of use only seen with 1+ service.

F. PRODUCTS AND SERVICES

- o Specialty Products

These services are customized to the requirements of a specific distribution channel or marketing program. Examples of these programs are the Unlimited Program and the soon to be launched eTRANSPORT product.

<PAGE>

These products are driven by the marketing approach rather than technology. The underlying technologies are standard prepaid services, however, the marketing approach or channel differentiates the product and thereby creates a competitive advantage resulting in high margins.

For example, eTRANSPORT, an exclusive patented device with a microchip that does not require a separate power source, is used to produce a product that works for all practical purposes the same as a 1+ dialing program. In addition, the product is mobile since it can be used from almost any 1 or 2 line phone in the domestic US.

As the network is expanded ePHONE believes these products can be exported to international markets thus leveraging the development effort that has gone into the definition and launch of the product in the US.

- o 1+ and ISDN services

ePHONE is currently developing these products for introduction in Q3 of 2002. They require ePHONE to become licensed as a CLEC (Competitive Local Exchange Carrier) in order to provide services in specific geographies. ePHONE intends to develop a true retail base that can be developed as a market for other value added products. The resale of another service provider's fixed network services allows us to "own" the customer as ePHONE becomes responsible for monthly billing and customer service.

- o Prepaid Calling Cards

Since each POP is capable of providing interactive voice response ("IVR"), balance announcements, real-time billing with automatic cutoff and other key features, no additional investment is required in order to use the network to provide prepaid calling card services.

Prepaid calling cards offer a range of products targeted at different markets and distribution channels. Competitive rates and extensive distribution channels allow cards to be tailored to each of these markets:

- o Local Community Cards

Targeted at local community calling groups with specific calling destinations distributed through small retail stores or neighborhood contacts.

- o Promotional Cards

Cards sold to a corporate entity to promote their product as a promotional item.

- o Travel Cards

These cards allow a consumer to make calls from a number of specified countries at rates that are lower than the consumer would otherwise be required to pay.

- o NPO - non profit organization products

These products are tailored to the "affinity" market. They provide an alternative revenue source for non-profit organizations.

- o International Cards

As second tier local access POPs are put in place, franchise partners are able to market their own prepaid products in the call originating country.

- o Customized Online Billing

Because ePHONE's network is built on Internet Protocol (IP) technology, it is able to deliver transactional and e-commerce applications identical to those used by web-based retailers. Since all POPs collect billing information in real-time, with immediate transmission of billing information to the GNMC, ePHONE is able to provide online services, such as, allowing a customer to review their bills, sign up for new plans and services, or make changes to existing services. This service also provides immediate feedback to end users on the benefits and savings.

This service has been further extended with the addition of an IVR (Interactive Voice Response system) that provides similar services for users over the phone,

allowing them to sign up for new services and providing information on the status of their accounts.

<PAGE>

G. INTEREXCHANGE CARRIER AND DIRECTS

ePHONE believes the provision of competitive retail products is dependant on its ability to obtain competitive rates from suppliers. ePHONE believes it can obtain these competitive rates by positioning itself as a wholesale service provider and an interexchange carrier. ePHONE buys from carriers and sells to other carriers with the intent of making a margin on the transaction.

Providing these services allows ePHONE to increase traffic volumes as well as making bilateral arrangements for both the origination and termination of traffic with a specific carrier, thereby, reducing the financial exposure in both directions. ePHONE believes this also increases the number of carriers with whom ePHONE can contract.

ePHONE has established relationships with a base of carriers who provide services ranging from local access, 800 access and international terminations. ePHONE has established contractual relationships with Global Crossing Bandwith, Inc., Teleglobe U.S.A., Bell South Long Distance, Encore Telecommunications Inc. (Vonova), Intelco Communication (Cescom), MCI-Worldcom, and several other carriers. The relationship with other carriers is very dynamic and requires an ongoing presence in the market to track rates and develop relationships as new routes or more competitive rates become available.

The interconnection with other carriers is being done at our facilities in New York and Los Angeles. ePHONE is located in a carrier hotel that provides local access to a number of carriers and inexpensive access to local loops in New York and Los Angeles that can be used to interconnect with virtually any carrier located in the city. These interconnections are done via leased lines between switches. ePHONE is also using the Internet to connect to some carriers whose switches are not located in New York or Los Angeles.

ePHONE has established a network of interconnections that is sufficient for the current business plan purposes and can increase its capacity within days. ePHONE can terminate calls to any destination in the world and has very competitive rates through contracted carriers for access and egress in the domestic US. ePHONE is able to offer competitive products in the retail market and to terminate traffic on behalf of other carriers competitively.

A number of the larger carriers (tier 1 carriers) were not available during 2001 as prospective customers because ePHONE did not support SS7. SS7 is a signaling protocol that has been adopted as a standard by many of the larger carriers and all suppliers to large carriers have to support SS7. ePHONE purchased the SS7 equipment and software needed to support SS7 and completed installation during the second quarter of 2002. This has opened to ePHONE a more lucrative market since may tier 1 carriers require the support of SS7 with carriers they interconnect to.

ePHONE believes it can further improve its rates to international destinations by interconnecting with carriers or service providers in those international locations. This is the focus of ePHONE's franchise program. It encourages companies in international locations to install compatible equipment and provide access to the local telephone network (PSTN) and to become part of the ePHONE network. These "directs" bypass intermediaries and allow ePHONE to benefit from lower termination rates as well as providing access for retail products in that location.

H. SUPPLIERS

A significant amount of technology and management experience was required to create the network and deliver services to end-users. Although ePHONE may need to find the technical expertise to create some systems, its strategy is to enhance the current technology team by partnering with other companies that provide the required technology and can meet ePHONE's requirements. A list of the partners and suppliers that ePHONE uses are:

- o Cisco Systems, Inc.

The equipment used in ePHONE's POPs is virtually all Cisco manufactured. Cisco offers an extensive array of VOIP products, IP routers and switches. These products can be combined in a variety of different ways to provide the desired network functionality. ePHONE's technology team believes they have developed an architecture that provides superior functionality and flexibility. This architecture has been propagated throughout ePHONE's core network.

<PAGE>

- o Mind CTI, LTD

Mind CTI is an Israeli company that has developed a billing system used in both data and voice applications. It also provides access control, authorization and configuration capabilities. It allows ePHONE to define a hierarchy of relationships between carriers, distributors, service providers and anyone else with whom ePHONE deals with to provide services, either as a customer or provider. The Cisco equipment handles the routing and sending of traffic while the Mind CTI system keeps track of what happened throughout the network and what the cost was and who should be charged.

- o Immix Telecom, Inc.

Immix is a Florida corporation selling autodialers and other access devices. Immix produces the device being used for the eTRANSPORT program. ePHONE has developed a very close working relationship with Immex that has allowed ePHONE to closely integrate the eTRANSPORT with the ePHONE network to provide seamless customer access. ePHONE's contract with Immix provides for an exclusive right to distribute the specific device ePHONE has developed in conjunction with Immix.

- o Switch and Data

ePHONE has contracted with Switch and Data to provide co-location facilities in New York, Miami and Los Angeles. Switch and Data operates "Carrier Hotels" which are facilities set up to provide a location to house telecommunications switches. They possess all the attributes required in the form of security, uninterruptible power, air conditioning and proximity to other carriers and telecommunications facilities.

- o Carriers

As an interexchange carrier ePHONE interconnects with a number of other carriers. These relationships are fluid, depending on where ePHONE can obtain the best rates and to whom ePHONE can sell rates at any given point in time. Though other carriers as a group are extremely important to ePHONE, no one carrier is in a position to be considered critical to ePHONE's success.

I. COMPETITION

The market for Internet voice, fax and other value-added services is competitive. Internet protocol and Internet telephony service providers, such as ITXC Corp., route traffic to destinations worldwide and compete directly with

ePHONE, along with Internet telephony service providers Net2Phone. In addition, major telecommunications carriers, such as AT&T, Deutsche Telekom, MCI WorldCom and Qwest Communications, have all entered or announced plans to enter the Internet telephony market. Many of these companies are larger than ePHONE and have substantially greater managerial and financial resources than we do. Competition in ePHONE's markets can be expected to continue and may adversely affect our profitability. ePHONE cannot assure that we will be able to compete successfully against competitors and may lose customers or fail to grow our business as a result of this competition.

For the present, the following companies focusing on the use of VoIP technology are our main competitors:

- o The Internet Telephone Exchange Carrier (ITXC)

ITXC is a clearinghouse for Internet telephony service providers and operates ITXC.net. Since April of 1998, ITXC has been used to provide traditional carriers' international call completion with sufficient quality for carriers to serve their phone-to-phone customers. ITXC has reportedly installed 167 POPs in 45 countries and 101 cities.

- o iBasis

iBasis was founded in 1996 to provide Internet Protocol (IP) telephony service to telecommunication carriers around the globe. The company has POPs in Asia, Europe, the Middle East, and the Americas. iBasis is in wholesale Internet telephony service.

- o Net2Phone

Net2Phone began as a subsidiary of IDT Corporation and is a provider of voice over public Internet communications services. Net2Phone enables its customers to place telephone calls from their computers, telephones, or fax machines to any telephone or fax machine in the world. By routing calls via the public Internet, Net2Phone enables users to save money on their international phone rates. Net2Phone developed a proprietary Gateway technology for IP voice services offered by the company.

<PAGE>

Net2Phone's product offerings include PC-to-phone service, IP telephony service for phone or fax and Real-time PC-to-fax solution. Its network currently reaches 30 countries and expects to be operational in 25 additional countries by the end of 2002.

- o DeltaThree

Founded in 1996, DeltaThree manages a network dedicated to the transmission of voice over IP. Its services include PC-to-phone, unified messaging, global access calling cards, and voice greetings accessible from the company's communications portal. DeltaThree currently operates a network of 37 international POPs.

J. PARTNERSHIP PROGRAMS

A key element in our overall ePHONE strategy is the Partnership Program. ePHONE's Partnership Program is designed to facilitate the rapid deployment and sales of products and services with a minimum capital investment by ePHONE. There are two elements to our Partnership Program, the Franchise Partner Program and the Sales Agent Program.

- o Franchise Partner Program

The Franchise partner program focuses on the rapid expansion of our network. The program is designed to allow interested parties to participate in the deployment

of ePHONE's network by providing capital used to locate an ePHONE POP in a given area. Once that POP is deployed, ePHONE's Franchise Partner then performs marketing of our services, taking a share of any profits generated by that ePHONE switch.

o Sales Partner Program

Under this program, ePHONE recruits resellers who make no capital investment but specialize in selling services. Sales Partners are required to commit to minimum sales targets for each of our services that they sell. However, Sales Partners will be paid a commission based on sales.

K. GOVERNMENT APPROVALS AND REGULATIONS

ePHONE is currently in possession of a Federal Communications Commission 214 license which allows ePHONE to provide telecommunications services in the United States and as an international carrier. ePHONE has obtained, has filed for, or is in the process of filing for licenses with the individual states within the domestic US for provision of intrastate services.

ePHONE's need for licenses in other countries will depend on whether ePHONE operates as a foreign company in those locations or whether ePHONE partners with licensed local partners.

L. PATENTS, TRADEMARKS AND ROYALTY AGREEMENTS

ePHONE does not have any patents, trademarks, licenses or protective agreements. ePHONE has trademarked its logo in Canada.

M. RESEARCH & DEVELOPMENT ACTIVITIES

ePHONE is not undertaking any pure research and development. ePHONE's activities in this respect consist of working with the products ePHONE has purchased and licensed from suppliers in order to integrate them into a network and back office. In this effort ePHONE has found it necessary to develop tools and processes for its own use in the administration and management of the Network. These activities will continue as its business requirements grow and change.

N. EMPLOYEES

As of December 31, 2001, ePHONE had 20 full-time employees in the Virginia office, including 2 in Development, 7 in Network Operations, 5 in Marketing and 6 in Administrative and Accounting. In addition, ePHONE had 9 part-time employees and 1 individual providing service to us as independent consultant. As ePHONE's business and development efforts expand, additional personnel will be engaged, either as employees or as contract service suppliers.

P

ITEM 2. DESCRIPTION OF PROPERTIES

ePHONE leases approximately 7,400 square feet for the principal executive offices, which are located at 1145 Herndon Parkway; Suite 100, Herndon, Virginia 20170. Base rent for the current premises is approximately \$14,500 per month subject to annual increases of three percent. The lease requires ePHONE to pay a portion of the property taxes and certain operating expenses. Management believes that the current and anticipated facilities are suitable and adequate for operations.

ITEM 3. LEGAL PROCEEDINGS

Litigation with former officer

Mr. Charles Yang joined ePHONE in July 1999, as President and Chief Operating

Officer in part due to Mr. Yang's strong representations that he could bring to ePHONE extensive business connections, and that those connections could be converted into sales for ePHONE. The Board subsequently concluded that Mr. Yang did not have the potential that they originally believed he had - which is part of the reason for the breakdown of the relationship with Mr. Yang. For further information regarding ePHONE's relationship with Mr. Yang, see Section B of Item 12 below.

Mr. Yang ceased providing services to ePHONE as of January 31, 2000. Mr. Yang's positions as President and Chief Operating Officer of ePHONE were formally terminated March 9, 2000.

During 1999, ePHONE accrued a liability totaling \$300,000 in connection with a settlement offer made to Mr. Yang to resolve this matter. On March 23, 2001, the Company entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Mr. Yang to resolve all claims and disputes between the Company and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from the Company. Pursuant to the terms of the Settlement Agreement, the Company agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of the Company's common stock.

ePHONE did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to pay Mr. Yang an additional \$75,000 and issue an additional 100,000 shares of our common stock. The \$225,000 due Mr. Yang as of December 31, 2001 will be paid in 30 monthly installments of \$7,500, beginning in 2002.

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Other than disclosed above, ePHONE is not involved in, nor has knowledge of, any threatened or pending legal proceedings against it.

<PAGE>

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on December 12, 2001. There were two agenda items submitted to a vote of security holders:

1. Election of Mr. Shelly Kamins to the Board of Directors and reelection of Mr. Robert Clarke, John Fraser, Charlie Rodriguez and Carmine Tagliatela to the

Board of Directors.

2. Proposal to ratify Grant Thornton, LLP as ePHONE's independent public accountants for fiscal year 2001.

The result of the voting stockholders were as follows:

		Clarke	Fraser	Rodriguez
1.	Directors			
	-----	-----	-----	-----
<S>		<C>	<C>	<C>
	Against	1,000	3,000	0
	For	17,251,827	17,249,827	17,252,827
	Abstain	22,550	22,550	22,550
2.	Proposal	For	Against	Abstain
	-----	---	-----	-----
		17,262,177	5,200	8,000

</TABLE>

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 12, 2000 and prior to December 15, 1999, the common shares did trade and currently trades on the OTC Bulletin Board - under the symbol "EPHO". From December 15, 1999 until June 11, 2000, the common shares traded on the National Quotation Bureau's Electronic Quotation Service (the "Pink Sheets") under the symbol "EPHO". Shares of the common stock do not trade on any stock exchange or any other market.

The following table sets forth the closing high and low bid prices of the common stock for each quarter within the last two years as reported by publicly available sources to which ePHONE has access. The quotations reflect inter-dealer prices and do not represent retail mark-ups, markdowns, commissions, and may not reflect active transactions.

Market Information

<TABLE>

<CAPTION>

2000:

<S>

First Quarter.....
Second Quarter.....
Third Quarter.....
Fourth Quarter.....

2001:

First Quarter.....
Second Quarter.....
Third Quarter.....
Fourth Quarter.....

</TABLE>

As of December 31, 2001 there were 204 holders of record of the common stock. This does not reflect persons or entities that hold stock in "Street" name or through various brokerage firms.

<PAGE>

ePHONE has not paid any cash dividends on common stock and at present does not intend to pay cash dividends in the foreseeable future. ePHONE plans to retain

earnings, if any, to use in the operation of the business and to fund future growth.

Unregistered Securities

During February 2002, ePHONE issued 10,000 shares to Rudy Ryckewaert in exchange for consulting services rendered valued at \$2,200.

During March 2001 and January 2002, ePHONE issued 500,000 shares of common stock to Mr. Charles Yang in connection with a settlement agreement further described in legal proceedings.

During November 2001 and January 2002, ePHONE issued 200,000 shares of common stock to Mr. Kuba Farbiarz in exchange for marketing consulting services rendered.

During November 2001, ePHONE issued 538,973 shares to PITRFA, Inc, in connection with a marketing and distribution agreement.

The issuances were made pursuant to available exemptions from the registration provisions of the Securities Act of 1933, as amended (specifically, Section 4(2) of the Securities Act) and relevant Blue Sky statutes.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Fiscal Year 2001 was one of transition for us. Management's decision in the second quarter to introduce Cisco equipment and to begin implementing a private network, as opposed to exclusively using the Internet for transport, proved to be fundamental to the generation of our telephony based revenues. We began carrying production traffic, both wholesale and retail in the third quarter of 2001. This major milestone marked the first time we have produced revenue from the provision of telecommunications services in our history.

Our core strategy had been to deploy and manage a global Internet telephony services network using the Array series of products and customer premises equipment (Business Direct and Business Connect services). The Array network, after more than 12 months of effort was not able to support production traffic. This called into question the viability of the Array technology as well as our original strategy. The respective time and effort spent on the implementation of the network led management quickly to the conclusion that the Array network must be integrated and a migration strategy developed for a network based on Cisco equipment.

Our decision to deploy the new network was based on several underlying factors described in Part I Item I Business, that were seen as providing a broader based business strategy and one that worked in conjunction with our original plan. It also surpassed the Array network in areas where it was deficient, primarily carrier interconnectivity and billing functionality. Our new network has provided supplemental revenues by allowing wholesale arbitrage and increasingly competitive rates for the retail programs being deployed.

Our new network was deployed and brought into production in 75 days.

Results of Operations - Years ended December 31, 2001 and 2000

Our net loss and net loss per share were (\$7,021,000) and (\$0.28) and (\$13,701,000) and (\$0.94) and for the years ended December 31, 2001 and 2000, respectively.

<PAGE>

During the third quarter in 2001, we began recognizing revenue under our

"Unlimited Program" telecommunications program and our wholesale strategy. This coupled with the significant reduction of non-cash general and administrative costs during 2001 compared to 2000 were the primary reasons for the significant decrease in our net loss

Revenues

Revenues increased from \$590,000 in 2000 to \$3,590,000 in 2001. The majority of the increase is attributed to the Company's "Unlimited Access" Program and our wholesale strategy, which began in mid August. These programs accounted for 86% of ePHONE's revenue for the year ended December 31, 2001 and did not account for any revenue during 2000. During December 2001, cash collections of \$367,000 were considered pre-paid and are reflected in the Current Liability section of the Balance Sheet as "Deferred Revenue". As ePHONE continues to focus on retail and wholesale offerings, sales of equipment are not expected to be significant in the future. The \$513,000 revenue from the sales of equipment in Q1 of 2001 is not likely to reoccur.

Cost of Revenues

Cost of Revenues increased from \$412,000 in 2000 to \$2,501,000 in 2001. For the year ended December 31, 2001, cost of goods sold represented commissions, activation fees and processing charges related to our telecommunications services program. Prior to the third quarter of fiscal year 2001, cost of goods sold was related to telecommunications equipment sales. Gross margin for the year ended December 31, 2001 and 2000 was 30%. Our gross margin percentage will likely fluctuate higher in the future due to changes in our sales mix.

Sales and marketing

Sales and marketing expense decreased from \$1,853,000 in 2000 to \$1,212,000 in 2001. During 2000, our sales and marketing expenses included compensation paid to consultants for market studies and competitive intelligence of the Internet telephony market place in several countries where we were deploying our network. There were no similar expenditures incurred during 2001. Currently, sales and marketing expense consists primarily of marketing commissions and salaries.

General and administrative

General and administrative expense increased from \$4,787,000 in 2000 to \$5,485,000 in 2001. We expect general and administrative expenses to level off or decrease in the future. Due to our changes in the business plan, non-recurring expenses related to the write off of the Array Telecom license in the amount of \$1,180,000 were incurred in 2001.

Write-off of Array Telecom License

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required us to pay additional minimum royalty fees for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years.

<PAGE>

The shortened life gave rise to a deferred royalty obligation representing the

difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments, which were scheduled to be made over a five-year period.

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial has responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 accrued royalties plus interest. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 during the year ended December 31, 2001.

We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License and related assets and liabilities of \$1,180,000 at December 31, 2001.

Income taxes

There was no provision for federal or state income taxes for the period from our inception due to our operating losses. At December 31, 2001, we had net operating loss carryforwards for income tax purposes. A valuation allowance has been established and, accordingly, no benefit has been recognized for our net operating losses and other deferred tax assets.

Results of Operations - Years ended December 31, 2000 and 1999

Revenues

During fiscal year 2000, ePHONE introduced its Array Series 3000 gateway to the market. The Company earned \$590,000 in revenue from the sale of these gateways to equipment customers during 2000. One customer purchased approximately 90% of the gateways ePHONE sold in 2000. ePHONE had no revenue during 1999.

Cost of Revenues

The cost of the Array gateways sold during 2000 totaled \$412,000, which represents a gross margin of 30%.

Sales and Marketing

Sales and marketing expense increased \$1,631,000, from \$219,000 in 1999 to \$1,853,000 in 2000. This increase in selling and marketing expenses is attributed to the introduction of the Array Series 3000 gateway to the marketplace and costs incurred by ePHONE in its preparation for the deployment of its global Internet telephony network. Such costs included cash amounts paid to consultants of \$1,050,000 for market studies and competitive intelligence of the Internet telephony marketplace in several countries in which ePHONE is deploying its network. The Company also issued stock options and warrants with a value of \$903,000 to these consultants and have included this amount as an expense in the statement of operations as non-cash compensation.

General and Administrative

General and administrative expenses increased \$3,818,000 from \$969,000 in 1999 to \$4,787,000 in 2000. The increase is attributable to increased costs incurred on research and development associated with the development of ePHONE's network, software support and development fees, royalties associated with the Array Technology license agreement, and increased legal and accounting fees associated

with raising capital to fund operations. General and administrative costs for 2000 included \$666,000 of amortization and depreciation expenses related to amortization of the Array technology and depreciation of equipment. Also included in 2000 general and administrative costs is \$1,030,000 of one-time costs incurred in connection with signing bonuses that it paid to certain employees of Comdial when it acquired the Array technology totaling \$350,000 and a payment of \$680,000 to ePHONE Technologies, Inc., a company formed by the certain executive officers which were terminated in December 2000.

<PAGE>

Non-Cash Compensation

Non cash compensation represents the value assigned to equity securities issued to employees and non-employees in exchange for services as follows.

<TABLE>

<CAPTION>

<S>

Stock options and warrants issued to consultants (see "Sales and Marketing")	<
Stock options issued to executive officers	\$
Stock issued to former executive officers and consultants	

\$

</TABLE>

- (1) During 2000, ePHONE granted options to two executive officers which vested on the date of grant and had a fair market value on that date of \$2,864,000. These two officers terminated their employment with the Company during late 2000, and the stock awards were cancelled as provided in their separation agreements.
- (2) ePHONE issued 3,666,488 shares of its common stock to former executive officers and consultants of the Company who would have been eligible to receive shares of common stock under the performance share plan that was cancelled by the Company.

Liquidity And Capital Resources

Since December 31, 2001, we have raised \$690,000 from the exercise warrants we had issued in connection with the sale of special warrants in 1999 for the purchase of 3,448,913 shares of our common stock. On March 30, 2002, the warrants for the purchase of 9,115,161 shares of our common stock expired unexercised. The proceeds from the exercise of these warrants, along with our operations during the first quarter 2002 increased our cash from \$36,000 at December 31, 2001 to \$684,000 at March 31, 2002, and improved our working capital deficiency from \$1,621,000 at December 31, 2001 to a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 at March 31, 2002.

Since we commenced commercial operations utilizing our new strategy based upon a Cisco-based network in August of 2001 we have generated service revenue of over \$3,000,000 from August to December 2001. In the first quarter of 2002, we billed and collected approximately \$4,900,000. Our liquidity continues to improve and as of April 11, 2002 we had a total of \$1,273,000 of cash on hand. We plan to expand our current products and services in 2002 and introduce new products and services. We have been successful in generating net income from operations since we deployed our new Cisco-based network in August 2001. Our anticipated future cash flows from operations is largely dependent upon our ability to achieve our revenue and gross profit objectives from our current products and services and introduction of new products we plan to launch in 2002. We believe that based on our current level of operations, the cash flows we are generating from operations together with the \$690,000 we received from the exercise of warrants described above is sufficient for our current operations.

It is important to point out that since our inception, we have accumulated a deficit of \$22,341,000, and that we funded our operations, prior to our generating service revenues beginning in August 2001, primarily with the proceeds we raised in our special warrant offering in 2000, from the exercise of warrants during 2001 of \$305,000, and from limited equipment sales. We do not currently have a line of credit or any other credit facility available to us.

While our service revenue sales continues to increase during the first quarter of 2002, and while management anticipates that growth in service revenue will continue in 2002, we cannot assure you that this will happen. Future prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the telecommunications industry. To address these risks and achieve profitability and increased sales levels, we must, among other things, continue to establish and increase market acceptance of our products, respond effectively to competitive pressures, offer high quality customer service and support, and successfully introduce, on a timely basis, new products and enhancements of our existing products.

<PAGE>

We anticipate, based on our present plans and assumptions, that our current cash balances and projected level of 2002 operations will be sufficient to enable us to sustain our current and planned operations for at least the next 12 months, and will not need to raise additional funding. However, we cannot assure you that this will hold true.

For the year ended December 31, 2001, we used \$3,747,000 of cash for our operating activities. The principal differences between the cash we used in operations and our 2001 net loss of \$7,021,000 were (i) reduction for non-cash expenses including depreciation and amortization and stock issued for compensation; (ii) increases in our accounts payable and deferred revenue balances; and (iii) the write-off of our Array Telecom License and the disposal of obsolete inventory and equipment in December 31, 2001.

For the year ended December 31, 2001, investing activities provided \$1,960,000 of cash as a result of the redemption of \$2,194,000 of marketable securities and release of \$520,000 of restricted cash, offset by payments to purchase fixed assets. Our financing activities generating \$305,000 in cash from the exercise of stock purchase warrants for the purchase of 848,243 shares of our common stock.

For the year ended December 31, 2001, we had a net decrease in cash from operating, investing and financing activities of \$1,490,000. At December 31, 2001, we had \$36,000 of cash and a working capital deficit of \$1,621,000.

We have one equipment commitment totaling \$46,000 for a Sun Microsystems server which expires in July 2003.

On April 20, 2000, we closed an offering of Special Warrants, receiving net proceeds of approximately \$12,205,000. The total number of Special Warrants we sold in that offering was 13,780,837. The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they held by the same percentage ("Redemption Right"). In addition, each special warrant holder received an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of March 31, 2001, all special warrant holders exercised their Redemption Rights, and we returned \$1,895,000 to these investors. We completed the registration of our common stock in Canada, and our investors exercised their special warrants causing us to issue 13,436,317 shares

of our common stock and warrants to purchase 13,436,317 shares of our common stock for \$1.60 per share.

During the year ended December 31, 2001, we raised \$305,000 from the exercise of warrants for the purchase of 848,243 shares of our common stock.

During the third quarter of 2001, we decided to provide our warrant holders with an enticement to exercise their warrants by reducing the exercise price of the warrants we issued on the exercise of the special warrants and for all other outstanding warrants from exercise prices ranging between \$1.60 - \$0.50 per share to \$0.35 per share. We further reduced the exercise price of the warrants to \$0.20 in 2002 to better reflect the market price of our common stock. As noted above, during 2002 warrant holders exercised warrants for the purchase of 3,448,913 shares of our common stock for \$690,000.

Stock Compensation Activity During 2001

On February 14, 2001, the Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered under a consulting agreement. The stock options have an exercise price of \$0.50, vested immediately and expire in three years. The market value of our common stock at the grant date was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the quarter ended March 31, 2001.

<PAGE>

As further described in Legal Proceedings, we entered into a Settlement agreement with Charles Yang on March 23, 2001. Pursuant to the terms of the agreement, we agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock. We recorded \$180,000 in expense related to this settlement during the three months ended March 31, 2001. The fair value of the stock issued was \$80,000 and is recorded as non-cash compensation in the statement of operations. We did not make the required payments to Mr. Yang by July 23, 2001 and therefore were required to issue an additional 100,000 shares of our common stock in accordance with a Modification of the original Settlement Agreement entered into between us and Mr. Yang. The fair value of the additional shares totaled \$30,000 and is recorded as non-cash compensation in the December 31, 2001 statement of operations.

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement ("Agreement") with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the Agreement, PITRFA will market and distribute ePHONE's prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the

issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PITRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of the Agreement.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer's stock option agreement from March 31, 2002 to October 1, 2002.

Stock Compensation Activity During 2000

On May 5, 2000, the Board of Directors adopted the 2000 Long-Term Incentive Plan and reserved 6,000,000 shares of common stock for issuance under the Plan. During 2000, ePHONE granted 1,500,000 stock options to two officers of ePHONE, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, ePHONE recorded compensation expense totaling \$2,865,000. These two officers terminated employment with ePHONE in December 2000 and a total of 6,747,307 stock options were cancelled as provided for in the officers' Separation Agreements. The balance of 5,247,307 stock options did not vest during the year and hence did not have any impact on the financial statements. On May 9, 2000, ePHONE granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

<PAGE>

On May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, ePHONE granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and has been recorded by ePHONE as non-cash compensation included in general and administrative expense during 2000.

On July 12, 2000, ePHONE `s Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of ePHONE common stock would have been issued. Concurrently, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of ePHONE common stock in consideration to certain individuals who would have been eligible to receive shares of common stock under the performance share plan. ePHONE recorded a \$3,700,000 charge related to the granting of these shares of common stock.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is

effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

Risk Factors

The risks and uncertainties described below are not the only ones facing the company. Additional risks not presently known or that ePHONE currently considers insignificant may also impair ePHONE's business operations in the future. ePHONE's business, financial condition and plan of operations could be materially adversely affected by any of the following risks. The trading price of shares of ePHONE's common stock could decline due to any of these risks.

- o The market for ePHONE's common stock is limited

There is currently only a limited trading market for ePHONE's common stock. ePHONE common stock trades on the OTC Bulletin Board under the symbol "EPHO," which is a limited market in comparison to the NASDAQ National Market, the American Stock Exchange and other national securities exchanges.

ePHONE cannot assure investors that the common stock will ever qualify for inclusion on the NASDAQ National Market or that more than a limited market will ever develop for the common stock.

- o Penny stock rules limit the liquidity of ePHONE's common stock

<PAGE>

ePHONE's common stock may now and in the future be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended (referred to herein as the Exchange Act). These rules regulate broker-dealer practices for transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These additional penny stock disclosure requirements are burdensome and may reduce the trading activity in the market for ePHONE's common stock. As long as the common stock is subject to the penny stock rules, holders of such ePHONE common stock may find it more difficult to sell their securities.

- o An investment in ePHONE may be diluted

ePHONE may issue a substantial number of shares of ePHONE common stock without investor approval. Any such issuance of ePHONE securities in the future could reduce an investor's ownership percentage and voting rights in ePHONE and further dilute the value of his or her investment.

In 2001 and 2000, ePHONE incurred net losses of approximately \$7,021,129 and \$13,701,000, respectively. ePHONE's ability to achieve and sustain profitable operations depends on many circumstances. If ePHONE does not achieve and sustain profitability, its ability to respond effectively to market conditions, to make capital expenditures and to take advantage of business opportunities could be affected. In addition, ePHONE's prospects must be considered in light of the risks encountered by companies like ours developing products and services in new and rapidly evolving markets. ePHONE's failure to perform in these areas could have a material adverse effect on the business, plan of operations and financial condition.

- o ePHONE's failure to acquire, integrate and operate new technology could harm their competitive position

The telecommunications industry is characterized by rapid and significant technological advancements and the related introduction of new products and services. ePHONE does not possess significant intellectual property rights with respect to the technologies we use, and we are dependent on third parties for the development of and access to new technology. The effect of technological changes on ePHONE's business plan cannot be predicted. In addition, it is impossible for ePHONE to predict with any certainty whether demand for VoIP services in the future markets will develop or will prove to be an economical and efficient technology that is capable of attracting customer usage. Failure by ePHONE to obtain and adapt to new technology in the future markets could have a material adverse effect on their business and plan of operations.

- o ePHONE does not presently intend to pay dividends on our common stock

ePHONE has never paid dividends on our common stock and does not presently intend to pay cash dividends on our common stock. Any future decisions as to the payment of dividends will be at the discretion of ePHONE's Board of Directors, subject to applicable law. See "Dividend Policy."

- o Telecommunications related stock prices have been especially volatile and this volatility may depress ePHONE's stock price

The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of the stocks of high technology and Telecommunications-related companies, including companies

<PAGE>

like ePHONE, and which may be unrelated or disproportionate to the operating performance of particular companies. Factors such as quarterly variations in actual or anticipated operating results, changes in earnings estimates by analysts, market conditions in the industry, analysts' reports, announcements by competitors, regulatory actions or other events or factors, including the risk factors described in this annual report and general economic conditions may have a significant effect on the market price of ePHONE's common stock. This broad market and industry volatility may reduce the value of ePHONE's common stock, regardless of ePHONE's operating performance. Due to this volatility, the value of ePHONE's common stock could decrease.

- o ePHONE's articles of incorporation provide their officers and directors with certain indemnification.

ePHONE's Articles of Incorporation provide that our directors and officers will not be personally liable to ePHONE or its shareholders for money damages for breach of the fiduciary duty of care as a director or officer.

Thus, under certain circumstances, neither ePHONE nor the shareholders would be able to recover damages even if directors take actions that harm ePHONE.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder in this report is set forth in the "Index to the Financial Statements" on F-1.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 9. Directors, Executive Officers, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) of the exchange act

Directors and Executive Officers

The directors and executive officers, their ages and positions held as of March 1, 2002 are listed below. Each director serves until the next annual meeting of the stockholders or unless they resign earlier. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

Name	Age	Position Held
Robert G. Clarke	57	Chairman of the Board of Directors
Carmine Tagliatela Jr.	54	President and Chief Executive Officer, Director
Charlie Rodriguez	56	Chief Financial Officer and Director
James Meadows	49	Chief Operating Officer
Sonny Souvannavong	34	Chief Technology Officer
John Fraser	54	Director
Sheldon Kamins	54	Director
Larry Codacovi	68	Director

The following describes the business experience during the past five years of ePHONE's Directors and Executive Officers, including for each director, other directorships held in reporting companies.

Robert G. Clarke. On December 12, 2001, Mr. Clarke was reelected as Chairman of the Board of Directors and President and Chief Executive Officer and served in both of those capacities until Carmine Tagliatela Jr. was appointed President and Chief Executive Officer on July 1, 2001.

<PAGE>

During the last five years, Mr. Clarke has served as a Director and as President and Chief Executive Officer at various times, including serving as the Chairman of the Board of Directors from August 9, 1999 to a meeting of the Board of Directors on July 21, 2000, and from December 1, 2000 to December 12, 2001. Mr. Clarke also served as the President and Chief Executive Officer from December 1, 2000 to April 1, 2001, March 9, 2000 until April 1, 2000 and from June 3, 1999 to August 8, 1999.

Mr. Clarke has also acted an independent business consultant, assisting high technology start-up companies with public and private financings, business planning, assembling management teams and business opportunity assessments. Mr. Clarke holds a Bachelor of Commerce degree from Memorial University and Master of Business Administration from the University of Western Ontario.

Carmine Tagliatela, Jr. On April 1, 2001 Mr. Tagliatela was appointed President and Chief Operating Officer of ePHONE and elected to the Board of Directors. Effective July 1, 2001, Mr. Tagliatela was appointed Chief Executive Officer of ePHONE. Prior to joining ePHONE Mr. Tagliatela was

President and Chief Operating Officer of TELRON Communications, responsible for the day-to-day operations of the company and the development of service offerings and expansion of services into new markets. Mr. Tagliialatela has also held executive Vice President positions at TELRON and CompassRose International Inc. At CompassRose he managed a team of professionals on a variety of client assignments requiring extensive international telecommunications experience and expertise in strategic business development, public policy and regulatory matters. Mr. Tagliialatela has secured, on behalf of clients, service authorizations in off shore markets and advised senior management on courses of action for the development of their telecommunications business. Between 1989-1997 he was Director International Public Policy and Regulatory Affairs at MCI Telecommunications Corporation where he developed and implemented MCI's regulatory and business strategy for access to international markets and was a member of an expansion team devoted to expanding MCI's presence in the global market. Mr. Tagliialatela holds a BA Economics from Hunter College, City University of New York and a MBA Finance/Marketing from Fordham University.

Charlie Rodriguez. On December 1, 2000, Mr. Rodriguez was elected as a Director and appointed as Chief Financial Officer and Vice President - Corporate Affairs. Mr. Rodriguez previously served as Vice-President of Corporate Affairs and Corporate Secretary from June 1999 to April 2000. Mr. Rodriguez is also the President of Management Services of Arizona, a business consulting company specializing in mergers, acquisitions and financing. Prior to joining ePHONE, Mr. Rodriguez served as the Chief Financial Officer for Zephyr Technologies, Inc., biometrics and smartcard software integration companies. Mr. Rodriguez was a member of the board of directors of Wave Rider Communications, Inc. (WAVC - otc.bb), a wireless communication company, from January to November 1997, and served as its President and Chief Executive Officer from May 1995 to January 1997. Mr. Rodriguez holds a Bachelor of Science in Accounting and Masters in Business Administration Accounting from the University of Arizona.

James Meadows. James R. Meadows, Jr. was appointed Chief Operating Officer & Executive Vice President on February 1, 2002. Prior to joining ePHONE, Mr. Meadows served as President of PrimeTec International, Inc. from September 1999 to June 2000 where he previously was the Executive Vice President since February 1997. From September 1989 to February 1997 Mr. Meadows was the former Director of Government Affairs, Capital Network System, Inc. Currently, Mr. Meadows is a member of the Board of Directors for Versatel Telecom (VSVA - NASDAQ), a facilities based integrated telecommunications company in the Netherlands and a member of the Advisory Board of Ashely Laurent, of Austin, TX, an integrated network security software company. Historically, Mr. Meadows served as a Board Member of Comptel, the largest competitive telecommunications trade association in the USA, and was the former President and Board Member of America's Carriers Telecommunications Association.

Sonny Souvannavong. Sonny Souvannavong was hired as Chief Technology Officer on April 16, 2001. Prior to joining ePHONE, Mr. Souvannavong was the Vice President of Technology for Ecocom from January 2000 to April 2001. Mr. Souvannavong also served as the Director of Information Services for Facilicom International from October 1997 to January 2000. From February 1995 to October 1997, Mr. Souvannavong was the Division Director of Information Technology for Birch & Davis Associates. Mr. Souvannavong also was a Professor of Computer Information Systems and Networking at the Strayer University in Washington, D.C. from January 2000 to December 2000. Mr. Souvannavong holds a Bachelor of Science in Marketing from Virginia Commonwealth University in Richmond Virginia and a MBA from Strayer University in Washington DC and is certified in Microsoft, Cisco, Novell, and Sun Systems.

<PAGE>

John G. Fraser. Mr. Fraser has been a director of ePHONE since June 1999. Prior to joining ePHONE, Mr. Fraser was Vice-Chairman of KPMG Canada, Chartered Accountants. Mr. Fraser held various positions within KPMG Canada from November 1976 until February 1998. Mr. Fraser has a Masters in Business Administration from University of Pittsburgh and a Bachelor of Commerce and Administration from

Victoria University, Wellington, New Zealand.

Sheldon Kamins. Mr. Kamins was appointed as a member of the Board of Directors on October 11, 2001. Mr. Kamins has been a real estate developer in the greater metropolitan Washington, D.C. area and a venture capitalist assisting technology and other companies with public and private financing. Mr. Kamins holds a Juris Doctor degree from the Georgetown University Law Center.

Larry M. Codacovi. Mr. Codacovi was appointed as a member of the Board of Directors on January 1, 2002. Prior to joining ePHONE, Mr. Codacovi was Chairman of Pangea Ltd., a pan-European fiber optic network spanning northern Europe from 1999 to 2002. From 1988 to 1999, Mr. Codacovi served as Senior Vice President International Services for MCI WorldCom with the responsibility for expanding MCI's global reach. Mr. Codacovi previously served as Executive Vice President and a Board Member with RCA Global Communications. From 1980 to 1988, Mr. Codacovi continued in that position under the GE acquisition of RCA.

Other Matters

On April 1, 2001 ePHONE accepted the resignation from former board member Fariborz Ghadar. On August 27, 2001, ePHONE accepted resignations from former board members Anthony Balinger and Walter Pickering.

Roy Olmsted, ePHONE's former Executive Vice President and General Manager, resigned effective December 31, 2001.

B. Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act") requires officers and directors of a company with securities registered pursuant to Section 12 of the 1934 Act, and persons who own more than 10% of the registered class of such company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the subject company with copies of all Section 16(a) forms filed. Not all reports required to be filed under Section 16 have been filed.

<PAGE>

Item 10. EXECUTIVE COMPENSATION

<TABLE>

<CAPTION>

Name and Principal Position at Fiscal Year End	Year	Annual Compensation		Other Annual Compensation (\$)	Awards (Sh)
		Salary (\$)	Bonus (\$)		
<S>	<C>	<C>			<C>
Robert Clarke	2001	(1)--	--	--	(1)
Chairman of the Board of Directors and former Chief Executive Officer	2000	(1)--	--	--	
	1999	(1)--	--	--	
Carmine Tagliatela	2001	(2)185,000	50,000	--	(2)
President and Chief Executive Officer					
Charlie Rodriguez	2001	(3)137,000	--	--	(3)
Chief Financial	2000	(3)19,000	--	--	

Officer	1999	--	--	--
Roy Olmsted Former Executive Officer and General Manager	2001	141,000	--	--
Sonny Souvannavong Chief Technology Officer	2001	(5)87,000	--	--

</TABLE>

- (1) Mr. Clarke served as Chief Executive Officer and President at various times during 2001, 2000 and 1999. While serving as an executive officer, Mr. Clarke received no cash compensation. However, a company in which he has a controlling interest, received consulting payments totaling \$25,000, \$68,000 and \$48,000 in 2001, 2000 and 1999, respectively. Included in the total options awarded to Mr. Clarke during 2001 are 1,000,000 stock options that were originally granted to Mr. Clarke in 2000. The exercise price of these stock options was reduced from \$0.50 to \$0.35 in September 2001. Due to the repricing, the options are being characterized as an additional 2001 grant for purposes of this presentation.
- (2) Mr. Carmine Tagliatela was appointed President and Chief Operating Officer and began employment with ePHONE on April 1, 2001. Mr. Tagliatela was appointed Chief Executive Officer on July 1, 2002. The amounts paid to Mr. Tagliatela from April through December are based on an annual salary of \$200,000. Of the total stock options issued to Mr. Tagliatela, 600,000 were issued in April 2001 with an exercise price of \$0.50 and were subsequently repriced to \$0.35.
- (3) Mr. Charlie Rodriguez began as ePHONE's Chief Financial Officer in December 2000. The amounts paid to Mr. Rodriguez are based on an annual salary of \$145,000. In 2000, ePHONE paid \$36,000 in consulting payments to a Company controlled by Mr. Rodriguez prior to his employment with ePHONE. Included in the total options awarded to Mr. Rodriguez during 2001 are 250,000 stock options that were originally granted in 1999 in consideration for consulting services rendered to the Company. The exercise price of these options was reduced in the current year from \$0.50 to \$0.35.

<PAGE>

- (4) Mr. Olmsted ceased employment with the Company effective December 31, 2001. During December 2001, ePHONE extended the expiration date of Mr. Olmsted's stock options, which have an exercise price of \$0.50, from March 31, 2001 to October 1, 2001.
- (5) Mr. Souvannavong began as ePHONE's Chief Technology Officer during April 2001. The amounts paid to Mr. Souvannavong are based on an annual salary of \$125,000.

Option Grants for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option grants during the last fiscal year.

<TABLE>

<CAPTION>

Name	Number of Securities Underlying Options/ SARs Granted (#)	% of Total Options/ SARs Granted to Employees in Fiscal Year	Exerc Base (\$
------	--	---	----------------------

<S>	<C>	<C>	<
Robert Clarke	(1)1,000,000	(1)10.90%	0
Robert Clark	350,000	3.81%	0
Carmine Taglialatela Jr.	1,600,000	17.45%	0
Charlie Rodriguez	(1)250,000	(1)2.72%	0
Charlie Rodriguez	1,100,000	11.99%	0
Roy Olmsted	333,333	3.63%	0
Sonny Souvannavong	275,000	2.99%	0

- (1) These options were repriced as previously described. For purposes of this presentation, the percentage of total options issued to each executive officer is based on the proportion that the number of options granted to each executive bears to the total number of options granted to all employees during the fiscal year plus the sum of all repriced options or 9,168,693 (5,268,693 options granted to all employees plus 3,900,000 repriced options).

Option Exercises and Values for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option exercises during Fiscal 2001 and the status of their options on December 31, 2001.

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexercised Options at Fi
------	---	---------------------------------------

<S>	Exercisable <C>	Unexercisable	Exercisable
Robert Clarke	1,350,000	--	--
Carmine Taglialatela	1,240,000	360,000	--
Charlie Rodriguez	1,350,000	--	--
Roy Olmsted	333,333	--	--
Sonny Sovannavong	75,000	200,000	--

Compensation of Directors

Non-employee directors received no cash compensation during 2001 and were paid \$8,000 in 2000. With the exception of Mr. Fraser who received 350,000 stock options with an exercise price of \$0.35, directors received 50,000 stock options with an exercise price of \$0.35 during 2001. Directors are reimbursed for expenses they incur in attending meetings at the board or any board committee.
<PAGE>

In addition to making the consulting payments to a companies controlled by Mr. Clarke and Mr. Rodriguez as mentioned above, ePHONE made consulting payments of \$43,000 and \$36,000 to a company controlled by Mr. John Fraser during 2001 and 2000, respectively.

Employment Agreements

At December 31, 2000, ePHONE was not party to employment agreements with any of its officers or employees.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT

The following tables set forth information, as of December 31, 2001, with respect to the beneficial owners of our common stock for:

- o each person or group of persons, who we know beneficially own more than 5% of any class of our outstanding stock;
- o each of our executive officers named in the Summary Compensation Table;
- o each of our directors; and
- o all executive officers and directors as a group.

In general, under the SEC's rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security or has the power to dispose or direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days.

<PAGE>

<TABLE>
<CAPTION>

Name and Address of Holder	Shares of common stock beneficially owned
<S> Robert Clarke C-2, Bayview Court 49 Mount Davis Road Hong Kong Chairman of the Board	<C> 1,416,668 (1)
Carmine Tagliatela 10430 Deerfoot Drive Great Falls, VA 22060 President and Chief Executive Officer	1,240,000 (2)
Charlie Rodriguez 1662 W. Petunia Place Tucson, Arizona 85737 Director, Chief Financial Officer	1,350,000 (2)
John Fraser 104 Elm Avenue Toronto, Ontario M4W 1P2 Director	666,668 (3)
Sonny Souvannavong 2230 George C. Marshall Drive, #1001 Falls Church, Virginia 22043 Chief Technology Officer	75,000 (2)
Roy Olmsted 13 Plainsman Road Mississauga, Ontario L5N 1C4	333,333 (2)

Former Chief Operation Officer

Executive Officers and Directors as a Group of 6	5,081,669
Desjardins Securities Inc. 2 Complex Desjardins E Tower Montreal, Quebec H5BIJ	1,740,248
Brouillette Charpentier 1100 Rene-Levesque Blvd. West Montreal, Quebec H3B 5C9	2,773,295 (4)
Kinked Investments 625 Rene Levesque Blvd., Suite 205 Montreal, Quebec H3B 1R2	2,175,520 (5)

</TABLE>

<PAGE>

- (1) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 1,350,000 shares of common stock.
- (2) Consists of options to acquire shares of common stock.
- (3) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 600,000 shares of common stock.
- (4) Consists of 1,329,545 shares of common stock and 1,443,750 warrants to purchase shares of common stock.
- (5) Consists of warrants to purchase shares of common stock.

Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended 2001, 2000 and 1999, ePHONE paid \$25,000, \$68,000 and \$48,000, respectively, for management services provided by a company in which Chairman of the Board of Directors Robert Clarke has a controlling interest. During 2000, \$56,000 of sales was made to a company in which Mr. Clarke has an interest.

As described under Executive Compensation, ePHONE made consulting payments to companies controlled by Mr. Fraser and Mr. Rodriguez. The payments to Mr. Rodriguez were made in 2000 before his employment with the Company as Chief Financial Officer.

During 2001, we paid \$100,000 as provided for in a Service and Development Agreement with 7bridge Systems, LTD. Mr. Clarke, John Fraser and Charlie Rodriguez have an interest in 7Bridge Capital Limited which owns 7Bridge Systems, LTD.

Item 13. Exhibits and Reports on Form 8-K

The following documents are filed as part of this Form 10-KSB:

<TABLE>
<CAPTION>

A. Exhibits

Exhibit No.	Description
-----	-----
<S>	<C>

3.1.....	Articles of Incorporation (1)
3.2.....	Amendment to Articles of Incorporation (1)
3.3.....	Bylaws (1)
3.4.....	Amended and Restated Articles of Incorporation (2)
10.1.....	Specimen of form of Option Incentive Agreement (1)
10.2.....	Agency Agreement dated as of March 16, 2000 between Capital.com, Inc. (3)
10.3.....	ePHONE Telecom, Inc. 2000 Long-Term Incentive Plan
10.4.....	Employment Agreement with James Meadows, Chief Ope herewith)
10.5.....	Employment Agreement with Carmine Taglialatela, Pr Executive officer (filed herewith)
24.....	Powers of Attorney (filed herewith)
99.1.....	Settlement Agreement and Mutual General Release be ePHONE Telecom, Inc., dated March 23, 2001 (5)
99.2.....	Modification to Settlement Agreement and Mutual Ge Charlie Yang and ePHONE Telecom, Inc., dated March
99.3.....	Press release, dated April 3, 2001, issued in conn Carmine Taglialatela Jr. as President and Chief C

</TABLE>

<PAGE>

- (1) Previously filed as an exhibit to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on October 15, 1999.
- (2) Previously filed as an exhibit to Amendment No. 2 to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on January 5, 2000.
- (3) Previously filed as an exhibit to Amendment No. 5 to ePHONE's Form 10-SB, filed with the Securities Exchange Commission on June 5, 2000.
- (4) Previously filed as an exhibit to ePHONE's form SB-2 filed with the Securities and Exchange Commission.
- (5) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 16, 2001.
- (6) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 13, 2001.

B. Reports on Form 8-K:

On April 13, 2001, ePHONE filed with the Commission a current report on 8-K related to the Settlement Agreement entered into by and between Mr. Charles Yang and ePHONE Telecom, Inc., dated March 23, 2001.

On April 16, 2001, ePHONE filed with the Commission a current report on 8-K related to the appointment of Carmine Taglialatela Jr. as President and Chief Executive Officer.

<PAGE>

SIGNATURE PAGE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

ePHONE Telecom, Inc.
(Registrant)

By /s/ Carmine Taglialatela, Jr.

(Carmine Taglialatela, Jr., CEO)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Date ----
By /s/ Carmine Taglialatela, Jr. ----- (Carmine Taglialatela, Jr., CEO, Director) (Principal Executive Officer)	April 12, 2002
By /s/ Charlie Rodriguez ----- (Charlie Rodriguez, Chief Financial Officer) (Principal Financial and Accounting Officer)	April 12, 2002
By /s/ Robert G. Clarke* ----- (Robert G. Clarke, Chairman)	April 12, 2002
By /s/ John Fraser* ----- (John Fraser, Director)	April 12, 2002
By /s/ Shelly Kamins* ----- (Shelly Kamins, Director)	April 12, 2002
By /s/ Larry Codacovi* ----- (Larry Codacovi, Director)	April 12, 2002

*By: Charlie Rodriguez

Attorney-In-Fact

<PAGE>

<TABLE>
<CAPTION>

Index to Financial Statements

<S>	
Report of Independent Certified Public Accountants.....	
Balance Sheets as of December 31, 2001 and 2000.....	
Statements of Operations for the Two Years Ended December 31, 2001 and 2000.....	
Statements of Stockholders' (Deficit) Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2001 and 2000.....	
Statements of Cash Flows for the Years Ended December 31, 2001 and 2000.....	
Notes to Financial Statements.....	
</TABLE>	

F-1

<PAGE>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of ePHONE Telecom, Inc.

We have audited the accompanying balance sheets of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Vienna, Virginia
February 15, 2002 (except for notes 2 and 13 as to which the date is April 11,

2002)

F-2

<PAGE>

ePHONE Telecom, Inc.

Balance Sheets

<TABLE>

<CAPTION>

	20

Current Assets:	
<S>	<C>
Cash and cash equivalents	\$
Investment in marketable securities	
Restricted cash	
Accounts receivable, net of allowance for returns of \$116,405 at December 31, 2001	
Inventory	
Other receivables	

Total Current Assets	
Property and equipment, net	
Array Telecom Lease, net	
Other Assets	

Total Assets	\$

Liabilities and Stockholders' (Deficit) Equity:	
Current Liabilities:	
Accounts payable	\$
Accrued liabilities	
Deferred revenue	
Capital lease obligation, current portion	
Customer advances	

Total Current Liabilities	

Deferred royalty obligation	
Capital lease obligation, net of current portion	
Other long term obligation, net of current portion	
Commitments and Contingencies	

7/8/2002

Stockholders' (Deficit) Equity:

Common stock, par value \$0.001: 150,000,000 shares authorized, 32,987,381 and 17,453,848 issued and outstanding at December 31, 2001 and 2000, respectively.	
Additional paid-in capital	2
Accumulated other comprehensive income	
Accumulated deficit	(22)

Total Stockholders' (Deficit) Equity	-----
Total Liabilities and Stockholders' (Deficit) Equity	\$

</TABLE>

See accompanying notes to financial statements
F-3

<PAGE>

ePHONE Telecom, Inc.

Statements of Operations

<TABLE>
<CAPTION>

	Yea 200

<S>	<C>
Service revenue	\$
Product revenue	-----
Total revenues	
Operating expenses	
Cost of service revenue	
Cost of product revenue	
Sales and marketing	
General and administrative	
Non-cash compensation	
Write off of Array Telecom license and disposal of obsolete inventory and equipment, net	-----
Total operating expenses	1

Loss from operations	(7
Interest and other (income), net	-----
Net loss	\$ (7

Loss per share--(basic and diluted)	\$

Weighted average number of common	

shares outstanding

2

</TABLE>

See accompanying notes to financial statements

F-4

<PAGE>

ePHONE Telecom, Inc.

Statements of Stockholders' Equity (Deficit) and
Other Comprehensive Income (Loss)

<TABLE>

<CAPTION>

	Common Shares		Additional Paid-In Capital	Accur Ot Compre Income
	Shares	Amount		
Balance,				
<S>	<C>	<C>	<C>	
December 31, 1999	13,170,667	\$ 13,171	\$ 1,375,954	\$
Common stock issued for cash	179,333	179	134,321	
Exercise of stock purchase warrants	92,400	92	115,408	
Sale of special warrants for cash, net	--	--	12,149,571	
Stock and warrants issued in exchange for services	4,011,448	4,012	4,565,267	
Employee stock options	--	--	2,864,166	
Net loss	--	--	--	
Change in unrealized gain	--	--	--	
Total comprehensive loss	--	--	--	
	-----	-----	-----	-----
Balance,				
December 31, 2000	17,453,848	17,454	21,204,687	
Stock options issued in exchange for services	--	--	90,545	
Common stock issued in legal settlement	500,000	500	109,500	
Common stock issued in exchange for services	748,973	749	147,466	
Proceeds from issuance of common stock	848,243	848	304,437	
Conversion of Special Warrants	13,436,317	13,436	(13,436)	
Net Loss	--	--	--	
Change in unrealized gain	--	--	--	
Total comprehensive loss	--	--	--	

Balance,	-----	-----	-----	-----
December 31, 2001	32,987,381	\$ 32,987	\$ 21,843,199	\$
	=====	=====	=====	=====
	=====	=====	=====	=====

</TABLE>

See accompanying notes to financial statements

F-5

<PAGE>

ePHONE Telecom, Inc.

Statements of Cash Flows

<TABLE>

<CAPTION>

Cash Flows from Operating Activities:

<S>

<C>

\$ (

Net loss

Adjustments to reconcile net loss to net cash flows from
operating activities:

Depreciation and amortization

Stock issued for services rendered

Stock option benefits charged to operations

Allowance for sales returns

Deferred royalty expense

Realized gain

Inventory reserve

Write down of investment in ePHONE Technologies, Inc.

Write off of Array Telecom license and the disposal
of obsolete inventory and equipment

Changes in operating assets and liabilities:

Accounts receivable and other receivables

Inventory

Other assets

Accounts payable

Accrued liabilities

Deferred revenue

Due to related parties

Customer deposits

Net Cash Flows Used in Operating Activities

Cash flows from investing activities:

Purchase of fixed assets

Purchase of Array Telecom license

Purchase of investments

Redemption of marketable securities

Deposit to restricted cash, net

Investment in ePHONE Technologies, Inc.

Net cash flows provided by (used in) investing activities

Cash flows provided by financing activities:

Proceeds from issuance of common stock

Proceeds from issuance of special warrants, net	
Repayments on capital lease	-----
Net cash flows provided by financing activities	-----
Net (decrease) increase in cash and cash equivalents	(
Cash and cash equivalents, beginning of year	-----
Cash and cash equivalents, end of year	\$

</TABLE>

See accompanying notes to financial statements
F-6

<PAGE>

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

ePHONE Telecom, Inc. ("ePHONE") was incorporated in 1996 under the laws of the State of Florida, and is traded on the OTC Electronic Bulletin Board operated by the National Association of Securities Dealers, Inc. under the trading symbol "EPHO". We were a development stage company, as defined in Statement of Financial Accounting Standard No. 7 until we began generating revenues from our principal business activities during August 2001.

We provide telecommunication services to retail and wholesale customers. Our vision is to become a global telecommunications carrier providing a full complement of telecommunications services, including phone-to-phone one-step dialing, using Voice over Internet Protocol ("VoIP") technology. Using a call origination approach that involves its own Customer Premise Equipment ("CPE"), and a combination of its own dedicated Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), we plan to develop the capacity to provide voice and fax transmission and other telephony features at high quality and low cost.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about amounts that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

SUPPLEMENTAL CASH FLOW INFORMATION AND NON CASH INVESTING AND FINANCING ACTIVITIES

For the years ended December 31, 2001 and 2000, we paid no income taxes or interest. During the year ended December 31, 2001, we entered into capital lease obligations totaling \$46,509.

INVENTORY

Inventory consists primarily of component parts held for resale and is stated at the lower of cost, utilizing the weighted average method, or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years. Routine repairs and maintenance are expensed as incurred.

F-7

<PAGE>

INVESTMENTS IN MARKETABLE SECURITIES

We classify marketable securities as available for sale. The securities consist of debt securities, which are stated at fair value, with net unrealized gains or losses on the securities recorded as accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the securities. Realized gains were \$45,470 in 2001. There were no realized gains in 2000.

INVESTMENT IN EPHONE TECHNOLOGIES, INC.

Our investment in 20% of the outstanding common stock of ePHONE Technologies, Inc. (ePHONE Tech) is accounted for using the cost method. We do not exercise significant influence over ePHONE Tech's operating or financial activities.

IMPAIRMENT OF LONG-LIVED ASSETS

We review long-lived assets 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 the assets to the expected future net cash flows generated by the assets. If the 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. During the years ended December 31, 2001 and 2000, our analyses indicated that there was an impairment of long lived assets associated with the Array Telecom License, as described in Note 6, and our investment in ePHONE Tech, as described in Note 7.

REVENUE RECOGNITION

We recognize telecommunication services revenues over the period services are provided. Monthly recurring telecommunications services are billed in advance. Any portion of our services that is billed for which we have not yet provided services is recorded as deferred revenue.

Product sales are recognized upon shipment. Typical terms of sale do not provide the customer with the right of return except for defective products, which are covered by the warranty of the original equipment manufacturer. The Company also generated revenues from product licenses and services. Product license revenues were generally recognized upon product shipment provided that no significant post-delivery obligations existed and payment was due within one year. Advance payments of product licenses and services were reported as unearned revenue until all conditions for revenue recognition are met. The majority of our customers prepay for their services. We establish an allowance for doubtful accounts based upon factors, which include historical trends and other information.

STOCK-BASED COMPENSATION

We account for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the our common stock and the exercise price.

We account for non-employee stock-based awards in which services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measured. We determined the value of stock grants made to both employees and non-employees based on the quoted market price of our common stock on the date of grant. We determine the fair value of warrants and options we granted to non-employees using the Black-Scholes option pricing model.

F-8

INCOME TAXES

Deferred income taxes result primarily from temporary differences between financial and income tax reporting. Deferred tax assets and liabilities are determined based on the differences between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce the deferred tax asset to that portion that is expected to more likely than not be realized.

NET LOSS PER SHARE

We report basic and diluted loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Diluted earnings per share is computed by dividing net loss by the weighted average number of shares adjusted for the potential dilution that could occur if stock options, warrants and other convertible securities were exercised or converted into common stock.

For the years ended December 31, 2001 and 2000, options and warrants to purchase 24,661,540 and 9,654,377 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144

supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

RECLASSIFICATIONS

Certain 2000 balances and disclosures have been reclassified to conform to the 2001 presentation.

F-9

<PAGE>

NOTE 2 - OPERATIONS

As shown in the accompanying financial statements, we have incurred operating losses since our inception, and have accumulated a deficit of \$22,341,000 at December 31, 2001. Our continued existence is dependent upon our ability to develop profitable operations, continue to successfully introduce our products to market and if necessary, obtain additional financing to fund future operations. As described in Note 13, in March 2002, existing investors in the Company exercised outstanding warrants, purchasing 3,448,913 shares of the Company's common stock for \$690,000.

Management believes that together with our cash on hand, proceeds from the warrants exercised in 2002, and cash flow from our planned level of 2002 operations that we have sufficient resources to enable us to sustain our current and planned level of operations for at least the next 12 months without the need for additional investment capital.

During the three months ended March 31, 2002, we received cash payments from customers totaling \$4,063,000. At March 31, 2002 we had a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 as described in Note 13.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001 and 2000 we incurred costs for management services provided by companies in which certain directors of ours have a controlling interest and incurred consulting fees to certain directors of ours totaling \$74,000 and \$110,000, respectively.

During the year ended December 31, 2001, we paid \$248,000 to ePHONE Technologies, Inc., a company we hold a 20% equity interest in, for consulting services. We also paid \$25,000 in consulting fees to one of our officers, and paid \$100,000 as provided for in a Service and Deployment Agreement with 7bridge Systems, LTD, a related party, a company in which our Chairman of the Board and Chief Financial Officer have an interest in.

NOTE 4 - MARKETABLE INVESTMENTS

Our available for sale investments consisted of debt instruments issued by federal and state government agencies. During the year ended December 31, 2001, we redeemed the remaining \$2,194,000 of available-for-sale debt securities. During the year ended December 31, 2000, we redeemed \$650,000 of available for sale debt securities. Contractual maturities were as follows at December 31, 2000:

<TABLE>

<CAPTION>

December 31, 2000

	Cost	Market Value
<S>	<C>	<C>
Mature within one year.....	\$ 1,557,131	\$ 1,588,92
Mature within one to five years.....	591,556	581,97
	-----	-----
Total available- for-sale securities.....	\$ 2,148,687	\$ 2,170,90
	=====	=====

</TABLE>

F-10

<PAGE>

NOTE 5 - PROPERTY AND EQUIPMENT AND CAPITAL LEASE OBLIGATION

At December 31, 2001 and 2000, property and equipment consisted of the following:

<TABLE>

<CAPTION>

	December 31, 2001
<S>	<C>
Computer equipment.....	\$ 198,785
Furniture and fixtures.....	340,986
Telecommunications equipment.....	322,303
Other equipment.....	711,022

	1,573,096
Less: accumulated depreciation.....	(276,535)

Property and equipment, net.....	\$1,296,561
	=====

</TABLE>

Property and equipment includes a capitalized lease asset and accumulated depreciation on the capitalized lease asset of \$46,509 and \$7,306, respectively, at December 31, 2001. There were no capitalized lease assets as of December 31, 2000. Payments for the capital lease obligation by fiscal year are as follows:

Year ending December 31,

2002.....	\$ 29,295
2003.....	17,089

Total gross payments.....	46,393
Less amount representing interest.....	(7,891)

	38,502
Less current portion.....	(22,663)

Long-term portion of capitalized lease obligation	\$ 15,839
	=====

Depreciation expense (including depreciation on the capitalized lease asset during 2001) was \$230,928 and \$110,548 for the years ended December 31, 2001 and

2000, respectively.

NOTE 6 - ARRAY TELECOM LICENSE AND DEFERRED ROYALTY OBLIGATION

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required that we pay additional minimum royalty fees of \$2,180,000 for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years. The shortened life gave rise to a deferred royalty obligation representing the difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments which were scheduled to be made over a five-year period.

F-11

<PAGE>

During the third quarter of 2001, we filed for arbitration against Comdial as further described in Note 10. We had made royalty payments of \$90,000 and had remaining future minimum royalty payments of \$2,090,000 at the time of the License Agreement termination. We have accrued royalty fees of \$225,000, which represents the unpaid royalty fees up to the License Agreement termination date. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 (\$410,000 at December 31, 2000) during the year ended December 31, 2001. We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License of \$1,109,295 at December 31, 2001. We have presented the net effect of the write off of the Array License and the reversal of the deferred royalty obligation along with a write-off of other Array Telecom technology assets in the statement of operations.

NOTE 7 - TRANSACTION WITH AND INVESTMENT IN EPHONE TECHNOLOGIES, INC.

On December 1, 2000, in connection with the termination of certain executive officers of our Company, we entered into a Support and Development Agreement with ePHONE Technologies, Inc (ePHONE Tech), a company formed by the terminated executive officers in December 2000. Under this Agreement, ePHONE Tech provided us with Internet telephony technology support and development services at an hourly rate plus reimbursements for certain support services, as defined in the agreement. The term of the agreement was one year and included renewal options for consecutive one-year terms, which we have elected not to exercise.

As provided for in the agreement, we purchased a 20% equity interest in ePHONE Tech. Since the agreement contained a provision, allowing ePHONE Tech to repurchase our equity interest for \$185,000 at any time prior to the third anniversary of the agreement, we recorded the equity investment in ePHONE Tech at \$185,000. The remaining portion of the \$880,000 (which consisted of \$865,000 in cash and \$15,000 in equipment) or \$695,000, we incurred in connection with the termination of these executive officers was included in general and administrative expense for the year ended December 31, 2000.

At December 31, 2001, we recognized an impairment write-down of substantially

all of the remaining carrying value of this investment. The write-down totaled \$184,000 and is recorded as general and administrative expense in the Statement of Operations at December 31, 2001. The remaining carrying value of this investment is \$1,000 and is recorded as a non-current other asset at December 31, 2001.

NOTE 8 - ACCRUED LIABILITIES AND LONG TERM OBLIGATION

Accrued expenses consist of the following:

<TABLE>

<CAPTION>

	Decembe
	2001

<S>	<C>
Accrued vacation	\$ 32,411
Accrued compensation	35,443
Redeemable special warrants	--
Accrued legal fees	147,300
Other obligation, current portion	82,500
Comdial obligation	225,576
Other	131,535

	\$ 654,765
	=====

</TABLE>

At December 31, 2000, certain special warrant holders had not exercised their right to redeem a portion of their original investment, as described in Note 9. All of these warrant holders subsequently exercised this right during 2001.

We were involved in arbitration, resulting from the termination of our former President and Chief Operating Officer, Mr. Charles Yang. A breakdown in the relationship between Mr. Yang and us developed in early 2000 and he ceased providing any services to us on January 31, 2000. Mr. Yang was formally terminated on March 9, 2000.

F-12

<PAGE>

On March 23, 2001, we entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Charles Yang to resolve all claims and disputes between ePHONE and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from ePHONE. Pursuant to the terms of the Settlement Agreement, we agreed to pay Mr. Yang \$400,000 in cash installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock as further described in Note 9. We had previously accrued \$300,000 during 1999, and the additional \$100,000 liability related to the settlement was accrued during the year ended December 31, 2001.

We did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to issue Mr. Yang an additional 100,000 shares of our common stock, as further described in Note 9, and pay an additional \$75,000, which is recorded as a general and administrative expense as of December 31, 2001. The total amount due Mr. Yang of \$225,000 will be repaid in 30 monthly installments of \$7,500 beginning in 2002. Payments by fiscal year are as follows:

Year ending December 31,

2002.....	\$	82,500
2003.....		90,000
2004.....		52,500

		225,000
Current portion included in accrued liabilities..		(82,500)

Long-term obligation.....	\$	142,500
		=====

NOTE 9 - STOCKHOLDERS' EQUITY

COMMON STOCK

Beginning in November 1999 and ending in February 2000, we sold a total of 1,350,000 "units" for \$0.75 a unit to investors outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended (referred to herein as the Securities Act). Each "unit" consisted of one share of our common stock and one warrant to purchase an additional share of common stock at \$1.25. On September 12, 2001, our Board of Directors approved a resolution to reduce the exercise price of the warrant included with each unit to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. During the year ended December 31, 2001 and 2000, investors exercised warrants for the purchase of 848,243 and 92,400 shares of our common stock, respectively. We received \$134,500 and \$878,000 for the sale of the units during 2000 and 1999, respectively, and \$296,885 and \$115,500 for the exercise of the warrants in 2001 and 2000, respectively. During December 2001, we also received \$8,400 for the exercise of warrants for which shares of common stock will be issued in 2002. The warrants expire March 30, 2002.

During May 2000, the Company issued 345,000 shares of stock to a consultant as further described under non-employee stock compensation.

F-13

<PAGE>

On July 12, 2000, our Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of Company common stock would have been issued for no additional consideration if we were to meet certain performance objectives by the end of fiscal year 2002. The performance share plan was rescinded because of changes in our business plan since the adoption of the performance share plan. Concurrently with rescinding the performance share plan, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of our common stock to four individuals who are former executive officers and consultants who would have been eligible to receive shares of common stock under the performance share plan. Our stockholders approved the issuance of these shares and an amendment to our Articles of Incorporation, increasing the number of authorized shares of common stock from 50,000,000 to 150,000,000 at the Annual Meeting of Stockholders on August 23, 2000. The shares of common stock were granted in consideration for services rendered to us during the period from the fourth quarter of 1998 through the first quarter of 2000. We recorded a \$3,700,000 charge during 2000 related to the granting of these shares of common stock.

On March 23, 2001, we entered into a Settlement Agreement with Charles Yang, which was subsequently modified in January 2002 as described in Note 8. In accordance with the Settlement Agreement and subsequent Modification Agreement, we issued a total of 500,000 shares of our common stock to Mr. Yang. The fair value of these shares totaled \$110,000 and is recorded as non-cash compensation

expense as of December 31, 2001.

During August 2001, 13,436,317 Special Warrants were converted into 13,436,317 shares of our common stock as described under Special Warrants below.

During October and November 2001, we issued 200,000 shares of our common stock to a consultant who provided marketing and business development services to ePHONE as further described under non-employee stock compensation below.

During November 2001, we issued 538,973 shares of our common stock to PITRFA, Inc., a marketing and distribution company, as further described under non-employee stock compensation below.

During February 2002, we negotiated a settlement agreement with a former consultant in which we were required to issue 10,000 shares of common stock in exchange for past services rendered. The fair value of the common stock was \$2,200 and is recorded as general and administrative expense as of December 31, 2001.

SPECIAL WARRANTS

In early 2000, we sold a total of 13,780,837 special warrants to investors outside of the United States pursuant to Regulation S under the Securities Act. Each special warrant was purchased for \$1.10, and each special warrant when exercised entitled the holder to one share of common stock for no additional consideration and one purchase warrant to purchase an additional share of common stock for \$1.60. Holders of special warrants were originally entitled to receive up to 13,780,837 shares of common stock in the aggregate upon exercise of the special warrants and up to an additional 13,780,837 shares of common stock in the aggregate upon exercise of the purchase warrants. The purchase warrants expire on March 30, 2002.

In connection with the sale of special warrants described above, we granted GroomeCapital.com, Inc., which served as our agent in the sale of the special warrants, compensation warrants to purchase 889,251 units exercisable into 889,251 shares of common stock and 889,251 warrants at \$1.10 per unit. The warrant received with each unit is exercisable into a share of common stock at \$1.60 per share. We also issued options to purchase 250,000 shares of common stock at \$0.60 per share. The compensation warrants and options expire on March 30, 2002.

F-14

<PAGE>

The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently; each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they are holding by the same percentage ("Redemption Right"). In addition, each special warrant holder had the right to receive an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of December 31, 2001, all special warrant holders exercised their Redemption Right and we returned \$1,894,865 to these investors.

On August 13, 2001 final receipts from the regulators of the British Columbia, Alberta, Ontario and Quebec provinces in Canada were received for the registration prospectus dated August 7, 2001. Each Special Warrant was then deemed converted, as provided for in the special warrant agreement, into one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$1.60 per share expiring on March 30, 2002, for no additional consideration. Upon exercise of the special warrants, taking into consideration

the exercise of Redemption Rights by all the investors, and the issuance of additional shares of our common stock equal to 10% of the special warrant holders initial investment, we issued a total of 13,436,317 shares of common stock and stock purchase warrants for the purchase of up to 13,436,317 shares of our common stock for \$1.60 per share to these investors. On September 26, 2001, our Board of Directors approved a resolution to reduce the price of the stock purchase warrants to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. Proceeds from the Special Warrant offering totaled \$12,149,571, net of \$1,114,485 in offering costs and \$1,894,865 returned to shareholders upon the exercise of their Redemption Right. Certain warrant holders exercised their warrants in 2002 as described under subsequent events below.

NON-EMPLOYEE STOCK COMPENSATION ISSUED IN EXCHANGE FOR SERVICES RECEIVED

As partial consideration for services rendered under a consulting agreement entered into on May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, we granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and was recorded as non-cash compensation during the year ended December 31, 2000.

On May 9, 2000, we granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

On February 14, 2001, our Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered. The stock options have an exercise price of \$0.50, vest immediately and expire in three years. The market value of the our common stock at the grant date was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the year ended December 31, 2001.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

F-15

<PAGE>

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement "Agreement" with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the agreement, PITRFA will market and distribute ePHONE's prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second

tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PIRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of this Agreement.

The following table summarizes information for non-employee stock options and stock purchase warrants granted for services, and issued in connection with private placements we have completed:

<TABLE>

<CAPTION>

	Year Ended December 31, 2001		
	Number of Shares	Weighted Average Price	Num
<S>	<C>	Per Share	<C>
Beginning balance.....	4,385,684	\$0.91	
Granted (including Special Warrant Conversion in 2001)			
	13,886,317	\$0.35	
Exercised.....	(848,243)	\$0.35	
Cancelled.....	--	--	
	-----	-----	
Ending balance.....	17,423,758	\$0.42	
	=====	=====	

</TABLE>

EMPLOYEE STOCK COMPENSATION

During 1999, we granted 2,250,000 options to purchase common stock at \$.50 per share to certain directors and officers.

On May 5, 2000, our Board of Directors adopted the 2000 Long-Term Incentive Plan (the "Plan") and reserved 6,000,000 shares of common stock for issuance under the Plan. The Plan provides for grants and awards of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock and incentive shares to officers, key employees, directors, persons hired to be employees, and who the Board determines will be officers or key employees upon commencement of employment, and consultants or independent contractors for rendering key services. The Board will determine the exercise price per share of the Common Stock purchasable under a stock option and the options will have various vesting schedules ranging from immediate vesting to vesting on specified dates and over various periods of time. In general, options granted under this plan will expire in ten years from the date of grant.

During 2000, we granted 1,500,000 stock options to two officers, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, we recorded compensation expense totaling \$2,865,000. These two officers terminated employment with us in December 2000 and a total of 6,747,307 in accumulated stock option awards were canceled as provided for in their Separation Agreements.

In connection with the termination of these two officers, all other outstanding unvested stock options became immediately vested pursuant to a provision in the Plan.

F-16

<PAGE>

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees. Since the repricing we have accounted for these options using variable accounting. We have

not recorded any compensation expense in connection with this repricing since the new exercise price has been higher than or equal to the market price.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer's stock option agreement from March 31, 2002 to October 1, 2002.

The following table summarizes information concerning our stock options:

<TABLE>

<CAPTION>

	Years Ended December	
	2001	
	Number of Shares	Weighted Average Price Per Share
<S>	<C>	<C>
Beginning balance.....	5,268,963	\$0.81
Granted.....	5,713,333	0.41
Exercised.....	--	--
Cancelled.....	(3,784,244)	0.90
	-----	-----
Ending balance.....	7,197,782	\$0.40
	=====	=====

</TABLE>

The following table summarizes information about stock options issued to employees, outstanding at December 31, 2001:

<TABLE>

<CAPTION>

Range of Exercise Prices	Number of Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Num
<S>	<C>	<C>	<C>	
\$0.35 to \$0.35...	5,700,000	6 years	\$0.35	
\$0.50 to \$0.50...	1,273,333	9 years	\$0.50	
\$0.60 to \$1.09...	196,449	8 years	\$1.09	
\$1.09 to \$1.59...	28,000	9 years	\$1.44	
	-----	-----	-----	
	7,197,782	7 years	\$0.40	
	=====	=====	=====	

</TABLE>

Had compensation expense for our plan been determined based on the fair value at the grant date for plan awards consistent with the provisions of SFAS No. 123, our net loss and net loss per common share outstanding would have been the pro forma amounts indicated below:

<TABLE>

<CAPTION>

	Year Ended Decem
	2001
<S>	<C>
Net loss -- as reported.....	\$ (7,021,129)
Net loss -- pro forma.....	\$ (7,724,071)
Net loss per share -- as reported.....	\$ (0.28)
Net loss per share - pro forma.....	\$ (0.31)

</TABLE>

F-17

<PAGE>

The weighted-average fair values of each option at the date of grant for 2001 and 2000 was \$0.16 and \$1.04, respectively, and were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used in 2001 and 2000: dividend yield of 0%; expected volatility of 150% in 2001 and 2000; risk-free interest rate of 4.08% in 2001 and 6.22% in 2000; and expected lives of 3 years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Herndon Office Lease

The following is a schedule of future minimum payments with respect to the Herndon, Virginia office lease:

Year Ending December 31,	
2002.....	179,004
2003.....	184,374
2004.....	62,061

Total future minimum payments.....	\$ 425,439
	=====

Rent expense was \$165,258 and \$128,527 for the years ended December 31, 2001 and 2000, respectively.

NOTE 11 - INCOME TAXES

As we have incurred losses since our inception, no provision for US federal or state income taxes have been recorded in any period.

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets for federal and state income taxes are as follows:

<TABLE>

<CAPTION>

	2001	Year Ended Decem
<S>	<C>	
Net operating loss carryforwards....	\$6,407,000	
Excess of book over tax - Array		
Telecom license amortization.....	--	
Non-cash compensation.....	543,000	
Investment write-down	343,000	
Deferred royalty obligation.....	--	
Other.....	46,000	
Less valuation allowance.....	(7,339,000)	

Net deferred tax asset.....	\$ --	
	=====	

</TABLE>

F-18

<PAGE>

Realization of deferred tax assets is dependent upon future earnings, if any. We have recorded a full valuation allowance against our deferred tax assets since we believe it is more likely than not that these assets will not be realized. No income tax benefit has been recorded for all periods presented because of the valuation allowance.

At December 31, 2001, we have available, for U.S. income tax purposes, net operating loss carryforwards of approximately \$16,428,000 which can be used to offset future taxable income through 2019. There can be no assurance that we will realize the benefit of the net operating loss carryforward. In addition, our utilization of our net operating loss carryforward may be limited pursuant to Internal Revenue Code Section 382, due to cumulative changes in ownership in excess of 50% within a three year period.

NOTE 12 SIGNIFICANT CUSTOMER

For the year ended December 31, 2001 and 2000, 11% and 90% of sales, respectively, were to one customer. As of December 31, 2000, 97% of accounts receivable was from this same customer. We did not have accounts receivable with this customer as of December 31, 2001.

Note 13 SUBSEQUENT EVENT

In late March 2002, the Company received approximately \$690,000 for the exercise of warrants for the purchase of 3,450,000 shares of common stock which had been issued in connection with the sale of Special Warrants described in Note 9. On March 31, 2002, the remaining warrants for the purchase of 9,115,000 shares of common stock expired unexercised.

F-19

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.4
<SEQUENCE>4
<FILENAME>exhibit10_4.txt
<DESCRIPTION>EXHIBIT 10_4
<TEXT>

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, effective this 1st day of February, 2002 ("Effective Date"), between ePHONE Telecom, Inc. (the "Company") and James Meadows (the "Executive") to be entitled, Executive Vice President and Chief Operating Officer.

WITNESSETH

WHEREAS, the Company wishes to hire the Executive as an employee of the Company to provide the services hereinafter set forth; and

WHEREAS, the Executive is willing to become an employee of the Company upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the promises and the mutual agreements contained herein, intending to be legally bound, the parties agree as follows:

1. DEFINITIONS

The following words and terms shall have the meanings set forth below for the purposes of this Agreement:

1.1. Affiliates. "Affiliates" of the Company, or a person "affiliated" with the Company, are any persons or entities which, directly or indirectly, through one or more intermediaries, controls or are controlled by or are under common control with, the persons or entities specified.

1.2. Base Salary. "Base Salary" shall have the meaning set forth in Section 3.1 hereof.

1.3. Cause. Termination of the Executive's employment for "Cause" shall mean: (a) failure of the Executive to perform assigned duties or to follow the directives and policies set forth by the President and Chief Executive Officer or Board of Directors; (b) conduct of the Executive, which, if proven, would constitute a crime involving breach of professional ethics or moral turpitude or a felony of any type; (c) conduct of the Executive which injures the business or reputation of the Company; (d) conduct of the Executive which compromises the Executive's ability to perform his job duties; (e) actions or omissions on the part of the Executive that constitute a material breach of any provision of this Agreement.

1.4. Change in Control of the Company. "Change in Control of the Company" shall mean a change in control that is of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation

14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or any successor thereto, whether or not the Company is registered under the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred if any person or entity other than the Executive, the Company, or any of its Affiliates or associates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty-one percent (51%) or more of the combined voting power of the Company's then outstanding securities.

1.5. Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of the Executive's death, (ii) if the Executive's employment is terminated for Cause or Disability, the date specified in the Notice of Termination, and (iii) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or as specified in such Notice.

<PAGE>

1.6. Disability. Termination of the Executive's employment based on "Disability" shall mean termination of the Executive's employment because he is unable to perform the essential functions of his position with or without accommodation due to a disability (as such term is defined in the Americans with Disabilities Act) for three (3) months in the aggregate during any twelve (12) month period. This definition and this Section 1.6 shall be interpreted and applied consistently with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law.

1.7. Notice of Termination. With the exception of termination due to the Executive's death, any purported termination of the Executive's employment by the Company for any reason or by the Executive for any reason, shall be communicated by a written "Notice of Termination" to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a dated notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, (iii) specifies a Date of Termination, which shall be not less than thirty (30) days after such Notice of Termination is given, except in the case of the Company's termination of Executive's employment for Cause, for which the Date of Termination may be the date of the notice; and (iv) is given in the manner specified in Section 9.2 hereof.

1.8. Qualifying Termination. A "Qualifying Termination" shall mean a termination of the Executive's employment by the Executive for any reason that occurs on the effective date of a Change of Control of the Company or within six (6) full calendar months following the effective date of a Change of Control of the Company

2. EMPLOYMENT

2.1. Agreement and Term. The Company hereby employs the Executive and the Executive hereby accepts said employment and agrees to render services to the Company on the terms and conditions set forth in this Agreement. The term of this Agreement shall commence on February 1, 2002, and shall continue from that date until February 1, 2005 ("Expiration Date") unless terminated earlier by either the Company or the Executive as hereinafter provided. If either the Company or the Executive does not wish to renew this Agreement when it expires, or if either the Company or the Executive wishes to renew this Agreement on different terms than those contained herein, it or he shall give written notice of such intent to the other party at least sixty (60) days prior to the Expiration Date. In the absence of such notice, this Agreement shall be renewed on the same terms and conditions contained herein for a term of one (1) year from the Expiration Date. The parties expressly agree that designation of a term and renewal provisions in this Agreement does not in any way limit the right of the parties to terminate this Agreement at any time as hereinafter provided.

2.2. Duties. During the term of this Agreement, the Executive shall devote his full working time and attention and use his best efforts to further the interests of the Company. The Executive shall perform such services for the Company as is consistent with his position and as directed, from time to time, by the Company. The Executive's initial title shall be Executive Vice President and Chief Operating Officer. During the term of this Agreement the Executive may use such titles as assigned and approved by the Company. The Executive shall not, during the term of the Agreement, be employed or involved in any other business activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage, except for volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Executive may wish to serve.

3. COMPENSATION AND BENEFITS

3.1. Base Salary. The Company shall pay the Executive an initial base salary of twelve thousand five hundred dollars (\$12,500) per month (one hundred and fifty thousand dollars (\$150,000) per year) ("Base Salary") until the Company's earnings before taxes, depreciation and amortization and excluding acquisitions ("EBTDA"), as determined in accordance with generally accepted accounting principles and consistent with the Company's past practices ("EBTDA"),

<PAGE>

exceeds five hundred thousand dollars (\$500,000) for the year 2002, at which time the Company shall increase the Executive's Base Salary to one hundred seventy five thousand dollars (\$175,000) per year. Thereafter, the Company will review the Executive's Base Salary on December 31 of each year of the term of the Agreement.

3.2. Incentive Bonus. In addition to Base Salary, for the year ending December 31, 2002, the Executive shall be eligible for the incentive bonus described in Exhibit A, attached hereto and incorporated by reference as if fully set forth herein. For each year thereafter, the Company shall establish the criteria by which the Executive shall be eligible for an incentive bonus on or before January 31st of each year of the term of the Agreement.

3.4. Stock Options. The Executive shall be eligible to participate in any stock option plan established by the Board of Directors for Executives of the Company in accordance with the terms of the Company's stock option plan and the Executive's stock option agreement.

3.5. Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

3.6. Personnel Policies & Benefit Plans. Except as otherwise provided herein, the Executive's employment shall be subject to the personnel policies which apply generally to the Company's employees as the same may be interpreted, adopted, revised or deleted from time to time, during the term of this Agreement, by the Company in its sole discretion. During the term of the Agreement, the Executive shall be entitled to participate in any Company benefit plans on the same basis as other executive level employees of the Company. The Company reserves the right to change, alter, or terminate benefits, plans and carriers in its sole direction. All matters of eligibility for coverage or benefits under any health, hospitalization, life, disability, or other insurance plan, program or policy shall be determined in accordance with the provisions of the plan, program, or policy; the Company shall not be liable to the Executive, his/her family, heirs, executors, or beneficiaries, for any payment payable or claimed to be payable under any such benefit plan, program, or policy.

4. SUPPORT AND EXPENSES

4.1. Office. The Company shall provide the Executive with secretarial services and furnished offices in the Herndon, Virginia area, and in such other location, if any, in which the Executive hereafter agrees to perform services on behalf of the Company, all of which shall be consistent with the Executive's duties and sufficient for the efficient performance of those duties.

4.2. Expenses. The Company shall reimburse the Executive or otherwise provide for or pay for all pre-approved reasonable expenses incurred by Executive in furtherance of, or in connection with the business of the Company, subject to such reasonable documentation and other limitations as may be established by the Board of Directors.

5. TERMINATION

5.1. Termination Due to Death. If the Executive's employment is terminated by reason of the Executive's death, compensation pursuant to Section 3.1 of this Agreement shall expire effective the date of the Executive's death. The entitlement of any beneficiary of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.
<PAGE>

5.2. Termination Due to Disability. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time due to the Executive's Disability. If the Executive's employment is terminated due to Disability, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination.

5.3. Termination by the Company for Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for Cause. If the Executive's employment is terminated by the Company for Cause, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.4. Termination by the Company Other Than for Death, Disability, or Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for any reason. If the Executive's employment is terminated by the Company for reasons other than death, Disability, or Cause, and if the Executive executes a general release with language acceptable to the Company on or before the effective Date of Termination and complies with the provisions of Section 5.8 of this Agreement, the Company shall pay the Executive an amount equal to six (6) months of the Executive's Base Salary in a lump sum payable within fifteen (15) business days following the effective date of such release or as mutually agreed by the Company and Executive. The Company shall not be required to pay any amount under this Section unless the Executive executes a general release in a form acceptable to the Company and such release becomes effective.

5.5 Termination by the Executive. The Executive shall be entitled to terminate his employment and this Agreement at any time for any reason. If the Executive terminates his employment, compensation pursuant to Section 3.1 of this Agreement shall expire as of the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.6. Qualifying Termination. The Executive shall be entitled to terminate his employment and this Agreement for a Change in Control. In the event of a Qualifying Termination, the Executive shall be entitled to the benefits described in Section 5.4 of this Agreement.

5.7. Cooperation with Company After Termination of Employment. Following termination of the Executive's employment for any reason, the Executive shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other Executives of the Company as may be designated by the Company.

5.8. Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this Section 5, if at any time during the course of this Agreement the parties by mutual consent decide to terminate it, they shall do so by separate agreement setting forth the terms and conditions of such termination.

6. NON-DISCLOSURE AND AUTHORIZATION TO DEDUCT PAY

6.1. The parties hereto have entered into a Non-Disclosure, Non-Competition and Assignment Agreement (NDNCA), which is attached hereto as Exhibit B, which may be amended by the parties from time to time. The provisions of the NDNCA are intended by the parties to survive and do survive termination or expiration of this Employment Agreement.

6.2. The Executive has also executed simultaneously with this Agreement the Authorization to Deduct from Pay, which is attached hereto as Exhibit C.

<PAGE>

7. EXECUTIVE'S REPRESENTATIONS AND WARRANTIES

7.1. No Conflict of Interest. The Executive warrants that he is not, to the best of his knowledge and belief, involved in any situation that might create, or appear to create, a conflict of interest with loyalty to or duties for the Company.

7.2. Notification of Materials or Documents from Other Employers. The Executive further warrants that he has not brought and will not bring to the Company or use in the performance of responsibilities at the Company any materials or documents of a former employer that are not generally available to the public, unless he has obtained express written authorization from the former employer and the Company for their possession and use.

7.3. Notification of Other Post-Employment Obligations. The Executive also understands that, as part of his employment with the Company, the Executive is not to breach any obligation of confidentiality that he has to former employers, and agrees to honor all such obligations to former employers during employment with the Company. The Executive warrants that he is subject to no employment agreement or restrictive covenant preventing full performance of duties under this Agreement.

7.4. Indemnification For Breach. In addition to other remedies that the Company might have for breach of this Agreement, the Executive agrees to indemnify and hold the Company harmless from any breach of the provisions of this Section 7.

8. ARBITRATION

8.1. Exclusive Remedy. The parties agree that any dispute between the parties relating to the Executive's performance of his obligations herein or to the termination of this Agreement, with the exception of Section, or the Executive's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act

of 1967, the Americans With Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Executive Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment with the exception of any dispute arising out of or related to conduct defined in Section 1.3(b), Sections 6 and 8, shall be resolved by arbitration in the Washington, DC metropolitan area, in accordance with the National Employment Arbitration Rules of the American Arbitration Association, as modified by the provisions of this Section 8. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its exclusive remedy, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement.

8.2. Arbitrator's Authority. In reaching her/her decision, the arbitrator shall have no authority to add to, detract from, or otherwise modify any provision of this Agreement. The arbitrator shall submit with the award a written opinion, which shall include findings of fact and conclusions of law. Judgment upon the award rendered by the arbitrator may be entered in any court having competent jurisdiction.

8.3. Effect of Arbitrator's Decision: Arbitrator's Fees. The decision of the arbitrator shall be final and binding between the parties as to all claims that were or could have been raised in connection with the dispute, to the full extent permitted by law. In all cases in which applicable federal law precludes a waiver of judicial remedies, the parties agree that the decision of the arbitrator shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the arbitrator may be presented in any other forum on the merits of the dispute. The arbitrator's fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be paid equally by the parties.

<PAGE>

8.4. Indemnification. In the event that either party breaches this arbitration agreement and attempts to resolve in court claims covered by this provision, they agree to indemnify the other party for all legal costs and attorney's fees incurred to defend such action in court and to enforce the provisions of the arbitration clause.

8.5. Continuing Nature of Agreement to Arbitrate. The parties acknowledge and agree that their obligations under this arbitration agreement survive the termination of this Agreement and continue after the termination of the employment relationship between the Executive and the Company.

9. GENERAL PROVISIONS

9.1. Assignment. The Company may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any Company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, if in any such case said Company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights and obligations hereunder. The Executive may not assign or transfer this Agreement or any rights or obligations hereunder.

9.2. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, if to the Company, addressed to its corporate headquarters at the time notice is given, "Attention Board of Directors"; if to the Executive, addressed to his home address as

listed in the Company's records at the time notice is given.

9.3. Amendment and Waiver. No provision of this Agreement may be amended or waived unless (i) such amendment or waiver is in writing and signed by each of the parties hereto.

9.4. Non-Waiver of Breach. No failure by either party to declare a default due to any breach of any obligation under this Agreement by the other, nor failure by either party to act quickly with regard thereto, shall be considered to be a waiver of any such obligation, or of any future breach.

9.5. Severability. In the event that any provision or portion of this Agreement, with the exception of Sections 2 and 3, shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

9.6. Governing Law. To the extent not preempted by Federal law, the validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined accordance with the law of the Commonwealth of Virginia.

9.7. Entire Agreement. This Agreement contains all of the terms agreed upon by the Company and the Executive with respect to the subject matter hereof and supersedes all prior agreements, arrangements and communications between the parties dealing with such subject matter, whether oral or written.

9.8. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the Company, including any Company or Company with which the Company may merge or consolidate.
<PAGE>

9.9. Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date and year first written above.

The Company: ePHONE Telecom, Inc.

By:
Title:

The Executive:

James Meadows

<PAGE>

EXHIBIT A
INCENTIVE BONUS PLAN FOR 2001

The Executive shall be eligible for an incentive bonus for the calendar year ending December 31, 2002 based on the Company's achievement of the following net sales:

Net Sales: Incentive Bonus Amount
Between \$ and \$:

Between \$ and \$
 Between \$ and \$
 Over \$

The amount of the Company's Net Sales shall be determined for the year ending December 31, 2002 in accordance with generally accepted accounting principles and consistent with the Company's past practices. For purposes of this Incentive Bonus Plan, Net Sales shall be defined as Gross Sales Less Returns and shall not include any amounts for sales derived by acquisitions. The Company in its sole discretion shall determine the amount of Net Sales and such determination shall be final, binding, and conclusive. The entire Incentive Bonus, if any, shall be payable within thirty (30) days of the Company's receipt of its year-end audited financial report. The Executive must be employed by the Company at the time the Incentive Bonus is payable in order to be eligible for the Incentive Bonus.

In the event the Executive's employment is terminated pursuant to Section 5.1, 5.2, 5.4, 5.6 or 5.9 of this Agreement prior to the date the Incentive Bonus is payable, the amount of the Incentive Bonus, if any, will be prorated for the number of days that Executive was employed during the fiscal year.

<PAGE>

EXHIBIT B

NON-DISCLOSURE, NON-COMPETITION AND ASSIGNMENT AGREEMENT

THIS AGREEMENT (the "Agreement") is entered into on this _____ day of _____, 200__ by and between _____ ("Employee"), and _____ Ltd. (the "Company").

This Agreement shall be effective as of the date of employment of a new employee, or in the case of a current employee, on the date signed by the employee ("Effective Date").

RECITALS

WHEREAS, Employee is, or is about to become, an employee of the Company, and will have access to the Company's private and proprietary information;

WHEREAS, in order to protect the Company's proprietary information, in which the Company has made a substantial investment, and to protect the Company from unfair competition involving disclosure of that information, Employee has agreed to enter into this Agreement;

NOW, THEREFORE, in consideration of continued employment, and other good and valuable consideration, receipt of which is hereby acknowledged, Employee and the Company, intending to be legally bound, agree as follows:

1. Proprietary Information. Employee acknowledges that Employee has or will have access to confidential Company proprietary information, including but not limited to, for example: the operating systems used by the Company and maintenance thereof, information or data relating to the creation, development, characteristics, implementation and

marketing of any Company product or service or business operation, including without limitation methods of operation, product capabilities, product design, details of contacts with customers, consultants, suppliers or employees, customer lists, the identity of customers and prospective customers, products, proposed products, former products, costs, profit margins, business plans, strategies, forecasts, unpublished financial information, budgets, projections, the identity of employees and their expertise and salaries, designs, drawings, Inventions (defined below), discoveries, improvements, research or development, test results, specifications, formulas, data, know-how, formats, copyrights, trade secrets, software, computer code or files, marketing methods, patents and/or patent applications, policies, plans, personnel, suppliers, competitors, markets or other specialized information or proprietary matters relating to the business of Company ("Proprietary Information"). Proprietary Information shall be broadly defined. It includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or in which it contemplates engaging. It also includes all information of which the unauthorized disclosure is or could be detrimental to the interests of the Company, whether or not such information is identified as Proprietary Information by the Company.

- A. Employee agrees to keep secret and retain in strictest confidence all Proprietary Information. Employee shall not at any time during or after employment, except with the express

<PAGE>

prior written consent of the President, directly or indirectly disclose, communicate or divulge any Proprietary Information to any person, or use any Proprietary Information, for the benefit of him/herself or any person other than the Company. Employee agrees that this promise shall never expire.

- B. Employee acknowledges that the Company would be severely damaged if Employee used or disclosed Proprietary Information for any purpose other than the Company's authorized business purposes. To prevent Employee from breaking the promise not to disclose this information, accidentally or intentionally, Employee further agrees that, for a period of two years from the termination of Employee's Company employment, Employee will not accept any employment or engage in any activity, without the Company's written consent, if the loyal and complete fulfillment of Employee's duties would inherently require Employee to reveal or utilize trade secrets or other Company proprietary information which Employee has promised not to disclose, as reasonably determined by Company. Employee agrees to discuss such other employment or activities with the President of the Company before undertaking them.

- C. The restriction contained in paragraph 1.A shall not apply to any Proprietary Information that (i) was known by the Employee on or prior to the commencement of Employee's employment with the Company, (ii) was developed by the Employee independently, without the use of any Proprietary Information of Company, or (iii) on or prior to the Effective Date, through no fault of the Employee, becomes publicly known from another source that is under no obligation of confidentiality to the Company. Except as disclosed on Schedule 1 to this Agreement, Employee does not know anything about the Company's Proprietary Information, other than the information he or she has learned from the Company. Employee has also disclosed on Schedule 1 a complete list of all Inventions (defined below) proprietary to Employee and which Employee wants to exclude from the application of this Agreement. The Company agrees to receive

and hold all such disclosures in confidence.

- D. Employee agrees not to remove any materials relating to the work performed at the Company without the prior written permission of the President of the Company. Employee agrees to return all such material and/or Proprietary Information in Employee's possession to the Company immediately upon request, and in any event upon termination of employment. Employee shall thereafter make no further use, either directly or indirectly, of any such materials and/or Proprietary Information.
- E. All works prepared, created or furnished by Employee, or to which Employee has contributed or contributes during the term of his or her engagement by the Company, are and shall constitute "works made for hire" within the meaning of the United States Copyright Law, and

<PAGE>

accordingly, all present and future right, title and interest in and to all such works throughout the world, in any and all media now known or hereafter developed, including but not limited to all copyrights (and all renewals and extensions thereof), shall vest in and belong solely to Company.

- F. If any of the works described in Paragraph E or any of Employee's contribution(s) thereto shall not, for any reason, at any time, qualify as "works made for hire," Employee hereby irrevocably assigns and conveys to the Company all present and future right, title and interest in and to all such works, throughout the world, in any and all media now known or hereafter developed, including but not limited to all copyrights therein (and all renewals and extensions thereof) along with all causes of action, including those for infringement, known or unknown, which have accrued or will accrue, from the conception or creation of each such work.
- G. Without limiting the scope of the foregoing, Employee hereby assigns, transfers and conveys to the Company all right, title and interest throughout the world, in any and all media now known or hereafter developed, in and to all information, concepts, matter or material which Employee conceives, creates, develops or contributes to, including but not limited to any and all ideas, designs, inventions and/or patentable matter created or conceived by Employee during his or her engagement by Company, along with all causes of action, known or unknown, which have accrued or will accrue, from the conception or creation of any or all of the foregoing.
- H. Employee further agrees to disclose to the Company in writing, within 30 days of discovery, development or production, any and all inventions, discoveries, developments, improvements, designs, processes, techniques, know-how, data, works of authorship or other tangible work product, and original materials, whether or not patentable or registerable under copyright or similar statutes, made, conceived, reduced to practice, or learned by Employee (either alone or jointly with others) during the period of his or her employment, that are related to or useful in the business of the Company, or which result from or are related to tasks assigned to Employee by the Company or the use of premises, equipment or materials owned, leased, or otherwise acquired or used by the Company (all of the foregoing are referred to herein as "Inventions"). Employee acknowledges and agrees that all Inventions belong to

and shall be the sole property of the Company and shall be Inventions of the Company subject to the provisions of this Agreement. Employee irrevocably assigns to the Company all right, title, and interest Employee may have or may acquire in and to all Inventions, including, without limitation, copyright, trademark, trade secret, patent, and work rights, along with all causes of action, known or unknown, which have accrued or will accrue, from the conception or creation of any or all of the foregoing. Employee acknowledges and agrees that no rights relating to any Invention are reserved to Employee.

<PAGE>

- I. Employee agrees to sign and deliver to the Company (either during or after his or her employment) such other documents as the Company considers desirable to evidence or effect the assignment of all rights of Employee, if any, in any Inventions to the Company and the Company's ownership of such Inventions. In the event the Company is unable to secure Employee's signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright, or other right or protection relating to any Invention, whether due to mental incapacity or any other cause, Employee hereby irrevocably designates and appoints the Company and each of its duly authorized officers and agents as his or her agent and attorney-in-fact, to act for and in his behalf and stead to execute and file any such documents and to do all other lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protections with the same force and effect as if executed and delivered by the Employee.
- J. Employee will not disclose to the Company, or use, or induce the Company to use, any proprietary information or trade secrets of others. Employee represents and warrants that he or she has returned all property and confidential information belonging to others, and that all works prepared, created or furnished by Employee, or to which Employee has contributed or contributes during the term of his or her engagement by Company, have been and shall be original and do not and shall not infringe or violate the rights of any other person or entity under any laws, including but not limited to any copyright, trademark, trade secret and/or patent laws, anywhere in the world.
- K. Employee shall indemnify, defend and hold the Company, its employees, officers, directors, agents, representatives, licensees and customers (including, without limitation, other staff members of Company) harmless from and against any and all losses, costs, expenses and fees (including reasonable attorneys' fees) arising from or in connection with any direct or third-party claim(s), action(s) or proceeding(s) which arise in connection with a knowing, intentional act by the Employee which results in an actual or threatened breach of Employee's warranties, representations or covenants set forth herein. Without in any way limiting the foregoing, it is expressly understood and agreed that Company shall have the right, but not the obligation, to retain counsel of its own choice in connection with any such third-party claim(s), action(s) or proceeding(s).
2. Covenant Not to Solicit Employees. Employee agrees not to solicit for employment (or to assist with such solicitation), or to hire (including employment as a full-time or part-time employee or as a consultant) any employee or former employee of the Company, for a six-month period

after the termination of Employee's employment with the Company. The restrictions set forth in this paragraph apply to the solicitation or hiring of any person who is, or within the six months before the termination of Employee's employment, was an employee or consultant of the Company.

<PAGE>

3. **Covenant Not to Solicit Customers.** Employee agrees not to solicit (or to assist with such solicitation) any customer or client of the Company to forego purchasing the Company's products or services and/or switch to another company's products or services, for a one year period after the termination of Employee's employment with the Company. For the purpose of this paragraph, the terms "customer" and "client" include any person, private entity or governmental entity (or employee or agent thereof), within or outside the United States of America, with whom the Company does or has done business, to whom the Company's products or services have been provided or sold, whom the Company has solicited for funds, and/or to whom the Company is making, has made, or plans or has planned to make business contacts or sales calls, within the one year before the termination of Employee's employment, and with whom the Employee has had direct or indirect contact or whose business Employee has worked on or supervised.
4. **Covenant Not to Compete.** During the term of the Employee's Company employment, the Employee shall not engage in any way, directly or indirectly, in any activities or business in competition with or any way detrimental or adverse to the Company, its business, or its operations. Employee agrees that for six months after the termination of Employee's Company employment, Employee (including any entity controlled by Employee, and any agent or employee of Employee) shall not compete with the Company, or, directly or indirectly, own, manage or control, or participate in the ownership, management, or control of any corporation, partnership, proprietorship, firm, association or other business entity which competes with the Company, without first obtaining the prior written consent of the President of the Company. Expiration of the six month period herein shall in no way limit or abridge any proprietary or other rights which the Company may have in law or in equity.
5. **Injunctive Relief.** Employee expressly agrees and understands that any breach by Employee of this Agreement will result in irreparable harm to the Company, and that the damages flowing from such breach cannot be adequately measured in monetary terms. Employee further expressly acknowledges that the remedy at law for any breach by Employee of this Agreement will be inadequate. Accordingly, it is agreed that the Company shall be entitled, among other remedies, to immediate injunctive relief, including a temporary restraining order, preliminary injunction and permanent injunction for any such breach or threatened breach. In addition to this injunctive relief, a breach of any covenant of Employee contained herein shall also give rise to such monetary damages as are available in law or equity.
6. **No Hardship on Employee.** Employee has carefully considered the nature and extent of the restrictions upon him or her and the rights and remedies conferred upon the Company under this Agreement, and hereby acknowledges and agrees that the same are reasonable in time and territory, are designed to eliminate unfair business practices that otherwise would be unfair to Company, are fully required to protect the legitimate interests of the Company and do not confer a benefit upon the Company disproportionate to the detriment imposed upon Employee.
7. **Prior Commitments.** Employee has no other agreements, relationships, or commitments to any other person or entity that conflict with Employee's obligations to the Company under this Agreement.

8. Severable Provisions. The provisions of this Agreement are severable, and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions or parts thereof shall nevertheless be binding and enforceable.

<PAGE>

In the event that any provision of this Agreement is deemed unenforceable, the Company and Employee agree that a court of competent jurisdiction shall reform such provision to the extent necessary to cause it to be enforceable to the maximum extent permitted by law. The Company agrees that they desire the court to reform such provision, and therefore agree that the court will have jurisdiction to do so and that they will abide by what the court determines.

9. Assignment. Employee's duties under this Agreement shall not be assignable or delegable by Employee without the prior written consent of the Company.
10. Binding Agreement. The rights and obligations of the Company and Employee under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company, and to the extent legally permissible, to and upon the heirs, legal representatives and assigns of Employee.
11. Waiver. Any party's failure to enforce any provision or provisions of this Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party thereafter from enforcing any provision of this Agreement. The rights granted the parties herein are cumulative and the waiver by a party of any single remedy shall not constitute a waiver of such party's right to assert any other legal remedies.
12. Governing Law. This Agreement is made in Virginia and shall be governed and construed according to the laws of the Commonwealth of Virginia.
13. Entire Agreement. This Agreement constitutes the sole and entire agreement of the parties with respect to the subject matter hereof, supersedes all prior understandings and agreements relating to the subject matter hereof and may not be modified except in writing, signed by all parties.
14. Attorneys' Fees. In the event either party hereto finds it necessary to employ legal counsel or to bring an action at law or other proceeding against the other party to enforce any of the terms, covenants or conditions hereof, the party prevailing in any such action or other proceeding shall be paid all reasonable attorneys' fees by the other party as well as costs.
15. Consideration. Employee acknowledges that he or she has not been promised, and shall not claim, any additional or special payment not set forth specifically herein, for compliance with the covenants and agreements contained herein.

<PAGE>

IN WITNESS WHEREOF, the parties hereto have executed this Agreement. Employee acknowledges that he or she has read and understands this Agreement.

Witnessed by:

EMPLOYEE:

(Print Full Name)

(Print Full Name)

COMPANY

By:

<PAGE>

Schedule 1

Prior Knowledge of Company's Proprietary Information

Excluded Inventions

<PAGE>

EXHIBIT C

TO: ePhone Telecom, Inc.
1145 Herndon Parkway
Herndon, Virginia 20170

RE: Authorization to Deduct from Pay

The undersigned, James Meadows (Employee), hereby confirms that:

- 1) That he has accepted a position as an employee of ePhone Telecom, Inc. ("ePhone"); and
- 2) Employee acknowledges that during the course of his employment ePhone will provide him with the equipment and other tools necessary to perform his duties, including, but not limited to, computing equipment, cell phone, pager, credit or calling cards (the "Business Tools"), all of which are and shall remain the sole and exclusive property of ePhone, notwithstanding that Employee may be responsible for the settling of all balances with any third party vendors who provided services for any of the Business Tools;
- 3) Employee acknowledges and agrees that he shall return any and all Business Tools and repay any outstanding balances due on any accounts associated with the Business Tools, upon termination of employment with ePhone, regardless of the circumstances of such termination.
- 4) In the event that Employee fails to return any or all of the Business Tools or to satisfy any associated accounts as of the effective date of his termination, ePhone shall be entitled, and Employee hereby expressly authorizes ePhone, to withhold from and offset against Employee's pay, including regular pay, vacation pay, bonuses, severance pay or other compensation, any amounts due ePhone from Employee. For the purposes hereof, the value of equipment not returned by Employee shall be calculated based on its book value as consistently applied by ePhone to its other business equipment. ePhone shall be entitled to use such funds to pay the outstanding balances of any credit or other accounts for which ePhone is a guarantor or otherwise ultimately liable, even if such accounts are not overdue as of the Employee's termination date.
- 5) Nothing contained herein shall be deemed to be a waiver of ePhone's rights to pursue Employee for any balance owing to ePhone for Business Tools after application of all wages or other payments due Employee on termination.

This authorization is made in favor of ePhone this ____ day of _____, 20__
by:

Employee Signature

Printed Name

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.5

<SEQUENCE>5
 <FILENAME>exhibit10_5.txt
 <DESCRIPTION>EXHIBIT 10_5
 <TEXT>

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT, effective this 1st day of April, 2001 ("Effective Date"), between ePHONE Telecom, Inc. (the "Company") and Carmine Taglialatela (the "Executive").

WITNESSETH

WHEREAS, the Company wishes to retain the Executive to provide the services hereinafter set forth; and

WHEREAS, the Executive is willing to provide services to the Company upon the terms and conditions set forth herein.

NOW THEREFORE, in consideration of the promises and the mutual agreements contained herein, intending to be legally bound, the parties agree as follows:

1. DEFINITIONS

The following words and terms shall have the meanings set forth below for the purposes of this Agreement:

1.1. Affiliates. "Affiliates" of the Company, or a person "affiliated" with the Company, are any persons or entities which, directly or indirectly, through one or more intermediaries, controls or are controlled by or are under common control with, the persons or entities specified.

1.2. Base Salary. "Base Salary" shall have the meaning set forth in Section 3.1 hereof.

1.3. Cause.

1.3.1. Termination of the Executive's employment for "Cause" shall mean termination because of the Executive's: (a) failure to follow the directives of the Board of Directors which failure is not cured, in the reasonable judgment of the Board of Directors, within thirty (30) days after written notice given to the Executive by the Board of Directors; (b) conduct which, if proven, would constitute a crime involving breach of professional ethics or moral turpitude or a felony of any type; (c) violation of any company policy or other conduct which injures the business or reputation of the Company; (d) conduct which compromises the Executive's ability to perform his job duties; (e) failure of the Executive to perform to the best of his abilities a substantial portion of the Executive's duties and responsibilities assigned or delegated, which failure is not cured, in the reasonable judgment of the Board of Directors, within thirty (30) days after written notice given to the Executive by the Board of Directors; (f) material breach of any provision of this Agreement.

1.3.2. Cause shall be determined in good faith by the affirmative vote of a majority of the whole Board of Directors of the Company (excluding the Executive if he is a member of the Board) only after the Executive has been provided a reasonable opportunity to make a presentation to the Board of Directors which presentation may be with counsel.

<PAGE>

1.4. Change in Control of the Company. "Change in Control of the Company" shall mean a change in control that is of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended ("Exchange Act"), or any successor thereto, whether or not the Company is registered under the Exchange Act; provided that, without limitation, such a change in control shall be deemed to have occurred if any person or entity other than the Executive, the Company, or any of its Affiliates or associates, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty-one percent (51%) or more of the combined voting power of the Company's then outstanding securities.

1.5. Date of Termination. "Date of Termination" shall mean (i) if the Executive's employment is terminated by reason of the Executive's death, the date of the Executive's death, (ii) if the Executive's employment is terminated for Cause or Disability, the date specified in the Notice of Termination, and (iii) if the Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or as specified in such Notice.

1.6. Disability. Termination of the Executive's employment based on "Disability" shall mean termination of the Executive's employment because he is unable to perform the essential functions of his position with or without accommodation due to a disability (as such term is defined in the Americans with Disabilities Act) for six (6) months in the aggregate during any twelve (12) month period. This definition and this Section 1.6 shall be interpreted and applied consistently with the Americans with Disabilities Act, the Family and Medical Leave Act, and other applicable law.

1.7. Notice of Termination. With the exception of termination due to the Executive's death, any purported termination of the Executive's employment by the Company for any reason or by the Executive for any reason, shall be communicated by a written "Notice of Termination" to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a dated notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated, (iii) specifies a Date of Termination, which shall be not less than thirty (30) days after such Notice of Termination is given, except in the case of the Company's termination of Executive's employment for Cause, for which the Date of Termination may be the date of the notice; and (iv) is given in the manner specified in Section 9.2 hereof.

1.8. Qualifying Termination. A "Qualifying Termination" shall mean a termination of the Executive's employment by the Executive for any reason which occurs on the effective date of a Change of Control of the Company or within six (6) full calendar months following the effective date of a Change of Control of the Company

2. EMPLOYMENT

2.1. Agreement and Term. The Company hereby employs the Executive and the Executive hereby accepts said employment and agrees to render services to the Company on the terms and conditions set forth in this Agreement. The term of this Agreement shall commence on April 1, 2001, and shall continue from that date until April 1, 2004 ("Expiration Date") unless terminated earlier by either the Company or the Executive as hereinafter provided. If either the Company or the Executive does not wish to renew this Agreement when it expires, or if

<PAGE>

either the Company or the Executive wishes to renew this Agreement on different terms than those contained herein, it or he shall give written notice of such

intent to the other party at least sixty (60) days prior to the Expiration Date. In the absence of such notice, this Agreement shall be renewed on the same terms and conditions contained herein for a term of one (1) year from the Expiration Date. The parties expressly agree that designation of a term and renewal provisions in this Agreement does not in any way limit the right of the parties to terminate this Agreement at any time as hereinafter provided.

2.2. Duties. During the term of this Agreement, the Executive shall devote his full working time and attention and use his best efforts to further the interests of the Company. The Executive shall perform such services for the Company as is consistent with his position and as directed, from time to time, by the Company. The Executive's initial title shall be President and Chief Operating Officer. During the term of this Agreement the Executive may use such titles as assigned and approved by the Company. The Executive shall not, during the term of the Agreement, be employed or involved in any other business activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage, except for volunteer services for or on behalf of such religious, educational, non-profit and/or other charitable organization as Executive may wish to serve.

3. COMPENSATION AND BENEFITS

3.1. Base Salary. The Company shall pay the Executive an initial base salary of fifteen thousand dollars (\$15,000) per month (one hundred and eighty thousand dollars (\$180,000) per year) ("Base Salary") until the Company's earnings before taxes, depreciation and amortization and excluding acquisitions ("EBTDA"), as determined in accordance with generally accepted accounting principles and consistent with the Company's past practices ("EBTDA"), exceeds two hundred and fifty thousand dollars (\$250,000) for the year 2001, at which time the Company shall increase the Executive's Base Salary to two hundred and fifty thousand dollars (\$250,000) per year. Thereafter, the Company will review the Executive's Base Salary and December 31 of each year of the term of the Agreement.

3.2. Incentive Bonus. In addition to Base Salary, for the year ending December 31, 2001, the Executive shall be eligible for the incentive bonus described in Exhibit A, attached hereto and incorporated by reference as if fully set forth herein. For each year thereafter, the Company shall establish the criteria by which the Executive shall be eligible for an incentive bonus on or before January 31st of each year of the term of the Agreement.

3.3. Signing Bonus. The Executive shall be entitled to a signing bonus of twenty-five thousand dollars (\$25,000), payable on or before March 31, 2001.

3.4. Stock Options. The Executive shall be eligible to participate in any stock option plan established by the Board of Directors for Executives of the Company in accordance with the terms of the Company's stock option plan and the Executive's stock option agreement.

3.5. Withholding. All payments required to be made by the Company hereunder to the Executive shall be subject to the withholding of such amounts, if any, relating to tax and other payroll deductions as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

3.6. Personnel Policies & Benefit Plans. Except as otherwise provided herein, the Executive's employment shall be subject to the personnel policies which apply generally to the Company's employees as the same may be interpreted, adopted, revised or deleted from time to time, during the term of
<PAGE>

this Agreement, by the Company in its sole discretion. During the term of the Agreement, the Executive shall be entitled to participate in any Company benefit plans on the same basis as other executive level employees of the Company. The

Company reserves the right to change, alter, or terminate benefits, plans and carriers in its sole direction. All matters of eligibility for coverage or benefits under any health, hospitalization, life, disability, or other insurance plan, program or policy shall be determined in accordance with the provisions of the plan, program, or policy; the Company shall not be liable to the Executive, his/her family, heirs, executors, or beneficiaries, for any payment payable or claimed to be payable under any such benefit plan, program, or policy.

4. SUPPORT AND EXPENSES

4.1. Office. The Company shall provide the Executive with secretarial services and furnished offices in the Herndon, Virginia area, and in such other location, if any, in which the Executive hereafter agrees to perform services on behalf of the Company, all of which shall be consistent with the Executive's duties and sufficient for the efficient performance of those duties.

4.2. Expenses. The Company shall reimburse the Executive or otherwise provide for or pay for all pre-approved reasonable expenses incurred by Executive in furtherance of, or in connection with the business of the Company, subject to such reasonable documentation and other limitations as may be established by the Board of Directors.

5. TERMINATION

5.1. Termination Due to Death. If the Executive's employment is terminated by reason of the Executive's death, compensation pursuant to Section 3.1 of this Agreement shall expire effective the date of the Executive's death. The entitlement of any beneficiary of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.2. Termination Due to Disability. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time due to the Executive's Disability. If the Executive's employment is terminated due to Disability, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination.

5.3. Termination by the Company for Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for Cause. If the Executive's employment is terminated by the Company for Cause, compensation pursuant to Section 3.1. of this Agreement shall terminate effective the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in accordance with the provisions of such plan.

5.4. Termination by the Company Other Than for Death, Disability, or Cause. The Company shall be entitled to terminate the Executive's employment and this Agreement at any time for any reason. If the Executive's employment is terminated by the Company for reasons other than death, Disability, or Cause, and if the Executive executes a general release with language acceptable to the Company on or before the effective Date of Termination and complies with the provisions of Section 5.8 of this Agreement, the Company shall pay the Executive an amount equal to twelve (12) months of the Executive's Base Salary in a lump sum payable within fifteen (15) business days following the effective date of such release or, as mutually agreed between the Company and the Executive, in twelve (12) equal monthly installments. The Company shall not be required to pay any amount under this Section unless the Executive executes a general release in a form acceptable to the Company and such release becomes effective.

<PAGE>

5.5 Termination by the Executive. The Executive shall be entitled to terminate his employment and this Agreement at any time for any reason. If the Executive terminates his employment compensation described in Section 3.1 of this Agreement shall expire as of the Date of Termination. The entitlement of the Executive to benefits under any benefit plan shall be determined in

accordance with the provisions of such plan.

5.6. Qualifying Termination. The Executive shall be entitled to terminate his employment and this Agreement for a Change in Control. In the event of a Qualifying Termination, the Executive shall be entitled to the benefits described in Section 5.4 of this Agreement.

5.7. Cooperation with Company After Termination of Employment. Following termination of the Executive's employment for any reason, the Executive shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other Executives of the Company as may be designated by the Company.

5.8. Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this Section 5, if at any time during the course of this Agreement the parties by mutual consent decide to terminate it, they shall do so by separate agreement setting forth the terms and conditions of such termination.

6. CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

The parties hereto have entered into a Confidentiality and Non-Competition Agreement attached hereto as Exhibit B which may be amended by the parties from time to time. The provisions of the Confidentiality and Non-Competition Agreement are intended by the parties to survive and do survive termination or expiration of this Employment Agreement.

7. EXECUTIVE'S REPRESENTATIONS AND WARRANTIES

7.1. No Conflict of Interest. The Executive warrants that he is not, to the best of his knowledge and belief, involved in any situation that might create, or appear to create, a conflict of interest with loyalty to or duties for the Company.

7.2. Notification of Materials or Documents from Other Employers. The Executive further warrants that he has not brought and will not bring to the Company or use in the performance of responsibilities at the Company any materials or documents of a former employer that are not generally available to the public, unless he has obtained express written authorization from the former employer and the Company for their possession and use.

7.3. Notification of Other Post-Employment Obligations. The Executive also understands that, as part of his employment with the Company, the Executive is not to breach any obligation of confidentiality that he has to former employers, and agrees to honor all such obligations to former employers during employment with the Company. The Executive warrants that he is subject to no employment agreement or restrictive covenant preventing full performance of duties under this Agreement.

<PAGE>

7.4. Indemnification For Breach. In addition to other remedies which the Company might have for breach of this Agreement, the Executive agrees to indemnify and hold the Company harmless from any breach of the provisions of this Section 7.

8. ARBITRATION

8.1. Exclusive Remedy. The parties recognize that litigation in federal or state courts or before federal or state administrative agencies of disputes arising out of the Executive's employment with the Company or out of this Agreement, with the exception of Section 6, may not be in the best interests of either the Executive or the Company, and may result in unnecessary costs,

delays, complexities, and uncertainty. The parties agree that any dispute between the parties arising out of or relating to the Executive's employment, or to the negotiation, execution, performance or termination of this Agreement or the Executive's employment, including, but not limited to, any claim arising out of this Agreement, claims under Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act of 1990, Section 1981 of the Civil Rights Act of 1966, as amended, the Family Medical Leave Act, the Executive Retirement Income Security Act, and any similar federal, state or local law, statute, regulation, or any common law doctrine, whether that dispute arises during or after employment with the exception of any dispute arising out of or related to Sections 6 and 8, shall be resolved by arbitration in the Washington, DC metropolitan area, in accordance with the National Employment Arbitration Rules of the American Arbitration Association, as modified by the provisions of this Section 8. The parties each further agree that the arbitration provisions of this Agreement shall provide each party with its exclusive remedy, and each party expressly waives any right it might have to seek redress in any other forum, except as otherwise expressly provided in this Agreement. By election of arbitration as the means for final settlement of all claims, the parties hereby waive their respective rights to, and agree not to, sue each other in any action in a Federal, State or local court with respect to such claims, but may seek to enforce in court an arbitration award rendered pursuant to this Agreement. The parties specifically agree to waive their respective rights to a trial by jury, and further agree that no demand, request or motion will be made for trial by jury.

8.2. Notice and Selection of Arbitrator. Within thirty (30) days after the occurrence of an event giving rise to a dispute subject to this provision, the aggrieved party shall provide the other party with a detailed written statement of all facts pertaining to the dispute and shall permit the other party thirty (30) days within which to investigate and consider the facts and to resolve the matter informally. Thereafter, an aggrieved party who wishes to proceed to arbitration shall have an additional ninety (90) days within which to so notify the other party in writing. This notice shall include a clear, concise statement of the facts, the issues to be resolved by the arbitrator and the desired remedy. Within ten (10) days after delivery of a written notice requesting arbitration, the Company will contact the Executive, or his designated representative, to select an arbitrator. If the parties cannot agree on an arbitrator, they shall select an arbitrator from a list provided by the American Arbitration Association in accordance with its rules.

8.3. Witnesses and Documents. Fourteen (14) days prior to the arbitration hearing, the parties shall exchange a list of witnesses to be called and a list of the documents they intend to introduce into evidence at the hearing.

<PAGE>

Upon request, the Company will supply to the Executive a copy of the Executive's personnel file, including any internal, non-privileged memoranda which may be relevant to the dispute. All such files and documents will be maintained in a confidential manner by the Executive, shall be used only for preparation of the arbitration case, and shall be returned to the Company at the close of the hearing.

8.4. Arbitration Procedure. In the arbitration proceeding, each party shall be entitled to retain its own counsel, to present evidence and cross-examine witnesses, to purchase a stenographic record of the proceedings, and to submit post-hearing briefs. The opinion and award of the arbitrator shall be requested by the parties within forty-five (45) days of the submission of the post-hearing briefs, which shall be due thirty (30) days from the close of the arbitration.

8.5. The Executive's Remedies. If the arbitrator finds that the Executive was terminated in violation of law or this Agreement, the parties

agree that the arbitrator acting hereunder shall be empowered to provide the Executive with equitable and/or legal remedies, including compensatory damages and back pay. "Back pay" shall include all forms of compensation payable to the Executive by the Company, the cost of all fringe benefits, and prejudgment interest at the rate of ten percent (10%) per annum on such claims.

8.6. Arbitrator's Authority. In reaching her/her decision, the arbitrator shall have no authority to add to, detract from, or otherwise modify any provision of this Agreement. The arbitrator shall submit with the award a written opinion which shall include findings of fact and conclusions of law. Judgment upon the award rendered by the arbitrator may be entered in any court having competent jurisdiction.

8.7. Effect of Arbitrator's Decision: Arbitrator's Fees. The decision of the arbitrator shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute, to the full extent permitted by law. The arbitrator's fees and expenses and all administrative fees and expenses associated with the filing of the arbitration shall be paid by the Company, provided however that at the Executive's request he may pay up to one-half (1/2) the fees and expenses.

8.8. Indemnification. The parties agree that in the event that either party breaches this arbitration agreement and attempts to resolve in court claims covered by this provision, the breaching party will indemnify the other party for all legal costs and attorney's fees incurred to defend such action in court and to enforce the provisions of the arbitration clause.

8.9. Continuing Nature of Agreement to Arbitrate. The parties acknowledge and agree that their obligations under this arbitration agreement survive the termination of this Agreement and continue after the termination of the employment relationship between the Executive and the Company.

9. GENERAL PROVISIONS

9.1. Assignment. The Company may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any Company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, if in any such case said Company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as fully as if it had been originally made a party hereto, but may not otherwise assign this Agreement or its rights and obligations hereunder. The Executive may not assign or transfer this Agreement or any rights or obligations hereunder.
<PAGE>

9.2. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, if to the Company, addressed to its corporate headquarters at the time notice is given, "Attention Board of Directors"; if to the Executive, addressed to his home address as listed in the Company's records at the time notice is given.

9.3. Amendment and Waiver. No provision of this Agreement may be amended or waived unless (i) such amendment or waiver is in writing and signed by each of the parties hereto.

9.4. Non-Waiver of Breach. No failure by either party to declare a default due to any breach of any obligation under this Agreement by the other, nor failure by either party to act quickly with regard thereto, shall be considered to be a waiver of any such obligation, or of any future breach.

9.5. Severability. In the event that any provision or portion of this Agreement, with the exception of Sections 2 and 3, shall be determined to be

invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

9.6. Governing Law. To the extent not preempted by Federal law, the validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined accordance with the law of the Commonwealth of Virginia.

9.7. Entire Agreement. This Agreement contains all of the terms agreed upon by the Company and the Executive with respect to the subject matter hereof and supersedes all prior agreements, arrangements and communications between the parties dealing with such subject matter, whether oral or written.

9.8. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the Company, including any Company or Company with which the Company may merge or consolidate.

9.9. Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date and year first written above.

The Company:

ePHONE Telecom, Inc.

By:
Title:

The Executive:

Carmine Taglialatela

<PAGE>

EXHIBIT A
INCENTIVE BONUS PLAN FOR 2001

The Executive shall be eligible for an incentive bonus for the calendar year ending December 31, 2001 based on the Company's achievement of the following net sales:

Net Sales:	Incentive Bonus Amount
-----	-----
Between \$2,500,000 and \$5,000,000:	\$20,000
Between \$5,000,001 and \$7,500,000	\$25,000
Between \$7,500,001 and \$10,000,000	\$30,000
Over \$10,000,001	\$45,000

The amount of the Company's Net Sales shall be determined for the year ending December 31, 2001 in accordance with generally accepted accounting principles and consistent with the Company's past practices. For purposes of this Incentive Bonus Plan, Net Sales shall be defined as Gross Sales Less Returns and shall not include any amounts for sales derived by acquisitions. The amount of Net Sales shall be determined by the Company in its sole discretion and such determination shall be final, binding, and conclusive. The entire Incentive Bonus, if any,

shall be payable within thirty (30) days of the Company's receipt of its year-end audited financial report. The Executive must be employed by the Company at the time the Incentive Bonus is payable in order to be eligible for the Incentive Bonus.

In the event the Executive's employment is terminated pursuant to Section 5.1, 5.2, 5.4, 5.6 or 5.9 of this Agreement prior to the date the Incentive Bonus is payable, the amount of the Incentive Bonus, if any, will be prorated for the number of days that Executive was employed during the fiscal year.

\73546v01

</TEXT>
 </DOCUMENT>
 <DOCUMENT>
 <TYPE>EX-99
 <SEQUENCE>6
 <FILENAME>exhibit99.txt
 <DESCRIPTION>POWER OF ATTORNEY
 <TEXT>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Tagliatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his

or her hand as of the date specified.

Dated: April 10, 2002

/s/ Robert G. Clarke

Print Name: Robert G. Clarke

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Tagliatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ Larry Codacovi

Print Name: Larry Codacovi

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Tagliatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ Shelly Kamins

Print Name: Shelly Kamins

<PAGE>

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director and/or officer of ePHONE Telecom Inc., a corporation organized under the laws of the State of Florida (the "Corporation"), hereby constitutes and appoints Carmine Taglialatela, Charlie Rodriguez, and Paul Freshour, and each of them (with full power to each of them to act alone), his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him or her and on his or her behalf and in his or her seal to and file with the Securities and Exchange Commission (or any other governmental or regulatory authority) ePHONE Telecom Inc.'s Annual reporting document 10KSB (or any other appropriate form), and any and all amendments (including post-effective amendments) thereto, granting unto said attorneys, and each of them, full power and authority to do and to perform each and every act and thing requisite and necessary to be done in order to effectuate the same as fully to all intents and purposes as he himself or she herself might or could do if personally present, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned director and/or officer has hereunto set his or her hand as of the date specified.

Dated: April 10, 2002

/s/ John Fraser

Print Name: John Fraser

</TEXT>

</DOCUMENT>

</SEC-DOCUMENT>

-----END PRIVACY-ENHANCED MESSAGE-----

ATTACHMENT B

MARKETING MATERIALS

PREPAID CARD SOLD TO CUSTOMERS

USA & International Prepaid Calling Card



USA **03⁹¢** **256** mins. for \$10
PER MIN. **128** mins. for \$5

1 minute rounding, NO maintenance fee.

Country	\$5	\$10	\$20	Country	\$5	\$10	\$20
USA	128	256	513	HONG KONG	83	167	333
AUSTRALIA	114	227	455	INDIA	9	18	36
AUSTRIA	111	222	443	INDIA - Bangalore	25	50	100
BELGIUM	132	263	526	INDIA - Bombay	20	40	80
BRAZIL	38	77	154	IRELAND	109	218	437
BRAZIL - Rio De Janeiro	100	200	400	ISRAEL	71	143	286
CANADA	102	204	408	ITALY	100	200	400
CHINA	83	167	333	JAPAN	63	129	258
CHINA - Beijing	111	443	443	KOREA (SOUTH)	100	200	400
CHINA - Shanghai	111	443	443	MEXICO	29	59	118
COLOMBIA	33	67	133	NETHERLANDS	100	200	400
COLUMBIA - Cali	56	111	222	NEW ZEALAND	100	200	400
COSTA RICA	50	100	200	NORWAY	100	200	400
CUBA	5	10	20	POLAND	50	100	200
EGYPT	15	30	61	RUSSIA	33	67	133
EL SALVADOR	28	56	111	RUSSIA - Moscow	100	200	400
FINLAND	100	200	400	RUSSIA - St. Pete	71	143	286
FRANCE	125	250	500	SPAIN	100	200	400
GERMANY	125	250	500	SWITZERLAND	114	227	455
GREECE	56	111	222	UNITED KINGDOM	167	333	668
HAITI	17	33	67	VENEZUELA	23	45	91
				VENEZUELA - Caracas	50	100	200

USA INTERNATIONAL phone card



Country	Rate Local Access	Minutes Local Access		
		\$5	\$10	\$20
USA	\$0.029	172	345	690
Mexico	\$0.145	34	69	138
Korea	\$0.110	45	91	182
Jamaica	\$0.220	23	45	91
Pakistan	\$0.520	10	19	38
India	\$0.620	8	16	32
Brazil	\$0.120	42	83	167
Columbia	\$0.120	42	83	167
Haiti	\$0.370	14	27	54
Dominican Rep	\$0.250	20	40	80
Vietnam	\$0.920	5	11	22
Russia	\$0.140	36	71	143
Zimbabwe	\$0.110	45	91	182
Zambia	\$0.190	26	53	105
South Africa	\$0.170	29	59	118
Phillipines	\$0.150	33	67	133
Kenya	\$0.400	13	25	50
Israel	\$0.065	77	154	308
China	\$0.060	83	167	333

*No Connection fee, NO Maintenance fees, 1 minute rounding. An additional \$0.03 per minute charged for 800 calls. Rates are subject to change and are exclusive of all applicable taxes. Payphone surcharge may apply.

ATTACHMENT C
CERTIFICATE OF GOOD STANDING
ARTICLES OF INCORPORATION
BY LAWS

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

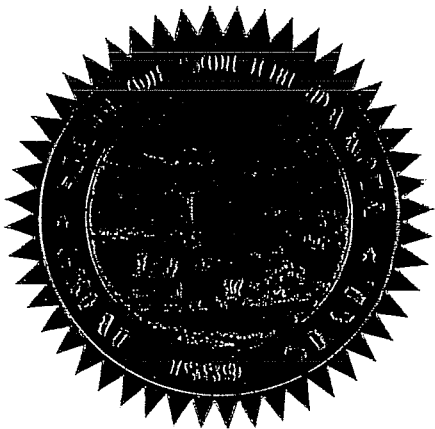
Certificate of Authority

ORGANIZATIONAL ID #: FB025992

I, **JOYCE HAZELTINE**, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of **ePHONE Telecom, Inc.** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this February 26, 2002.



A handwritten signature in cursive script that reads "Joyce Hazeltine".

Joyce Hazeltine
Secretary of State



Secretary of State
 State Capitol
 500 E. Capitol Ave.
 Pierre SD 57501
 Phone 605-773-4845
 Fax 605-773-4550

FILE NO. _____

RECEIPT NO. _____

RECEIVED

FEB 26 '02

S.D. SEC. OF STATE

Application for Certificate of Authority

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is ePHONE Telecom, Inc.
(exact corporate name)

Filed this 26th day of Feb., 2002
[Signature]
 SECRETARY OF STATE

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is _____

(3) State where incorporated Florida Federal Taxpayer ID# 098020479

(4) The date of its incorporation is 05/03/1996 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is 1200 South Pine Island Road, Plantation, Florida Zip Code 33324
 mailing address if different from above is: _____ Zip Code _____

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Street, Pierre, South Dakota Zip Code 57501
 and the name of its proposed registered agent in the State of South Dakota at that address is C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)
To provide telecommunications services and technology to customers and to engage in other activities related to telecommunications and the internet.

(8) The names and respective addresses of its directors and officers are: **SEE ATTACHMENT**

Name	Officer Title	Street Address	City	State	Zip
Carmine Tagliatela, Jr.	Pres./CEO/Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Charlie Rodriguez	CFO/Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
John G. Fraser	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Sheldon B. Kamins	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	
Lawrence M. Codacovi	Director	1145 Herndon Parkway, Herndon, Va	Herndon, Va	20170-5535	

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>150,000,000</u>	<u>Common</u>	<u>None</u>	<u>\$.001</u>
_____	_____	_____	_____
_____	_____	_____	_____

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
30,290,165	Common	No series	\$.001

(11) The amount of its stated capital is \$ 30,290.16
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the Secretary of State or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

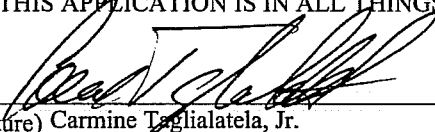
(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated October 23, 2001



 (Signature) Carmine Tagliatela, Jr.
 President

 (Title)

STATE OF Va
COUNTY OF Fairfax

I, Karen L. Overman, a notary public, do hereby certify that on this 23rd day of October, 2001, personally appeared before me Carmine Tagliatela, Jr. who, being by me first duly sworn, declared that he/she is the President of ePHONE Telecom, Inc., that he/she signed the foregoing document as officer of the corporation, and the statements therein contained are true.

04/30/2003
My Commission Expires

Karen L. Overman 

 (Notary Public)

Notarial Seal

The Consent of Appointment below must be signed by the registered agent listed in number six.

Attachment to South Dakota
Application for Certificate of Authority
Officers & Directors

1.	Full Name:	Robert G. Clarke
	Officer/Director:	Director
	Business Address:	1145 Herndon Parkway
	City:	Herndon
	State:	Va
	ZIP Code:	20170-5535

Consent of Appointment by the Registered Agent

I, C T Corporation System, hereby give my consent to serve as the registered agent for ePHONE Telecom, Inc.
(name of registered agent)
(corporate name)

Dated Feb 14, 2002

By: Judith Kereschuck
C T Corporation System
(signature of registered agent)

The proper filing fee must accompany the application. Make checks payable to the Secretary of State.

FEE SCHEDULE

Authorized capital stock of	25,000	or less	\$ 90
Over \$25,000 and not exceeding	100,000		110
Over \$100,000 and not exceeding	500,000		130
Over \$500,000 and not exceeding	1,000,000		150
Over \$1,000,000 and not exceeding	1,500,000		200
Over \$1,500,000 and not exceeding	2,000,000		250
Over \$2,000,000 and not exceeding	2,500,000		300
Over \$2,500,000 and not exceeding	3,000,000		350
Over \$3,000,000 and not exceeding	3,500,000		400
Over \$3,500,000 and not exceeding	4,000,000		450
Over \$4,000,000 and not exceeding	4,500,000		500
Over \$4,500,000 and not exceeding	5,000,000		550

For each additional \$500,000, \$40 in addition to \$550.

For purposes only of computing fees under this section, the dollar value of each authorized share having a par value shall be equal to par value and the value of each authorized share having no par value shall be equal to one hundred dollars per share. The maximum amount charged under this subdivision may not exceed sixteen thousand dollars.

FILING INSTRUCTIONS:

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or its president, or any other officer. **One original and one photocopy of the application must be submitted.**

The application must be accompanied by an **original, currently dated, CERTIFICATE OF FACT** or a **CERTIFICATE OF GOOD STANDING** from the Secretary of State in the state where incorporated. A photocopy of a certificate is not acceptable. It should be dated within ninety (90) days of submitting it to our office.

South Dakota law requires every corporation to continuously maintain a resident of this state as the registered agent (number six on the application). The registered agent's address is considered the registered office address of the corporation in South Dakota. A complete street address must be listed for service of process.

The Consent of Registered Agent portion must be signed by the South Dakota registered agent.

Mail the application, certificate, and filing fee to the Secretary of State, Corporate Division, 500 E. Capitol Avenue, Pierre, SD 57501-5070. The duplicate and a Certificate of Authority will be returned for your records.

Attachment to
Application for Certificate of Authority for a Foreign Corporation
Officers & Directors

1. Full Name: Carmine Tagliatela, Jr.
Officer/Director: Officer, Director
Officer's Title: Pres./CEO
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

2. Full Name: Charlie Rodriguez
Officer/Director: Officer, Director
Officer's Title: CFO & Secy.
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

3. Full Name: James Meadows
Officer/Director: Officer
Officer's Title: Exec. V.P./COO
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

4. Full Name: Sheldon B. Kamins
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

5. Full Name: Lawrence M. Codacovi
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

6. Full Name: Robert G. Clarke
Officer/Director: Director
Business Address: 1145 Herndon Parkway
City: Herndon
State: Va
ZIP Code: 20170

7. Full Name:
Officer/Director:
Business Address:
City:
State:
ZIP Code:

John G. Fraser
Director
1145 Herndon Parkway
Herndon
Va
20170

FILED

2002 JAN 29 PM 3:36

SECRETARY OF STATE
TALLAHASSEE, FLORIDA

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
EPHONE TELECOM, INC.**

It is hereby certified that:

1. The name of the corporation is ePHONE Telecom, Inc (the "Corporation").
2. Article IV of these Amended and Restated Articles of Incorporation contains an amendment to the Articles of Incorporation of the Corporation originally filed with the Secretary of State of the State of Florida on April 30, 1996 that was required to be approved by the shareholders of the Corporation.
3. Such amendment was approved and adopted at a duly called meeting of the shareholders of the Corporation on August 23, 2000.
4. Such amendment was approved by the affirmative vote of the holders of a sufficient number of shares (i.e., a majority) of the Corporation's outstanding common stock.
5. The following Amended and Restated Articles of Incorporation of ePHONE Telecom, Inc. amends and restates the provisions of and supersedes the Articles of Incorporation originally filed with the Secretary of State of the State of Florida on April 30, 1996 in its entirety:

**ARTICLE I
CORPORATE NAME**

The name of the Corporation is ePHONE Telecom, Inc.

**ARTICLE II
PURPOSE**

The Corporation shall be organized for any and all purposes authorized by the laws of the State of Florida.

**ARTICLE III
PERIOD OF EXISTENCE**

The period during which the Corporation shall continue is perpetual.

**ARTICLE IV
SHARES**

The capital stock of this corporation shall consist of 150,000,000 shares of common stock, \$.001 par value.

**ARTICLE V
DIRECTORS AND OFFICERS**

The business of this corporation shall be managed by its Board of Directors. The number of such directors shall be not be less than one (1) and, subject to such minimum may be increased or decreased from time to time in the manner provided in the By-Laws. The Board of Directors shall be elected by the shareholders of the corporation at such time and in such manner as provided in the By-Laws.

**ARTICLE VI
DENIAL OF PREEMPTIVE RIGHTS**

No shareholder shall have any right to acquire shares or other securities of the Corporation except to the extent such right may be granted by an amendment to these Articles of Incorporation or by a resolution of the Board of Directors.

**ARTICLE VII
AMENDMENT OF BYLAWS**

Anything in these Articles of Incorporation, the By-Laws, or the Florida Corporation Act notwithstanding, bylaws shall not be adopted, modified, amended or repealed by the shareholders of the Corporation except upon the affirmative vote of a simple majority vote of the holders of all the issued and outstanding shares of the corporation entitled to vote thereon.

**ARTICLE VIII
SHAREHOLDERS**

8.1. Inspection of Books The board of directors shall make reasonable rules to determine at what times and places and under what conditions the books of the Corporation shall be open to inspection by shareholders or a duly appointed representative of a shareholder.

8.2. Control Share Acquisition. The provisions relating to any control share acquisition as contained in Florida Statutes now, or hereinafter amended, and any successor provision shall not apply to the Corporation.

8.3. Quorum. The holders of shares entitled to one-third of the votes at a meeting of shareholders shall constitute a quorum.

8.4. Required Vote. Acts of shareholders shall require the approval of holders of 50.01 % of the outstanding votes of shareholders.

**ARTICLE IX
LIABILITY AND INDEMNIFICATION OF DIRECTORS AND OFFICERS**

To the fullest extent permitted by law, no director or officer of the Corporation shall be personally liable to the Corporation or its shareholders for damages for breach of any duty owed to the Corporation or its shareholders. In addition, the Corporation shall have the power, in its By-Laws or in any resolution of its stockholders or directors, to undertake to indemnify the officers and directors of this corporation against any contingency or peril as may be determined to be in the best interests of this corporation, and in conjunction therewith, to procure, at this corporation's expense, policies of insurance.

**ARTICLE X
CONTRACTS**

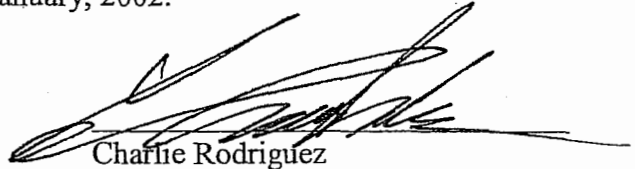
No contract or other transaction between this corporation and any person, firm or corporation shall be affected by the fact that any officer or director of this corporation is such other party or is, or at some time in the future becomes, an officer, director or partner of such other contracting party, or has now or hereafter a direct or indirect interest in such contract.

**ARTICLE XI
RESIDENT AGENT**

The name and address of the resident agent of the Corporation is:

CT Corporation System
1200 South Pine Island Road
Plantation, Florida 33324

IN WITNESS WHEREOF, I have hereunto subscribed to and executed these
Articles of Incorporation on this 3 day of January, 2002.

A handwritten signature in black ink, appearing to read 'Charlie Rodriguez', written over a horizontal line.

Charlie Rodriguez
Vice President—Corporate Affairs
and Secretary

ADOPTED BY
BOARD OF DIRECTORS
ON SEPT 26, 2000

BY-LAWS
OF
ePHONE TELECOM, INC.

A Florida Corporation

ARTICLE I.

Offices

SECTION 1. Registered Office. The registered office of ePHONE Telecom, Inc. (hereinafter called the "Corporation") within the State of Florida shall be c/o CT Corporation System, 1200 South Pine Island Road, Plantation, Florida 33324.

SECTION 2. Other Offices. The Corporation may also have offices at 1145 Herndon Parkway, Herndon, Virginia 20170 and such place or places as the Board of Directors shall from time to time determine or the business of the Corporation may require.

ARTICLE II.

Meetings of Shareholders

SECTION 1. Place of Meetings. All meetings of the shareholders shall be held at any such place, either within or without the State of Florida, as shall be designated from time to time by the Board of Directors and stated in the notice of meeting or in a duly executed waiver thereof.

SECTION 2. Annual Meeting. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may come before the meeting shall be held at such time and place as shall be determined by the Board of Directors and stated in the notice of the meeting.

SECTION 3. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Board or by the Secretary upon the written request of the holders of not less than fifty percent of the outstanding stock of the Corporation entitled to vote at the meeting. *Could be held by phone.*

SECTION 4. Notice of Meetings. Notice of meetings of shareholders shall be given as required by applicable law.

SECTION 5. Quorum. One third in voting power of the outstanding shares of the Corporation shall constitute a quorum. When a quorum is once present to organize a meeting of shareholders, it is not broken by the subsequent withdrawal of any shareholders. The holders of a majority of the shares of stock present in person or represented by proxy at any meeting of shareholders, including an adjourned meeting, whether or not a quorum is present, may adjourn such meeting to another time and place.

SECTION 6. Organization. At every meeting of shareholders, the President or, in his absence or inability to act, the person whom the President shall appoint, shall act as chairman of the meeting. The Secretary or, in his absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

SECTION 7. Order of Business. The order of business at all meetings of the shareholders shall be as determined by the chairman of the meeting.

SECTION 8. Voting. Unless otherwise provided in the Amended and Restated Articles of Incorporation, every shareholder of record shall be entitled at every meeting of shareholders to one vote for each share of capital stock standing in his name on the record of shareholders. If the Amended and Restated Articles of Incorporation

provides for more or less than one vote for any share, on any matter, every reference in these By-Laws or the Florida Business Corporation Act to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

At any meeting of shareholders (at which a quorum was present to organize the meeting), all matters, except as otherwise provided by law or by the Amended and Restated Articles of Incorporation or by these By-Laws, shall be decided by a majority of the votes cast at such meeting by the holders of shares present in person or represented by proxy and entitled to vote thereon, whether or not a quorum is present when the vote is taken. All elections of directors shall be by written ballot unless otherwise provided in the Amended and Restated Articles of Incorporation. In voting on any other question on which a vote by ballot is required by law or is demanded by any shareholder entitled to vote, the voting shall be by ballot. Each ballot shall be signed by the shareholder voting or by his proxy, and shall state the number of shares voted. On all other questions, the voting may be viva voce. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him by proxy. The validity and enforceability of any proxy shall be determined in accordance with applicable law.

SECTION 9. Inspectors. The Board of Directors may, in advance of any meeting of shareholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute

the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be shareholders.

SECTION 10. Written Action. Unless otherwise provided in the Amended and Restated Articles of Incorporation, any action required by the Florida Business Corporation Act to be taken at any annual or special meeting of shareholders of the Corporation, or any action which may be taken at any annual or special meeting of such shareholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those shareholders who have not consented in writing.

ARTICLE III.

Board of Directors

SECTION 1. General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

SECTION 2. Number, Qualifications, Election and Term of Office. The Board shall consist of not less than three nor more than nine members, as determined by the Board by resolution from time to time. Members of the Board need not be residents of the State of Florida and need not be shareholders of the Corporation. Directors shall be elected at the annual meeting of the shareholders and the term of office of each director shall be until the next annual meeting of shareholders and the election and qualification of a successor.

SECTION 3. Place of Meetings. Meetings of the Board of Directors shall be held at such place or places, within or without the State of Florida, as the Board of Directors may from time to time determine or as shall be specified in the notice of any such meeting.

SECTION 4. Annual Meeting. The Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable after each annual meeting of shareholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. In the event such annual meeting is not so held, the annual meeting of the Board of Directors may be held at such other time or place (within or without the State of Florida) as shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article III.

SECTION 5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may fix. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by statute or these By-Laws.

SECTION 6. Special Meetings. Special meetings of the Board of Directors may be called by the President or at the request of a majority of the directors.

SECTION 7. Notice of Meetings. Notice of each special meeting of the Board of Directors (and of each regular meeting for which notice shall be required) shall be given by the Secretary as hereinafter provided in this Section 7, in which notice shall be stated the time and place of the meeting. Except as otherwise required by these By-Laws, such notice need not state the purposes of such meeting. Notice of each such meeting shall be mailed, postage prepaid, to each director, addressed to him at his residence or usual place of business, by first class mail, at least two days before the day on which such meeting is to be held, or shall be sent addressed to him at such place by telegraph, cable, telex, telecopier or other similar means, or be delivered to him personally or be given to him by telephone or other similar means, at least twenty-four hours before the time at which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting, except when he shall attend for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 8. Quorum and Manner of Acting. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business at any meeting of

the Board of Directors, and, except as otherwise expressly required by statute or the Amended and Restated Articles of Incorporation or these By-Laws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum at any meeting of the Board of Directors, a majority of the directors present thereat may adjourn such meeting to another time and place. Notice of the time and place of any such adjourned meeting shall be given to all of the directors unless such time and place were announced at the meeting at which the adjournment was taken, in which case such notice shall only be given to the directors who were not present thereat. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. The directors shall act only as a Board and the individual directors shall have no power as such.

SECTION 9. Organization. At each meeting of the Board of Directors, the President or, in his absence, another director chosen by a majority of the directors present shall act as chairman of the meeting and preside thereat. The Secretary or, in his absence, any person appointed by the chairman shall act as secretary of the meeting and keep the minutes thereof.

SECTION 10. Resignations. Any director of the Corporation may resign at any time by giving written notice of his resignation to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. Vacancies. Any vacancy in the Board of Directors, whether arising from death, resignation, removal (with or without cause), an increase in the number of directors or any other cause, may be filled by the vote of a majority of the directors then in office, though less than a quorum, or by the sole remaining director or by the shareholders at the next annual meeting thereof or at a special meeting thereof. Each director so elected shall hold office until his successor shall have been elected and qualified.

SECTION 12. Removal of Directors. Any director may be removed, either with or without cause, at any time, by the holders of at least 66 2/3% of the voting power of the issued and outstanding capital stock of the Corporation entitled to vote at an election of directors.

SECTION 13. Compensation. The Board of Directors shall have authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity.

SECTION 14. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in

the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Amended and Restated Articles of Incorporation, adopting an agreement of merger or consolidation, recommending to the shareholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the shareholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws of the Corporation; and, unless the resolution designating it expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

SECTION 15. Action by Consent. Unless restricted by the Amended and Restated Articles of Incorporation, any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of the Board of Directors or such committee, as the case may be.

SECTION 16. Telephonic Meeting. Unless restricted by the Amended and Restated Articles of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV.

Officers

SECTION 1. Number and Qualifications. The officers of the Corporation shall be elected by the Board of Directors and shall consist of a President, a Secretary and such Vice Presidents and other officers and assistant officers as the Board of Directors of the Corporation may from time to time appoint, or authorize the President to appoint.

SECTION 2. Tenure. Officers and assistant officers of the Corporation may, but need not, also be members of the Board. Each officer shall hold his office until his successor is elected and qualified or until his earlier death, resignation or removal in the manner specified in this Section 2 of Article IV of these By-Laws. Any officer elected or appointed by the Board may be removed by the Board with or without cause. In addition, however, any officer or assistant officer appointed by the President and, if the President is so authorized by the Board, any officer or assistant officer appointed by the Board of the Corporation, may be removed from office by the President upon such terms as the President may specify in writing to such officer. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. Should any vacancy occur among the officers by reason of any of the specified acts or events, the position shall be filled by appointment made by the Board or by the President, if he is so authorized by the Board. Any individual may be elected to, and may hold, more than one office of the Corporation.

SECTION 3. Duties. The powers and duties of the several officers shall be as provided from time to time by resolution or other directive of the Board. In the absence of such provisions, the respective officers shall have the powers and shall discharge the

duties customarily and usually held and performed by like officers of corporations similar in organization and business purposes to the Corporation.

SECTION 4. Compensation. Officers may be paid such reasonable compensation as the Board may from time to time authorize and direct.

ARTICLE V.

Stock Certificates and Their Transfer

SECTION 1. Stock Certificates. Certificates representing shares of the Corporation shall be in such form (consistent with applicable law) as shall be determined by the Board. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor on such terms and indemnity to the Corporation as the Board may prescribe.

SECTION 2. Transfers of Stock. Transfer of shares of the Corporation shall be made in the manner specified in the Uniform Commercial Code. The Corporation shall maintain stock transfer books, and any transfer shall be registered thereon only on request and surrender of the stock certificates representing the transferred shares, duly endorsed. The Corporation shall have the absolute right to recognize as the owner of any shares of stock issued by it, the person or persons in whose the name the certificate representing such shares stands according to the books of the Corporation for all proper

corporate purposes, including the voting of the shares represented by the certificate at a regular or special meeting of shareholders, and the issuance and payment of dividends on such shares.

SECTION 3. Transfer Agents and Registrars. The Board of Directors may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

SECTION 4. Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

SECTION 5. Fixing the Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares

of stock to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments a person registered on its records as the owner of shares of stock, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Florida.

ARTICLE VI.

Indemnification

SECTION 1. Indemnification. (1) Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact: (i) that he or she is or was a director or officer of the Corporation, or (ii) that he or she, being at the time a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, trustee, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (collectively, "another enterprise"), whether either in case (i) or case (ii) the basis of such proceeding is alleged action or inaction (a) in an official capacity as a director or officer of the Corporation, or as a director, trustee, officer, employee or agent of such other enterprise, or (b) in any other capacity related to the Corporation or such other enterprise while so serving as a director, trustee, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Florida Business Corporation Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the

Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including without limitation attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith. The persons indemnified by this paragraph (1) of this Article VI are hereinafter referred to as "indemnitees." Such indemnification as to such alleged action or inaction shall continue as to an indemnitee who has after such alleged action or inaction ceased to be a director or officer of the Corporation, or director, officer, employee or agent of such other enterprise; and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in paragraph (2) of this Article VI with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or portion thereof) initiated by such indemnitee only if such proceeding (or portion thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Article VI (a) shall be a contract right; (b) shall not be affected adversely to any indemnitee by any amendment of these By-Laws with respect to any action or inaction occurring prior to such amendment; and (c) shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if and to the extent the Florida Business Corporation Act requires, an advancement of expenses incurred by an indemnitee shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial

decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Article VI or otherwise.

(2) If a claim under paragraph (1) of this Article VI is not paid in full by the Corporation within sixty days after it has been received in writing by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses only upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the Florida Business Corporation Act. Neither the failure of the Corporation (including the Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Florida Business Corporation Act, nor an actual determination by the Corporation (including the Board of Directors, independent legal

counsel, or its shareholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to have or retain such advancement of expenses, under this Article VI or otherwise, shall be on the Corporation.

(3) The rights to indemnification and to the advancement of expenses conferred in this Article VI shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, the Amended and Restated Articles of Incorporation, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

(4) The Corporation ~~may~~ ^{will} maintain insurance, at its expense, to protect itself and any director, trustee, officer, employee or agent of the Corporation or another enterprise (as defined in paragraph (1) of this Article VI) against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Florida Business Corporation Act.

(5) The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses, to any employee or agent of the Corporation (or any person serving at the Corporation's request as a director, trustee, officer, employee, or agent of another enterprise) or to persons who are or were a director, officer, employee or agent of a

constituent corporation absorbed by the Corporation in a consolidation or merger or who is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another enterprise, in each case as determined by the Board to the fullest extent of the provisions of this Article VI in cases of the indemnification and advancement of expenses of directors and officers of the Corporation, or to any lesser extent (or greater extent, if permitted by law) determined by the Board of Directors.

ARTICLE VII.

General Provisions

SECTION 1. Dividends. Subject to the provisions of statute and the Amended and Restated Articles of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting. Dividends may be paid in cash, in property or in shares of stock of the Corporation, unless otherwise provided by statute or the Amended and Restated Articles of Incorporation.

SECTION 2. Reserves. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors may, from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which it was created.

SECTION 3. Seal. The seal of the Corporation shall be in such form as shall be approved by the Board of Directors.

SECTION 4. Fiscal Year. The fiscal year of the Corporation shall be fixed, and once fixed, may thereafter be changed, by resolution of the Board of Directors.

SECTION 5. Checks, Notes, Drafts, Etc. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

SECTION 6. Execution of Contracts, Deeds, Etc. The Board may authorize any officer, employee or agent to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. Such authority may be general or confined to specific instances, or otherwise limited, and if the Board so provides may be delegated by the person so authorized.

SECTION 7. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board. Such authority may be general or confined to specific instances and if the Board so provides may be delegated by the person so authorized.

SECTION 8. Voting of Stock in Other Corporations. Unless otherwise provided by resolution of the Board of Directors, the President, from time to time, may (or may appoint one or more attorneys or agents to) cast the votes which the Corporation may be entitled to cast as a shareholder or otherwise in any other corporation, any of whose shares or securities may be held by the Corporation, at meetings of the holders of the shares or other securities of such other corporation. In the event one or more

attorneys or agents are appointed, the President may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent. The President may, or may instruct the attorneys or agents appointed to, execute or cause to be executed in the name and on behalf of the Corporation and under its seal or otherwise, such written proxies, consents, waivers or other instruments as may be necessary or proper in the circumstances.

ARTICLE VIII.

Amendments

These By-Laws may be amended or repealed or new By-Laws adopted (a) by the affirmative vote of the holders of shares having not less than a majority of the voting power of the outstanding shares of the Corporation entitled to vote thereon at any annual or special meeting of shareholders or (b) by the affirmative vote of at least a majority of the members of the Board of Directors at a regular or special meeting thereof as provided by Article III of these By-Laws. Any by-law made by the Board of Directors may be amended or repealed by action of the shareholders at any annual or special meeting of shareholders.

ATTACHMENT D

TARIFF

ePHONE TELECOM, INC.

**REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES
APPLYING TO COMMUNICATIONS SERVICES WITHIN
THE STATE OF SOUTH DAKOTA**

Applicable in the State of South Dakota

Issued in compliance with the South Dakota Public Utilities Commission

Issued: July 9, 2002

Effective: August 9, 2002

Issued By: Manager Rates and Tariffs
 1145 Herndon Parkway
 Herndon, VA 20170

CHECK SHEET

Sheets 1 through 35 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original sheets as named below comprise the original tariff and will be in effect as of the date on the bottom of this sheet.

<u>Page:</u>	<u>Number of Revision:</u>	<u>Page:</u>	<u>Number of Revision:</u>
1	Original	33	Original
2	Original	34	Original
3	Original	35	Original
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
9	Original		
10	Original		
11	Original		
12	Original		
13	Original		
14	Original		
15	Original		
16	Original		
17	Original		
18	Original		
19	Original		
20	Original		
21	Original		
22	Original		
23	Original		
24	Original		
25	Original		
26	Original		
27	Original		
28	Original		
29	Original		
30	Original		
31	Original		
32	Original		

Issued: July 9, 2002

Effective: August 9, 2002

Issued By: Manager Rates and Tariffs
 1145 Herndon Parkway
 Herndon, VA 20170

TABLE OF CONTENTS

INDEX	<u>PAGE</u>
SECTION 1 — APPLICATION OF TARIFF.....	5
SECTION 2 — EXPLANATION OF TERMS.....	7
SECTION 3 — GENERAL RULES AND REGULATIONS.....	9
SECTION 4 — INTERLATA TOLL SERVICES.....	20
SECTION 5 — RATES.....	30

EXPLANATION OF NOTES

- (C) Indicates Changed Regulation
- (D) Indicates Discontinued Rate or Regulation
- (I) Indicates Rate Increase
- (M) Indicates Move in Location of Text
- (N) Indicates New Rate or Regulation
- (R) Indicates Rate Reduction
- (T) Indicates Change of Text Only

Section 1 – APPLICATION OF TARIFF

CONTENTS

	<u>Page</u>
1.1 Application of Tariff.....	6
1.1.1 Service Territory.....	6
1.1.2 Availability.....	6

Section 1 – APPLICATION OF TARIFF (cont'd)

1.1 Application of Tariff

This Tariff sets forth the regulations and rates applicable to services provided by ePHONE Telecom, Inc. (“ePHONE”), as follows:

The furnishing of intrastate interexchange communications services by virtue of one-way and/or two-way information transmission between points within the State of South Dakota.

1.1.1 Service Territory

ePHONE will provide service throughout the entire State of South Dakota.

1.1.2 Availability

Service is available where facilities permit.

Section 2 – EXPLANATION OF TERMS

Certain terms used generally throughout this Tariff are defined below. The terms defined in this Tariff include the plural as well as the singular. Unless otherwise expressly stated, the words “herein,” “hereof,” “hereunder” and other similar words refer to this Pricing Guide as a whole and not to any particular subsection. The words “include” and “including” shall not be construed as terms of limitation.

Charges: The rates and charges, including but not limited to Usage Charges, Monthly Charges, and Termination Charges, assessed the Customer in accordance with this Tariff.

Company: ePHONE Telecom, Inc.

Commission: South Dakota Public Utilities Commission.

Customer: A person, firm, corporation or any other entity that orders Service and is responsible for the payment of Charges and compliance with the Company’s regulations. A person, firm, corporation or any other entity that reasonably appears to be acting with the Customer’s authority shall be deemed to be acting on behalf of the Customer

Flat Rate Service: The type of exchange service provided at a monthly rate with an unlimited number of calls within a specified primary calling area.

Intellectual Property: Patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, inventions, copyrights and copyright rights, processes, formulae, logos, trade secrets, industrial models, customer lists, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

Monthly Charge: A flat charge assessed the Customer each month for the use of the Company’s Service.

Section 2 – EXPLANATION OF TERMS (cont'd)

Operational Service Date: The date when any Service, or any part of it, is first made available to the Customer by the Company or the date when the Customer first starts to use such Service (or any part of it), whichever date is the earlier.

Other Facilities Supplier: An entity other than the Company that provides facilities or services in connection with the Service furnished by the Company under this Pricing Guide and not as a part of a joint undertaking with the Company to furnish Service under this Pricing Guide.

PIN: Personal Identification Number. The PIN is a unique code assigned to a Customer of Company prepaid calling card services. The PIN is used to access the Company network for the purpose of placing calls through a Company prepaid calling card.

Resale of Service: The subscription to communications service and facilities by one entity and the reoffering of communications service to others (with or without 'adding value') for profit.

Service Order: The submission of a Company order form containing billing, technical and other descriptive information designed to enable the Company to furnish Service to the Customer.

State: The State of South Dakota

Telephone Call: A voice connection between two or more telephone stations through the public switched exchange system.

Usage Charge: A charge assessed the Customer for the use of the Company's Service. Usage Charges are assessed per second or minute of use or multiple thereof, as specified in Section 5 of this Tariff.

Section 3 – GENERAL RULES AND REGULATIONS

CONTENTS

	<u>Page</u>
3.1 Undertaking of the Company.....	10
3.1.1 Scope	10
3.1.2 Availability of Service.....	10
3.1.3 Liability of the Company.....	10
3.2 Obligations of the Customer.....	13
3.2.1 Use of Service.....	13
3.2.2 Use and Ownership of Equipment.....	13
3.2.3 Minimum Period of Service.....	13
3.2.4 Payment for Services	14
3.3 Suspension or Termination of Service	17
3.3.1 Suspension by the Company.....	17
3.3.2 Termination by the Company	17
3.3.3 Termination by the Customer	18
3.4 Performance Credits for Service Interruptions	19

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY

3.1.1 Scope

The Company undertakes to provide Service between the points described herein, in accordance with the terms and conditions set forth in this Tariff. The Company shall maintain sole and absolute discretion over the routing of Service furnished hereunder.

3.1.2 Availability of Service

Service is available twenty-four (24) hours per day, seven (7) days per week, subject to the availability of facilities and subject to transmission, atmospheric, topographical and like conditions. The Company may limit or interrupt the use of Service because of (i) the lack of transmission medium capacity, (ii) the need to perform maintenance, modifications, upgrades, relocations, testing or other similar activities necessary for the provision of Service, or (iii) any cause beyond its control. The Company reserves the right, when necessary, to arrange for Service to be furnished through the facilities of Other Facilities Suppliers or other entities or through the use of agents or subcontractors.

3.1.3 Liability of the Company

3.1.3.1 Except as stated in this Section 3.1.3, the Company shall not be liable for damages of any kind, including without limitation consequential, special or indirect damages, arising out of or related to events, acts, rights or privileges contemplated in this Tariff. This Tariff does not limit the liability of the Company for willful misconduct, if established as a result of judicial or administrative proceedings.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.2 THE COMPANY MAKES NO WARRANTY, EITHER EXPRESSED OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, CONCERNING THE COMPANY'S SERVICES, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. THE COMPANY DOES NOT AUTHORIZE ANYONE, WHETHER A COMPANY EMPLOYEE, AGENT, SUB-CONTRACTOR, OR OTHERWISE, TO MAKE A WARRANTY OF ANY KIND ON ITS BEHALF AND THE CUSTOMER SHOULD NOT RELY ON ANY SUCH STATEMENT. NEITHER THE COMPANY NOR ANY OF ITS SUBCONTRACTORS OR SUPPLIERS WILL BE LIABLE TO THE CUSTOMER FOR LOST REVENUES, LOST PROFITS, LOST DATA, OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGE OR FOR LOSS, DAMAGE OR EXPENSE DIRECTLY OR INDIRECTLY ARISING FROM THE CUSTOMER'S OR ANY OTHER PARTY'S USE OF OR INABILITY TO USE SERVICES EITHER SEPARATELY OR IN COMBINATION WITH OTHER EQUIPMENT OR FOR LOSS OF ANY KIND, WHETHER OR NOT THE COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE OR LOSS, NOR SHALL ANY RECOVERY AGAINST THE COMPANY, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE, STRICT LIABILITY OR OTHERWISE) BE GREATER IN AMOUNT THAN THE CHARGES PAID BY THE CUSTOMER TO THE COMPANY UNDER THIS TARIFF. THE CUSTOMER ASSUMES ALL RISKS AND LIABILITY FOR LOSS, DAMAGE OR INJURY TO PERSONS OR PROPERTY OF THE CUSTOMER OR OTHERS ARISING OUT OF USE OR POSSESSION OF THE SERVICES PROVIDED UNDER THIS TARIFF.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

- 3.1.3.3 The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to any acts of God, fire, lightning, explosion, flood, extreme weather conditions or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; any national emergencies, insurrections, riots or wars; or any labor difficulties.
- 3.1.3.4 The Company shall not be liable for any act or omission of Other Facilities Suppliers or for any damages, including Usage Charges, the Customer may incur as a result of the unauthorized use or misuse of the Service. Unauthorized use or misuse includes, but is not limited to, the unauthorized use or misuse of Service by the Customer, the Customer's employees, third parties, or the public. The Company does not warrant or guarantee that it can prevent unauthorized use or misuse, and the Customer is responsible for controlling access to, and use of, the Service.
- 3.1.3.5 The Company shall also not be liable for: (a) the interception or breach in privacy or security of any Service or communications provided under this Tariff; (b) libel, slander, or infringement of copyright arising from or in connection with the transmission of communications by means of the Service provided by the Company; or (c) infringement of patents or trade secrets arising from the combination, connection, or use of the Service with Customer-provided equipment, facilities or services.
- 3.1.3.5 Each provision of this Tariff limiting or excluding liability operates separately and survives independently of the others.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER

3.2.1 Use Of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The customer may advise its customers that a portion of its service is provided by the Company, but the customer shall not represent that the Company jointly participates with the customer in the provision of the service.

3.2.2 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

3.2.3 Minimum Period of Service

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tariffed rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services

- 3.2.4.1 The Customer is responsible for payment of all Charges for Service furnished by the Company to the Customer. Charges for each Service shall commence on its Operational Service Date. All Charges for services shall be paid within 30 days of the date of the Company invoice (the “Due Date”). Usage Charges shall be assessed in arrears. Monthly Charges will be assessed in advance. The Company shall send invoices to the Customer at the address specified in the Service Order. The Customer shall provide the Company 30 days’ advance notice in writing of any change in the invoice address. The Company will implement the change as soon as reasonably practicable. The Customer’s responsibility for timely payment of all Charges is not changed due to the Customer’s failure to receive an invoice.
- 3.2.4.2 The Customer shall not be excused from paying the Company for Service provided to the Customer or any portion thereof on the basis that unauthorized use or misuse occurred over the Service. The Customer shall indemnify and hold harmless the Company against all costs, expenses, claims or actions arising from unauthorized use or misuse of any nature of the Service. If the Company initiates legal proceedings to collect any amount due hereunder and the Company substantially prevails in such proceedings, then the defendant Customer shall pay the reasonable counsel fees and costs of the Company in prosecuting such proceedings and appeals.
- 3.2.4.3 State and local sales, use, excise and other taxes and surcharges, where applicable, shall be added to the Charges contained herein, unless the Customer provides a properly executed certificate of exemption from such taxes and surcharges. It shall be the responsibility of the Customer to pay these taxes and to accept the liability of any such unpaid taxes that may become applicable. The amounts resulting from taxes, fees, or exactions imposed against the Company, its property, or its operations, excepting only taxes imposed generally on corporations, shall be billed to its customers pro rata by the company when applicable.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

- 3.2.4.4 The Customer may be required to provide suitable security, including but not limited to a deposit or other such advance payment, to be held by the Company as a guaranty of the payment of Charges. Such security may be applied at any time, at the option of the Company, in payment of any unpaid Charges for Service furnished to the Customer or in payment of applicable Termination Charges. Such a deposit will not exceed an amount equal to an aggregate of three (3) months' recurring and nonrecurring charges for all Services.
- 3.2.4.5 The Company, upon the termination of Service, will refund within sixty (60) days the Customer's deposit, or the balance in excess of unpaid Charges, if any, for Service. In addition, the fact that a deposit has been made neither relieves the Customer from complying with the Company's regulations or from the prompt payment of bills nor constitutes a waiver or modification of the regulations of the Company providing for the termination of Service for nonpayment of any sums due the Company for Service rendered.
- 3.2.4.6 When the Customer disputes a bill for the Company's Service, the Customer shall: (i) pay any undisputed portion of the bill or, at the Customer's election, pay the disputed portion pending resolution of the dispute; (ii) advise the Company in writing that the bill or any portions thereof are disputed by the Customer; and (iii) provide a written explanation of the basis for the dispute within 30 days of the invoice date in question. The Company will review the Customer's bill and notify the Customer within a reasonable time of the outcome of its review. If the Company agrees with the Customer, it shall credit the Customer's account for any disputed amounts paid by the Customer. If the Company disagrees with the Customer, any disputed amount unpaid by the Customer shall become payable upon notice to the Customer.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.7 The Customer shall be responsible for the payment of a Returned Check Charge of \$10.00 when the bank returns a check that has been presented to the Company by a customer in payment for charges.

3.2.4.8 Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill. Late payment charges do not apply to: (a) those portions (and only those portions) of unpaid balances that are associated with disputed amounts; and (b) final accounts.

3.2.4.9 The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge. Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE

3.3.1 Suspension by the Company

The Company may, without incurring any liability, suspend Service to the Customer if such action is necessary to protect Company employees, agents, sub-contractors, facilities, equipment or Service; provided, however, that the Company shall make reasonable efforts to give the Customer prompt advance notice of any such suspension where possible. Upon non-payment of any sum owing to the Company for more than 30 days beyond the date of invoice for Service or upon violation of any of the terms or conditions governing the furnishing of Service under this Tariff, the Company may, by 24 hours advance notice to the Customer in the case of post-paid services or without notice to prepaid Customers, suspend the furnishing of Service under this Tariff without incurring any liability. Suspension for cause does not relieve the Customer of any obligation to pay Charges that have accrued. Should the Company restore Service after suspension, the Customer shall be responsible for the payment of any Charges, including reconnection charges or other costs, associated with the suspension and restoration of Service.

3.3.2 Termination by the Company

The Company may terminate Service to the Customer for cause, without incurring any liability: (a) after suspension of Service for nonpayment, if such non-payment is not corrected within two (2) days following the suspension of Service; (b) when the Company has reason to believe that the Customer is not in compliance with any provision of this Tariff; (c) when the Company has reason to believe that the Customer provided false or misleading information to the Company in connection with a Service Order; (d) when the Company has reason to believe that the Customer has used or has attempted to use the Service for an illegal, immoral or unlawful purpose; or (e) following the initiation by or against the Customer of a proceeding in bankruptcy, reorganization, insolvency, receivership or assignment for the benefit of creditors. Termination for cause does not relieve the Customer of any obligation to pay Charges that have accrued for Service provided under this Tariff.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE (cont'd)

3.3.3 Termination by the Customer

The Customer may terminate service according to the conditions of that service as stated under Section 4, Service Offerings.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.4 PERFORMANCE CREDITS FOR SERVICE INTERRUPTIONS

No Performance Credits are available for service interruptions. In the event of an interruption of service, no credit shall be given to Customer calls made through an unrelated service provider.

Section 4 – INTERLATA TOLL SERVICES

CONTENTS

	<u>Page</u>
4.1 General.....	21
4.1.1 Description	21
4.1.2 Timing of Calls.....	21
4.1.3 Promotional Trial Services	21
4.2 Prepaid Services.....	22
4.2.1 Flat Rate Service.....	22
4.2.1.1 Unlimited Long Distance Calling Plan	22
4.2.2 Metered Service	24
4.2.2.1 Prepaid Calling Cards.....	24
4.2.2.2 E-TRANS-PORT™	25

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.1 GENERAL

4.1.1 Description

InterLATA toll service is furnished for communication between telephones located in different LATAs within the State in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this Tariff.

IntraLATA toll calling includes the following types of calls: direct dialed, calling card, collect, 3rd number billed, special toll billing, requests to notify of time and charges, person to person calling and other station to station calls.

4.1.2 Timing Of Calls

Unless otherwise indicated, all calls are timed in one- minute increments and all calls that are fractions of a minute are rounded up to the next whole minute. Call timing ends when the calling station "hangs up," thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

4.1.3 Promotional Trial Services

The Company may establish temporary promotional programs wherein it may waive or reduce nonrecurring or recurring charges, to introduce a present or potential customer to a service not previously subscribed to by the customer. The Company shall notify the Commission of all Promotional Trial Services pursuant to the rules of the Commission. During a Promotional Trial, the service is provided to all eligible customers who ask to participate. Appropriate notification of the promotion will be made to all eligible customers by using direct mail, broadcast or print media, direct contact or other comparable means of notification. The Company retains the right to limit the size and scope of a Promotional Trial.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES

4.2.1 Flat Rate Service

4.2.1.1 Unlimited Long Distance Calling Plan

4.2.1.1.1 General Description

The Unlimited Long Distance Calling Plan is a residential prepaid service that allows a Customer to place unlimited US intrastate and interstate domestic interstate calls during a 30-day period for a fixed Monthly Charge.

The Customer may place calls from a fixed residential phone, payphone or cellular phone (additional charges from the Customer's cellular service provider may apply) using an 800 number supplied by the Company.

4.2.1.1.2 Service Ordering

A Customer may order the Unlimited Long Distance Calling Plan through telemarketing channels or directly by calling Customer Service at 1-866-873-7500. Once a valid Service Order has been placed, the Company will provide the Customer with an 800-access number and a PIN.

4.2.1.1.3 Service Restrictions

The Unlimited Long Distance Calling Plan is available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Simultaneous calls using a single PIN are prohibited.

4.2.1.1.4 Service Period

After placing a valid Service Order, the Customer is entitled to utilize the Unlimited Long Distance Calling Plan for a 10-day period, during which no charges shall apply. Following the 10-day trial period, the Company shall charge the Customer the Monthly Charges set forth in Section 5 of this Tariff for each 30-day period (Service Period). The Service Period may begin at any point in a given month. The service period continues until terminated in accordance with the terms set forth in this Tariff.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Flat Rate Service (cont'd)

4.2.1.1 Unlimited Long Distance Calling Plan (cont'd)

4.2.1.1.5 Payment

Payment is made through automatic debit from the bank account specified by the Customer or through automatic charges to an approved credit card. By placing a Service Order, Customer expressly agrees to permit the Company to debit the specified bank account or to charge designated credit card the at the beginning of each Service Period.

4.2.1.1.6 Termination by the Customer

The Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30-day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.1.1.7 Termination by the Company

In addition to its rights under Section 3.3.2 of this Tariff, the Company shall have the right to terminate service immediately in the event that Customer has insufficient funds available when the Company attempts to collect the Monthly Charge through the debit of the Customer bank account or credit card.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.1 Prepaid Calling Cards (cont'd)

4.2.2.1.4 Charging

The Company will debit from the remaining face value of a Customer's card the appropriate Usage Charge and surcharge for each call placed based upon the destination number and duration of the call. The Usage Charges and surcharges for the metered prepaid cards are set forth in Section 5 of this Tariff.

4.2.2.2 E-TRANS-PORT™

4.2.2.2.1 General Description

E-TRANS-PORT™ is an automated prepaid calling service for residential and business Customers that allows users in the continental United States to place calls to various US and international locations by means of a special device. The E-TRANS-PORT™ device automatically dials the Company's 800 access number and individual PIN associated with a Customer's prepaid calling plan account. E-TRANS-PORT™ service is available in accordance with the service options described in Section 4.2.2.2.2 below.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options

4.2.2.2.2.1 One Time Purchase

Under the E-TRANS-PORT™ One Time Purchase plan Customers receive with the purchase of the E-TRANS-PORT™ device an initial prepaid calling package with a face value of \$4.87. Calls placed with the E-TRANS-PORT™ device are charged against the face value of the initial prepaid package in accordance with the per minute rates set forth in Section 5 of this Tariff. This initial prepaid calling package expires 90 days after first use. Customers may purchase additional prepaid calling service by contacting the Company's customer service department at 1-866-466-2400 or through the Company's website at www.ephonetelecom.com or www.emin.tv. Additional prepaid calling service is available in increments of \$10 up to \$100 and thereafter in \$100 increments up to a maximum of \$2,000. Customers who purchase additional service of at least \$20 or more through the Company's website receive an additional \$1.95 worth of calling service.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.2 Recurring Service

Under the E-TRANS-PORT™ Recurring Service option Customers enroll in a monthly calling plan based upon prepaid packages with face value denominations in \$10 increments up to \$100 and thereafter in \$100 increments up to a maximum of \$2,000. Customers choose one of above prepaid calling packages upon purchase of the E-TRANS-PORT™ device and agree to pay the associated fixed Monthly Charge for each Service Period they are enrolled in the calling plan. Calls placed with the E-TRANS-PORT™ device are charged against the face value of the Customer's prepaid package in accordance with the per minute rates set forth in Section 5 of this Tariff. Any remaining balance in a Customer's prepaid calling account is applied to the next Service Period. Customers may purchase additional prepaid calling period for any given Service Period by contacting the Company's customer service department at 1-866-466-2400 or through the Company's website at www.ephonetelecom.com or www.emin.tv. Customers who purchase additional service of \$20 or more through the Company's website receive an additional \$1.95 worth of calling service. The total accumulated prepaid dollar value in a Customer's account does not expire until 90 days after the Customer terminates enrollment in the Recurring Service plan.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.3 Service Restrictions

E-TRANS-PORT™ service is available only to Customers located in the continental United States for calls placed from a residential or business location in the continental United States. Each residential or business line requires a separate E-TRANS-PORT™ device.

4.2.2.2.2.4 Service Ordering

A Customer may order E-TRANS-PORT™ service through direct retail channels or by calling Customer Service at 1-866-466-2400. Once a valid Service Order has been placed, the Company will provide the Customer with the E-TRANS-PORT™ device and will activate the prepaid account.

4.2.2.2.2.5 Trial Period

The Company will provide a full refund of the purchase price of an initial prepaid calling package under either the One Time Purchase or the Recurring Service Plan to a Customer who is dissatisfied with the E-TRANS-PORT™ service during the first 30 days of activation. To obtain a refund, the Customer must contact 1-866-466-2400 no later than 5 days prior to the expiration of this 30-day period. The Company will deactivate the Customer account upon issuance of the refund.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.6 Payment

Payment for E-TRANS-PORT™ prepaid calling packages is made through either direct debit of a Customer's bank account or through an approved Visa, MasterCard, American Express or Discover credit card. By placing a Service Order under the Recurring Service plan described in Section 4.2.2.2.2, Customer expressly agrees to permit the Company to debit its bank account or charge its credit card at the beginning of each Service Period.

4.2.2.2.2.7 Termination by the Customer

Under the Recurring Service plan, the Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30 day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.2.2.2.8 Termination by the Company

In addition to the rights set forth in Section 3.3.2. of this Tariff, the Company shall have the right to terminate service immediately without liability in the event the Customer attempts to utilize E-TRANS-PORT™ services when the designated credit card is invalid, blocked, or has been terminated. Customer is still liable to the Company for all charges incurred.

Section 5 – RATES

CONTENTS

	<u>Page</u>
5.1 Prepaid Services	31
5.1.1 Flat Rate Service.....	31
5.1.1.1 Unlimited Long Distance Calling Plan.....	31
5.1.2 Metered Service	32
5.1.2.1 Prepaid Calling Cards	32
5.1.2.2 E-TRANS-PORT™	35

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES

5.1.1 Flat Rate Service

5.1.1.1 Unlimited Long Distance Calling Plan

The Customer shall pay the Company \$49.95 per Service Period for the Unlimited Long Distance Plan, which includes intrastate and interstate calls. In addition, the Company shall charge the Customer a service fee of \$4.95 per Service Period to maintain the Customer's account.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service

5.1.2.1 Prepaid Calling Cards

5.1.2.1.1 Standard Rates

The Company shall charge the customer a rate of \$.10 per minute for calls placed to a destination number located within the State.

5.1.2.1.2 Standard Surcharges

- (a) The Company shall charge the customer a per call connect fee of \$.49.
- (b) The Company shall charge the customer a surcharge of \$.02 per minute for each call made using the Company supplied toll free access number.
- (c) The Company may impose a surcharge charge of \$0.50 per call for calls placed from a payphone in order to compensate the payphone provider for use of its service.

5.1.2.1.3 Promotional Calling Card Rates

- (a) Promotional Rate No. 1

For certain prepaid calling cards the Company will waive the standard connect fee.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.1 Prepaid Calling Cards (cont'd)

5.1.2.1.3 Promotional Calling Card Rates (cont'd)

(b) Promotional Rate No. 2

For certain prepaid calling cards the Company will charge a per minute rate of \$.059 per minute and will waive the standard surcharges set from Section 5.1.2.1.2 (a) and (c). Standard connect fees apply.

(c) Promotional Rate No. 3

For certain prepaid calling cards the Company will: (i) charge a per minute rate of \$.039 per minute, (ii) a discounted per call connect fee of \$.39; and (iii) waive the standard surcharges set forth in Section 5.1.2.1.2 (b) and (c).

(d) Promotional Rate No. 4

For certain prepaid calling cards the Company will charge a per minute rate of \$.029 per minute. Standard connect fees apply.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.1 Prepaid Calling Cards (cont'd)

5.1.2.1.3 Promotional Calling Card Rates (cont'd)

- (e) For certain prepaid calling cards, the Company will charge a rate of \$.049 per minute; apply a toll free surcharge of \$.01 per minute in lieu of the standard surcharge set forth in Section 5.1.2.1.2(b), and apply a connect fee of \$.039 in lieu of the standard surcharge set forth in Section 5.1.2.1.2(a).
- (f) For certain prepaid calling cards, the Company will charge a rate of \$.032 per minute and will waive the surcharge set forth in Section 5.1.2.1.2(b).
- (g) For certain prepaid calling cards, the Company will charge a rate of \$.038 per minute and will waive the standard surcharge set forth in Section 5.1.2.1.2(b).

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.2 E-TRANS-PORT™

- (a) Rates: The Company shall charge a rate of \$.065 per minute for calls placed using E-TRANS-PORT™
- (b) Charging Practices: Charges for interstate calls placed using E-TRANS-PORT™ shall be based upon one-minute increments.
- (c) Surcharges: The Company shall waive the standard surcharges set forth in Section 5.1.2.1.2 of this Tariff.

ATTACHMENT E

RESOLVED CUSTOMER COMPLAINTS

RESOLVED CUSTOMER COMPLAINTS

CUSTOMER	COMPLAINT SENT TO	ePHONE ACTION TAKEN
Amanda Diemer	Commonwealth of VA State Corporation Commission	Refund issued on 2/7/02. Account closed on 1/25/02. No outstanding issues.
Amy Majerus	Fairfax County Consumer Protection Division Fairfax, VA 22035	Refund issued on 2/22/02. Account closed on 2/8/02. No outstanding issues.
Angelina Mutabzija	Office of Attorney General State of Vermont	Refund issued on 3/13/02. Account closed 2/25/02. No outstanding issues.
Anita Kennermer	Alabama Public Service Commission Consumer Services Section Montgomery, AL 36101-0991	Refund issued. Account closed. No outstanding issues.
Arleatha Mays	Office of the Attorney General Missouri Consumer Protection Division	Refund issued on 2/28/2. Account closed 11/1/01. No outstanding issues.
Audra Martin	Attorney General State of Ohio	Refund issued on 2/7/02. Account closed 12/23/01. No outstanding issues.
Carolyn Chumley	Office of the Attorney General State of West Virginia	Refund issued. Account closed. No outstanding issues.
Carolyn Myers	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Account closed 5/21/02. No outstanding issues.
Christina Cox	Office of the Attorney General State of Indiana	Account closed 3/14/02. No outstanding issues.
Christina Ladd	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Refund issued on 6/5/02. Account closed on 5/30/02. No outstanding issues.
Christopher & Doraliz Miller	Federal Communications Commission Consumer Information Bureau 445 12th Street, SW Washington, D.C. 20554	Refund issued 10/16/01. Account closed. No outstanding issues.
Christopher James Speas	Office of Attorney General State of California	Account closed on 12/31/01. No outstanding issues.
Cindy Thomas	State of West Virginia Office of the Attorney General	Refund issued. Account closed 10/19/01. No outstanding issues.
Colleen Cole	State of New York Office of the Attorney General	Refund issued. Account closed on 10/19/2001. No outstanding issues.
Debra R. Pruitt	Office of Attorney General State of North Carolina	Refund issued on 3/19/02. Account closed on 2/25/02. No outstanding issues.
Diana L. Thompson	State of West Virginia Office of the Attorney General	Refund issued. Account closed. No outstanding issues.
Donna Wilson	Office of the Attorney General State of Illinois	Refund issued on 5/28/02. Account closed on 3/18/02. No outstanding issues.
Elizabeth Reeves	Office of Attorney General Consumer Protection Division Jefferson City, MO 65102	Refund issued 3/29/02. Account closed on 11/1/01. No outstanding issues.
Galena L. Harrow	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Refund issued. Account closed. No outstanding issues.

RESOLVED CUSTOMER COMPLAINTS

CUSTOMER	COMPLAINT SENT TO	ePHONE ACTION TAKEN
Georgia Sanderford	Mississippi Public Service Commission	Account closed 12/23/01. No outstanding issues.
Gregory Darbonne	Customer Protection Division Public Utility Commission of Texas	Account closed on 1/11/02. No outstanding issues.
Jacqueline Asher	Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, TN 37243-0505	Account closed on 2/19/02. No outstanding issues.
Jacqueline Crum	Office of the Attorney General State of Pennsylvania	Refund issued 5/7/02. Account closed 3/21/02. No outstanding issues.
Janet Collinson	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Refund issued on 2/7/02. Account closed on 1/17/02. No outstanding issues.
Janice Toombs	Office of Attorney General Civil Enforcement Division 1162 Court Street, NE Salem, OR 97310	Refund issued. Account closed on 1/11/02. No outstanding issues.
Jean Matus	Mayor's Office of Consumer Information 1600 East Columbus Avenue Springfield, MA 01103-1654	Refund issued 3/6/02. Account closed on 12/5/01. No outstanding issues.
Jeffrey Ihnat	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554 Office of the Attorney General State of Pennsylvania	Account closed 5/2/02. No outstanding issues.
Joanne L. Vurgun	Federal Communications Commission Consumer Information Network Div. 1270 Fairfield Road Gettysburg, PA 17325	Refund issued. Account closed. No outstanding issues.
Joey Carter	Attorney General Columbus, OH	Refund issued on 2/7/02. Account closed 12/31/02. No outstanding issues.
John S. Pagliarin	Federal Communications Commission 1270 Fairfield Road Gettysburg, PA 17325	Refund issued. Account closed on 10/10/2001.
Joyce Ford	Office of the Attorney General State of California	Account closed 2/28/02. No outstanding issues.
Julie Butler	State of California Office of Attorney General	Refund issued on 9/14/01. Account closed on 9/20/01. No outstanding issues.
Karen Shaeffer	Office of Attorney General	Account closed on 2/4/02. No outstanding issues.
Kathy Hylton	State of North Carolina Department Of Justice Consumer Protection Section	Refund issued. Account closed. No outstanding issues.
Keith Keuhne	State of Minnesota Office of the Attorney General 445 Minnesota Street, Suite 1400 St. Paul, MN 55101-2131	Refund issued on 10/1/01. Account closed. No outstanding issues.

RESOLVED CUSTOMER COMPLAINTS

CUSTOMER	COMPLAINT SENT TO	ePHONE ACTION TAKEN
Levona Lee	Wyoming Public Service Commission	Refund issued on 2/22/02. Account closed 1/31/02. No outstanding issues.
Lori Desotell	Office of the Attorney General State of Vermont	Account closed on 5/28/02. No outstanding issues.
Margaret Frazier	Attorney General of Missouri Jefferson City 65102	Refund issued. Account closed on 11/22/2001. No outstanding issues.
Margaret Howell	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Refund issued 5/1/02. Account closed 4/23/02. No outstanding issues.
Maria Llanos	Mayor's Office of Consumer Info. 1600 East Columbus Avenue Springfield, Massachusetts 01103	Account closed on 2/13/02. No outstanding issues.
Mark W. Pointer	State of Indiana Attorney General Division of Consumer Protection Indiana Government Ctr. South, 5 th Fl. 402 West Washington Street Indianapolis, IN 46204-2770	Refund issued. Account closed 12/18/01. No outstanding issues.
Mary Murphy	Office of the Attorney General State of Illinois	Refund issued on 5/21/02. Account closed on 3/27/02. No outstanding issues.
Maximillian Mack/Paula Yoder	Office of the Attorney General State of Indiana	Refund issued 5/14/02. Account closed 4/2/02. No outstanding issues.
Michael Anderson	Federal Communications Commission 445 12 th Street, SW Washington, D.C. 20554	Account closed on 2/14/02. No outstanding issues.
Michael Anderson	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Account closed on 2/14/02. No outstanding issues.
Michele L. Card	Fairfax County Consumer Protection Division Fairfax, VA 22035	Refund issued on 2/27/02. Account closed 1/26/02. No outstanding issues.
Misty Hamilton	Office of the Attorney General State of Ohio	Refund issued 6/5/02. Account closed 4/11/02. No outstanding issues.
Nancy R. Moore	Fairfax County Consumer Protection Division Dept. of Telecommunications and Consumer Protection 12000 Government Center Pkwy. - #433 Fairfax, VA 22035 <hr/> Commonwealth of Virginia Office of the Attorney General Richmond 23219 <hr/> State of Mississippi Office of the Attorney General 802 North State Street, Suite 302 Jackson, Mississippi 39225	Customer seeking refund for non-ePHONE related services. Account closed. No outstanding issues.
Norma H. Mcgrath	Fairfax County Consumer Protection Division Fairfax, VA 22035	Under investigation.

RESOLVED CUSTOMER COMPLAINTS

CUSTOMER	COMPLAINT SENT TO	ePHONE ACTION TAKEN
Patricia Draime	State of Alabama Public Service Commission P.O. Box 991 Montgomery, AL 36101-0991	Refund issued. Account closed. No outstanding issues
Philip Swanson	Consumer Protection Section Office of Attorney General State of Ohio	Refund issued. Account closed. No outstanding issues.
Prentice G. McLean, III	Office of the Attorney General State of Maryland 200 Saint Paul Place Baltimore, MD 21202	Refund issued on 3/2/02. Account closed on 1/5/02. No outstanding issues.
Rebecca Smith	Office of the Attorney General State of Washington	Refund issued 6/17/02. Account closed 3/11/02. No outstanding issues.
Rena Johnson	State of Arkansas Office of the Attorney General 323 Center Street, Suite 200 Little Rock, Arkansas 72201	Account closed on 11/20/01. No outstanding issues.
Richard & Susan Gilliland	Office of the Attorney General State of Ohio	Account closed on 5/28/02. No outstanding issues.
Richard Miller	District Attorney's Office County of Santa Cruz 701 Ocean Street, Rm. 200 Santa Cruz, CA 95060	Refund issued on 2/28/02. Account closed on 1/4/02. No outstanding issues.
Richard Pimentel	Fairfax County Consumer Protection Division Fairfax, VA 22035	Under investigation.
Richard Williams	Federal Communications Comm. Consumer Information Network Division 1270 Fairfield Road Gettysburg, PA 17325	Refund issued. Account closed on 1/17/02. No outstanding issues.
Rochelle Black	Office of Attorney General State of Ohio 30 East Broad Street Columbus, OH 43215	Refund issued 3/4/02. Account closed 2/28/02. No outstanding issues.
Sandra Fuller	Public Utility Commission of Texas 1701 N. Congress Avenue P.O. Box 13326 Austin, TX 78711	Refund issued on 1/31/02. Account closed. No outstanding issues.
Scott & Holly Toth	Office of the Attorney General State of Pennsylvania	Refund issued on 6/5/02. Account closed on 4/5/02. No outstanding issues.
Sherry Hienz	State of Indiana Office of Attorney General	Refund issued 9/6/01. Account closed 10/20/01. No outstanding issues.
Sparkle C. Strode	State of Indiana Office of Attorney General	Refund issued. Account closed 1/30/02. No outstanding issues.
Susyn Chandler	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Refund issued on 6/17/02. Account closed on 3/27/02. No outstanding issues.
Tami Crucioth	Fairfax County	Refund issued. Account closed on

RESOLVED CUSTOMER COMPLAINTS

CUSTOMER	COMPLAINT SENT TO	ePHONE ACTION TAKEN
	Consumer Protection Division Fairfax, VA 22035	1/9/02. No outstanding issues.
Tammie Tarell Johnson	Fairfax County Consumer Protection Division Fairfax, VA 22035	Refund issued on 3/18/02. Account closed on 2/25/02.
Terrie Render	Office of Attorney General State of Indiana	Refund issued 3/4/02. Account closed 2/21/02. No outstanding issues.
Tina C. Jackson	Office of Attorney General State of Ohio	Refund issued 3/8/02. Account closed 2/15/02. No outstanding issues.
Tommy Crumly	Alabama Public Service Commission 100 North Union Street, Suite 850 Montgomery, AL 36104	Refund issued on 10/16/01. Account closed. No outstanding issues.
Tracy L. Hertel	Office of the Attorney General State of Missouri P.O. Box 899 Jefferson City, MO 65102	Refund issued on 3/29/02. Account closed on 1/28/02. No outstanding issues.
Tracy L. Smith	MASSPIRG Consumer Action Center Whipple Center, 182 Green Street North Weymouth, MA 02191	Account closed on 1/22/02. No outstanding issues.
Tracy L. Smith	Consumer Action Center of Massachusetts	Account closed on 1/22/02. No outstanding issues.
Tracy Smith	Office of the Attorney General State of West Virginia	Refund issued on 5/7/02. Account closed on 5/3/02. No outstanding issues.
Wesley Knisley	Office of the Attorney General State of Pennsylvania	Refund issued 5/10/02. Account closed 4/15/02. No outstanding issues.
Willard McCann	Office of the Attorney General State of Texas	Refund issued _____. Account closed 5/14/02. No outstanding issues
Winstron Trueblood	Office of the Attorney General State of Texas	Refund issued 10/9/01. Account closed. No outstanding issues.
Yvonne Alexander	Federal Communications Commission Consumer Information Bureau 445 12 th Street, SW Washington, D.C. 20554	Account closed on 5/30/02. No outstanding issues.



1776 I Street, NW
Ninth Floor
Washington, DC 20006

Phone: 202.756.4833
Facsimile: 202.756.1513

RECEIVED

JUL 19 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

July 18, 2002

BY FEDERAL EXPRESS

South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

**Re: Application of ePHONE Telecom, Inc. for a Certificate of Authority
South Dakota PUC Docket TC02-041**

Dear Sir/Madame:

Enclosed please find an original and ten (10) copies of ePHONE Telecom, Inc.'s ("Applicant" or "Company") amended tariff per staff's letter dated May 10, 2002. Also enclosed please find Applicant's Form 10-KSB filed with the Securities Exchange Commission. Included in the 10-KSB is a balance sheet, income statement and a cash flow statement.

Please contact me should you have any questions or require additional information.

Respectfully submitted,

Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.
Telecom Legal Services International, Inc.
1776 I Street, N.W. - 9th floor
Washington, D.C. 20006
Phone: (202) 756-4833
Fax: (202) 756-1513
E-mail: cschneider@telecom-legal.com

Enclosures

RECEIVED

JUL 19 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

ePHONE TELECOM, INC.

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES
APPLYING TO COMMUNICATIONS SERVICES WITHIN
THE STATE OF SOUTH DAKOTA

Applicable in the State of South Dakota

Issued in compliance with the South Dakota Public Utilities Commission

CHECK SHEET

Sheets 1 through 35 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original sheets as named below comprise the original tariff and will be in effect as of the date on the bottom of this sheet.

<u>Page:</u>	<u>Number of Revision:</u>	<u>Page:</u>	<u>Number of Revision:</u>
1	Original	34	Original
2	Original	35	Original
3	Original		
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
9	Original		
10	Original		
11	Original		
12	Original		
13	Original		
14	Original		
15	Original		
16	Original		
17	Original		
18	Original		
19	Original		
20	Original		
21	Original		
22	Original		
23	Original		
24	Original		
25	Original		
26	Original		
27	Original		
28	Original		
29	Original		
30	Original		
31	Original		
32	Original		
33	Original		

Issued: July 9, 2002

Effective: August 9, 2002

Issued By: Manager Rates and Tariffs
1145 Herndon Parkway
Herndon, VA 20170

TABLE OF CONTENTS

INDEX	<u>PAGE</u>
SECTION 1 — APPLICATION OF TARIFF	5
SECTION 2 — EXPLANATION OF TERMS	7
SECTION 3 — GENERAL RULES AND REGULATIONS.....	9
SECTION 4 — INTERLATA TOLL SERVICES	20
SECTION 5 — RATES	30

EXPLANATION OF NOTES

- (C) Indicates Changed Regulation
- (D) Indicates Discontinued Rate or Regulation
- (I) Indicates Rate Increase
- (M) Indicates Move in Location of Text
- (N) Indicates New Rate or Regulation
- (R) Indicates Rate Reduction
- (T) Indicates Change of Text Only

Section 1 – APPLICATION OF TARIFF

CONTENTS

	<u>Page</u>
1.1 Application of Tariff	6
1.1.1 Service Territory	6
1.1.2 Availability.....	6

Section 1 – APPLICATION OF TARIFF (cont'd)

1.1 Application of Tariff

This Tariff sets forth the regulations and rates applicable to services provided by ePHONE Telecom, Inc. (“ePHONE”), as follows:

The furnishing of intrastate interexchange communications services by virtue of one-way and/or two-way information transmission between points within the State of South Dakota.

1.1.1 Service Territory

ePHONE will provide service throughout the entire State of South Dakota.

1.1.2 Availability

Service is available where facilities permit.

Section 2 – EXPLANATION OF TERMS

Certain terms used generally throughout this Tariff are defined below. The terms defined in this Tariff include the plural as well as the singular. Unless otherwise expressly stated, the words “herein,” “hereof,” “hereunder” and other similar words refer to this Pricing Guide as a whole and not to any particular subsection. The words “include” and “including” shall not be construed as terms of limitation.

Charges: The rates and charges, including but not limited to Usage Charges, Monthly Charges, and Termination Charges, assessed the Customer in accordance with this Tariff.

Company: ePHONE Telecom, Inc.

Commission: South Dakota Public Utilities Commission.

Customer: A person, firm, corporation or any other entity that orders Service and is responsible for the payment of Charges and compliance with the Company’s regulations. A person, firm, corporation or any other entity that reasonably appears to be acting with the Customer’s authority shall be deemed to be acting on behalf of the Customer

Flat Rate Service: The type of exchange service provided at a monthly rate with an unlimited number of calls within a specified primary calling area.

Intellectual Property: Patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, inventions, copyrights and copyright rights, processes, formulae, logos, trade secrets, industrial models, customer lists, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

Monthly Charge: A flat charge assessed the Customer each month for the use of the Company’s Service.

Section 2 – EXPLANATION OF TERMS (cont'd)

Operational Service Date: The date when any Service, or any part of it, is first made available to the Customer by the Company or the date when the Customer first starts to use such Service (or any part of it), whichever date is the earlier.

Other Facilities Supplier: An entity other than the Company that provides facilities or services in connection with the Service furnished by the Company under this Pricing Guide and not as a part of a joint undertaking with the Company to furnish Service under this Pricing Guide.

PIN: Personal Identification Number. The PIN is a unique code assigned to a Customer of Company prepaid calling card services. The PIN is used to access the Company network for the purpose of placing calls through a Company prepaid calling card.

Resale of Service: The subscription to communications service and facilities by one entity and the reoffering of communications service to others (with or without 'adding value') for profit.

Service Order: The submission of a Company order form containing billing, technical and other descriptive information designed to enable the Company to furnish Service to the Customer.

State: The State of South Dakota

Telephone Call: A voice connection between two or more telephone stations through the public switched exchange system.

Usage Charge: A charge assessed the Customer for the use of the Company's Service. Usage Charges are assessed per second or minute of use or multiple thereof, as specified in Section 5 of this Tariff.

Section 3 – GENERAL RULES AND REGULATIONS

CONTENTS

	<u>Page</u>
3.1 Undertaking of the Company	10
3.1.1 Scope.....	10
3.1.2 Availability of Service.....	10
3.1.3 Liability of the Company	10
3.2 Obligations of the Customer	13
3.2.1 Use of Service.....	13
3.2.2 Use and Ownership of Equipment	13
3.2.3 Minimum Period of Service	13
3.2.4 Payment for Services.....	14
3.3 Suspension or Termination of Service.....	17
3.3.1 Suspension by the Company	17
3.3.2 Termination by the Company.....	17
3.3.3 Termination by the Customer.....	18
3.4 Performance Credits for Service Interruptions.....	19

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY

3.1.1 Scope

The Company undertakes to provide Service between the points described herein, in accordance with the terms and conditions set forth in this Tariff. The Company shall maintain sole and absolute discretion over the routing of Service furnished hereunder.

3.1.2 Availability of Service

Service is available twenty-four (24) hours per day, seven (7) days per week, subject to the availability of facilities and subject to transmission, atmospheric, topographical and like conditions. The Company may limit or interrupt the use of Service because of (i) the lack of transmission medium capacity, (ii) the need to perform maintenance, modifications, upgrades, relocations, testing or other similar activities necessary for the provision of Service, or (iii) any cause beyond its control. The Company reserves the right, when necessary, to arrange for Service to be furnished through the facilities of Other Facilities Suppliers or other entities or through the use of agents or subcontractors.

3.1.3 Liability of the Company

3.1.3.1 Except as stated in this Section 3.1.3, the Company shall not be liable for damages of any kind, including without limitation consequential, special or indirect damages, arising out of or related to events, acts, rights or privileges contemplated in this Tariff. This Tariff does not limit the liability of the Company for willful misconduct, if established as a result of judicial or administrative proceedings.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.2 THE COMPANY MAKES NO WARRANTY, EITHER EXPRESSED OR IMPLIED, BY OPERATION OF LAW OR OTHERWISE, CONCERNING THE COMPANY'S SERVICES, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. THE COMPANY DOES NOT AUTHORIZE ANYONE, WHETHER A COMPANY EMPLOYEE, AGENT, SUB-CONTRACTOR, OR OTHERWISE, TO MAKE A WARRANTY OF ANY KIND ON ITS BEHALF AND THE CUSTOMER SHOULD NOT RELY ON ANY SUCH STATEMENT. NEITHER THE COMPANY NOR ANY OF ITS SUBCONTRACTORS OR SUPPLIERS WILL BE LIABLE TO THE CUSTOMER FOR LOST REVENUES, LOST PROFITS, LOST DATA, OR OTHER SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGE OR FOR LOSS, DAMAGE OR EXPENSE DIRECTLY OR INDIRECTLY ARISING FROM THE CUSTOMER'S OR ANY OTHER PARTY'S USE OF OR INABILITY TO USE SERVICES EITHER SEPARATELY OR IN COMBINATION WITH OTHER EQUIPMENT OR FOR LOSS OF ANY KIND, WHETHER OR NOT THE COMPANY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE OR LOSS, NOR SHALL ANY RECOVERY AGAINST THE COMPANY, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE, STRICT LIABILITY OR OTHERWISE) BE GREATER IN AMOUNT THAN THE CHARGES PAID BY THE CUSTOMER TO THE COMPANY UNDER THIS TARIFF. THE CUSTOMER ASSUMES ALL RISKS AND LIABILITY FOR LOSS, DAMAGE OR INJURY TO PERSONS OR PROPERTY OF THE CUSTOMER OR OTHERS ARISING OUT OF USE OR POSSESSION OF THE SERVICES PROVIDED UNDER THIS TARIFF.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.3 The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to any acts of God, fire, lightning, explosion, flood, extreme weather conditions or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; any national emergencies, insurrections, riots or wars; or any labor difficulties.

3.1.3.4 The Company shall not be liable for any act or omission of Other Facilities Suppliers or for any damages, including Usage Charges, the Customer may incur as a result of the unauthorized use or misuse of the Service. Unauthorized use or misuse includes, but is not limited to, the unauthorized use or misuse of Service by the Customer, the Customer's employees, third parties, or the public. The Company does not warrant or guarantee that it can prevent unauthorized use or misuse, and the Customer is responsible for controlling access to, and use of, the Service.

3.1.3.5 The Company shall also not be liable for: (a) the interception or breach in privacy or security of any Service or communications provided under this Tariff; (b) libel, slander, or infringement of copyright arising from or in connection with the transmission of communications by means of the Service provided by the Company; or (c) infringement of patents or trade secrets arising from the combination, connection, or use of the Service with Customer-provided equipment, facilities or services.

3.1.3.5 Each provision of this Tariff limiting or excluding liability operates separately and survives independently of the others.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER

3.2.1 Use Of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The customer may advise its customers that a portion of its service is provided by the Company, but the customer shall not represent that the Company jointly participates with the customer in the provision of the service.

3.2.2 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

3.2.3 Minimum Period of Service

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tariffed rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services

- 3.2.4.1 The Customer is responsible for payment of all Charges for Service furnished by the Company to the Customer. Charges for each Service shall commence on its Operational Service Date. All Charges for services shall be paid within 30 days of the date of the Company invoice (the “Due Date”). Usage Charges shall be assessed in arrears. Monthly Charges will be assessed in advance. The Company shall send invoices to the Customer at the address specified in the Service Order. The Customer shall provide the Company 30 days’ advance notice in writing of any change in the invoice address. The Company will implement the change as soon as reasonably practicable. The Customer’s responsibility for timely payment of all Charges is not changed due to the Customer’s failure to receive an invoice.
- 3.2.4.2 The Customer shall not be excused from paying the Company for Service provided to the Customer or any portion thereof on the basis that unauthorized use or misuse occurred over the Service. The Customer shall indemnify and hold harmless the Company against all costs, expenses, claims or actions arising from unauthorized use or misuse of any nature of the Service. If the Company initiates legal proceedings to collect any amount due hereunder and the Company substantially prevails in such proceedings, then the defendant Customer shall pay the reasonable counsel fees and costs of the Company in prosecuting such proceedings and appeals.
- 3.2.4.3 State and local sales, use, excise and other taxes and surcharges, where applicable, shall be added to the Charges contained herein, unless the Customer provides a properly executed certificate of exemption from such taxes and surcharges. It shall be the responsibility of the Customer to pay these taxes and to accept the liability of any such unpaid taxes that may become applicable. The amounts resulting from taxes, fees, or exactions imposed against the Company, its property, or its operations, excepting only taxes imposed generally on corporations, shall be billed to its customers pro rata by the company when applicable.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

- 3.2.4.4 The Customer may be required to provide suitable security, including but not limited to a deposit or other such advance payment, to be held by the Company as a guaranty of the payment of Charges. Such security may be applied at any time, at the option of the Company, in payment of any unpaid Charges for Service furnished to the Customer or in payment of applicable Termination Charges. Such a deposit will not exceed an amount equal to an aggregate of two (2) months' recurring and nonrecurring charges for all Services over the past 12 months. Deposits may be paid in installments over not more than three (3) months.
- 3.2.4.5 The Company, upon the termination of Service, will refund within sixty (60) days the Customer's deposit, including any interest accrued, or the balance in excess of unpaid Charges, if any, for Service. In addition, the fact that a deposit has been made neither relieves the Customer from complying with the Company's regulations or from the prompt payment of bills nor constitutes a waiver or modification of the regulations of the Company providing for the termination of Service for nonpayment of any sums due the Company for Service rendered. The Company shall pay interest at a rate of 7 percent annum on all Customer deposits held by the Company. No interest shall be accrued on Customer accounts for the period immediately following receipt of a request for discontinuance of service.
- 3.2.4.6 When the Customer disputes a bill for the Company's Service, the Customer shall: (i) pay any undisputed portion of the bill or, at the Customer's election, pay the disputed portion pending resolution of the dispute; (ii) advise the Company in writing that the bill or any portions thereof are disputed by the Customer; and (iii) provide a written explanation of the basis for the dispute within 30 days of the invoice date in question. The Company will review the Customer's bill and notify the Customer within a reasonable time of the outcome of its review. If the Company agrees with the Customer, it shall credit the Customer's account for any disputed amounts paid by the Customer. If the Company disagrees with the Customer, any disputed amount unpaid by the Customer shall become payable upon notice to the Customer.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.7 The Customer shall be responsible for the payment of a Returned Check Charge of \$10.00 when the bank returns a check that has been presented to the Company by a customer in payment for charges.

3.2.4.8 Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill. Late payment charges do not apply to: (a) those portions (and only those portions) of unpaid balances that are associated with disputed amounts; and (b) final accounts.

3.2.4.9 The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge. Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE

3.3.1 Suspension by the Company

- (a) The Company may, without incurring any liability, suspend Service to the Customer if such action is necessary to protect Company employees, agents, sub-contractors, facilities, equipment or Service; provided, however, that the Company shall make reasonable efforts to give the Customer prompt advance notice of any such suspension where possible. Upon non-payment of any sum owing to the Company for more than 30 days beyond the date of invoice for Service or upon violation of any of the terms or conditions governing the furnishing of Service under this Tariff, the Company may, by 24 hours advance notice to the Customer in the case of post-paid services or without notice to prepaid Customers, suspend the furnishing of Service under this Tariff without incurring any liability. Suspension for cause does not relieve the Customer of any obligation to pay Charges that have accrued. Should the Company restore Service after suspension, the Customer shall be responsible for the payment of any Charges, including reconnection charges or other costs, associated with the suspension and restoration of Service.
- (b) Notwithstanding the provision of Section 3.3.1(a) the Company shall not disconnect Service to Customer solely for failure of the Customer to pay: (i) for merchandise, pay-per-call charges, or special services, excluding telephone installations or moves or other acts performed in accordance with this Tariff, purchased from the Company; (ii) for a different class of telecommunications service received at a different location; or (ii) a bill for which the Customer is a guarantor.

3.3.2 Termination by the Company

The Company may terminate Service to the Customer for cause, without incurring any liability: (a) after suspension of Service for nonpayment, if such non-payment is not corrected within two (2) days following the suspension of Service; (b) when the Company has reason to believe that the Customer is not in compliance with any provision of this Tariff; (c) when the Company has reason to believe that the Customer provided false or misleading information to the Company in connection with a Service Order; (d) when the Company has reason to believe that the Customer has used or has attempted to use the Service for an illegal, immoral or unlawful purpose; or (e) following the initiation by or against the Customer of a proceeding in bankruptcy, reorganization, insolvency, receivership or assignment for the benefit of creditors. Termination for cause does not relieve the Customer of any obligation to pay Charges that have accrued for Service provided under this Tariff.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE (cont'd)

3.3.3 Termination by the Customer

The Customer may terminate service according to the conditions of that service as stated under Section 4, Service Offerings.

Section 3 – GENERAL RULES AND REGULATIONS (cont'd)

3.4 PERFORMANCE CREDITS FOR SERVICE INTERRUPTIONS

The services the Company intends to provide under the proposed tariff do not guarantee any particular level of service availability. As such, the Company does not offer credits for outages or other service interruptions. At this time, the Company intends to offer only prepaid services, which operate along side of any other long distance or local service provider to which the Customer subscribes. Thus, in the event of a network outage or other interruption of service, the Customer is still able to place calls through its underlying long distance service provider or through any number of alternative prepaid service providers. Because the service is prepaid, the Customer retains the dollar value of the prepaid service as it stood at the time of the interruption and the Customer does not lose the ability to place calls. Under those circumstances, there is nothing for the Company to credit. The other practical limitation to providing credits for service interruptions is the fact for certain services, like prepaid calling cards, the Company does not have sufficient information in its database to contact the Customer or offer any such credits.

Section 4 – INTERLATA TOLL SERVICES

CONTENTS

	<u>Page</u>
4.1 General	21
4.1.1 Description	21
4.1.2 Timing of Calls	21
4.1.3 Promotional Trial Services	21
4.2 Prepaid Services	22
4.2.1 Flat Rate Service	22
4.2.1.1 Unlimited Long Distance Calling Plan	22
4.2.2 Metered Service	24
4.2.2.1 Prepaid Calling Cards	24
4.2.2.2 E-TRANS-PORT™	25

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.1 GENERAL

4.1.1 Description

InterLATA toll service is furnished for communication between telephones located in different LATAs within the State in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this Tariff.

IntraLATA toll calling includes the following types of calls: direct dialed, calling card, collect, 3rd number billed, special toll billing, requests to notify of time and charges, person to person calling and other station to station calls.

4.1.2 Timing Of Calls

Unless otherwise indicated, all calls are timed in one- minute increments and all calls that are fractions of a minute are rounded up to the next whole minute. Call timing ends when the calling station "hangs up," thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

4.1.3 Promotional Trial Services

The Company may establish temporary promotional programs wherein it may waive or reduce nonrecurring or recurring charges, to introduce a present or potential customer to a service not previously subscribed to by the customer. The Company shall notify the Commission of all Promotional Trial Services pursuant to the rules of the Commission. During a Promotional Trial, the service is provided to all eligible customers who ask to participate. Appropriate notification of the promotion will be made to all eligible customers by using direct mail, broadcast or print media, direct contact or other comparable means of notification. The Company retains the right to limit the size and scope of a Promotional Trial.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES

4.2.1 Flat Rate Service

4.2.1.1 Unlimited Long Distance Calling Plan

4.2.1.1.1 General Description

The Unlimited Long Distance Calling Plan is a residential prepaid service that allows a Customer to place unlimited US intrastate and interstate domestic interstate calls during a 30-day period for a fixed Monthly Charge. The Customer may place calls from a fixed residential phone, payphone or cellular phone (additional charges from the Customer's cellular service provider may apply) using an 800 number supplied by the Company.

4.2.1.1.2 Service Ordering

A Customer may order the Unlimited Long Distance Calling Plan through telemarketing channels or directly by calling Customer Service at 1-866-873-7500. Once a valid Service Order has been placed, the Company will provide the Customer with an 800-access number and a PIN.

4.2.1.1.3 Service Restrictions

The Unlimited Long Distance Calling Plan is available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Simultaneous calls using a single PIN are prohibited.

4.2.1.1.4 Service Period

After placing a valid Service Order, the Customer is entitled to utilize the Unlimited Long Distance Calling Plan for a 10-day period, during which no charges shall apply. Following the 10-day trial period, the Company shall charge the Customer the Monthly Charges set forth in Section 5 of this Tariff for each 30-day period (Service Period). The Service Period may begin at any point in a given month. The service period continues until terminated in accordance with the terms set forth in this Tariff.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Flat Rate Service (cont'd)

4.2.1.1 Unlimited Long Distance Calling Plan (cont'd)

4.2.1.1.5 Payment

Payment is made through automatic debit from the bank account specified by the Customer or through automatic charges to an approved credit card. By placing a Service Order, Customer expressly agrees to permit the Company to debit the specified bank account or to charge designated credit card the at the beginning of each Service Period.

4.2.1.1.6 Termination by the Customer

The Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30-day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.1.1.7 Termination by the Company

In addition to its rights under Section 3.3.2 of this Tariff, the Company shall have the right to terminate service immediately in the event that Customer has insufficient funds available when the Company attempts to collect the Monthly Charge through the debit of the Customer bank account or credit card.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service

4.2.2.1 Prepaid Calling Cards

The Company offers a variety of metered prepaid calling cards that allow residential a Customer to place calls to locations within the State (as well other interstate and international locations) using a toll free or local access number and PIN supplied by the Company to reach the Company calling platform. These cards are available in face value denominations of \$5.00, \$10.00, \$20.00 and \$25.00. Usage Charges and other surcharges as set forth in Section 5 of this Tariff apply to each call placed with a metered prepaid calling card.

4.2.2.1.1 Service Ordering

A Customer may purchase the metered prepaid calling cards Card through Company distributors and affiliated retailers. Cards are sold through distribution channels and are activated prior to sale to the end user.

4.2.2.1.2 Service Restrictions

Metered prepaid calling cards are available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Calls from payphones and cellular phones are permitted, but may be subject to additional charges. Simultaneous calls using a single PIN are prohibited.

4.2.2.1.3 Service Period

Metered prepaid calling cards are valid for 4 months from the date the Customer activates the card. The card may not be recharged or reactivated once the Service Period has expired. No refunds or credits are available for unused value remaining on a card upon expiration. If the card balance is lower than the estimated minimum cost for the call, the Customer will be notified prior to placing the call and the call will not be allowed to proceed.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.1 Prepaid Calling Cards (cont'd)

4.2.2.1.4 Charging

The Company will debit from the remaining face value of a Customer's card the appropriate Usage Charge and surcharge for each call placed based upon the destination number and duration of the call. The Usage Charges and surcharges for the metered prepaid cards are set forth in Section 5 of this Tariff.

4.2.2.2 E-TRANS-PORT™

4.2.2.2.1 General Description

E-TRANS-PORT™ is an automated prepaid calling service for residential and business Customers that allows users in the continental United States to place calls to various US and international locations by means of a special device. The E-TRANS-PORT™ device automatically dials the Company's 800 access number and individual PIN associated with a Customer's prepaid calling plan account. E-TRANS-PORT™ service is available in accordance with the service options described in Section 4.2.2.2.2 below.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options

4.2.2.2.2.1 One Time Purchase

Under the E-TRANS-PORT™ One Time Purchase plan Customers receive with the purchase of the E-TRANS-PORT™ device an initial prepaid calling package with a face value of \$4.87. Calls placed with the E-TRANS-PORT™ device are charged against the face value of the initial prepaid package in accordance with the per minute rates set forth in Section 5 of this Tariff. This initial prepaid calling package expires 90 days after first use. Customers may purchase additional prepaid calling service by contacting the Company's customer service department at 1-866-466-2400 or through the Company's website at www.ephonetelecom.com or www.emin.tv. Additional prepaid calling service is available in increments of \$10 up to \$100 and thereafter in \$100 increments up to a maximum of \$2,000. Customers who purchase additional service of at least \$20 or more through the Company's website receive an additional \$1.95 worth of calling service.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.2 Recurring Service

Under the E-TRANS-PORT™ Recurring Service option Customers enroll in a monthly calling plan based upon prepaid packages with face value denominations in \$10 increments up to \$100 and thereafter in \$100 increments up to a maximum of \$2,000. Customers choose one of above prepaid calling packages upon purchase of the E-TRANS-PORT™ device and agree to pay the associated fixed Monthly Charge for each Service Period they are enrolled in the calling plan. Calls placed with the E-TRANS-PORT™ device are charged against the face value of the Customer's prepaid package in accordance with the per minute rates set forth in Section 5 of this Tariff. Any remaining balance in a Customer's prepaid calling account is applied to the next Service Period. Customers may purchase additional prepaid calling period for any given Service Period by contacting the Company's customer service department at 1-866-466-2400 or through the Company's website at www.ephonetelecom.com or www.emin.tv. Customers who purchase additional service of \$20 or more through the Company's website receive an additional \$1.95 worth of calling service. The total accumulated prepaid dollar value in a Customer's account does not expire until 90 days after the Customer terminates enrollment in the Recurring Service plan.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.3 Service Restrictions

E-TRANS-PORT™ service is available only to Customers located in the continental United States for calls placed from a residential or business location in the continental United States. Each residential or business line requires a separate E-TRANS-PORT™ device.

4.2.2.2.2.4 Service Ordering

A Customer may order E-TRANS-PORT™ service through direct retail channels or by calling Customer Service at 1-866-466-2400. Once a valid Service Order has been placed, the Company will provide the Customer with the E-TRANS-PORT™ device and will activate the prepaid account.

4.2.2.2.2.5 Trial Period

The Company will provide a full refund of the purchase price of an initial prepaid calling package under either the One Time Purchase or the Recurring Service Plan to a Customer who is dissatisfied with the E-TRANS-PORT™ service during the first 30 days of activation. To obtain a refund, the Customer must contact 1-866-466-2400 no later than 5 days prior to the expiration of this 30-day period. The Company will deactivate the Customer account upon issuance of the refund.

Section 4 – INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.2 Metered Service (cont'd)

4.2.2.2 E-TRANS-PORT™ (cont'd)

4.2.2.2.2 Service Options (cont'd)

4.2.2.2.2.6 Payment

Payment for E-TRANS-PORT™ prepaid calling packages is made through either direct debit of a Customer's bank account or through an approved Visa, MasterCard, American Express or Discover credit card. By placing a Service Order under the Recurring Service plan described in Section 4.2.2.2.2, Customer expressly agrees to permit the Company to debit its bank account or charge its credit card at the beginning of each Service Period.

4.2.2.2.2.7 Termination by the Customer

Under the Recurring Service plan, the Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30 day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.2.2.2.8 Termination by the Company

In addition to the rights set forth in Section 3.3.2. of this Tariff, the Company shall have the right to terminate service immediately without liability in the event the Customer attempts to utilize E-TRANS-PORT™ services when the designated credit card is invalid, blocked, or has been terminated. Customer is still liable to the Company for all charges incurred.

Section 5 – RATES

CONTENTS

	<u>Page</u>
5.1 Prepaid Services	31
5.1.1 Flat Rate Service	31
5.1.1.1 Unlimited Long Distance Calling Plan	31
5.1.2 Metered Service	32
5.1.2.1 Prepaid Calling Cards	32
5.1.2.2 E-TRANS-PORT™	35

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES

5.1.1 Flat Rate Service

5.1.1.1 Unlimited Long Distance Calling Plan

The Customer shall pay the Company \$49.95 per Service Period for the Unlimited Long Distance Plan, which includes intrastate and interstate calls. In addition, the Company shall charge the Customer a service fee of \$4.95 per Service Period to maintain the Customer's account.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service

5.1.2.1 Prepaid Calling Cards

5.1.2.1.1 Standard Rates

The Company shall charge the customer a rate of \$.10 per minute for calls placed to a destination number located within the State.

5.1.2.1.2 Standard Surcharges

- (a) The Company shall charge the customer a per call connect fee of \$.49.
- (b) The Company shall charge the customer a surcharge of \$.02 per minute for each call made using the Company supplied toll free access number.
- (c) The Company may impose a surcharge charge of \$0.50 per call for calls placed from a payphone in order to compensate the payphone provider for use of its service.

5.1.2.1.3 Promotional Calling Card Rates

- (a) Promotional Rate No. 1

For certain prepaid calling cards the Company will waive the standard connect fee.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.1 Prepaid Calling Cards (cont'd)

5.1.2.1.3 Promotional Calling Card Rates (cont'd)

(b) Promotional Rate No. 2

For certain prepaid calling cards the Company will charge a per minute rate of \$.059 per minute and will waive the standard surcharges set from Section 5.1.2.1.2 (a) and (c). Standard connect fees apply.

(c) Promotional Rate No. 3

For certain prepaid calling cards the Company will: (i) charge a per minute rate of \$.039 per minute, (ii) a discounted per call connect fee of \$.39; and (iii) waive the standard surcharges set forth in Section 5.1.2.1.2 (b) and (c).

(d) Promotional Rate No. 4

For certain prepaid calling cards the Company will charge a per minute rate of \$.029 per minute. Standard connect fees apply.

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.1 Prepaid Calling Cards (cont'd)

5.1.2.1.3 Promotional Calling Card Rates (cont'd)

- (e) For certain prepaid calling cards, the Company will charge a rate of \$.049 per minute; apply a toll free surcharge of \$.01 per minute in lieu of the standard surcharge set forth in Section 5.1.2.1.2(b), and apply a connect fee of \$.039 in lieu of the standard surcharge set forth in Section 5.1.2.1.2(a).
- (f) For certain prepaid calling cards, the Company will charge a rate of \$.032 per minute and will waive the surcharge set forth in Section 5.1.2.1.2(b).
- (g) For certain prepaid calling cards, the Company will charge a rate of \$.038 per minute and will waive the standard surcharge set forth in Section 5.1.2.1.2(b).

Section 5 – RATES (cont'd)

5.1 PREPAID SERVICES (cont'd)

5.1.2 Metered Service (cont'd)

5.1.2.2 E-TRANS-PORT™

- (a) Rates: The Company shall charge a rate of \$.065 per minute for calls placed using E-TRANS-PORT™
- (b) Charging Practices: Charges for interstate calls placed using E-TRANS-PORT™ shall be based upon one-minute increments.
- (c) Surcharges: The Company shall waive the standard surcharges set forth in Section 5.1.2.1.2 of this Tariff.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-0001
FORM 10-KSB

(MARK ONE)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission File Number 0-27669

ePHONE Telecom, Inc.
(Name of small business issuer in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

98-0204749
(I.R.S. Employer
Identification Number)

1145 Herndon Parkway, Suite 100
Herndon Virginia
(Address of principal executive offices)

20170
(Zip Code)

(703)-787-7000
Issuer's telephone number

Securities registered under Section 12(b) of the Exchange Act:

None
(Title of each Class)

None
(Name of each exchange
on which registered)

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$0.001 PAR VALUE

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for the year ended December 31, 2001 were \$3,589,840. Aggregate market value of voting stock held by non-affiliates of 32,920,713 shares outstanding at December 31, 2001 was approximately \$6,255,000. Amount was computed using the average bid and ask price as of December 31, 2001, which was \$0.19. As of December 31, 2001, a total of 32,987,381 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE - None

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

ePHONE TELECOM, INC.

FORM 10-KSB

INDEX

Part I

Page

Item 1.	Description of Business.....	4
Item 2.	Description of Properties.....	12
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	14

Part II

Item 5.	Market for Common Equity and Related Stockholder Matters	14
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7.	Financial Statements.....	23
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	23

Part III

Item 9.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.....	23
Item 10.	Executive Compensation.....	26
Item 11.	Security Ownership of Certain Beneficial Owners and Management.....	28
Item 12.	Certain Relationships and Related Transactions	30
Item 13.	Exhibits and Reports on Form 8-K.....	31
Registrant Signatures		32

FORWARD LOOKING STATEMENTS

Certain information in this report including statements made in “Management's Discussion and Analysis of Financial Condition and Results of Operations”, “Description of Business” and elsewhere contain “forward-looking statements”. All statements other than statements of historical fact are “forward-looking statements”, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may”, “will”, “expects”, “plans”, “anticipates”, “estimates”, “potential”, or “continue”, or the negative thereof or other comparable terminology. Although ePHONE believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in these forward-looking statements.

Forward-looking statements include but are not limited to:

- Expectations and estimates as to completion dates of the Network of Regional gateways ePHONE is installing and the Network;
- ePHONE's ability to implement successfully ePHONE's operating strategy as described in the business plan of ePHONE;
- Future financial performance as estimated in ePHONE's financial projections;
- ePHONE's forecasts of customer or market demand;
- Highly competitive market conditions;
- Changes in or developments under laws, regulations and licensing requirements in regions ePHONE is installing gateways; and
- Changes in telecommunications technology.

This list of categories of forward-looking statements should not be construed as exhaustive. ePHONE will not update or revise any forward-looking statements.

⊗ Certain factors that could cause ePHONE's forward-looking statements not to be correct and cause ePHONE's actual results to materially vary from projections made in forward-looking statements are set forth in Section E (Risk Factors) of Item 6 below.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

A. Overview

ePHONE was incorporated pursuant to the laws of the State of Florida, effective May 3, 1996, as IRA Fund Brokers Corp., changed its name to IFB Corp. on April 6, 1998 and on March 22, 1999, IFB Corp changed its name to ePHONE Telecom, Inc.

The development of ePHONE's current business plan essentially commenced as of June 2001. From the date of incorporation until November, 1998 ePHONE did no business and made no attempt to develop any business. From November 1998 until December 31, 1999, ePHONE focused its efforts on the review of business opportunities and from January 1, 2000 to June of 2001 focused on the development of the business model that was a precursor to the current business plan.

On March 31, 2000, ePHONE entered into a Strategic Alliance Agreement and License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with these agreements ePHONE acquired certain fixed assets from Array Telecom and obtained an exclusive license for all Voice over Internet Protocol technology that had been developed by Array Telecom for a period of five years.

The Array Telecom business model that was proved to be based on a technology that could not be economically implemented. This technology consisted of proprietary Voice Over Internet Protocol (VOIP) gateways, calling card and network management software that was intended to be used with customer premises equipment (CPE) VOIP gateways. Several contracts had been signed and the network was deployed in several European cities by the third quarter of 2000. After extensive testing was conducted, ePHONE concluded that the network provided inadequate quality and functionality. The system did not have an integrated billing capability. The third party billing solution being bridged to the proprietary system was too cumbersome to support the necessary day-to-day activities of billing, PIN generation and reporting. Further, no provision in the system could be made for the management of a network of CPE devices, which had needed to be managed as a separate billing entity. Furthermore, it was determined that the equipment supported a very limited set of telecommunications protocols, making it difficult or impossible to interconnect with other carriers.

ePHONE underwent an evaluation of alternatives, costs involved, probabilities of success and determined that it would be in the company's best interests to transition to state of the art technologies that were in production and could be deployed rapidly. In this regard, ePHONE made a strategic decision that the Array Technology systems should be integrated with Cisco and Sun Microsystems products with a Mind CTI billing system. The combination of cutting edge technology would immediately broaden the range of services that could be provided and allow ePHONE to compete in the retail and wholesale market. A new strategy was developed to overcome the deficiencies of the Array Telecom system and implementation commenced in May of 2001. The new network was then built in seventy -five (75) days and was generating revenue in 90 days.

Due to ongoing integration and migration issues, the viability of the Array technology as well as ePHONE's original strategy was questioned. The respective time and effort spent on the implementation of the two networks led management quickly to the conclusion that the Array network should be abandoned and to commit fully to a network based on Cisco equipment.

ePHONE commenced commercial operations utilizing the new strategy of a Cisco network in August of 2001 and has generated revenues of over \$3.5 million in 2001.

B. STRATEGIC PLAN

ePHONE's strategy is to become a next generation global facilities based marketing and sales oriented telecommunications carrier providing a full complement of telecommunications and data services utilizing the efficiency and reliability of new generation VOIP based telecommunication technologies. This entails operating as a wholesale carrier, interexchange carrier and as a retail services provider. Using a private Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), ePHONE has developed the capability to provide voice and data transmission and other telephony features at high quality and

low cost. ePHONE's role as an Interexchange Carrier allows ePHONE to capitalize on inexpensive wholesale termination rates, which can be further leveraged into retail products in order to increase overall margins.

ePHONE has developed this strategy to take advantage of the current market conditions while positioning itself to accommodate future developments and trends. The key elements are simple individually but require the technology, management expertise and experience to take advantage of them. ePHONE believes it has gained a significant competitive advantage through its ability to:

- Capitalize on the oversupply of bandwidth to continually build out and improve its network by utilizing leased lines to provide a reliable, high quality transmission facility. This is achieved with slightly higher cost than the cost of using the Internet as the transport medium while providing a managed network environment with superior call quality.
- Utilize the latest standards based technologies to deploy a network capable of interfacing to both legacy networks (traditional telephone networks) and the variety of VOIP networks being deployed.
- Introduce higher margin retail products such as ePHONE's Unlimited Domestic Calling Program, reseller program, proprietary products to enhance and provide ease of customer calling on the ePHONE network, DSL reseller program, 1+ dialing services and prepaid calling cards.
- Build traffic volume through wholesaling minutes to other carriers.
- Aggregate traffic to increase volumes to certain geographic destinations which results in decreased cost per minute.
- Open new markets while decreasing termination costs. A distinct advantage of ePHONE's technology is the ability to rapidly and inexpensively deploy nodes or Points of Presence (POPs), which decrease the cost of terminating traffic as well as providing the opportunity to originate traffic.

ePHONE has developed a strategy that builds one element upon the other to decrease the company's costs of providing service while increasing market penetration. ePHONE also employs a channel distribution model based on the development of partnerships both domestically and internationally. ePHONE's philosophy is to create and sustain ePHONE as a facilities based marketing and sales oriented telecommunications company.

C. BUSINESS PLAN

ePHONE's plan is to become a global telecommunications carrier providing a full complement of telecommunications services, including a variety of retail services, wholesale arbitrage and data services, using Voice over Internet Protocol ("VOIP") technology over both the Internet and private leased circuits. ePHONE believes it can differentiate itself from the competition through innovative marketing approaches and techniques while utilizing state of the art technologies to provide a comprehensive array of competitive service offerings.

ePHONE's planned approach has four components:

- Utilization of high quality fiber lines provided by leased circuits and use of the Internet where appropriate to carry telecommunications traffic and to link nodes in the network.
- Deliver a range of innovative products and services using its network.
- Compete as an interexchange carrier to ensure the most competitive rates are available for the retail products.
- Develop direct international connections to further enhance our ability to compete in the wholesale market while further improving margins on retail products.

As of the end of fiscal year 2001 ePHONE had deployed two network nodes, New York and Herndon, and is supporting six revenue generating retail programs as well as wholesale arbitrage traffic. ePHONE is interconnected with 18 carriers for origination of revenue generating traffic and termination of traffic both domestically and internationally. The six retail programs consist of five calling card programs targeted at the US, Mexico, the Philippines, Israel and Africa and the "Unlimited" Program. The Unlimited Program is a telemarketing driven domestic calling program providing unlimited continental US calling for \$54.90 per month.

ePHONE's revenues for the fiscal year ending December 31, 2001 were \$3,589,840. With the exception of approximately \$500,000 generated from the sale of equipment in the first quarter of 2001, the revenue was generated from the new core business between August and the end of December.

ePHONE plans to introduce a new product in early Q2 of 2002 named eTRANSPORT ("eTRANSPORT"). The eTRANSPORT is a piece of equipment that is installed between the phone and the incoming phone line at the customer premises (CPE or Customer Premises Equipment). ePHONE's service to the customer is virtually the same as the 1+ long distance service, however it is prepaid with the added benefit of portability. The device is a transportable 1+ prepaid long distance service from phone to phone which allows call costs to be charged to the same prepaid service.

ePHONE has worked closely with the designer and manufacturer of eTRANSPORT and has integrated the device with our network. ePHONE has secured the exclusive rights to the version of the device that works with our network, which provides functionality and has a speed of connection that is faster than previous versions of the device. ePHONE is working with marketing entities to introduce the product to market through home shopping TV channels and large retail chains that are the after market distribution channels for products marketed "As Seen on TV".

ePHONE plans to position the service so the end user may save as much as 70% off their equal access based 1+ service. Currently, competitive long distance services are offered by service providers, who require the customer to sign an agreement in which the service provider then uses as authorization to order the carrier providing the actual circuits to the customer's premises to route all long distance calls to that service provider. The approach ePHONE is taking does not require any inter carrier or service provider coordination. The customer can use ePHONE's service regardless of which long distance carrier they are currently using, and they do not need to change carriers or inform them that they are using the ePHONE service.

ePHONE believes its aggressive approach to marketing and sales is as important as the technologies being employed. ePHONE has assembled a management team with diverse telecommunications experience and expertise. ePHONE is committed to staying at the leading edge of telecommunications and information technologies but believes its real competitive advantage will be sustained through a creative and innovative approach to acquiring and maintaining customers and channel distribution partners.

ePHONE plans for 2002 and beyond are to continue to build its network capacity, geographic coverage and utility while continuing to introduce new products and services. ePHONE's wholesale activities are focused on two fronts: increasing the support of different telecommunications protocols and pursuing international direct interconnections. Direct interconnections are located either over the Internet, or where economically feasible, over leased circuits to ePHONE's or a partner's equipment located in other countries. ePHONE believes the termination rates obtained through "directs" will lower termination costs which in turn will increase margins on both wholesale and retail programs. The development of direct interconnections is the focus of the franchise program wherein partners are solicited to install equipment in their own country but the equipment becomes a part of the ePHONE network and the revenues generated by the equipment are shared.

D. NETWORK

ePHONE believes the development of IP telephony as a viable technology for providing telecommunications services is significant not only because of the reduction in costs, but also because of the enhanced services that it facilitates. Unlike legacy telecommunication systems, which are currently used by most providers of telecommunications services, IP telephony systems are open, and thereby, allow the integration of numerous services on a single platform. This integration provides significant cost advantages. Inherent in the conversion of voice to data over an IP network is an effective and efficient compression of the conversation. Effectively this means an increase in utilization of bandwidth or capacity, which translates into a decreased cost.

ePHONE's plan is for their network to be deployed worldwide, and it will consist of the following main elements:

- The use of a high quality IP backbone provided by a combination of leased lines and the Internet to carry telecommunications traffic and to link nodes in the network.
- Strategically placing nodes in the network that interface with end-users and provide the actual services ePHONE will offer Points of Presence (POPs)

- Co-location of Nodes in special facilities to allow low cost interconnection to a variety of PSTN and IP network providers.
- Global Network Management Center (GNMC). From this centralized point of command, ePHONE's technical staff will use their best efforts to ensure uninterrupted operation of ePHONE's network and services. The GNMC will also serve as a collection point for billing information used in invoicing for services rendered.

1. IP Backbone

In order to deliver high quality voice services that are comparable to traditional public telephone services, ePHONE requires a high quality IP backbone to carry traffic between its POPs. Currently, ePHONE is utilizing a 100 megabit per second dedicated IP bandwidth from Cogent between POPs.

The technology ePHONE employs allows the use of international and domestic private leased circuits until a more economical transport mechanism is available and provides the flexibility to move to new technologies as they evolve and become practical. Because of a VOIP technology called Real Time Protocol "RTP" header compression, the use of private leased circuits allows ePHONE to double the amount of traffic ePHONE can carry over a given bandwidth of circuit. This technology enables ePHONE to realize even more savings in the transport of traffic than an Internet only competitive carrier.

2. Points of Presence (POPs)

In each region where ePHONE establishes a presence, equipment will be deployed. Each POP will interface to the IP Backbone in order to provide the numerous services that ePHONE intends to offer. The key components of each of our POPs will be the following:

- Network routers used to connect the POP as a whole to the IP backbone. These routers will allow access to our IP backbone by any device that is part of the company network. Such devices include gateways, and other sub-components of our switch.
- The PSTN/IP gateway that serves as the interface between the local PSTN (or other traditional telecommunications provider) and our IP backbone. This VOIP gateway is the bridge between our network and the existing public telephone network.

Application servers are used to deliver actual services to the end user. Similar to a web server, application servers will be used to host the applications that end users interact with. These servers are centrally located and accessed by the POPs either over the Internet or via the ePHONE network.

ePHONE proposes to deploy 4 more POPs during the course of 2002, Los Angeles (installed during Q1) Miami, London and Frankfurt. These six POPs will form the core of ePHONE's network. A second tier of POPs placed under the auspices of the franchise program is intended to provide direct termination to and access from various countries where the placement of such POPs are technically feasible and economically profitable. ePHONE expects to be able to place an additional 15 local access POPs per year under its Franchise and Partnership program.(Section J: Partnership Programs)

3. Global Network Management Center (GNMC)

The GNMC is the centralized command center from which ePHONE's technical staff manages the various components of the network, as well as all other services being provided. The GNMC is staffed 24 hours a day, 7 days a week. The GNMC, which is connected to the network via a high-speed dedicated IP connection, will provide the following services:

- Real-time collection of call detail record (CDR) information from all ePHONE POPs.
- Consolidation of all billing information generated by ePHONE POPs located throughout the network.
- Back office functions such as account setup, management, termination, and billing.
- IP network monitoring, to ensure, to the extent possible, that the IP backbone delivers consistently high quality performance and results.
- Monitoring of each POP in the network to ensure availability. Such monitoring will not be limited to monitoring on the IP network, but also PSTN availability of a given ePHONE POP.

- Monitoring carrier interconnects to ensure adequate quality of service and availability of termination to the contracted destinations.
- Deployment of new services to ePHONE POPs.
- Bandwidth monitoring and planning activities to determine the appropriate timing and structure of improvements to our network infrastructure.
- Coordination of the deployment of new ePHONE POPs, and extensions of the IP backbone to include new regions.

The GNMC is fully established and operational and is located in ePHONE's corporate headquarters in Herndon, Virginia.

E. MARKETING

ePHONE plans to offer a wide range of telecommunications services to carriers and end users throughout the world. The fundamental service that ePHONE will provide is the ability to reduce telecommunications costs through the use of IP telephony technology. In order to provide such services economically, ePHONE will utilize a worldwide IP network that will be used to transmit calls. ePHONE's network will handle long distance traffic, both for carrier customers, and for calls between our retail customers and the larger population connected to the public switched telephone network (PSTN).

ePHONE believes companies such as ITXC, iBasis, and Net2Phone have demonstrated the viability of selling long distance telephone services using IP telephony technology. However, ePHONE plans to offer significantly differentiated retail products and services. We believe there are three broad categories in which ePHONE delivers services that are more compelling than the straightforward long distance calling services being offered currently by IP telephony carriers.

These categories are:

- **Marketing differentiated services.**
These products are differentiated more by how they are distributed and sold than the underlying technologies. Moving telephony services into mass marketing channels and adapting the products either technically or commercially to offer an innovative product tailored to the specific distribution channel is what distinguishes these products from other offerings. Examples of this are the Unlimited Program and the soon to be launched eTRANSPORT program.
- **Enhanced services.**
Through integration of IP telephony products based on open standards, ePHONE plans to provide a significantly greater depth of services beyond simple long distance calling, including services such as international roaming, roaming 1+ dialing, online billing and verification. Because of the open architecture, ePHONE is also positioned to add services such as unified messaging, "Follow Me" and "Find Me" services in the very near term.
- **Access technology.**
At present, the only means provided by IP telephony carriers to access their networks, is an access number that must be manually dialed. While companies using IP telephony products enjoy one-stage dialing, they are required to deploy their own networks in order to do so, and as a result, can typically only call between area codes where they have Points of Presence (POPs). ePHONE, in conjunction with our partners, has developed the capacity for access devices to be used in addition to the normal PSTN-based access methods. These devices will allow ePHONE to deliver services providing an ease of use only seen with 1+ service.

F. PRODUCTS AND SERVICES

- **Specialty Products**

These services are customized to the requirements of a specific distribution channel or marketing program. Examples of these programs are the Unlimited Program and the soon to be launched eTRANSPORT product. These products are driven by the marketing approach rather than technology. The underlying technologies are

standard prepaid services, however, the marketing approach or channel differentiates the product and thereby creates a competitive advantage resulting in high margins.

For example, eTRANSPORT, an exclusive patented device with a microchip that does not require a separate power source, is used to produce a product that works for all practical purposes the same as a 1+ dialing program. In addition, the product is mobile since it can be used from almost any 1 or 2 line phone in the domestic US.

As the network is expanded ePHONE believes these products can be exported to international markets thus leveraging the development effort that has gone into the definition and launch of the product in the US.

- **1+ and ISDN services**

ePHONE is currently developing these products for introduction in Q3 of 2002. They require ePHONE to become licensed as a CLEC (Competitive Local Exchange Carrier) in order to provide services in specific geographies. ePHONE intends to develop a true retail base that can be developed as a market for other value added products. The resale of another service provider's fixed network services allows us to "own" the customer as ePHONE becomes responsible for monthly billing and customer service.

- **Prepaid Calling Cards**

Since each POP is capable of providing interactive voice response ("IVR"), balance announcements, real-time billing with automatic cutoff and other key features, no additional investment is required in order to use the network to provide prepaid calling card services.

Prepaid calling cards offer a range of products targeted at different markets and distribution channels. Competitive rates and extensive distribution channels allow cards to be tailored to each of these markets:

- **Local Community Cards**

Targeted at local community calling groups with specific calling destinations distributed through small retail stores or neighborhood contacts.

- **Promotional Cards**

Cards sold to a corporate entity to promote their product as a promotional item.

- **Travel Cards**

These cards allow a consumer to make calls from a number of specified countries at rates that are lower than the consumer would otherwise be required to pay.

- **NPO – non profit organization products**

These products are tailored to the "affinity" market. They provide an alternative revenue source for non-profit organizations.

- **International Cards**

As second tier local access POPs are put in place, franchise partners are able to market their own prepaid products in the call originating country.

- **Customized Online Billing**

Because ePHONE's network is built on Internet Protocol (IP) technology, it is able to deliver transactional and e-commerce applications identical to those used by web-based retailers. Since all POPs collect billing information in real-time, with immediate transmission of billing information to the GNMC, ePHONE is able to provide online services, such as, allowing a customer to review their bills, sign up for new plans and services, or make changes to existing services. This service also provides immediate feedback to end users on the benefits and savings.

This service has been further extended with the addition of an IVR (Interactive Voice Response system) that provides similar services for users over the phone, allowing them to sign up for new services and providing information on the status of their accounts.

G. INTEREXCHANGE CARRIER AND DIRECTS

ePHONE believes the provision of competitive retail products is dependant on its ability to obtain competitive rates from suppliers. ePHONE believes it can obtain these competitive rates by positioning itself as a wholesale service provider and an interexchange carrier. ePHONE buys from carriers and sells to other carriers with the intent of making a margin on the transaction.

Providing these services allows ePHONE to increase traffic volumes as well as making bilateral arrangements for both the origination and termination of traffic with a specific carrier, thereby, reducing the financial exposure in both directions. ePHONE believes this also increases the number of carriers with whom ePHONE can contract.

ePHONE has established relationships with a base of carriers who provide services ranging from local access, 800 access and international terminations. ePHONE has established contractual relationships with Global Crossing Bandwith, Inc., Teleglobe U.S.A., Bell South Long Distance, Encore Telecommunications Inc. (Vonova), Intelco Communication (Cescom), MCI-Worldcom, and several other carriers. The relationship with other carriers is very dynamic and requires an ongoing presence in the market to track rates and develop relationships as new routes or more competitive rates become available.

The interconnection with other carriers is being done at our facilities in New York and Los Angeles. ePHONE is located in a carrier hotel that provides local access to a number of carriers and inexpensive access to local loops in New York and Los Angeles that can be used to interconnect with virtually any carrier located in the city. These interconnections are done via leased lines between switches. ePHONE is also using the Internet to connect to some carriers whose switches are not located in New York or Los Angeles.

ePHONE has established a network of interconnections that is sufficient for the current business plan purposes and can increase its capacity within days. ePHONE can terminate calls to any destination in the world and has very competitive rates through contracted carriers for access and egress in the domestic US. ePHONE is able to offer competitive products in the retail market and to terminate traffic on behalf of other carriers competitively.

A number of the larger carriers (tier 1 carriers) were not available during 2001 as prospective customers because ePHONE did not support SS7. SS7 is a signaling protocol that has been adopted as a standard by many of the larger carriers and all suppliers to large carriers have to support SS7. ePHONE purchased the SS7 equipment and software needed to support SS7 and completed installation during the second quarter of 2002. This has opened to ePHONE a more lucrative market since may tier 1 carriers require the support of SS7 with carriers they interconnect to.

ePHONE believes it can further improve its rates to international destinations by interconnecting with carriers or service providers in those international locations. This is the focus of ePHONE's franchise program. It encourages companies in international locations to install compatible equipment and provide access to the local telephone network (PSTN) and to become part of the ePHONE network. These "directs" bypass intermediaries and allow ePHONE to benefit from lower termination rates as well as providing access for retail products in that location.

H. SUPPLIERS

A significant amount of technology and management experience was required to create the network and deliver services to end-users. Although ePHONE may need to find the technical expertise to create some systems, its strategy is to enhance the current technology team by partnering with other companies that provide the required technology and can meet ePHONE's requirements. A list of the partners and suppliers that ePHONE uses are:

- Cisco Systems, Inc.

The equipment used in ePHONE's POPs is virtually all Cisco manufactured. Cisco offers an extensive array of VOIP products, IP routers and switches. These products can be combined in a variety of different ways to provide the desired network functionality. ePHONE's technology team believes they have developed an architecture that provides superior functionality and flexibility. This architecture has been propagated throughout ePHONE's core network.

- Mind CTI, LTD

Mind CTI is an Israeli company that has developed a billing system used in both data and voice applications. It also provides access control, authorization and configuration capabilities. It allows ePHONE to define a hierarchy of relationships between carriers, distributors, service providers and anyone else with whom ePHONE deals with to provide services, either as a customer or provider. The Cisco equipment handles the routing and sending of traffic while the Mind CTI system keeps track of what happened throughout the network and what the cost was and who should be charged.

- **Immix Telecom, Inc.**

Immix is a Florida corporation selling autodialers and other access devices. Immix produces the device being used for the eTRANSPORT program. ePHONE has developed a very close working relationship with Immix that has allowed ePHONE to closely integrate the eTRANSPORT with the ePHONE network to provide seamless customer access. ePHONE's contract with Immix provides for an exclusive right to distribute the specific device ePHONE has developed in conjunction with Immix.

- **Switch and Data**

ePHONE has contracted with Switch and Data to provide co-location facilities in New York, Miami and Los Angeles. Switch and Data operates "Carrier Hotels" which are facilities set up to provide a location to house telecommunications switches. They possess all the attributes required in the form of security, uninterruptible power, air conditioning and proximity to other carriers and telecommunications facilities.

- **Carriers**

As an interexchange carrier ePHONE interconnects with a number of other carriers. These relationships are fluid, depending on where ePHONE can obtain the best rates and to whom ePHONE can sell rates at any given point in time. Though other carriers as a group are extremely important to ePHONE, no one carrier is in a position to be considered critical to ePHONE's success.

I. COMPETITION

The market for Internet voice, fax and other value-added services is competitive. Internet protocol and Internet telephony service providers, such as ITXC Corp., route traffic to destinations worldwide and compete directly with ePHONE, along with Internet telephony service providers Net2Phone. In addition, major telecommunications carriers, such as AT&T, Deutsche Telekom, MCI WorldCom and Qwest Communications, have all entered or announced plans to enter the Internet telephony market. Many of these companies are larger than ePHONE and have substantially greater managerial and financial resources than we do. Competition in ePHONE's markets can be expected to continue and may adversely affect our profitability. ePHONE cannot assure that we will be able to compete successfully against competitors and may lose customers or fail to grow our business as a result of this competition.

For the present, the following companies focusing on the use of VoIP technology are our main competitors:

- **The Internet Telephone Exchange Carrier (ITXC)**

ITXC is a clearinghouse for Internet telephony service providers and operates ITXC.net. Since April of 1998, ITXC has been used to provide traditional carriers' international call completion with sufficient quality for carriers to serve their phone-to-phone customers. ITXC has reportedly installed 167 POPs in 45 countries and 101 cities.

- **iBasis**

iBasis was founded in 1996 to provide Internet Protocol (IP) telephony service to telecommunication carriers around the globe. The company has POPs in Asia, Europe, the Middle East, and the Americas. iBasis is in wholesale Internet telephony service.

- **Net2Phone**

Net2Phone began as a subsidiary of IDT Corporation and is a provider of voice over public Internet communications services. Net2Phone enables its customers to place telephone calls from their computers, telephones, or fax machines to any telephone or fax machine in the world. By routing calls via the public Internet, Net2Phone enables users to save money on their international phone rates. Net2Phone developed a proprietary Gateway technology for IP voice services offered by the company.

Net2Phone's product offerings include PC-to-phone service, IP telephony service for phone or fax and Real-time PC-to-fax solution. Its network currently reaches 30 countries and expects to be operational in 25 additional countries by the end of 2002.

- DeltaThree

Founded in 1996, DeltaThree manages a network dedicated to the transmission of voice over IP. Its services include PC-to-phone, unified messaging, global access calling cards, and voice greetings accessible from the company's communications portal. DeltaThree currently operates a network of 37 international POPs. .

J. PARTNERSHIP PROGRAMS

A key element in our overall ePHONE strategy is the Partnership Program. ePHONE's Partnership Program is designed to facilitate the rapid deployment and sales of products and services with a minimum capital investment by ePHONE. There are two elements to our Partnership Program, the Franchise Partner Program and the Sales Agent Program.

- Franchise Partner Program

The Franchise partner program focuses on the rapid expansion of our network. The program is designed to allow interested parties to participate in the deployment of ePHONE's network by providing capital used to locate an ePHONE POP in a given area. Once that POP is deployed, ePHONE's Franchise Partner then performs marketing of our services, taking a share of any profits generated by that ePHONE switch.

- Sales Partner Program

Under this program, ePHONE recruits resellers who make no capital investment but specialize in selling services. Sales Partners are required to commit to minimum sales targets for each of our services that they sell. However, Sales Partners will be paid a commission based on sales.

K. GOVERNMENT APPROVALS AND REGULATIONS

ePHONE is currently in possession of a Federal Communications Commission 214 license which allows ePHONE to provide telecommunications services in the United States and as an international carrier. ePHONE has obtained, has filed for, or is in the process of filing for licenses with the individual states within the domestic US for provision of intrastate services.

ePHONE's need for licenses in other countries will depend on whether ePHONE operates as a foreign company in those locations or whether ePHONE partners with licensed local partners.

L. PATENTS, TRADEMARKS AND ROYALTY AGREEMENTS

ePHONE does not have any patents, trademarks, licenses or protective agreements. ePHONE has trademarked its logo in Canada.

M. RESEARCH & DEVELOPMENT ACTIVITIES

ePHONE is not undertaking any pure research and development. ePHONE's activities in this respect consist of working with the products ePHONE has purchased and licensed from suppliers in order to integrate them into a network and back office. In this effort ePHONE has found it necessary to develop tools and processes for its own use in the administration and management of the Network. These activities will continue as its business requirements grow and change.

N. EMPLOYEES

As of December 31, 2001, ePHONE had 20 full-time employees in the Virginia office, including 2 in Development, 7 in Network Operations, 5 in Marketing and 6 in Administrative and Accounting. In addition, ePHONE had 9 part-time employees and 1 individual providing service to us as independent consultant. As ePHONE's business and development efforts expand, additional personnel will be engaged, either as employees or as contract service suppliers.

ITEM 2. DESCRIPTION OF PROPERTIES

ePHONE leases approximately 7,400 square feet for the principal executive offices, which are located at 1145 Herndon Parkway; Suite 100, Herndon, Virginia 20170. Base rent for the current premises is approximately \$14,500 per month subject to annual increases of three percent. The lease requires ePHONE to pay a portion of the property taxes and certain operating expenses. Management believes that the current and anticipated facilities are suitable and adequate for operations.

ITEM 3. LEGAL PROCEEDINGS

Litigation with former officer

Mr. Charles Yang joined ePHONE in July 1999, as President and Chief Operating Officer in part due to Mr. Yang's strong representations that he could bring to ePHONE extensive business connections, and that those connections could be converted into sales for ePHONE. The Board subsequently concluded that Mr. Yang did not have the potential that they originally believed he had - which is part of the reason for the breakdown of the relationship with Mr. Yang. For further information regarding ePHONE's relationship with Mr. Yang, see Section B of Item 12 below.

Mr. Yang ceased providing services to ePHONE as of January 31, 2000. Mr. Yang's positions as President and Chief Operating Officer of ePHONE were formally terminated March 9, 2000.

During 1999, ePHONE accrued a liability totaling \$300,000 in connection with a settlement offer made to Mr. Yang to resolve this matter. On March 23, 2001, the Company entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Mr. Yang to resolve all claims and disputes between the Company and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from the Company. Pursuant to the terms of the Settlement Agreement, the Company agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of the Company's common stock.

ePHONE did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to pay Mr. Yang an additional \$75,000 and issue an additional 100,000 shares of our common stock. The \$225,000 due Mr. Yang as of December 31, 2001 will be paid in 30 monthly installments of \$7,500, beginning in 2002.

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Other than disclosed above, ePHONE is not involved in, nor has knowledge of, any threatened or pending legal proceedings against it.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on December 12, 2001. There were two agenda items submitted to a vote of security holders:

1. Election of Mr. Shelly Kamins to the Board of Directors and reelection of Mr. Robert Clarke, John Fraser, Charlie Rodriguez and Carmine Tagliatalata to the Board of Directors.
2. Proposal to ratify Grant Thornton, LLP as ePHONE's independent public accountants for fiscal year 2001.

The result of the voting stockholders were as follows:

1. <u>Directors</u>	<u>Clarke</u>	<u>Fraser</u>	<u>Rodriguez</u>	<u>Tagliatalata</u>	<u>Kamins</u>
Against	1,000	3,000	0	800	0
For	17,251,827	17,249,827	17,252,827	17,252,027	17,252,827
Abstain	22,550	22,550	22,550	22,550	22,550
2. <u>Proposal</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>		
	17,262,177	5,200	8,000		

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 12, 2000 and prior to December 15, 1999, the common shares did trade and currently trades on the OTC Bulletin Board - under the symbol "EPHO". From December 15, 1999 until June 11, 2000, the common shares traded on the National Quotation Bureau's Electronic Quotation Service (the "Pink Sheets") under the symbol "EPHO". Shares of the common stock do not trade on any stock exchange or any other market.

The following table sets forth the closing high and low bid prices of the common stock for each quarter within the last two years as reported by publicly available sources to which ePHONE has access. The quotations reflect inter-dealer prices and do not represent retail mark-ups, markdowns, commissions, and may not reflect active transactions.

Market Information

<u>2000:</u>	<u>High</u>	<u>Low</u>
First Quarter	4.00	0.75
Second Quarter	2.93	1.09
Third Quarter	1.66	0.91
Fourth Quarter	0.94	0.25
<u>2001:</u>		
First Quarter	0.44	0.16
Second Quarter	0.41	0.12
Third Quarter	0.22	0.08
Fourth Quarter	0.35	0.14

As of December 31, 2001 there were 204 holders of record of the common stock. This does not reflect persons or entities that hold stock in "Street" name or through various brokerage firms.

ePHONE has not paid any cash dividends on common stock and at present does not intend to pay cash dividends in the foreseeable future. ePHONE plans to retain earnings, if any, to use in the operation of the business and to fund future growth.

Unregistered Securities

During February 2002, ePHONE issued 10,000 shares to Rudy Ryckewaert in exchange for consulting services rendered valued at \$2,200.

During March 2001 and January 2002, ePHONE issued 500,000 shares of common stock to Mr. Charles Yang in connection with a settlement agreement further described in legal proceedings.

During November 2001 and January 2002, ePHONE issued 200,000 shares of common stock to Mr. Kuba Farbiarz in exchange for marketing consulting services rendered.

During November 2001, ePHONE issued 538,973 shares to PITRFA, Inc, in connection with a marketing and distribution agreement.

The issuances were made pursuant to available exemptions from the registration provisions of the Securities Act of 1933, as amended (specifically, Section 4(2) of the Securities Act) and relevant Blue Sky statutes.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Fiscal Year 2001 was one of transition for us. Management's decision in the second quarter to introduce Cisco equipment and to begin implementing a private network, as opposed to exclusively using the Internet for transport, proved to be fundamental to the generation of our telephony based revenues. We began carrying production traffic, both wholesale and retail in the third quarter of 2001. This major milestone marked the first time we have produced revenue from the provision of telecommunications services in our history.

Our core strategy had been to deploy and manage a global Internet telephony services network using the Array series of products and customer premises equipment (Business Direct and Business Connect services). The Array network, after more than 12 months of effort was not able to support production traffic. This called into question the viability of the Array technology as well as our original strategy. The respective time and effort spent on the implementation of the network led management quickly to the conclusion that the Array network must be integrated and a migration strategy developed for a network based on Cisco equipment.

Our decision to deploy the new network was based on several underlying factors described in Part I Item I Business, that were seen as providing a broader based business strategy and one that worked in conjunction with our original plan. It also surpassed the Array network in areas where it was deficient, primarily carrier interconnectivity and billing functionality. Our new network has provided supplemental revenues by allowing wholesale arbitrage and increasingly competitive rates for the retail programs being deployed.

Our new network was deployed and brought into production in 75 days.

Results of Operations - Years ended December 31, 2001 and 2000

Our net loss and net loss per share were (\$7,021,000) and (\$0.28) and (\$13,701,000) and (\$0.94) and for the years ended December 31, 2001 and 2000, respectively.

During the third quarter in 2001, we began recognizing revenue under our "Unlimited Program" telecommunications program and our wholesale strategy. This coupled with the significant reduction of non-

cash general and administrative costs during 2001 compared to 2000 were the primary reasons for the significant decrease in our net loss

Revenues

Revenues increased from \$590,000 in 2000 to \$3,590,000 in 2001. The majority of the increase is attributed to the Company's "Unlimited Access" Program and our wholesale strategy, which began in mid August. These programs accounted for 86% of ePHONE's revenue for the year ended December 31, 2001 and did not account for any revenue during 2000. During December 2001, cash collections of \$367,000 were considered pre-paid and are reflected in the Current Liability section of the Balance Sheet as "Deferred Revenue". As ePHONE continues to focus on retail and wholesale offerings, sales of equipment are not expected to be significant in the future. The \$513,000 revenue from the sales of equipment in Q1 of 2001 is not likely to reoccur.

Cost of Revenues

Cost of Revenues increased from \$412,000 in 2000 to \$2,501,000 in 2001. For the year ended December 31, 2001, cost of goods sold represented commissions, activation fees and processing charges related to our telecommunications services program. Prior to the third quarter of fiscal year 2001, cost of goods sold was related to telecommunications equipment sales. Gross margin for the year ended December 31, 2001 and 2000 was 30%. Our gross margin percentage will likely fluctuate higher in the future due to changes in our sales mix.

Sales and marketing

Sales and marketing expense decreased from \$1,853,000 in 2000 to \$1,212,000 in 2001. During 2000, our sales and marketing expenses included compensation paid to consultants for market studies and competitive intelligence of the Internet telephony market place in several countries where we were deploying our network. There were no similar expenditures incurred during 2001. Currently, sales and marketing expense consists primarily of marketing commissions and salaries.

General and administrative

General and administrative expense increased from \$4,787,000 in 2000 to \$5,485,000 in 2001. We expect general and administrative expenses to level off or decrease in the future. Due to our changes in the business plan, non-recurring expenses related to the write off of the Array Telecom license in the amount of \$1,180,000 were incurred in 2001.

Write-off of Array Telecom License

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required us to pay additional minimum royalty fees for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years. The shortened life gave rise to a deferred royalty obligation representing the difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments, which were scheduled to be made over a five-year period.

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages due to what we believe to have been violations by Comdial of the Array Telecom License Agreement.

Comdial has responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 accrued royalties plus interest. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 during the year ended December 31, 2001.

We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License and related assets and liabilities of \$1,180,000 at December 31, 2001.

Income taxes

There was no provision for federal or state income taxes for the period from our inception due to our operating losses. At December 31, 2001, we had net operating loss carryforwards for income tax purposes. A valuation allowance has been established and, accordingly, no benefit has been recognized for our net operating losses and other deferred tax assets.

Results of Operations - Years ended December 31, 2000 and 1999

Revenues

During fiscal year 2000, ePHONE introduced its Array Series 3000 gateway to the market. The Company earned \$590,000 in revenue from the sale of these gateways to equipment customers during 2000. One customer purchased approximately 90% of the gateways ePHONE sold in 2000. ePHONE had no revenue during 1999.

Cost of Revenues

The cost of the Array gateways sold during 2000 totaled \$412,000, which represents a gross margin of 30%.

Sales and Marketing

Sales and marketing expense increased \$1,631,000, from \$219,000 in 1999 to \$1,853,000 in 2000. This increase in selling and marketing expenses is attributed to the introduction of the Array Series 3000 gateway to the marketplace and costs incurred by ePHONE in its preparation for the deployment of its global Internet telephony network. Such costs included cash amounts paid to consultants of \$1,050,000 for market studies and competitive intelligence of the Internet telephony marketplace in several countries in which ePHONE is deploying its network. The Company also issued stock options and warrants with a value of \$903,000 to these consultants and have included this amount as an expense in the statement of operations as non-cash compensation.

General and Administrative

General and administrative expenses increased \$3,818,000 from \$969,000 in 1999 to \$4,787,000 in 2000. The increase is attributable to increased costs incurred on research and development associated with the development of ePHONE's network, software support and development fees, royalties associated with the Array Technology license agreement, and increased legal and accounting fees associated with raising capital to fund operations. General and administrative costs for 2000 included \$666,000 of amortization and depreciation expenses related to amortization of the Array technology and depreciation of equipment. Also included in 2000 general and administrative costs is \$1,030,000 of one-time costs incurred in connection with signing bonuses that it paid to certain employees of Comdial when it acquired the Array technology totaling \$350,000 and a payment of \$680,000 to ePHONE Technologies, Inc., a company formed by the certain executive officers which were terminated in December 2000.

Non-Cash Compensation

Non cash compensation represents the value assigned to equity securities issued to employees and non-employees in exchange for services as follows.

Stock options and warrants issued to consultants (see "Sales and Marketing")	\$	903,000
Stock options issued to executive officers		(1)2,864,000
Stock issued to former executive officers and consultants		(2)3,666,000
	\$	<u>7,433,000</u>

- (1) During 2000, ePHONE granted options to two executive officers which vested on the date of grant and had a fair market value on that date of \$2,864,000. These two officers terminated their employment with the Company during late 2000, and the stock awards were cancelled as provided in their separation agreements.
- (2) ePHONE issued 3,666,488 shares of its common stock to former executive officers and consultants of the Company who would have been eligible to receive shares of common stock under the performance share plan that was cancelled by the Company.

Liquidity And Capital Resources

Since December 31, 2001, we have raised \$690,000 from the exercise warrants we had issued in connection with the sale of special warrants in 1999 for the purchase of 3,448,913 shares of our common stock. On March 30, 2002, the warrants for the purchase of 9,115,161 shares of our common stock expired unexercised. The proceeds from the exercise of these warrants, along with our operations during the first quarter 2002 increased our cash from \$36,000 at December 31, 2001 to \$684,000 at March 31, 2002, and improved our working capital deficiency from \$1,621,000 at December 31, 2001 to a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 at March 31, 2002.

Since we commenced commercial operations utilizing our new strategy based upon a Cisco-based network in August of 2001 we have generated service revenue of over \$3,000,000 from August to December 2001. In the first quarter of 2002, we billed and collected approximately \$4,900,000. Our liquidity continues to improve and as of April 11, 2002 we had a total of \$1,273,000 of cash on hand. We plan to expand our current products and services in 2002 and introduce new products and services. We have been successful in generating net income from operations since we deployed our new Cisco-based network in August 2001. Our anticipated future cash flows from operations is largely dependent upon our ability to achieve our revenue and gross profit objectives from our current products and services and introduction of new products we plan to launch in 2002. We believe that based on our current level of operations, the cash flows we are generating from operations together with the \$690,000 we received from the exercise of warrants described above is sufficient for our current operations.

It is important to point out that since our inception, we have accumulated a deficit of \$22,341,000, and that we funded our operations, prior to our generating service revenues beginning in August 2001, primarily with the proceeds we raised in our special warrant offering in 2000, from the exercise of warrants during 2001 of \$305,000, and from limited equipment sales. We do not currently have a line of credit or any other credit facility available to us.

While our service revenue sales continues to increase during the first quarter of 2002, and while management anticipates that growth in service revenue will continue in 2002, we cannot assure you that this will happen. Future prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the telecommunications industry. To address these risks and achieve profitability and increased sales levels, we must, among other things, continue to establish and increase market acceptance of our products,

respond effectively to competitive pressures, offer high quality customer service and support, and successfully introduce, on a timely basis, new products and enhancements of our existing products.

We anticipate, based on our present plans and assumptions, that our current cash balances and projected level of 2002 operations will be sufficient to enable us to sustain our current and planned operations for at least the next 12 months, and will not need to raise additional funding. However, we cannot assure you that this will hold true.

For the year ended December 31, 2001, we used \$3,747,000 of cash for our operating activities. The principal differences between the cash we used in operations and our 2001 net loss of \$7,021,000 were (i) reduction for non-cash expenses including depreciation and amortization and stock issued for compensation; (ii) increases in our accounts payable and deferred revenue balances; and (iii) the write-off of our Array Telecom License and the disposal of obsolete inventory and equipment in December 31, 2001.

For the year ended December 31, 2001, investing activities provided \$1,960,000 of cash as a result of the redemption of \$2,194,000 of marketable securities and release of \$520,000 of restricted cash, offset by payments to purchase fixed assets. Our financing activities generating \$305,000 in cash from the exercise of stock purchase warrants for the purchase of 848,243 shares of our common stock.

For the year ended December 31, 2001, we had a net decrease in cash from operating, investing and financing activities of \$1,490,000. At December 31, 2001, we had \$36,000 of cash and a working capital deficit of \$1,621,000.

We have one equipment commitment totaling \$46,000 for a Sun Microsystems server which expires in July 2003.

On April 20, 2000, we closed an offering of Special Warrants, receiving net proceeds of approximately \$12,205,000. The total number of Special Warrants we sold in that offering was 13,780,837. The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they held by the same percentage ("Redemption Right"). In addition, each special warrant holder received an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of March 31, 2001, all special warrant holders exercised their Redemption Rights, and we returned \$1,895,000 to these investors. We completed the registration of our common stock in Canada, and our investors exercised their special warrants causing us to issue 13,436,317 shares of our common stock and warrants to purchase 13,436,317 shares of our common stock for \$1.60 per share.

During the year ended December 31, 2001, we raised \$305,000 from the exercise of warrants for the purchase of 848,243 shares of our common stock.

During the third quarter of 2001, we decided to provide our warrant holders with an enticement to exercise their warrants by reducing the exercise price of the warrants we issued on the exercise of the special warrants and for all other outstanding warrants from exercise prices ranging between \$1.60 - \$0.50 per share to \$0.35 per share. We further reduced the exercise price of the warrants to \$0.20 in 2002 to better reflect the market price of our common stock. As noted above, during 2002 warrant holders exercised warrants for the purchase of 3,448,913 shares of our common stock for \$690,000.

Stock Compensation Activity During 2001

On February 14, 2001, the Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered under a consulting agreement. The stock options have an exercise price of \$0.50, vested immediately and expire in three years. The market value of our common stock at the grant date

was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the quarter ended March 31, 2001.

As further described in Legal Proceedings, we entered into a Settlement agreement with Charles Yang on March 23, 2001. Pursuant to the terms of the agreement, we agreed to pay Mr. Yang \$400,000 in cash in installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock. We recorded \$180,000 in expense related to this settlement during the three months ended March 31, 2001. The fair value of the stock issued was \$80,000 and is recorded as non-cash compensation in the statement of operations. We did not make the required payments to Mr. Yang by July 23, 2001 and therefore were required to issue an additional 100,000 shares of our common stock in accordance with a Modification of the original Settlement Agreement entered into between us and Mr. Yang. The fair value of the additional shares totaled \$30,000 and is recorded as non-cash compensation in the December 31, 2001 statement of operations.

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement (“Agreement”) with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the Agreement, PITRFA will market and distribute ePHONE’s prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PITRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of the Agreement.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer’s stock option agreement from March 31, 2002 to October 1, 2002.

Stock Compensation Activity During 2000

On May 5, 2000, the Board of Directors adopted the 2000 Long-Term Incentive Plan and reserved 6,000,000 shares of common stock for issuance under the Plan. During 2000, ePHONE granted 1,500,000 stock options to two officers of ePHONE, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, ePHONE recorded compensation expense totaling \$2,865,000. These two officers terminated employment with ePHONE in December 2000 and a total of 6,747,307 stock options were cancelled as provided for in the officers' Separation Agreements. The balance of 5,247,307 stock options did not vest during the year and hence did not have any impact on the financial statements. On May 9, 2000, ePHONE granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

On May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, ePHONE granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and has been recorded by ePHONE as non-cash compensation included in general and administrative expense during 2000.

On July 12, 2000, ePHONE's Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of ePHONE common stock would have been issued. Concurrently, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of ePHONE common stock in consideration to certain individuals who would have been eligible to receive shares of common stock under the performance share plan. ePHONE recorded a \$3,700,000 charge related to the granting of these shares of common stock.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

Risk Factors

The risks and uncertainties described below are not the only ones facing the company. Additional risks not presently known or that ePHONE currently considers insignificant may also impair ePHONE's business operations in the future. ePHONE's business, financial condition and plan of operations could be materially adversely affected by any of the following risks. The trading price of shares of ePHONE's common stock could decline due to any of these risks.

- The market for ePHONE's common stock is limited

There is currently only a limited trading market for ePHONE's common stock. ePHONE common stock trades on the OTC Bulletin Board under the symbol "EPHO," which is a limited market in comparison to the NASDAQ National Market, the American Stock Exchange and other national securities exchanges.

ePHONE cannot assure investors that the common stock will ever qualify for inclusion on the NASDAQ National Market or that more than a limited market will ever develop for the common stock.

- Penny stock rules limit the liquidity of ePHONE's common stock

ePHONE's common stock may now and in the future be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended (referred to herein as the Exchange Act). These rules regulate broker-dealer practices for transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These additional penny stock disclosure requirements are burdensome and may reduce the trading activity in the market for ePHONE's common stock. As long as the common stock is subject to the penny stock rules, holders of such ePHONE common stock may find it more difficult to sell their securities.

- An investment in ePHONE may be diluted

ePHONE may issue a substantial number of shares of ePHONE common stock without investor approval. Any such issuance of ePHONE securities in the future could reduce an investor's ownership percentage and voting rights in ePHONE and further dilute the value of his or her investment.

In 2001 and 2000, ePHONE incurred net losses of approximately \$7,021,129 and \$13,701,000, respectively. ePHONE's ability to achieve and sustain profitable operations depends on many circumstances. If ePHONE does not achieve and sustain profitability, its ability to respond effectively to market conditions, to make capital expenditures and to take advantage of business opportunities could be affected. In addition, ePHONE's prospects must be considered in light of the risks encountered by companies like ours developing products and services in new and rapidly evolving markets. ePHONE's failure to perform in these areas could have a material adverse effect on the business, plan of operations and financial condition.

- ePHONE's failure to acquire, integrate and operate new technology could harm their competitive position

The telecommunications industry is characterized by rapid and significant technological advancements and the related introduction of new products and services. ePHONE does not possess significant intellectual property rights with respect to the technologies we use, and we are dependent on third parties for the development of and access to new technology. The effect of technological changes on ePHONE's business plan cannot be predicted. In addition, it is impossible for ePHONE to predict with any certainty whether demand for VoIP services in the future markets will develop or will prove to be an economical and efficient technology that is capable of attracting customer usage. Failure by ePHONE to obtain and adapt to new technology in the future markets could have a material adverse effect on their business and plan of operations.

- ePHONE does not presently intend to pay dividends on our common stock

ePHONE has never paid dividends on our common stock and does not presently intend to pay cash dividends on our common stock. Any future decisions as to the payment of dividends will be at the discretion of ePHONE's Board of Directors, subject to applicable law. See "Dividend Policy."

- Telecommunications related stock prices have been especially volatile and this volatility may depress ePHONE's stock price

The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of the stocks of high technology and Telecommunications-related companies, including companies like ePHONE, and which may be unrelated or disproportionate to the operating

performance of particular companies. Factors such as quarterly variations in actual or anticipated operating results, changes in earnings estimates by analysts, market conditions in the industry, analysts' reports, announcements by competitors, regulatory actions or other events or factors, including the risk factors described in this annual report and general economic conditions may have a significant effect on the market price of ePHONE's common stock. This broad market and industry volatility may reduce the value of ePHONE's common stock, regardless of ePHONE's operating performance. Due to this volatility, the value of ePHONE's common stock could decrease.

- ePHONE's articles of incorporation provide their officers and directors with certain indemnification.

ePHONE's Articles of Incorporation provide that our directors and officers will not be personally liable to ePHONE or its shareholders for money damages for breach of the fiduciary duty of care as a director or officer.

Thus, under certain circumstances, neither ePHONE nor the shareholders would be able to recover damages even if directors take actions that harm ePHONE.

ITEM 7. FINANCIAL STATEMENTS

The information required hereunder in this report is set forth in the "Index to the Financial Statements" on F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors and Executive Officers

The directors and executive officers, their ages and positions held as of March 1, 2002 are listed below. Each director serves until the next annual meeting of the stockholders or unless they resign earlier. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Position Held</u>
Robert G. Clarke	57	Chairman of the Board of Directors
Carmine Tagliatela Jr.	54	President and Chief Executive Officer, Director
Charlie Rodriguez	56	Chief Financial Officer and Director
James Meadows	49	Chief Operating Officer
Sonny Souvannavong	34	Chief Technology Officer
John Fraser	54	Director
Sheldon Kamins	54	Director
Larry Codacovi	68	Director

The following describes the business experience during the past five years of ePHONE's Directors and Executive Officers, including for each director, other directorships held in reporting companies.

Robert G. Clarke. On December 12, 2001, Mr. Clarke was reelected as Chairman of the Board of Directors and President and Chief Executive Officer and served in both of those capacities until Carmine Tagliatela Jr. was appointed President and Chief Executive Officer on July 1, 2001. During the last five years, Mr. Clarke

has served as a Director and as President and Chief Executive Officer at various times, including serving as the Chairman of the Board of Directors from August 9, 1999 to a meeting of the Board of Directors on July 21, 2000, and from December 1, 2000 to December 12, 2001. Mr. Clarke also served as the President and Chief Executive Officer from December 1, 2000 to April 1, 2001, March 9, 2000 until April 1, 2000 and from June 3, 1999 to August 8, 1999.

Mr. Clarke has also acted an independent business consultant, assisting high technology start-up companies with public and private financings, business planning, assembling management teams and business opportunity assessments. Mr. Clarke holds a Bachelor of Commerce degree from Memorial University and Master of Business Administration from the University of Western Ontario.

Carmine Taglialatela, Jr. On April 1, 2001 Mr. Taglialatela was appointed President and Chief Operating Officer of ePHONE and elected to the Board of Directors. Effective July 1, 2001, Mr. Taglialatela was appointed Chief Executive Officer of ePHONE. Prior to joining ePHONE Mr. Taglialatela was President and Chief Operating Officer of TELRON Communications, responsible for the day-to-day operations of the company and the development of service offerings and expansion of services into new markets. Mr. Taglialatela has also held executive Vice President positions at TELRON and CompassRose International Inc. At CompassRose he managed a team of professionals on a variety of client assignments requiring extensive international telecommunications experience and expertise in strategic business development, public policy and regulatory matters. Mr. Taglialatela has secured, on behalf of clients, service authorizations in off shore markets and advised senior management on courses of action for the development of their telecommunications business. Between 1989-1997 he was Director International Public Policy and Regulatory Affairs at MCI Telecommunications Corporation where he developed and implemented MCI's regulatory and business strategy for access to international markets and was a member of an expansion team devoted to expanding MCI's presence in the global market. Mr. Taglialatela holds a BA Economics from Hunter College, City University of New York and a MBA Finance/Marketing from Fordham University.

Charlie Rodriguez. On December 1, 2000, Mr. Rodriguez was elected as a Director and appointed as Chief Financial Officer and Vice President - Corporate Affairs. Mr. Rodriguez previously served as Vice-President of Corporate Affairs and Corporate Secretary from June 1999 to April 2000. Mr. Rodriguez is also the President of Management Services of Arizona, a business consulting company specializing in mergers, acquisitions and financing. Prior to joining ePHONE, Mr. Rodriguez served as the Chief Financial Officer for Zephyr Technologies, Inc., biometrics and smartcard software integration companies. Mr. Rodriguez was a member of the board of directors of Wave Rider Communications, Inc. (WAVC - otc.bb), a wireless communication company, from January to November 1997, and served as its President and Chief Executive Officer from May 1995 to January 1997. Mr. Rodriguez holds a Bachelor of Science in Accounting and Masters in Business Administration Accounting from the University of Arizona.

James Meadows. James R. Meadows, Jr. was appointed Chief Operating Officer & Executive Vice President on February 1, 2002. Prior to joining ePHONE, Mr. Meadows served as President of PrimeTec International, Inc. from September 1999 to June 2000 where he previously was the Executive Vice President since February 1997. From September 1989 to February 1997 Mr. Meadows was the former Director of Government Affairs, Capital Network System, Inc. Currently, Mr. Meadows is a member of the Board of Directors for Versatel Telecom (VSVA – NASDAQ), a facilities based integrated telecommunications company in the Netherlands and a member of the Advisory Board of Ashely Laurent, of Austin, TX, an integrated network security software company. Historically, Mr. Meadows served as a Board Member of Comptel, the largest competitive telecommunications trade association in the USA, and was the former President and Board Member of America's Carriers Telecommunications Association.

Sonny Souvannavong. Sonny Souvannavong was hired as Chief Technology Officer on April 16, 2001. Prior to joining ePHONE, Mr. Souvannavong was the Vice President of Technology for Ecom from January 2000 to April 2001. Mr. Souvannavong also served as the Director of Information Services for Facilicom International from October 1997 to January 2000. From February 1995 to October 1997, Mr. Souvannavong was the Division Director of Information Technology for Birch & Davis Associates. Mr. Souvannavong also was a Professor of Computer Information Systems and Networking at the Strayer University in Washington,

D.C. from January 2000 to December 2000. Mr. Souvannavong holds a Bachelor of Science in Marketing from Virginia Commonwealth University in Richmond Virginia and a MBA from Strayer University in Washington DC and is certified in Microsoft, Cisco, Novell, and Sun Systems.

John G. Fraser. Mr. Fraser has been a director of ePHONE since June 1999. Prior to joining ePHONE, Mr. Fraser was Vice-Chairman of KPMG Canada, Chartered Accountants. Mr. Fraser held various positions within KPMG Canada from November 1976 until February 1998. Mr. Fraser has a Masters in Business Administration from University of Pittsburgh and a Bachelor of Commerce and Administration from Victoria University, Wellington, New Zealand.

Sheldon Kamins. Mr. Kamins was appointed as a member of the Board of Directors on October 11, 2001. Mr. Kamins has been a real estate developer in the greater metropolitan Washington, D.C. area and a venture capitalist assisting technology and other companies with public and private financing. Mr. Kamins holds a Juris Doctor degree from the Georgetown University Law Center.

Larry M. Codacovi. Mr. Codacovi was appointed as a member of the Board of Directors on January 1, 2002. Prior to joining ePHONE, Mr. Codacovi was Chairman of Pangea Ltd., a pan-European fiber optic network spanning northern Europe from 1999 to 2002. From 1988 to 1999, Mr. Codacovi served as Senior Vice President International Services for MCI WorldCom with the responsibility for expanding MCI's global reach. Mr. Codacovi previously served as Executive Vice President and a Board Member with RCA Global Communications. From 1980 to 1988, Mr. Codacovi continued in that position under the GE acquisition of RCA.

Other Matters

On April 1, 2001 ePHONE accepted the resignation from former board member Fariborz Ghadar. On August 27, 2001, ePHONE accepted resignations from former board members Anthony Balinger and Walter Pickering.

Roy Olmsted, ePHONE's former Executive Vice President and General Manager, resigned effective December 31, 2001.

B. Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act") requires officers and directors of a company with securities registered pursuant to Section 12 of the 1934 Act, and persons who own more than 10% of the registered class of such company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the subject company with copies of all Section 16(a) forms filed. Not all reports required to be filed under Section 16 have been filed.

ITEM 10. EXECUTIVE COMPENSATION

Name and Principal Position at Fiscal Year End	Year	Annual Compensation			Long Term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards Options (Shares)	All Other Compensation (\$)
Robert Clarke	2001	(1)--	--	--	(1)1,350,000	--
Chairman of the Board of Directors and former Chief Executive Officer	2000	(1)--	--	--	1,000,000	--
	1999	(1)--	--	--	--	--
Carmine Tagliatela	2001	(2)185,000	50,000	--	(2)1,600,000	--
President and Chief Executive Officer						
Charlie Rodriguez	2001	(3)137,000	--	--	(3)1,350,000	--
Chief Financial Officer	2000	(3)19,000	--	--	--	--
	1999	--	--	--	250,000	--
Roy Olmsted	2001	141,000	--	--	(4)333,333	--
Former Executive Officer and General Manager						
Sonny Souvannavong	2001	(5)87,000	--	--	275,000	--
Chief Technology Officer						

- (1) Mr. Clarke served as Chief Executive Officer and President at various times during 2001, 2000 and 1999. While serving as an executive officer, Mr. Clarke received no cash compensation. However, a company in which he has a controlling interest, received consulting payments totaling \$25,000, \$68,000 and \$48,000 in 2001, 2000 and 1999, respectively. Included in the total options awarded to Mr. Clarke during 2001 are 1,000,000 stock options that were originally granted to Mr. Clarke in 2000. The exercise price of these stock options was reduced from \$0.50 to \$0.35 in September 2001. Due to the repricing, the options are being characterized as an additional 2001 grant for purposes of this presentation.
- (2) Mr. Carmine Tagliatela was appointed President and Chief Operating Officer and began employment with ePHONE on April 1, 2001. Mr. Tagliatela was appointed Chief Executive Officer on July 1, 2002. The amounts paid to Mr. Tagliatela from April through December are based on an annual salary of \$200,000. Of the total stock options issued to Mr. Tagliatela, 600,000 were issued in April 2001 with an exercise price of \$0.50 and were subsequently repriced to \$0.35.
- (3) Mr. Charlie Rodriguez began as ePHONE's Chief Financial Officer in December 2000. The amounts paid to Mr. Rodriguez are based on an annual salary of \$145,000. In 2000, ePHONE paid \$36,000 in consulting payments to a Company controlled by Mr. Rodriguez prior to his employment with ePHONE. Included in the total options awarded to Mr. Rodriguez during 2001 are 250,000 stock options that were originally granted in 1999 in consideration for consulting services rendered to the Company. The exercise price of these options was reduced in the current year from \$0.50 to \$0.35.

- (4) Mr. Olmsted ceased employment with the Company effective December 31, 2001. During December 2001, ePHONE extended the expiration date of Mr. Olmsted's stock options, which have an exercise price of \$0.50, from March 31, 2001 to October 1, 2001.
- (5) Mr. Souvannavong began as ePHONE's Chief Technology Officer during April 2001. The amounts paid to Mr. Souvannavong are based on an annual salary of \$125,000.

Option Grants for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option grants during the last fiscal year.

Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
Robert Clarke	(1)1,000,000	(1)10.90%	0.35	6/30/02
Robert Clark	350,000	3.81%	0.35	2/14/11
Carmine Tagliatela Jr.	1,600,000	17.45%	0.35	4/1/11 – 12/17/11
Charlie Rodriguez	(1)250,000	(1)2.72%	0.35	6/30/02
Charlie Rodriguez	1,100,000	11.99%	0.35	2/14/11 – 12/17/11
Roy Olmsted	333,333	3.63%	0.50	10/1/02
Sonny Souvannavong	275,000	2.99%	0.50	5/16/11

- (1) These options were repriced as previously described. For purposes of this presentation, the percentage of total options issued to each executive officer is based on the proportion that the number of options granted to each executive bears to the total number of options granted to all employees during the fiscal year plus the sum of all repriced options or 9,168,693 (5,268,693 options granted to all employees plus 3,900,000 repriced options).

Option Exercises and Values for Fiscal 2001

The following table sets forth as to each of the named Executive Officers information with respect to option exercises during Fiscal 2001 and the status of their options on December 31, 2001.

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End (\$)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Robert Clarke	1,350,000	--	--	--
Carmine Tagliatela	1,240,000	360,000	--	--
Charlie Rodriguez	1,350,000	--	--	--
Roy Olmsted	333,333	--	--	--
Sonny Sovannavong	75,000	200,000	--	--

Compensation of Directors

Non-employee directors received no cash compensation during 2001 and were paid \$8,000 in 2000. With the exception of Mr. Fraser who received 350,000 stock options with an exercise price of \$0.35, directors received 50,000 stock options with an exercise price of \$0.35 during 2001. Directors are reimbursed for expenses they incur in attending meetings at the board or any board committee.

In addition to making the consulting payments to a companies controlled by Mr. Clarke and Mr. Rodriguez as mentioned above, ePHONE made consulting payments of \$43,000 and \$36,000 to a company controlled by Mr. John Fraser during 2001 and 2000, respectively.

Employment Agreements

At December 31, 2000, ePHONE was not party to employment agreements with any of its officers or employees.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables set forth information, as of December 31, 2001, with respect to the beneficial owners of our common stock for:

- each person or group of persons, who we know beneficially own more than 5% of any class of our outstanding stock;
- each of our executive officers named in the Summary Compensation Table;
- each of our directors; and
- all executive officers and directors as a group.

In general, under the SEC's rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security or has the power to dispose or direct the disposition of such security. A person is also deemed to be the beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days.

Name and Address of Holder	Shares of common stock beneficially owned	Percent of outstanding shares of common stock beneficially owned
Robert Clarke C-2, Bayview Court 49 Mount Davis Road Hong Kong Chairman of the Board	1,416,668(1)	4.12%
Carmine Tagliatela 10430 Deerfoot Drive Great Falls, VA 22060 President and Chief Executive Officer	1,240,000(2)	3.62%
Charlie Rodriguez 1662 W. Petunia Place Tucson, Arizona 85737 Director, Chief Financial Officer	1,350,000(2)	3.93%
John Fraser 104 Elm Avenue Toronto, Ontario M4W 1P2 Director	666,668(3)	1.98%
Sonny Souvannavong 2230 George C. Marshall Drive, #1001 Falls Church, Virginia 22043 Chief Technology Officer	75,000(2)	0.23%
Roy Olmsted 13 Plainsman Road Mississauga, Ontario L5N 1C4 Former Chief Operation Officer	333,333(2)	1.00%
Executive Officers and Directors as a Group of 6	5,081,669	13.37%
Desjardins Securities Inc. 2 Complex Desjardins E Tower Montreal, Quebec H5BIJ	1,740,248	5.28%
Brouillette Charpentier 1100 Rene-Levesque Blvd. West Montreal, Quebec H3B 5C9	2,773,295(4)	8.05%
Kinked Investments 625 Rene Levesque Blvd., Suite 205 Montreal, Quebec H3B 1R2	2,175,520(5)	6.19%

- (1) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 1,350,000 shares of common stock.
- (2) Consists of options to acquire shares of common stock.
- (3) Includes 33,334 shares of common stock, warrants to acquire 33,334 shares of common stock, and options to acquire 600,000 shares of common stock.
- (4) Consists of 1,329,545 shares of common stock and 1,443,750 warrants to purchase shares of common stock.
- (5) Consists of warrants to purchase shares of common stock.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended 2001, 2000 and 1999, ePHONE paid \$25,000, \$68,000 and \$48,000, respectively, for management services provided by a company in which Chairman of the Board of Directors Robert Clarke has a controlling interest. During 2000, \$56,000 of sales was made to a company in which Mr. Clarke has an interest.

As described under Executive Compensation, ePHONE made consulting payments to companies controlled by Mr. Fraser and Mr. Rodriguez. The payments to Mr. Rodriguez were made in 2000 before his employment with the Company as Chief Financial Officer.

During 2001, we paid \$100,000 as provided for in a Service and Development Agreement with 7bridge Systems, LTD. Mr. Clarke, John Fraser and Charlie Rodriguez have an interest in 7Bridge Capital Limited which owns 7Bridge Systems, LTD.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

The following documents are filed as part of this Form 10-KSB:

A. Exhibits

Exhibit No.	Description
3.1.....	Articles of Incorporation (1)
3.2.....	Amendment to Articles of Incorporation (1)
3.3.....	Bylaws (1)
3.4.....	Amended and Restated Articles of Incorporation (2)
10.1.....	Specimen of form of Option Incentive Agreement (1)
10.2.....	Agency Agreement dated as of March 16, 2000 between ePHONE and Groome Capital.com, Inc. (3)
10.3.....	ePHONE Telecom, Inc. 2000 Long-Term Incentive Plan (4)
10.4.....	Employment Agreement with James Meadows, Chief Operating Officer (filed herewith)
10.5.....	Employment Agreement with Carmine Tagliatela, President and Chief Executive officer (filed herewith)
24.....	Powers of Attorney (filed herewith)
99.1.....	Settlement Agreement and Mutual General Release between Charlie Yang and ePHONE Telecom, Inc., dated March 23, 2001 (5)
99.2.....	Modification to Settlement Agreement and Mutual General Release between Charlie Yang and ePHONE Telecom, Inc., dated March 23, 2001 (filed herewith)
99.3.....	Press release, dated April 3, 2001, issued in connection with appointment of Carmine Tagliatela Jr. as President and Chief Operating Officer. (6)

(1) Previously filed as an exhibit to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on October 15, 1999.

(2) Previously filed as an exhibit to Amendment No. 2 to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on January 5, 2000.

(3) Previously filed as an exhibit to Amendment No. 5 to ePHONE's Form 10-SB, filed with the Securities Exchange Commission on June 5, 2000.

(4) Previously filed as an exhibit to ePHONE's form SB-2 filed with the Securities and Exchange Commission.

(5) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 16, 2001.

(6) Previously filed as an exhibit to ePHONE's form 8-K, filed with the Securities and Exchange Commission on April 13, 2001.

B. Reports on Form 8-K:

On April 13, 2001, ePHONE filed with the Commission a current report on 8-K related to the Settlement Agreement entered into by and between Mr. Charles Yang and ePHONE Telecom, Inc., dated March 23, 2001.

On April 16, 2001, ePHONE filed with the Commission a current report on 8-K related to the appointment of Carmine Tagliatela Jr. as President and Chief Executive Officer.

SIGNATURE PAGE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

ePHONE Telecom, Inc.
(Registrant)

By /s/ Carmine Tagliatela, Jr.
(Carmine Tagliatela, Jr., CEO)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Date</u>
<u>By /s/ Carmine Tagliatela, Jr.</u> (Carmine Tagliatela, Jr., CEO, Director) (Principal Executive Officer)	April 12, 2002
<u>By /s/ Charlie Rodriguez</u> (Charlie Rodriguez, Chief Financial Officer) (Principal Financial and Accounting Officer)	April 12, 2002
<u>By /s/ Robert G. Clarke*</u> (Robert G. Clarke, Chairman)	April 12, 2002
<u>By /s/ John Fraser*</u> (John Fraser, Director)	April 12, 2002
<u>By /s/ Shelly Kamins*</u> (Shelly Kamins, Director)	April 12, 2002
<u>By /s/ Larry Codacovi*</u> (Larry Codacovi, Director)	April 12, 2002

*By: Charlie Rodriguez
Attorney-In-Fact

Index to Financial Statements	Page
Report of Independent Certified Public Accountants	F-2
Balance Sheets as of December 31, 2001 and 2000	F-3
Statements of Operations for the Two Years Ended December 31, 2001 and 2000.....	F-4
Statements of Stockholders' (Deficit) Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2001 and 2000.....	F-5
Statements of Cash Flows for the Years Ended December 31, 2001 and 2000.....	F-6
Notes to Financial Statements	F-7 – F-19

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Stockholders of ePHONE Telecom, Inc.

We have audited the accompanying balance sheets of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ePHONE Telecom, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Vienna, Virginia

February 15, 2002 (except for notes 2 and 13 as to which the date is April 11, 2002)

ePHONE Telecom, Inc.

Balance Sheets

	December 31,	
	2001	2000
Current Assets:		
Cash and cash equivalents	\$ 35,970	\$ 1,525,978
Investment in marketable securities	—	2,170,908
Restricted cash	—	579,435
Accounts receivable, net of allowance for returns of \$116,405 at December 31, 2001	155,759	39,200
Inventory	16,500	553,218
Other receivables	65,481	18,893
	<u>273,710</u>	<u>4,887,632</u>
Total Current Assets	273,710	4,887,632
Property and equipment, net	1,296,561	999,902
Array Telecom Lease, net	—	1,663,942
Other Assets	18,043	287,543
	<u>18,043</u>	<u>287,543</u>
Total Assets	<u>\$ 1,588,314</u>	<u>\$ 7,839,019</u>
Liabilities and Stockholders' (Deficit) Equity:		
Current Liabilities:		
Accounts payable	\$ 850,179	\$ 309,258
Accrued liabilities	654,765	1,169,244
Deferred revenue	367,009	—
Capital lease obligation, current portion	22,663	—
Customer advances	—	25,853
	<u>1,894,616</u>	<u>1,504,355</u>
Total Current Liabilities	1,894,616	1,504,355
Deferred royalty obligation	—	410,000
Capital lease obligation, net of current portion	15,839	—
Other long term obligation, net of current portion	142,500	—
Commitments and Contingencies	—	—
Stockholders' (Deficit) Equity:		
Common stock, par value \$0.001:		
150,000,000 shares authorized, 32,987,381 and 17,453,848 issued and outstanding at December 31, 2001 and 2000, respectively.	32,987	17,454
Additional paid-in capital	21,843,199	21,204,687
Accumulated other comprehensive income	—	22,221
Accumulated deficit	(22,340,827)	(15,319,698)
	<u>(464,641)</u>	<u>5,924,664</u>
Total Stockholders' (Deficit) Equity	(464,641)	5,924,664
Total Liabilities and Stockholders' (Deficit) Equity	<u>\$ 1,588,314</u>	<u>\$ 7,839,019</u>

See accompanying notes to financial statements

ePHONE Telecom, Inc.

Statements of Operations

	Years ended December 31,	
	2001	2000
Service revenue	\$ 3,077,050	\$ —
Product revenue	512,790	589,823
Total revenues	3,589,840	589,823
Operating expenses		
Cost of service revenue	2,025,207	—
Cost of product revenue	475,826	411,550
Sales and marketing	1,212,026	1,852,970
General and administrative	5,484,191	4,786,660
Non-cash compensation	348,760	7,433,445
Write off of Array Telecom license and disposal of obsolete inventory and equipment, net	1,188,383	—
Total operating expenses	10,734,393	14,484,625
Loss from operations	(7,144,553)	(13,894,802)
Interest and other (income), net	(123,424)	(193,702)
Net loss	\$ (7,021,129)	\$ (13,701,100)
Loss per share—(basic and diluted)	\$ (0.28)	\$ (0.94)
Weighted average number of common shares outstanding	24,910,425	14,573,105

See accompanying notes to financial statements

ePHONE Telecom, Inc.

Statements of Stockholders' Equity (Deficit) and Other Comprehensive Income (Loss)

	Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance,						
December 31, 1999	13,170,667	\$ 13,171	\$ 1,375,954	\$ —	\$ (1,618,598)	(229,473)
Common stock issued for cash	179,333	179	134,321	—	—	134,500
Exercise of stock purchase warrants	92,400	92	115,408	—	—	115,500
Sale of special warrants for cash, net	—	—	12,149,571	—	—	12,149,571
Stock and warrants issued in exchange for services	4,011,448	4,012	4,565,267	—	—	4,569,279
Employee stock options	—	—	2,864,166	—	—	2,864,166
Net loss	—	—	—	—	(13,701,100)	(13,701,100)
Change in unrealized gain	—	—	—	22,221	—	<u>22,221</u>
Total comprehensive loss	—	—	—	—	—	<u>(13,678,879)</u>
Balance,						
December 31, 2000	17,453,848	17,454	21,204,687	22,221	(15,319,698)	5,924,664
Stock options issued in exchange for services	—	—	90,545	—	—	90,545
Common stock issued in legal settlement	500,000	500	109,500	—	—	110,000
Common stock issued in exchange for services	748,973	749	147,466	—	—	148,215
Proceeds from issuance of common stock	848,243	848	304,437	—	—	305,285
Conversion of Special Warrants	13,436,317	13,436	(13,436)	—	—	—
Net Loss	—	—	—	—	(7,021,129)	(7,021,129)
Change in unrealized gain	—	—	—	(22,221)	—	<u>(22,221)</u>
Total comprehensive loss	—	—	—	—	—	<u>(7,043,350)</u>
Balance,						
December 31, 2001	<u>32,987,381</u>	<u>\$ 32,987</u>	<u>\$ 21,843,199</u>	<u>\$ —</u>	<u>\$ (22,340,827)</u>	<u>\$ (464,641)</u>

See accompanying notes to financial statements

ePHONE Telecom, Inc.

Statements of Cash Flows

	Years ended December 31,	
	2001	2000
	<u>2001</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Net loss	\$ (7,021,129)	\$ (13,701,100)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	785,575	665,195
Stock issued for services rendered	258,215	4,569,279
Stock option benefits charged to operations	90,545	2,864,166
Allowance for sales returns	116,405	—
Deferred royalty expense	193,334	410,000
Realized gain	(45,470)	—
Inventory reserve	108,900	—
Write down of investment in ePHONE Technologies, Inc.	184,000	—
Write off of Array Telecom license and the disposal of obsolete inventory and equipment	1,188,383	—
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(135,661)	(58,093)
Inventory	78,175	(553,218)
Other assets	85,500	166,657
Accounts payable	540,921	26,360
Accrued liabilities	(371,979)	837,244
Deferred revenue	223,118	—
Due to related parties	—	(91,995)
Customer deposits	(25,853)	25,853
Net Cash Flows Used in Operating Activities	<u>(3,747,021)</u>	<u>(4,839,652)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(813,857)	(999,977)
Purchase of Array Telecom license	—	(2,218,589)
Purchase of investments	—	(2,798,687)
Redemption of marketable securities	2,194,157	650,000
Deposit to restricted cash, net	579,435	(579,435)
Investment in ePHONE Technologies, Inc.	—	(170,000)
Net cash flows provided by (used in) investing activities	<u>1,959,735</u>	<u>(6,116,688)</u>
Cash flows provided by financing activities:		
Proceeds from issuance of common stock	305,285	250,000
Proceeds from issuance of special warrants, net	—	12,149,571
Repayments on capital lease	(8,007)	—
Net cash flows provided by financing activities	<u>297,278</u>	<u>12,399,571</u>
Net (decrease) increase in cash and cash equivalents	(1,490,008)	1,443,231
Cash and cash equivalents, beginning of year	<u>1,525,978</u>	<u>82,747</u>
Cash and cash equivalents, end of year	<u>\$ 35,970</u>	<u>\$ 1,525,978</u>

See accompanying notes to financial statements

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

ePHONE Telecom, Inc. ("ePHONE") was incorporated in 1996 under the laws of the State of Florida, and is traded on the OTC Electronic Bulletin Board operated by the National Association of Securities Dealers, Inc. under the trading symbol "EPHO". We were a development stage company, as defined in Statement of Financial Accounting Standard No. 7 until we began generating revenues from our principal business activities during August 2001.

We provide telecommunication services to retail and wholesale customers. Our vision is to become a global telecommunications carrier providing a full complement of telecommunications services, including phone-to-phone one-step dialing, using Voice over Internet Protocol ("VoIP") technology. Using a call origination approach that involves its own Customer Premise Equipment ("CPE"), and a combination of its own dedicated Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), we plan to develop the capacity to provide voice and fax transmission and other telephony features at high quality and low cost.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about amounts that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

SUPPLEMENTAL CASH FLOW INFORMATION AND NON CASH INVESTING AND FINANCING ACTIVITIES

For the years ended December 31, 2001 and 2000, we paid no income taxes or interest. During the year ended December 31, 2001, we entered into capital lease obligations totaling \$46,509.

INVENTORY

Inventory consists primarily of component parts held for resale and is stated at the lower of cost, utilizing the weighted average method, or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 5 to 7 years. Routine repairs and maintenance are expensed as incurred.

INVESTMENTS IN MARKETABLE SECURITIES

We classify marketable securities as available for sale. The securities consist of debt securities, which are stated at fair value, with net unrealized gains or losses on the securities recorded as accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the securities. Realized gains were \$45,470 in 2001. There were no realized gains in 2000.

INVESTMENT IN EPHONE TECHNOLOGIES, INC.

Our investment in 20% of the outstanding common stock of ePHONE Technologies, Inc. (ePHONE Tech) is accounted for using the cost method. We do not exercise significant influence over ePHONE Tech's operating or financial activities.

IMPAIRMENT OF LONG-LIVED ASSETS

We review long-lived assets 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 the assets to the expected future net cash flows generated by the assets. If the 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. During the years ended December 31, 2001 and 2000, our analyses indicated that there was an impairment of long lived assets associated with the Array Telecom License, as described in Note 6, and our investment in ePHONE Tech, as described in Note 7.

REVENUE RECOGNITION

We recognize telecommunication services revenues over the period services are provided. Monthly recurring telecommunications services are billed in advance. Any portion of our services that is billed for which we have not yet provided services is recorded as deferred revenue.

Product sales are recognized upon shipment. Typical terms of sale do not provide the customer with the right of return except for defective products, which are covered by the warranty of the original equipment manufacturer. The Company also generated revenues from product licenses and services. Product license revenues were generally recognized upon product shipment provided that no significant post-delivery obligations existed and payment was due within one year. Advance payments of product licenses and services were reported as unearned revenue until all conditions for revenue recognition are met. The majority of our customers prepay for their services. We establish an allowance for doubtful accounts based upon factors, which include historical trends and other information.

STOCK-BASED COMPENSATION

We account for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, and comply with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the our common stock and the exercise price.

We account for non-employee stock-based awards in which services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measured. We determined the value of stock grants made to both employees and non-employees based on the quoted market price of our common stock on the date of grant. We determine the fair value of warrants and options we granted to non-employees using the Black-Scholes option pricing model.

Deferred income taxes result primarily from temporary differences between financial and income tax reporting. Deferred tax assets and liabilities are determined based on the differences between the financial statement bases and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded to reduce the deferred tax asset to that portion that is expected to more likely than not be realized.

NET LOSS PER SHARE

We report basic and diluted loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Diluted earnings per share is computed by dividing net loss by the weighted average number of shares adjusted for the potential dilution that could occur if stock options, warrants and other convertible securities were exercised or converted into common stock.

For the years ended December 31, 2001 and 2000, options and warrants to purchase 24,661,540 and 9,654,377 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

RECLASSIFICATIONS

Certain 2000 balances and disclosures have been reclassified to conform to the 2001 presentation.

NOTE 2 – OPERATIONS

As shown in the accompanying financial statements, we have incurred operating losses since our inception, and have accumulated a deficit of \$22,341,000 at December 31, 2001. Our continued existence is dependent upon our ability to develop profitable operations, continue to successfully introduce our products to market and if necessary, obtain additional financing to fund future operations. As described in Note 13, in March 2002, existing investors in the Company exercised outstanding warrants, purchasing 3,448,913 shares of the Company's common stock for \$690,000.

Management believes that together with our cash on hand, proceeds from the warrants exercised in 2002, and cash flow from our planned level of 2002 operations that we have sufficient resources to enable us to sustain our current and planned level of operations for at least the next 12 months without the need for additional investment capital.

During the three months ended March 31, 2002, we received cash payments from customers totaling \$4,063,000. At March 31, 2002 we had a working capital surplus of \$570,000 including subscription receivables from the exercise of warrants of \$388,000 as described in Note 13.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001 and 2000 we incurred costs for management services provided by companies in which certain directors of ours have a controlling interest and incurred consulting fees to certain directors of ours totaling \$74,000 and \$110,000, respectively.

During the year ended December 31, 2001, we paid \$248,000 to ePHONE Technologies, Inc., a company we hold a 20% equity interest in, for consulting services. We also paid \$25,000 in consulting fees to one of our officers, and paid \$100,000 as provided for in a Service and Deployment Agreement with 7bridge Systems, LTD, a related party, a company in which our Chairman of the Board and Chief Financial Officer have an interest in.

NOTE 4 - MARKETABLE INVESTMENTS

Our available for sale investments consisted of debt instruments issued by federal and state government agencies. During the year ended December 31, 2001, we redeemed the remaining \$2,194,000 of available-for-sale debt securities. During the year ended December 31, 2000, we redeemed \$650,000 of available for sale debt securities. Contractual maturities were as follows at December 31, 2000:

December 31, 2000	Cost	Market Value	Unrealized Gain (Loss)
Mature within one year.....	\$1,557,131	\$1,588,929	\$ 31,798
Mature within one to five years.....	<u>591,556</u>	<u>581,979</u>	<u>(9,577)</u>
Total available-for-sale securities.....	<u>\$2,148,687</u>	<u>\$2,170,908</u>	<u>\$ 22,221</u>

NOTE 5 - PROPERTY AND EQUIPMENT AND CAPITAL LEASE OBLIGATION

At December 31, 2001 and 2000, property and equipment consisted of the following:

	December 31, 2001	December 31, 2000
Computer equipment	\$ 198,785	\$ 119,739
Furniture and fixtures	340,986	535,143
Telecommunications equipment	322,303	106,863
Other equipment	<u>711,022</u>	<u>380,777</u>
	1,573,096	1,142,522
Less: accumulated depreciation	<u>(276,535)</u>	<u>(142,620)</u>
Property and equipment, net	<u>\$1,296,561</u>	<u>\$ 999,902</u>

Property and equipment includes a capitalized lease asset and accumulated depreciation on the capitalized lease asset of \$46,509 and \$7,306, respectively, at December 31, 2001. There were no capitalized lease assets as of December 31, 2000. Payments for the capital lease obligation by fiscal year are as follows:

Year ending December 31,

2002	\$ 29,295
2003	<u>17,089</u>
Total gross payments	46,393
Less amount representing interest	<u>(7,891)</u>
	38,502
Less current portion	<u>(22,663)</u>
Long-term portion of capitalized lease obligation	<u>\$ 15,839</u>

Depreciation expense (including depreciation on the capitalized lease asset during 2001) was \$230,928 and \$110,548 for the years ended December 31, 2001 and 2000, respectively.

NOTE 6 - ARRAY TELECOM LICENSE AND DEFERRED ROYALTY OBLIGATION

In March 2000, we entered into a Strategic Alliance Agreement and a License Agreement with Comdial Corporation ("Comdial") and Array Telecom Corporation ("Array Telecom"), a wholly owned subsidiary of Comdial. In connection with the Agreement and the License, we made an initial payment to Comdial of \$2.65 million and received the fixed assets of Array Telecom, assumed the lease of Array Telecom's Herndon, Virginia facility and an exclusive license for all Voice over Internet Protocol (VoIP) technology that had been developed by Array Telecom for a period of five years. The License Agreement required that we pay additional minimum royalty fees of \$2,180,000 for the VoIP technology over a five-year period.

During the fourth quarter of 2000, we determined that due to the rapidly changing technology in the VOIP industry, a shorter amortization life for the License Agreement was appropriate and shortened the expected life to three years. The shortened life gave rise to a deferred royalty obligation representing the difference between the straight-line expense over the shortened three-year life of the License Agreement and the actual royalty payments which were scheduled to be made over a five-year period.

During the third quarter of 2001, we filed for arbitration against Comdial as further described in Note 10. We had made royalty payments of \$90,000 and had remaining future minimum royalty payments of \$2,090,000 at the time of the License Agreement termination. We have accrued royalty fees of \$225,000, which represents the unpaid royalty fees up to the License Agreement termination date. Since Comdial has terminated the License Agreement, we have reversed the previously recorded deferred royalty obligation of \$603,000 (\$410,000 at December 31, 2000) during the year ended December 31, 2001. We have also decided to discontinue use of the Array Telecom technology and therefore, have written off the remaining balance of the Array Telecom License of \$1,109,295 at December 31, 2001. We have presented the net effect of the write off of the Array License and the reversal of the deferred royalty obligation along with a write-off of other Array Telecom technology assets in the statement of operations.

NOTE 7 – TRANSACTION WITH AND INVESTMENT IN EPHONE TECHNOLOGIES, INC.

On December 1, 2000, in connection with the termination of certain executive officers of our Company, we entered into a Support and Development Agreement with ePHONE Technologies, Inc (ePHONE Tech), a company formed by the terminated executive officers in December 2000. Under this Agreement, ePHONE Tech provided us with Internet telephony technology support and development services at an hourly rate plus reimbursements for certain support services, as defined in the agreement. The term of the agreement was one year and included renewal options for consecutive one-year terms, which we have elected not to exercise.

As provided for in the agreement, we purchased a 20% equity interest in ePHONE Tech. Since the agreement contained a provision, allowing ePHONE Tech to repurchase our equity interest for \$185,000 at any time prior to the third anniversary of the agreement, we recorded the equity investment in ePHONE Tech at \$185,000. The remaining portion of the \$880,000 (which consisted of \$865,000 in cash and \$15,000 in equipment) or \$695,000, we incurred in connection with the termination of these executive officers was included in general and administrative expense for the year ended December 31, 2000.

At December 31, 2001, we recognized an impairment write-down of substantially all of the remaining carrying value of this investment. The write-down totaled \$184,000 and is recorded as general and administrative expense in the Statement of Operations at December 31, 2001. The remaining carrying value of this investment is \$1,000 and is recorded as a non-current other asset at December 31, 2001.

NOTE 8 - ACCRUED LIABILITIES AND LONG TERM OBLIGATION

Accrued expenses consist of the following:

	December 31,	
	2001	2000
Accrued vacation.....	\$ 32,411	\$ 15,412
Accrued compensation.....	35,443	--
Redeemable special warrants.....	--	579,435
Accrued legal fees.....	147,300	212,000
Other obligation, current portion.....	82,500	300,000
Comdial obligation.....	225,576	--
Other.....	<u>131,535</u>	<u>62,397</u>
	<u>\$ 654,765</u>	<u>\$1,169,244</u>

At December 31, 2000, certain special warrant holders had not exercised their right to redeem a portion of their original investment, as described in Note 9. All of these warrant holders subsequently exercised this right during 2001.

We were involved in arbitration, resulting from the termination of our former President and Chief Operating Officer, Mr. Charles Yang. A breakdown in the relationship between Mr. Yang and us developed in early 2000 and he ceased providing any services to us on January 31, 2000. Mr. Yang was formally terminated on March 9, 2000.

F-12

On March 23, 2001, we entered into a Settlement Agreement and Mutual General Release (the "Settlement Agreement") with Charles Yang to resolve all claims and disputes between ePHONE and Mr. Yang, including all claims relating to Mr. Yang's employment by and separation from ePHONE. Pursuant to the terms of the Settlement Agreement, we agreed to pay Mr. Yang \$400,000 in cash installments by July 23, 2001, and issue Mr. Yang 400,000 shares of our common stock as further described in Note 9. We had previously accrued \$300,000 during 1999, and the additional \$100,000 liability related to the settlement was accrued during the year ended December 31, 2001.

We did not make the required cash payments by July 23, 2001 and the balance due Mr. Yang was \$150,000 at December 31, 2001. Effective January 29, 2002, we entered into a Modification Agreement of the original Settlement Agreement and were required to issue Mr. Yang an additional 100,000 shares of our common stock, as further described in Note 9, and pay an additional \$75,000, which is recorded as a general and administrative expense as of December 31, 2001. The total amount due Mr. Yang of \$225,000 will be repaid in 30 monthly installments of \$7,500 beginning in 2002. Payments by fiscal year are as follows:

Year ending December 31,

2002.....	\$ 82,500
2003.....	90,000
2004.....	<u>52,500</u>
	225,000
Current portion included in accrued liabilities..	<u>(82,500)</u>
Long-term obligation.....	<u>\$ 142,500</u>

NOTE 9 - STOCKHOLDERS' EQUITY

COMMON STOCK

Beginning in November 1999 and ending in February 2000, we sold a total of 1,350,000 "units" for \$0.75 a unit to investors outside the United States pursuant to Regulation S under the Securities Act of 1933, as amended (referred to herein as the Securities Act). Each "unit" consisted of one share of our common stock and one warrant to purchase an additional share of common stock at \$1.25. On September 12, 2001, our Board of Directors approved a resolution to reduce the exercise price of the warrant included with each unit to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. During the year ended December 31, 2001 and 2000, investors exercised warrants for the purchase of 848,243 and 92,400 shares of our common stock, respectively. We received \$134,500 and \$878,000 for the sale of the units during 2000 and 1999, respectively, and \$296,885 and \$115,500 for the exercise of the warrants in 2001 and 2000, respectively. During December 2001, we also received \$8,400 for the exercise of warrants for which shares of common stock will be issued in 2002. The warrants expire March 30, 2002.

During May 2000, the Company issued 345,000 shares of stock to a consultant as further described under non-employee stock compensation.

On July 12, 2000, our Board of Directors voted to rescind a performance share plan previously adopted in 1999 pursuant to which up to 15,000,000 shares of Company common stock would have been issued for no additional consideration if we were to meet certain performance objectives by the end of fiscal year 2002. The performance share plan was rescinded because of changes in our business plan since the adoption of the performance share plan. Concurrently with rescinding the performance share plan, the Board of Directors agreed to grant for no additional consideration a total of 3,666,448 shares of our common stock to four individuals who are former executive officers and consultants who would have been eligible to receive shares of common stock under the performance share plan. Our stockholders approved the issuance of these shares and an amendment to our Articles of Incorporation, increasing the number of authorized shares of common stock from 50,000,000 to 150,000,000 at the Annual Meeting of Stockholders on August 23, 2000. The shares of common stock were granted in consideration for services rendered to us during the period from the fourth quarter of 1998 through the first quarter of 2000. We recorded a \$3,700,000 charge during 2000 related to the granting of these shares of common stock.

On March 23, 2001, we entered into a Settlement Agreement with Charles Yang, which was subsequently modified in January 2002 as described in Note 8. In accordance with the Settlement Agreement and subsequent Modification Agreement, we issued a total of 500,000 shares of our common stock to Mr. Yang. The fair value of these shares totaled \$110,000 and is recorded as non-cash compensation expense as of December 31, 2001.

During August 2001, 13,436,317 Special Warrants were converted into 13,436,317 shares of our common stock as described under Special Warrants below.

During October and November 2001, we issued 200,000 shares of our common stock to a consultant who provided marketing and business development services to ePHONE as further described under non-employee stock compensation below.

During November 2001, we issued 538,973 shares of our common stock to PITRFA, Inc., a marketing and distribution company, as further described under non-employee stock compensation below.

During February 2002, we negotiated a settlement agreement with a former consultant in which we were required to issue 10,000 shares of common stock in exchange for past services rendered. The fair value of the common stock was \$2,200 and is recorded as general and administrative expense as of December 31, 2001.

SPECIAL WARRANTS

In early 2000, we sold a total of 13,780,837 special warrants to investors outside of the United States pursuant to Regulation S under the Securities Act. Each special warrant was purchased for \$1.10, and each special warrant when exercised entitled the holder to one share of common stock for no additional consideration and one purchase warrant to purchase an additional share of common stock for \$1.60. Holders of special warrants were originally entitled to receive up to 13,780,837 shares of common stock in the aggregate upon exercise of the special warrants and up to an additional 13,780,837 shares of common stock in the aggregate upon exercise of the purchase warrants. The purchase warrants expire on March 30, 2002.

In connection with the sale of special warrants described above, we granted GroomeCapital.com, Inc., which served as our agent in the sale of the special warrants, compensation warrants to purchase 889,251 units exercisable into 889,251 shares of common stock and 889,251 warrants at \$1.10 per unit. The warrant received with each unit is exercisable into a share of common stock at \$1.60 per share. We also issued options to purchase 250,000 shares of common stock at \$0.60 per share. The compensation warrants and options expire on March 30, 2002.

The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently, each special warrant holder was entitled to exercise

their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they are holding by the same percentage ("Redemption Right"). In addition, each special warrant holder had the right to receive an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of December 31, 2001, all special warrant holders exercised their Redemption Right and we returned \$1,894,865 to these investors.

On August 13, 2001 final receipts from the regulators of the British Columbia, Alberta, Ontario and Quebec provinces in Canada were received for the registration prospectus dated August 7, 2001. Each Special Warrant was then deemed converted, as provided for in the special warrant agreement, into one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$1.60 per share expiring on March 30, 2002, for no additional consideration. Upon exercise of the special warrants, taking into consideration the exercise of Redemption Rights by all the investors, and the issuance of additional shares of our common stock equal to 10% of the special warrant holders initial investment, we issued a total of 13,436,317 shares of common stock and stock purchase warrants for the purchase of up to 13,436,317 shares of our common stock for \$1.60 per share to these investors. On September 26, 2001, our Board of Directors approved a resolution to reduce the price of the stock purchase warrants to \$0.35 and effective February 23, 2002 further reduced the exercise price to \$0.20 to reflect the market price and provide an inducement for the warrant holders to exercise the warrants. Proceeds from the Special Warrant offering totaled \$12,149,571, net of \$1,114,485 in offering costs and \$1,894,865 returned to shareholders upon the exercise of their Redemption Right. Certain warrant holders exercised their warrants in 2002 as described under subsequent events below.

NON-EMPLOYEE STOCK COMPENSATION ISSUED IN EXCHANGE FOR SERVICES RECEIVED

As partial consideration for services rendered under a consulting agreement entered into on May 24, 2000, for a detailed analysis of Internet Protocol development and market opportunities in various major countries, we granted Sobois-Livert Investment Corporation warrants to purchase 250,000 shares of common stock at \$0.60 per share and, as agreed to, upon completion of the consulting engagement and delivery of certain reports, additional warrants to purchase 488,833 shares of common stock at \$1.10 per share. Both sets of warrants expire on May 24, 2002. The fair value of these warrants totaled \$299,000 and was recorded as non-cash compensation during the year ended December 31, 2000.

On May 9, 2000, we granted 345,000 shares of common stock to Cornwall Management Ltd. as partial consideration for services rendered under a consulting agreement. The fair value of the shares totaled \$604,000 and was recorded as a non-cash compensation expense for the year ended December 31, 2000.

On February 14, 2001, our Board of Directors approved the issuance of 250,000 stock options to a consultant in an exchange for services rendered. The stock options have an exercise price of \$0.50, vest immediately and expire in three years. The market value of the our common stock at the grant date was \$0.23. The fair value associated with these options totaled \$42,500 and was recorded as non-cash compensation during the year ended December 31, 2001.

During October and November 2001, we issued 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock to a consultant as consideration for marketing and business development consulting services rendered. The fair value of these shares of common stock totaled \$49,000 and is recorded as non-cash compensation expense as of December 31, 2001. The options have an exercise price of \$0.50 and vest immediately. The fair value associated with these options was \$48,045 and is recorded as non-cash compensation expense during the year ended December 31, 2001. During 2002, under the terms of a consulting agreement, we may be required to issue this consultant 200,000 shares of our common stock and 200,000 options to purchase shares of our common stock subject to mutually agreed upon performance goals.

F-15

On November 29, 2001, we entered into an exclusive Marketing and Distribution Agreement "Agreement" with PITRFA Inc., a Florida based sales, marketing and distribution company. As defined in the agreement, PITRFA will market and distribute ePHONE's prepaid 1+ long distance service for a period of three years. Upon signing the Agreement, we issued PITRFA 538,973 shares of our common stock. The fair value associated with these shares of

common stock totaled \$97,015 and is recorded as non-cash compensation expense in our December 31, 2001 Statement of Operations. The Agreement also contains a provision for the issuance of additional shares of our common stock if our common stock reaches certain price levels in the future as follows: a) if the price of our common stock reaches \$2.50 per share we will be required to issue PITRFA a second tranche of 538,973 shares and; b) if the price of our common stock subsequently reaches \$5.00 per share, we will be required to issue PITRFA a third tranche of 538,973 shares. The maximum amount of shares that would be issued if all milestones are met is 1,616,919, which represents 5% of our common stock outstanding at the signing of this Agreement.

The following table summarizes information for non-employee stock options and stock purchase warrants granted for services, and issued in connection with private placements we have completed:

	Year Ended December 31, 2001		Year Ended December 31, 2000	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Beginning balance	4,385,684	\$0.91	2,420,667	\$0.86
Granted (including Special Warrant Conversion in 2001)	13,886,317	\$0.35	2,057,417	\$0.99
Exercised	(848,243)	\$0.35	(92,400)	\$1.25
Cancelled	--	--	--	--
Ending balance	<u>17,423,758</u>	<u>\$0.42</u>	<u>4,385,684</u>	<u>\$0.91</u>

EMPLOYEE STOCK COMPENSATION

During 1999, we granted 2,250,000 options to purchase common stock at \$.50 per share to certain directors and officers.

On May 5, 2000, our Board of Directors adopted the 2000 Long-Term Incentive Plan (the "Plan") and reserved 6,000,000 shares of common stock for issuance under the Plan. The Plan provides for grants and awards of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock and incentive shares to officers, key employees, directors, persons hired to be employees, and who the Board determines will be officers or key employees upon commencement of employment, and consultants or independent contractors for rendering key services. The Board will determine the exercise price per share of the Common Stock purchasable under a stock option and the options will have various vesting schedules ranging from immediate vesting to vesting on specified dates and over various periods of time. In general, options granted under this plan will expire in ten years from the date of grant.

During 2000, we granted 1,500,000 stock options to two officers, which vested on the grant date with the exercise price less than the market price at grant date. In accordance with APB 25, we recorded compensation expense totaling \$2,865,000. These two officers terminated employment with us in December 2000 and a total of 6,747,307 in accumulated stock option awards were canceled as provided for in their Separation Agreements.

In connection with the termination of these two officers, all other outstanding unvested stock options became immediately vested pursuant to a provision in the Plan.

On September 12, 2001 our Board of Directors approved a resolution to reduce from \$0.50 to \$0.35 the exercise price of 3,900,000 stock options held by certain Board members, executive officers and former employees. Since the repricing we have accounted for these options using variable accounting. We have not recorded any compensation expense in connection with this repricing since the new exercise price has been higher than or equal to the market price.

On December 17, 2001, our Board of Directors approved a resolution to extend the expiration date of a former officer's stock option agreement from March 31, 2002 to October 1, 2002.

The following table summarizes information concerning our stock options:

	Years Ended December 31,			
	2001		2000	
	Number of Shares	Weighted Average Price Per Share	Number of Shares	Weighted Average Price Per Share
Beginning balance	5,268,963	\$0.81	2,250,000	\$0.50
Granted	5,713,333	0.41	9,776,000	\$0.70
Exercised	--	--	--	--
Cancelled	<u>(3,784,244)</u>	<u>0.90</u>	<u>(6,757,307)</u>	<u>\$0.56</u>
Ending balance	<u>7,197,782</u>	<u>\$0.40</u>	<u>5,268,693</u>	<u>\$0.81</u>

The following table summarizes information about stock options issued to employees, outstanding at December 31, 2001:

Range of Exercise Prices	Number of Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.35 to \$0.35...	5,700,000	6 years	\$0.35	5,340,000	\$0.35
\$0.50 to \$0.50...	1,273,333	9 years	\$0.50	583,333	\$0.50
\$0.60 to \$1.09...	196,449	8 years	\$1.09	196,449	\$1.09
\$1.09 to \$1.59...	<u>28,000</u>	<u>9 years</u>	<u>\$1.44</u>	<u>28,000</u>	<u>\$1.44</u>
	<u>7,197,782</u>	<u>7 years</u>	<u>\$0.40</u>	<u>6,147,782</u>	<u>\$0.39</u>

Had compensation expense for our plan been determined based on the fair value at the grant date for plan awards consistent with the provisions of SFAS No. 123, our net loss and net loss per common share outstanding would have been the pro forma amounts indicated below:

	Year Ended December 31,	
	2001	2000
Net loss -- as reported	\$ (7,021,129)	\$ (13,701,100)
Net loss -- pro forma	\$ (7,724,071)	\$ (16,649,035)
Net loss per share -- as reported	\$ (0.28)	\$ (0.94)
Net loss per share -- pro forma	\$ (0.31)	\$ (1.14)

The weighted-average fair values of each option at the date of grant for 2001 and 2000 was \$0.16 and \$1.04, respectively, and were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used in 2001 and 2000: dividend yield of 0%; expected volatility of 150% in 2001 and 2000; risk-free interest rate of 4.08% in 2001 and 6.22% in 2000; and expected lives of 3 years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Comdial Arbitration

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$11,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Herndon Office Lease

The following is a schedule of future minimum payments with respect to the Herndon, Virginia office lease:

Year Ending December 31,	
2002.....	179,004
2003.....	184,374
2004.....	<u>62,061</u>

Total future minimum payments..... \$ 425,439

Rent expense was \$165,258 and \$128,527 for the years ended December 31, 2001 and 2000, respectively.

NOTE 11 - INCOME TAXES

As we have incurred losses since our inception, no provision for US federal or state income taxes have been recorded in any period.

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets for federal and state income taxes are as follows:

	Year Ended December 31,	
	2001	2000
Net operating loss carryforwards....	\$6,407,000	\$3,647,000
Excess of book over tax - Array		
Telecom license amortization.....	--	171,000
Non-cash compensation.....	543,000	508,000
Investment write-down	343,000	--
Deferred royalty obligation	--	160,000
Other.....	46,000	8,000
Less valuation allowance.....	<u>(7,339,000)</u>	<u>(4,494,000)</u>
Net deferred tax asset	<u>\$ --</u>	<u>\$ --</u>

Realization of deferred tax assets is dependent upon future earnings, if any. We have recorded a full valuation allowance against our deferred tax assets since we believe it is more likely than not that these assets will not be realized. No income tax benefit has been recorded for all periods presented because of the valuation allowance.

At December 31, 2001, we have available, for U.S. income tax purposes, net operating loss carryforwards of approximately \$16,428,000 which can be used to offset future taxable income through 2019. There can be no assurance that we will realize the benefit of the net operating loss carryforward. In addition, our utilization of our net operating loss carryforward may be limited pursuant to Internal Revenue Code Section 382, due to cumulative changes in ownership in excess of 50% within a three year period.

NOTE 12 SIGNIFICANT CUSTOMER

For the year ended December 31, 2001 and 2000, 11% and 90% of sales, respectively, were to one customer. As of December 31, 2000, 97% of accounts receivable was from this same customer. We did not have accounts receivable with this customer as of December 31, 2001.

NOTE 13 SUBSEQUENT EVENT

In late March 2002, the Company received approximately \$690,000 for the exercise of warrants for the purchase of 3,450,000 shares of common stock which had been issued in connection with the sale of Special Warrants described in Note 9. On March 31, 2002, the remaining warrants for the purchase of 9,115,000 shares of common stock expired unexercised.



1776 I Street, NW
Ninth Floor
Washington, DC 20006
Phone: 202.756.4833
Facsimile: 202.756.1513

August 5, 2002

RECEIVED

AUG - 6 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Ms. Michele M. Farris, P.E.
Utility Analyst
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

Re: Application of ePHONE Telecom, Inc. for a Certificate of Authority
South Dakota PUC Docket TC02-041

Dear Ms. Farris:

This is in response to your letter of July 19, 2002, in which you instruct ePHONE Telecom, Inc. ("ePHONE" or the "Company") to provide additional information in support of its above-captioned application. The tariff submission included with this letter contains the changes you outlined in items 1-4 of your July letter. The remaining information you requested is provided below.

Item 5: *Explain why only 4 months time is given to use the card. Is the customer aware of this expiration date prior to purchasing the card?*

As explained in a previous submission, ePHONE's prepaid calling cards are set to expire 4 months from the date of activation in order to enable the Company to offer new products in keeping with current market rates. As the cost of long distance continues to decline, ePHONE is able to offer new cards that pass these savings on to the customer. In addition, most prepaid cards are sold in small denominations of \$5 and \$10. The Company has found that most customers exhaust this dollar amount well before the expiration date of the card.

The expiration of the card is usually noted on the marketing materials used by the distributor. In any event, this information is available from the Company's website.

Item 6: *Explain how a prepaid card call would be made without accessing a toll free number.*

The Company may introduce the ability of a customer to access his or her prepaid calling card account through the use of a local access number. After a service has been launched in South Dakota the Company will decide whether or not to offer the local access dialing feature based upon demand, availability of this feature from facilities-based carriers, and cost.

Item 7: *Provide documentation that shows the customer is aware of the expiration date or the \$.02 per minute surcharge.*

At present, ePHONE's prepaid card expiration policy, along with all of the applicable rates, terms and conditions, is contained on the Company's website, www.ephonetelecom.com. The marketing materials

RECEIVED

AUG - 6 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Ms. Michele M. Farris, P.E.
South Dakota Public Utilities Commission
August 5, 2002
Page Two

used by ePHONE's distributors generally contain fully terminated rates and would not reflect a difference in price between local access and 800 access calling service unless both features were available in a particular area.

Item 8: *Provide a cost breakdown for a 10-minute call made from a phone ,i.e., what per minute rates and surcharges apply.*

As is stated in the ePHONE proposed tariff, the standard rate for an intrastate long distance call placed with a prepaid calling card is \$.10 per minute (Section 5.1.2.1.1.). Such calls are timed in one-minute increments (Section 4.1.2.). Because it is not possible to place a prepaid calling card call from a payphone using a local access number, a customer would have to use the Company supplied toll free number to reach his or her calling account. Thus, a call from a payphone would incur a surcharge of \$.02 per minute (Section 5.1.2.1.2(b)), for a total per minute cost of \$.12. The Company would also apply a \$.50 per call surcharge in order to be able to compensate the payphone operator (Section 5.1.2.1.2(c)). Therefore, the total cost of a call made from a payphone under the standard rate program would be \$1.70.

Item 9: *Financial information*

Attached is a copy of ePHONE's SEC Form 10-QSB for the first quarter of 2002. This document shows that ePHONE had revenue of slightly over \$4,000,000 for this period. The Company expects this trend to continue and that it will be cash flow positive for 2002.

I hope that this information answers your remaining questions.

Sincerely,



Cheryl Lynn Schneider
Counsel to ePHONE Telecom, Inc.

Enclosures

ePHONE TELECOM, INC.

RECEIVED

AUG - 6 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO COMMUNICATIONS SERVICES WITHIN

THE STATE OF SOUTH DAKOTA

Applicable in the State of South Dakota

Issued in compliance with the Order of the South Dakota Public Utilities Commission

Issued: July 9, 2002
Issued By: Manager Rates and Tariffs
1145 Herndon Parkway
Herndon, VA 20170

Effective: August 9, 2002

TABLE OF CONTENTS

INDEX

SECTION 1 - APPLICATION OF TARIFF

SECTION 2 - EXPLANATION OF TERMS

SECTION 3 - GENERAL RULES AND REGULATIONS

SECTION 4 - INTERLATA TOLL SERVICES

SECTION 5 - RATES

EXPLANATION OF NOTES

- (C) Indicates Changed Regulation
- (D) Indicates Discontinued Rate or Regulation
- (I) Indicates Rate Increase
- (M) Indicates Move in Location of Text
- (N) Indicates New Rate or Regulation
- (R) Indicates Rate Reduction
- (T) Indicates Change of Text Only

CONTENTS

Section 1 - APPLICATION OF TARIFF

	Page
1.1 Application of Tariff	2
1.1.1 Service Territory	2
1.1.2 Availability	2

Section 1 - APPLICATION OF TARIFF

1.1 Application of Tariff

This Tariff sets forth the regulations and rates applicable to services provided by ePHONE Telecom, Inc. ("ePHONE"), as follows:

The furnishing of intrastate interexchange communications services by virtue of one-way and/or two-way information transmission between points within the State of South Dakota.

1.1.1 Service Territory

ePHONE will provide service throughout the entire State of South Dakota.

1.1.2 Availability

Service is available where facilities permit.

CONTENTS

Section 3 - GENERAL RULES AND REGULATIONS

	Page
3.1 Undertaking of the Company	2
3.1.1 Scope.....	2
3.1.2 Availability of Service	2
3.1.3 Liability of the Company	2
3.2 Obligations of the Customer	5
3.2.1 Use of Service.....	5
3.2.2 Ownership and Intellectual Property Rights.....	5
3.2.3 Minimum Service Period	5
3.2.4 Payment for Services.....	6
3.3 Suspension or Termination of Service	9
3.3.1 Suspension by the Company	9
3.3.2 Termination by the Company	9
3.3.3 Termination by the Customer	10
3.4 Performance Credits for Service Interruptions	11

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY

3.1.1 Scope

The Company undertakes to provide Service between the points described herein, in accordance with the terms and conditions set forth in this Tariff. The Company shall maintain sole and absolute discretion over the routing of Service furnished hereunder.

3.1.2 Availability of Service

Service is available twenty-four (24) hours per day, seven (7) days per week, subject to the availability of facilities and subject to transmission, atmospheric, topographical and like conditions. The Company may limit or interrupt the use of Service because of (i) the lack of transmission medium capacity, (ii) the need to perform maintenance, modifications, upgrades, relocations, testing or other similar activities necessary for the provision of Service, or (iii) any cause beyond its control. The Company reserves the right, when necessary, to arrange for Service to be furnished through the facilities of Other Facilities Suppliers or other entities or through the use of agents or subcontractors.

3.1.3 Liability of the Company

3.1.3.1 Except as stated in this Section 3.1.3, the liability of the Company shall be determined in accordance with SDCL 49-13-1, 49-13-1.1, and any other applicable law.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.2 THE COMPANY DOES NOT AUTHORIZE ANYONE, WHETHER A COMPANY EMPLOYEE, AGENT, SUB-CONTRACTOR, OR OTHERWISE, TO MAKE A WARRANTY OF ANY KIND ON ITS BEHALF AND THE CUSTOMER SHOULD NOT RELY ON ANY SUCH STATEMENT.

3.1.3.3 The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to any acts of God, fire, lightning, explosion, flood, extreme weather conditions or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; any national emergencies, insurrections, riots or wars; or any labor difficulties.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.1 UNDERTAKING OF THE COMPANY (cont'd)

3.1.3 Liability of the Company (cont'd)

3.1.3.4 The Company shall not be liable for any act or omission of Other Facilities Suppliers or for any damages, including Usage Charges, the Customer may incur as a result of the unauthorized use or misuse of the Service. Unauthorized use or misuse includes, but is not limited to, the unauthorized use or misuse of Service by the Customer, the Customer's employees, third parties, or the public. The Company does not warrant or guarantee that it can prevent unauthorized use or misuse, and the Customer is responsible for controlling access to, and use of, the Service.

3.1.3.5 The Company shall also not be liable for: (a) the interception or breach in privacy or security of any Service or communications provided under this Tariff; (b) libel, slander, or infringement of copyright arising from or in connection with the transmission of communications by means of the Service provided by the Company; or (c) infringement of patents or trade secrets arising from the combination, connection, or use of the Service with Customer-provided equipment, facilities or services.

3.1.3.5 Each provision of this Tariff limiting or excluding liability operates separately and survives independently of the others.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER

3.2.1 Use Of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The customer may advise its customers that a portion of its service is provided by the Company, but the customer shall not represent that the Company jointly participates with the customer in the provision of the service.

3.2.2 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

3.2.3 Minimum Period of Service

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tarified rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services

3.2.4.1 The Customer is responsible for payment of all Charges for Service furnished by the Company to the Customer. Charges for each Service shall commence on its Operational Service Date. All Charges for services shall be paid within 30 days of the date of the Company invoice (the "Due Date"). Usage Charges shall be assessed in arrears. Monthly Charges will be assessed in advance. The Company shall send invoices to the Customer at the address specified in the Service Order. The Customer shall provide the Company 30 days' advance notice in writing of any change in the invoice address. The Company will implement the change as soon as reasonably practicable. The Customer's responsibility for timely payment of all Charges is not changed due to the Customer's failure to receive an invoice.

3.2.4.2 The Customer shall not be excused from paying the Company for Service provided to the Customer or any portion thereof on the basis that unauthorized use or misuse occurred over the Service.

3.2.4.3 State and local sales, use, excise and other taxes and surcharges, where applicable, shall be added to the Charges contained herein, unless the Customer provides a properly executed certificate of exemption from such taxes and surcharges. It shall be the responsibility of the Customer to pay these taxes and to accept the liability of any such unpaid taxes that may become applicable. The amounts resulting from taxes, fees, or exactions imposed against the Company, its property, or its operations, excepting only taxes imposed generally on corporations, shall be billed to its customers pro rata by the company when applicable.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.4 The Customer may be required to provide suitable security, including but not limited to a deposit or other such advance payment, to be held by the Company as a guaranty of the payment of Charges. Such security may be applied at any time, at the option of the Company, in payment of any unpaid Charges for Service furnished to the Customer or in payment of applicable Termination Charges. Such a deposit will not exceed an amount equal to an aggregate of two (2) months' recurring and nonrecurring charges for all Services over the past 12 months. Deposits may be paid in installments over not more than three (3) months.

3.2.4.5 The Company, upon the termination of Service, will refund within sixty (60) days the Customer's deposit, including any interest accrued, or the balance in excess of unpaid Charges, if any, for Service. In addition, the fact that a deposit has been made neither relieves the Customer from complying with the Company's regulations or from the prompt payment of bills nor constitutes a waiver or modification of the regulations of the Company providing for the termination of Service for nonpayment of any sums due the Company for Service rendered. The Company shall pay interest at a rate of 7 percent per annum on all Customer deposits held by the Company. No interest shall be accrued on Customer accounts for the period immediately following receipt of a request for discontinuance of service.

3.2.4.6 When the Customer disputes a bill for the Company's Service, the Customer shall: (i) pay any undisputed portion of the bill or, at the Customer's election, pay the disputed portion pending resolution of the dispute; (ii) advise the Company in writing that the bill or any portions thereof are disputed by the Customer; and (iii) provide a written explanation of the basis for the dispute within 180 days of the invoice date in question. The Company will review the Customer's bill and notify the Customer within a reasonable time of the outcome of its review. If the Company agrees with the Customer, it shall credit the Customer's account for any disputed amounts paid by the Customer. If the Company disagrees with the Customer, any disputed amount unpaid by the Customer shall become payable upon notice to the Customer.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.2 OBLIGATIONS OF THE CUSTOMER (cont'd)

3.2.4 Payment for Services (cont'd)

3.2.4.7 The Customer shall be responsible for the payment of a Returned Check Charge of \$10.00 when the bank returns a check that has been presented to the Company by a customer in payment for charges.

3.2.4.8 Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill. Late payment charges do not apply to: (a) those portions (and only those portions) of unpaid balances that are associated with disputed amounts; and (b) final accounts.

3.2.4.9 The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge. Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE

3.3.1 Suspension by the Company

- (a) The Company may, without incurring any liability, suspend Service to the Customer if such action is necessary to protect Company employees, agents, sub-contractors, facilities, equipment or Service; provided, however, that the Company shall make reasonable efforts to give the Customer prompt advance notice of any such suspension where possible. Upon non-payment of any sum owing to the Company for more than 30 days beyond the date of invoice for Service or upon violation of any of the terms or conditions governing the furnishing of Service under this Tariff, the Company may, by 24 hours advance notice to the Customer in the case of post-paid services or without notice to prepaid Customers, suspend the furnishing of Service under this Tariff without incurring any liability. Suspension for cause does not relieve the Customer of any obligation to pay Charges that have accrued. Should the Company restore Service after suspension, the Customer shall be responsible for the payment of any Charges, including reconnection charges or other costs, associated with the suspension and restoration of Service.
- (b) Notwithstanding the provisions of Section 3.3.1(a), the Company shall not disconnect Service to Customer solely for failure of the Customer to pay: (i) for merchandise, pay-per-call charges, or special services, excluding telephone installations or moves or other acts performed in accordance with this Tariff, purchased from the Company; (ii) for a different class of telecommunications service received at a different location; or (iii) a bill for which the Customer is a guarantor.

3.3.2 Termination by the Company

The Company may terminate Service to the Customer for cause, without incurring any liability: (a) after suspension of Service for nonpayment, if such non-payment is not corrected within two (2) days following the suspension of Service; (b) when the Company has reason to believe that the Customer is not in compliance with any provision of this Tariff; (c) when the Company has reason to believe that the Customer provided false or misleading information to the Company in connection with a Service Order; (d) when the Company has reason to believe that the Customer has used or has attempted to use the Service for an illegal, immoral or unlawful purpose; or (e) following the initiation by or against the Customer of a proceeding in bankruptcy, reorganization, insolvency, receivership or assignment for the benefit of creditors. Termination for cause does not relieve the Customer of any obligation to pay Charges that have accrued for Service provided under this Tariff.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.3 SUSPENSION OR TERMINATION OF SERVICE (cont'd)

3.3.3 Termination by the Customer

The Customer may terminate service according to the conditions of that service as stated under Section 4, Service Offerings.

Section 3 - GENERAL RULES AND REGULATIONS (cont'd)

3.4 PERFORMANCE CREDITS FOR SERVICE INTERRUPTIONS

The services the Company intends to provide under the proposed tariff do not guarantee any particular level of service availability. As such, the Company does not offer credits for outages or other service interruptions. At this time, the Company intends to offer only prepaid services, which operate along side of any other long distance or local service provider to which the Customer subscribes. Thus, in the event of a network outage or other interruption of service, the Customer is still able to place calls through its underlying long distance service provider or through any number of alternative prepaid service providers. Because the service is prepaid, the Customer retains the dollar value of the prepaid service as it stood at the time of the interruption and the Customer does not lose the ability to place calls as originally intended. Under those circumstances there is nothing for the Company to credit. The other practical limitation to providing credits for service interruptions is the fact for certain services, like prepaid calling cards, the Company does not have sufficient information in its database to contact the Customer or offer any such credits.

CONTENTS

Section 4 - INTERALATA TOLL SERVICES

	Page
4.1 General	2
4.1.1 Description	2
4.1.2 Timing of Calls	2
4.1.3 Promotional Trial Services	2
4.2 Prepaid Services.....	3
4.2.1 Flat Rate Service	3
4.2.1.1 Unlimited Long Distance Calling Plan	3
4.2.2 Metered Service	5
4.2.2.1 Prepaid Calling Cards.....	5

Section 4 - INTERLATA TOLL SERVICES

4.1 GENERAL

4.1.1 Description

InterLATA toll service is furnished for communication between telephones located in different LATAs within the State in accordance with the regulations and schedules of charges specified in this tariff. The toll service charges specified in this section are in payment for all service furnished between the calling and called telephone, except as otherwise provided in this Tariff.

IntraLATA toll calling includes the following types of calls: direct dialed, calling card, collect, 3rd number billed, special toll billing, requests to notify of time and charges, person to person calling and other station to station calls.

4.1.2 Timing Of Calls

Unless otherwise indicated, all calls are timed in one- minute increments and all calls that are fractions of a minute are rounded up to the next whole minute. Call timing ends when the calling station "hangs up," thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

4.1.3 Promotional Trial Services

The Company may establish temporary promotional programs wherein it may waive or reduce nonrecurring or recurring charges, to introduce a present or potential customer to a service not previously subscribed to by the customer. During a Promotional Trial, the service is provided to all eligible customers who ask to participate. Appropriate notification of the promotion will be made to all eligible customers by using direct mail, broadcast or print media, direct contact or other comparable means of notification. The Company retains the right to limit the size and scope of a Promotional Trial.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES

4.2.1 Flat Rate Service

4.2.1.1 Unlimited Long Distance Calling Plan

4.2.1.1.1 General Description

The Unlimited Long Distance Calling Plan is a residential prepaid service that allows a Customer to place unlimited US intrastate and interstate domestic interstate calls during a 30-day period for a fixed Monthly Charge. The Customer may place calls from a fixed residential phone, payphone or cellular phone (additional charges from the Customer's cellular service provider may apply) using an 800 number supplied by the Company.

4.2.1.1.2 Service Ordering

A Customer may order the Unlimited Long Distance Calling Plan through telemarketing channels or directly by calling Customer Service at 1-866-873-7500. Once a valid Service Order has been placed, the Company will provide the Customer with an 800-access number and a PIN.

4.2.1.1.3 Service Restrictions

The Unlimited Long Distance Calling Plan is available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Simultaneous calls using a single PIN are prohibited.

4.2.1.1.4 Service Period

After placing a valid Service Order, the Customer is entitled to utilize the Unlimited Long Distance Calling Plan for a 10-day period, during which no charges shall apply. Following the 10-day trial period, the Company shall charge the Customer the Monthly Charges set forth in Section 5 of this Tariff for each 30-day period (Service Period). The Service Period may begin at any point in a given month. The service period continues until terminated in accordance with the terms set forth in this Tariff.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Flat Rate Service (cont'd)

4.2.1.1 Unlimited Long Distance Calling Plan (cont'd)

4.2.1.1.5 Payment

Payment is made through automatic debit from the bank account specified by the Customer or through automatic charges to an approved credit card. By placing a Service Order, Customer expressly agrees to permit the Company to debit the specified bank account or to charge designated credit card the at the beginning of each Service Period.

4.2.1.1.6 Termination by the Customer

The Service Period continues until terminated by the Customer or the Company. The Customer may terminate service by providing advanced notice to the Company no later than 5 days prior to the beginning of a new 30-day Service Period. Such cancellation shall be effective for the next Service Period. No partial refunds or credits are available.

4.2.1.1.7 Termination by the Company

In addition to its rights under Section 3.3.2 of this Tariff, the Company shall have the right to terminate service immediately in the event that Customer has insufficient funds available when the Company attempts to collect the Monthly Charge through the debit of the Customer bank account or credit card.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Metered Service

4.2.1.1 Prepaid Calling Cards

The Company offers a variety of metered prepaid calling cards that allow residential a Customer to place calls to locations within the State (as well other interstate and international locations) using a toll free or local access number and PIN supplied by the Company to reach the Company calling platform. These cards are available in face value denominations of \$5.00, \$10.00 and \$20.00. Usage Charges and other surcharges as set forth in Section 5 of this Tariff apply to each call placed with a metered prepaid calling card.

4.2.1.1.1 Service Ordering

A Customer may purchase the metered prepaid calling cards Card through Company distributors and affiliated retailers. Cards are sold through distribution channels and are activated prior to sale to the end user.

4.2.1.1.2 Service Restrictions

Metered prepaid calling cards are available for use only by individual residential subscribers. Business, corporations and other such entities are ineligible for this service. The Customer must utilize a touch-tone phone in order to access the service. Calls from payphones and cellular phones are permitted, but may be subject to additional charges. Simultaneous calls using a single PIN are prohibited.

4.2.1.2 Service Period

Metered prepaid calling cards are valid for 4 months from the date the Customer activates the card. The card may not be recharged or reactivated once the Service Period has expired. No refunds or credits are available for unused value remaining on a card upon expiration. If the card balance is lower than the estimated minimum cost for the call, the Customer will be notified prior to placing the call and the call will not be allowed to proceed.

Section 4 - INTERLATA TOLL SERVICES (cont'd)

4.2 PREPAID SERVICES (cont'd)

4.2.1 Metered Service (cont'd)

4.2.1.1 Prepaid Calling Cards (cont'd)

4.2.1.1.3 Charging

The Company will debit from the remaining face value of a Customer's card the appropriate Usage Charge and surcharge for each call placed based upon the destination number and duration of the call. The Usage Charges and surcharges for the metered prepaid cards are set forth in Section 5 of this Tariff.

CONTENTS

Section 5 - RATES

	Page
5.1 Prepaid Services.....	2
5.1.1 Flat Rate Service.....	2
5.1.1.1 Unlimited Long Distance Calling Plan	2
5.1.2 Metered Service	3
5.1.2.1 Prepaid Calling Cards	3

Section 5 - RATES

5.1 PREPAID SERVICES

5.1.1 Flat Rate Service

5.1.1.1 Unlimited Long Distance Calling Plan

The Customer shall pay the Company \$49.95 per Service Period for the Unlimited Long Distance Plan, which includes intrastate and interstate calls. In addition, the Company shall charge the Customer a service fee of \$4.95 per Service Period to maintain the Customer's account.

Section 5 - RATES

5.1 PREPAID SERVICES

5.1.2 Metered Service

5.1.2.1 Prepaid Calling Cards

5.1.2.1.1 Standard Rates

The Company shall charge the customer a rate of \$.10 per minute for calls placed to a destination number located within the State.

5.1.2.1.2 Standard Surcharges

- (a) The Company shall charge the customer a per call connect fee of \$.49.
- (b) The Company shall charge the customer a surcharge of \$.02 per minute for each call made using the Company supplied toll free access number.

5.1.2.1.3 Promotional Calling Card Rates

- (a) Promotional Rate No. 1
For certain prepaid calling cards the Company will waive the standard connect fee.
- (b) Promotional Rate No. 2
For certain prepaid calling cards the Company will charge a per minute rate of \$.059 per minute. Standard connect fees apply.
- (c) Promotional Rate No. 3
For certain prepaid calling cards the Company will charge a per minute rate of \$.039 per minute and the company will charge a discounted per call connect fee of \$.39.
- (d) Promotional Rate No. 4
For certain prepaid calling cards the Company will charge a per minute rate of \$.029 per minute. Standard connect fees apply.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

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 March 31, 2002

- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF EXCHANGE ACT

Commission File Number 000-27699

ePHONE Telecom, Inc.

(Name of small business issuer as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

98-020-4749
(IRS Employer
Identification No.)

**1145 Herndon Parkway
Herndon, Virginia 20170-5535**
(Address of principal executive offices)

(703) 787-7000
(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

As of March 31, 2002 there were 34,622,902 shares of Common Stock issued and outstanding.

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

ePHONE Telecom, INC.

FORM 10-QSB

INDEX

Part I – Financial Information		<u>Page</u>
Item 1.	Financial Statements (Unaudited)	
	Balance Sheets as of March 31, 2002 and December 31, 2001	1
	Statements of Operations for the Three Months Ended	
	March 31, 2002 and 2001	2
	Statements of Cash Flows for the Three Months Ended	
	March 31, 2002 and 2001	3
	Notes to Financial Statements.....	4
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	7
 Part II – Other Information		
Item 1.	Legal Proceedings.....	12
Item 2.	Changes in Securities and Use of Proceeds	12
Item 3.	Defaults Upon Senior Securities	12
Item 4.	Submission of Matters to a Vote of Security Holders.....	12
Item 5.	Other Information	12
Item 6.	Exhibits and Reports on Form 8-K	12
Signatures	13

ePHONE Telecom, Inc.

Balance Sheets

(unaudited)

	March 31, 2002	December 31, 2001
Current Assets:		
Cash and cash equivalents	\$ 682,872	\$ 35,970
Accounts receivable, net of allowance for returns of \$172,000 and \$116,000 at March 31, 2002 and December 31, 2001, respectively	310,129	155,759
Inventory	—	16,500
Other receivables	37,612	65,481
	1,030,613	273,710
Total Current Assets	1,030,613	273,710
Property and equipment, net	1,349,051	1,296,561
Other assets	68,043	18,043
	2,447,707	1,588,314
Total Assets	\$ 2,447,707	\$ 1,588,314
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Accounts payable	\$ 738,546	\$ 850,179
Accrued liabilities	715,020	654,765
Deferred revenue	745,504	367,009
Capital lease obligation, current portion	30,914	22,663
	2,229,984	1,894,616
Total Current Liabilities	2,229,984	1,894,616
Capital lease obligation, net of current portion	25,166	15,839
Other long term obligation, net of current portion	120,000	142,500
Commitments and Contingencies	—	—
Stockholders' Equity (Deficit):		
Common stock, par value \$0.001: 150,000,000 shares authorized, 34,622,902 and 32,987,381 issued and outstanding at March 31, 2002 and December 31, 2001, respectively.	34,622	32,987
Common stock subscription receivable	(388,394)	—
Additional paid-in capital	22,554,062	21,843,199
Accumulated deficit	(22,127,733)	(22,340,827)
	72,557	(464,641)
Total Stockholders' Equity (Deficit)	72,557	(464,641)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 2,447,707	\$ 1,588,314

See accompanying notes to financial statements

ePHONE Telecom, Inc.

Statements of Operations

(unaudited)

	Three Months Ended March 31,	
	2002	2001
Service revenue	\$ 4,061,823	\$ —
Product revenue	—	419,200
Total revenues	4,061,823	419,200
Operating expenses		
Cost of service revenue	2,485,248	—
Cost of product revenue	—	272,392
Sales and marketing	200,408	682,551
General and administrative, including non-cash compensation of \$37,715 and \$122,500 as of March 31, 2002 and 2001, respectively	1,153,655	1,844,323
Total operating expenses	3,839,311	2,799,266
Income (loss) from operations	222,512	(2,380,066)
Interest and other expense (income), net	9,418	(96,599)
Income (loss) before taxes	213,094	(2,283,467)
Income tax expense	—	—
Net income (loss)	\$ 213,094	\$ (2,283,467)
Earnings (loss) per share—(basic and diluted)	\$ 0.01	\$ (0.13)
Weighted average number of common shares outstanding	33,022,298	17,489,404

See accompanying notes to financial statements

ePHONE Telecom, Inc.

Statements of Cash Flows

(unaudited)

	Three Months Ended March 31,	
	2002	2001
Cash Flows from Operating Activities:		
Net income (loss)	\$ 213,094	\$ (2,283,467)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	72,622	242,097
Stock issued for services rendered	37,715	122,500
Allowance for returns	56,000	—
Deferred royalty expense	—	136,667
Realized gain	—	(33,757)
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(891)	(84,271)
Inventory	16,500	20,171
Other assets	(50,000)	(20,000)
Accounts payable	(111,633)	(30,298)
Accrued liabilities	52,755	(424,482)
Deferred revenue	196,885	—
Net cash flows provided by (used in) operating activities	<u>483,047</u>	<u>(2,354,840)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(102,347)	(104,408)
Redemption of marketable securities	—	822,982
Deposit to restricted cash, net	—	579,435
Net cash flows (used in) provided by investing activities	<u>(102,347)</u>	<u>1,298,009</u>
Cash flows provided by financing activities:		
Proceeds from exercise of warrants	301,389	—
Repayments on long-term obligation	(15,000)	—
Repayment to related party	(15,000)	—
Repayments on capital lease	(5,187)	—
Net cash flows provided by financing activities	<u>266,202</u>	<u>—</u>
Net increase (decrease) in cash and cash equivalents	646,902	(1,056,831)
Cash and cash equivalents, beginning of year	<u>35,970</u>	<u>1,525,978</u>
Cash and cash equivalents, end of year	<u>\$ 682,872</u>	<u>\$ 469,147</u>

See accompanying notes to financial statements

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

ePHONE Telecom, Inc. ("ePHONE") was incorporated in 1996 under the laws of the State of Florida, and is traded on the OTC Electronic Bulletin Board operated by the National Association of Securities Dealers, Inc. under the trading symbol "EPHO".

We provide telecommunication services to retail and wholesale customers. We are a global telecommunications carrier providing a full complement of telecommunications services, including phone-to-phone, one-step dialing, using Voice over Internet Protocol ("VoIP") technology and adaptable to legacy and future technologies.

The Company has prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read together with the financial statements and notes in the Company's 2001 Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying financial statements reflect all adjustments and disclosures, which in our opinion are necessary for fair presentation. All such adjustments are of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results of the entire year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about amounts that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

REVENUE RECOGNITION

In accordance with generally accepted accounting principles, we recognize prepaid telecommunication services revenues over the period services are provided. We bill monthly recurring telecommunications services in advance and the majority of our customers prepay for their services. Therefore, any portion of our services billed and collected but not yet provided is recorded as a deferred revenue. Of the \$745,000 in deferred revenue at March 31, 2002, \$693,000 will be fully earned during the month of April 2002. We establish an allowance for doubtful accounts based upon factors, which include historical trends and other information.

For the three months ended March 31, 2001, product sales were recognized upon shipment. Typical terms of sale did not provide the customer with the right of return except for defective products, which were covered by the warranty of the original equipment manufacturer. The Company also generated revenues from product licenses and services. Product license revenues were generally recognized upon product shipment provided that no significant post-delivery obligations existed and payment was due within one year. Advance payments of product licenses and services were reported as unearned revenue until all conditions for revenue recognition were met.

INCOME TAXES

We had no income tax expense during the three months ended March 31, 2002 due to the availability of net operating losses for U.S. income tax purposes. There can be no assurance that we will continue to realize the benefit of the net operating loss carryforward.

NET EARNINGS (LOSS) PER SHARE

We report basic and diluted loss per share. Basic loss per share is computed by dividing net loss by the weighted average number of outstanding shares of common stock. Diluted earnings per share is computed by dividing net loss by the weighted average number of shares adjusted for the potential dilution that could occur if stock options, warrants and other convertible securities were exercised or converted into common stock.

For the three months ended March 31, 2002, options and warrants to purchase 8,387,000 shares of common stock were outstanding but were not included in the computation of diluted earnings per share because the exercise price of all outstanding options and warrants exceed the average market price of our stock during this period.

NOTE 2 – OPERATIONS

As shown in the accompanying unaudited financial statements, net income for the three months ended March 31, 2002 of \$214,000 represents the first profitable fiscal quarter in our operating history. Also, of \$745,000 recorded as deferred revenue at March 31, 2002, \$693,000 will be fully earned during April 2002. Our continued success is dependent upon our ability to maintain profitable operations and successfully introduce our products to market. As described in Note 5, in March 2002, existing investors in the Company exercised outstanding warrants, purchasing 3,448,913 shares of the Company's common stock for \$690,000. Since inception we have an accumulated deficit of \$22,128,000, which will be used to offset income taxes related to our current and future earnings.

Management believes that together with our cash on hand, proceeds from the warrants exercised in 2002, and cash flow from our planned level of 2002 operations that we have sufficient resources to enable us to sustain our current and planned level of operations for at least the next 12 months without the need for additional investment capital.

During the three months ended March 31, 2002, we generated net revenues of \$4,062,000 with a gross margin of \$1,577,000 (39%).

NOTE 3 - RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2002 and 2001 we incurred costs for management services provided by companies in which certain directors of ours have a controlling interest and incurred consulting fees to certain directors of ours totaling \$15,000 and \$39,000, respectively. The 2002 expense represents the fair value of 66,668 shares of our common stock issued in lieu of cash payments as further described under Stockholders' Equity.

During the three months ended March 31, 2002, we repaid a \$15,000 amount that was advanced to us during 2001 by our Chairman of the Board, Mr. Robert Clarke.

During the three months ended March 31, 2001, the Company paid \$180,000 to ePHONE Technologies, Inc., a related party, for consulting services.

NOTE 4 - ACCRUED LIABILITIES

Accrued expenses consist of the following:

	March 31, 2002	December 31, 2001
Accrued vacation.....	\$ 46,854	\$ 32,411
Accrued compensation.....	73,932	35,443
Accrued legal fees.....	130,300	147,300
Other obligation, current portion.....	90,000	82,500
Comdial obligation.....	230,951	225,576
Other.....	<u>142,983</u>	<u>131,535</u>
	<u>\$ 715,020</u>	<u>\$ 654,765</u>

NOTE 5 - STOCKHOLDERS' EQUITY

In late March and early April 2002, we received approximately \$690,000 for the exercise of warrants for the purchase of 3,448,913 shares of common stock which had been issued in connection with the sale of Special Warrants originally issued in early 2000. The portion of proceeds received in April was \$388,000 and is recorded as a subscription receivable in the accompanying balance sheet at March 31, 2002. On March 31, 2002, the remaining warrants for the purchase of 9,115,000 shares of common stock expired unexercised.

During March 2002, we issued 171,431 shares to two consultants and two members of our Board of Directors. The fair value of the shares totaled \$38,000 and was recorded based upon the market price of the stock on the date of issuance.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$16,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our core strategy is to become a next generation global facilities based marketing and sales oriented telecommunications carrier providing a full complement of telecommunications and data services utilizing the efficiency and reliability of new generation VOIP based telecommunication technologies. This entails operating as a wholesale carrier, interexchange carrier and as a retail services provider. Using a private Internet Protocol ("IP") network, the public Internet and the public switched telephone network ("PSTN"), we have developed the capability to provide voice and data transmission and other telephony features at high quality and low cost. Our role as an Interexchange Carrier allows us to capitalize on inexpensive wholesale termination rates, which are further leveraged into retail products in order to increase overall margins.

Since we commenced commercial operations utilizing our new strategy based upon a Cisco-based network in August of 2001 we have generated service revenue of over \$7,000,000 and are continuing to increase service revenue every month. The success of our retail programs and increasing wholesale business has enabled us to attain profitability during the first quarter.

We believe our aggressive approach to marketing and sales is as important as the technologies being employed. We are committed to staying at the leading edge of telecommunications and information technologies but believe our real competitive advantage will be sustained through a creative and innovative approach to acquiring and maintaining customers and channel distribution partners

For example, we plan to introduce a new product in early Q2 of 2002 named eTRANSPORT ("eTRANSPORT"). The eTRANSPORT is a piece of equipment that is installed between the phone and the incoming phone line at the customer premises. Our service to the customer is virtually the same as the 1+ long distance service, however it is prepaid with the added benefit of portability.

We have worked closely with the designer and manufacturer of eTRANSPORT and have integrated the device with our network. We have secured the exclusive rights to the version of the device that works with our network, which provides features and the functionalities that customers desire. We are also working with marketing entities to introduce the product to market through home shopping TV channels and large retail chains that are the after market distribution channels for products marketed "As Seen on TV"..

Results of Operations – Three months ended March 31, 2002 and 2001

Our net income (loss) and net income (loss) per share were \$214,000 and \$0.01 and (\$2,283,000) and (\$0.13) for the three months ended March 31, 2002 and 2001, respectively.

During the three months ended March 31, 2002, increasing business from our retail and wholesale programs that were introduced in Q3 of FY 2001, coupled with the significant reduction of general and administrative and selling and marketing costs were the primary reasons for the overall improvement in operations.

Revenues

Revenues increased from \$419,000 for the three months ended March 31, 2001 to \$4,062,000 for the same period in 2002. The majority of the increase is attributed to the Company's "Unlimited Calling" Program. Prepaid calling card programs and our wholesale strategy also contributed to the increase. These programs accounted for all of ePHONE's revenue for the three months ended March 31, 2002 and did not account for any revenue during the same period in 2001. During March 2002, cash collections of \$745,000 were considered pre-paid and are reflected in the Current Liability section of the Balance Sheet as "Deferred Revenue". Of this amount, \$693,000 will be earned by us during April 2002. As ePHONE continues to focus on retail and wholesale offerings, sales of equipment are not expected to be significant in the future. The \$419,000 of revenue from the sales of equipment in Q1 of 2001 is not likely to reoccur.

Cost of Revenues

Cost of Revenues increased from \$274,000 for the three months ended March 31, 2001 to \$2,485,000 for the same period in 2002. For the three months ended March 31, 2002, cost of goods sold represented commissions, activation fees and processing charges related to our telecommunications services programs. For the three months ended March 31, 2001, cost of goods sold was related to telecommunications equipment sales. Gross margin for the three months ended March 31, 2002 and 2001 was 39% and 35%, respectively. Our gross margin percentage will likely be much higher in the future due to increases in sales volume and sales mix.

Sales and marketing

Sales and marketing expense decreased from \$683,000 for the three months ended March 31, 2001 to \$200,000 for the same period in 2002. During 2001, our sales and marketing expenses included compensation paid to consultants for market studies and competitive intelligence of the Internet telephony market place in several countries where we were deploying our network. There were no similar expenditures incurred during the three months ended March 31, 2002. Currently, sales and marketing expense consists primarily of marketing commissions and salaries.

General and administrative

General and administrative expense decreased from \$1,844,000 for the three months ended March 31, 2001 to \$1,154,000 for the same period in 2002. General and administrative expense included non-cash compensation of \$38,000 and \$123,000 for the three months ended March 31, 2002 and 2001, respectively. The 2002 expense represented the fair value of 171,000 shares of our common stock issued for consulting services to two consultants and to two members of our Board of Directors. A portion of the 2001 non-cash compensation was incurred in connection with a settlement between us and a former officer under which 400,000 shares of common stock with a fair value of \$80,000 were issued to this former officer. The remaining \$43,000 of non-cash compensation in 2001 represents the fair value of 250,000 stock options issued to a consultant in exchange for services rendered. We expect general and administrative expenses to increase in the future in direct proportion to the increase in sales.

Income taxes

There was no provision for federal or state income taxes for the three months ended March 31, 2001 due to the availability of a net operating loss (NOL) for income tax purposes. This NOL was generated from previous operating losses incurred since inception. A valuation allowance has been established and, accordingly, no asset has been recorded for our net operating losses and other deferred tax assets.

Liquidity And Capital Resources

During the three months ended March 31, 2002, we received \$302,000 of the \$690,000 raised from the exercise of warrants we had issued in connection with the sale of special warrants in 2000 for the purchase of 3,448,913 shares of our common stock. On March 30, 2002, the warrants for the purchase of 9,115,161 shares of our common stock expired unexercised. The proceeds from the exercise of these warrants, along with cash generated from our operations during the first quarter 2002 increased our cash from \$36,000 at December 31, 2001 to \$683,000 at March 31, 2002. We received the remaining \$388,000 from the exercise of warrants in early April 2002 and have recorded this amount as a subscription receivable in the balance sheet at March 31, 2002.

For the three months ended March 31, 2002, utilizing our new strategy based upon a Cisco-based network we have generated service revenue of over \$ 4,000,000. Our liquidity continues to improve and as of May 14, 2002 we had a total of \$1,500,000 of cash in the bank. We plan to expand our current products and services in 2002 and introduce new products and services. We have been successful in generating net income from operations since we deployed our new Cisco-based network in August 2001. Our anticipated future cash flows from operations is largely dependent upon our ability to achieve our revenue and gross profit objectives from our current products and services and introduction of new products we plan to launch in 2002. We believe that based on our current level of

operations, the cash flows we are generating from operations together with the \$690,000 we received from the exercise of warrants described above is sufficient for our current operations.

It is important to point out that since our inception, we have accumulated a deficit of \$22,128,000, and that we funded our operations, prior to our generating service revenues beginning in August 2001, primarily with the proceeds we raised in our special warrant offering in 2000, from the exercise of warrants during 2001 of \$305,000, and from limited equipment sales. We do not currently have a line of credit or any other credit facility available to us.

While our service revenue sales continues to increase during the first two quarters of 2002, and while management anticipates that growth in service revenue will continue throughout the remainder of 2002, we cannot assure you that this will happen. Future prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the telecommunications industry. To address these risks and achieve profitability and increased sales levels, we must, among other things, continue to establish and increase market acceptance of our products, respond effectively to competitive pressures, offer high quality customer service and support, and successfully introduce, on a timely basis, new products and enhancements of our existing products.

We anticipate, based on our present plans and assumptions, that our current cash balances and projected level of 2002 operations will be sufficient to enable us to sustain our current and planned operations for at least the next 12 months, and will not need to raise additional funding. However, we cannot assure you that this will hold true.

For the three months ended March 31, 2002, we generated \$483,000 of cash from our operating activities. The amount of cash provided by operations for the three months ended March 31, 2002 in excess of the \$214,000 net income for that same period is attributed to increases in our deferred revenue balances and depreciation expense partially offset by decreases in our accounts payable balances.

Investing activities used \$102,000 of cash for the purchase of fixed assets and financing activities provided \$266,000 which consisted of \$302,000 received from the exercise of warrants offset by payments on obligations for the three months ended March 31, 2002.

We have two equipment commitments totaling \$56,000 for two Sun Microsystems servers which expire in 2003 and 2004.

On April 20, 2000, we closed an offering of Special Warrants, receiving net proceeds of approximately \$12,205,000. The total number of Special Warrants we sold in that offering was 13,780,837. The special warrant agreements contained certain penalties in the event that we did not meet the prescribed deadlines for registration of common stock to be issued on the exercise of the special warrants in both Canada and the United States. We failed to meet these deadlines, and consequently each special warrant holder was entitled to exercise their right to have 12.5% of their original investment returned to them and reduce the number of special warrants they held by the same percentage ("Redemption Right"). In addition, each special warrant holder received an additional 10% of their original investment in shares of our common stock upon the exercise of the special warrants. As of March 31, 2001, all special warrant holders exercised their Redemption Rights, and we returned \$1,895,000 to these investors. We completed the registration of our common stock in Canada, and our investors exercised their special warrants causing us to issue 13,436,317 shares of our common stock and warrants to purchase 13,436,317 shares of our common stock for \$1.60 per share.

During the year ended December 31, 2001, we raised \$305,000 from the exercise of warrants for the purchase of 848,243 shares of our common stock.

During the third quarter of 2001, we decided to provide our warrant holders with an enticement to exercise their warrants by reducing the exercise price of the warrants we issued on the exercise of the special warrants and for all other outstanding warrants from exercise prices ranging between \$1.60 - \$0.50 per share to \$0.35 per share. We further reduced the exercise price of the warrants to \$0.20 in 2002 to better reflect the market price of our common stock. As noted above, during 2002 warrant holders exercised warrants for the purchase of 3,448,913 shares of our

common stock for \$690,000.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. This statement is effective for all business combinations initiated after June 30, 2001.

In July 2001, the FASB issued SFAS No. 142, Goodwill And Other Intangible Assets. This statement applies to goodwill and intangible assets acquired after June 30, 2001, as well as goodwill and intangible assets previously acquired. Under this statement goodwill as well as certain other intangible assets, determined to have an infinite life, will no longer be amortized; instead these assets will be reviewed for impairment on a periodic basis. This statement is effective for the Company beginning January 1, 2002. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes previous guidelines for financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The adoption of SFAS No. 144 on January 1, 2002 is not expected to have a material impact on our financial position or results of operations.

Risk Factors

The risks and uncertainties described below are not the only ones facing the company. Additional risks not presently known or that ePHONE currently considers insignificant may also impair ePHONE's business operations in the future. ePHONE's business, financial condition and plan of operations could be materially adversely affected by any of the following risks. The trading price of shares of ePHONE's common stock could decline due to any of these risks.

- The market for ePHONE's common stock is limited

There is currently only a limited trading market for ePHONE's common stock. ePHONE common stock trades on the OTC Bulletin Board under the symbol "EPHO," which is a limited market in comparison to the NASDAQ National Market, the American Stock Exchange and other national securities exchanges.

ePHONE cannot assure investors that the common stock will ever qualify for inclusion on the NASDAQ National Market or that more than a limited market will ever develop for the common stock.

- Penny stock rules limit the liquidity of ePHONE's common stock

ePHONE's common stock may now and in the future be subject to the penny stock rules under the Securities Exchange Act of 1934, as amended (referred to herein as the Exchange Act). These rules regulate broker-dealer practices for transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker and/or dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's

written agreement to the transaction. These additional penny stock disclosure requirements are burdensome and may reduce the trading activity in the market for ePHONE's common stock. As long as the common stock is subject to the penny stock rules, holders of such ePHONE common stock may find it more difficult to sell their securities.

- An investment in ePHONE may be diluted

ePHONE may issue a substantial number of shares of ePHONE common stock without investor approval. Any such issuance of ePHONE securities in the future could reduce an investor's ownership percentage and voting rights in ePHONE and further dilute the value of his or her investment.

In 2001 and 2000, ePHONE incurred net losses of approximately \$7,021,129 and \$13,701,000, respectively. ePHONE's ability to achieve and sustain profitable operations depends on many circumstances. If ePHONE does not achieve and sustain profitability, its ability to respond effectively to market conditions, to make capital expenditures and to take advantage of business opportunities could be affected. In addition, ePHONE's prospects must be considered in light of the risks encountered by companies like ours developing products and services in new and rapidly evolving markets. ePHONE's failure to perform in these areas could have a material adverse effect on the business, plan of operations and financial condition.

- ePHONE's failure to acquire, integrate and operate new technology could harm their competitive position

The telecommunications industry is characterized by rapid and significant technological advancements and the related introduction of new products and services. ePHONE does not possess significant intellectual property rights with respect to the technologies we use, and we are dependent on third parties for the development of and access to new technology. The effect of technological changes on ePHONE's business plan cannot be predicted. In addition, it is impossible for ePHONE to predict with any certainty whether demand for VoIP services in the future markets will develop or will prove to be an economical and efficient technology that is capable of attracting customer usage. Failure by ePHONE to obtain and adapt to new technology in the future markets could have a material adverse effect on their business and plan of operations.

- ePHONE does not presently intend to pay dividends on our common stock

ePHONE has never paid dividends on our common stock and does not presently intend to pay cash dividends on our common stock. Any future decisions as to the payment of dividends will be at the discretion of ePHONE's Board of Directors, subject to applicable law. See "Dividend Policy."

- Telecommunications related stock prices have been especially volatile and this volatility may depress ePHONE's stock price

The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of the stocks of high technology and Telecommunications-related companies, including companies like ePHONE, and which may be unrelated or disproportionate to the operating performance of particular companies. Factors such as quarterly variations in actual or anticipated operating results, changes in earnings estimates by analysts, market conditions in the industry, analysts' reports, announcements by competitors, regulatory actions or other events or factors, including the risk factors described in this annual report and general economic conditions may have a significant effect on the market price of ePHONE's common stock. This broad market and industry volatility may reduce the value of ePHONE's common stock, regardless of ePHONE's operating performance. Due to this volatility, the value of ePHONE's common stock could decrease.

- ePHONE's articles of incorporation provide their officers and directors with certain indemnification.

ePHONE's Articles of Incorporation provide that our directors and officers will not be personally liable to ePHONE or its shareholders for money damages for breach of the fiduciary duty of care as a director or officer.

PART II – OTHER INFORMATION

Item 1. Legal proceedings –

During the third quarter of 2001, we filed for arbitration against Comdial seeking rescission of the Array Telecom License Agreement, return of the \$2.65 million paid to Comdial, and compensatory and punitive damages of \$10,000,000 due to what we believe to have been violations by Comdial of the Array Telecom License Agreement. Comdial initially responded to our arbitration demand with a counterclaim seeking relief from all of our claims and the payment of \$215,000 in accrued royalties plus interest. Subsequently, Comdial has also added an additional counterclaim alleging that the agreement is still valid and is seeking the value of the future royalty payments which were to be made under the agreement. We have given back the licensed products to Comdial, and consequently, do not believe that we have an obligation for any additional future royalties based upon the use of the licensed products. We believe the \$215,000 plus accrued interest of approximately \$16,000 is our maximum exposure in the event of an unfavorable outcome and have recorded these amounts as accrued liabilities at December 31, 2001. Arbitration is scheduled to occur in Washington D.C. beginning on May 29, 2002.

Item 2. Changes in securities and use of proceeds - None.

Item 3. Defaults upon senior securities

Item 4. Submission of matters to a vote of security holders - None.

Item 5. Other information - None.

Item 6. Exhibits and reports on Form 8-K

A. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1.....	Articles of Incorporation (1)
3.2.....	Amendment to Articles of Incorporation (1)
3.3.....	Bylaws (1)
3.4.....	Amended and Restated Articles of Incorporation (2)
24.....	Powers of Attorney (filed herewith)

(1) Previously filed as an exhibit to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on October 15, 1999.

(2) Previously filed as an exhibit to Amendment No. 2 to ePHONE's Form 10-SB, filed with the Securities and Exchange Commission on January 5, 2000.

B. Reports on Form 8-K: None

SIGNATURE PAGE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

ePHONE Telecom, Inc.

(Registrant)

By /s/ Carmine Tagliatela, Jr.
(Carmine Tagliatela, Jr., CEO)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Date</u>
<u>By /s/ Carmine Tagliatela, Jr.</u> (Carmine Tagliatela, Jr., CEO, Director) (Principal Executive Officer)	May 14, 2002
<u>By /s/ Charlie Rodriguez</u> (Charlie Rodriguez, Chief Financial Officer) (Principal Financial and Accounting Officer)	May 14, 2002
<u>By /s/ Robert G. Clarke*</u> (Robert G. Clarke, Chairman)	May 14, 2002
<u>By /s/ John Fraser*</u> (John Fraser, Director)	May 14, 2002
<u>By /s/ Shelly Kamins*</u> (Shelly Kamins, Director)	May 14, 2002
<u>By /s/ Larry Codacovi*</u> (Larry Codacovi, Director)	May 14, 2002
<u>By /s/ Eugene A. Sekulow*</u> (Eugene A. Sekulow)	May 14, 2002

*By: Charlie Rodriguez
Attorney-In-Fact



Oland Professional Center
3416 Olandwood Court, Suite 110A
Olney, MD 20832-1373
Phone: 301.774.5895
Facsimile: 301.774.5797
www.telecom-legal.com

RECEIVED

NOV 20 2002

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

November 19, 2002

FAX Received NOV 19 2002

VIA FEDERAL EXPRESS and FACSIMILE

Debra Elofson
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 5701-5070

Re: Application of ePHONE Telecom, Inc. for a Certificate of Authority
South Dakota PUC Docket TC02-041

Dear Ms. Elofson:

ePHONE Telecom, Inc. ("ePHONE"), through the undersigned counsel, hereby requests permission to withdraw the above-referenced application.

ePHONE will not be able to obtain the surety bond required under the Commission's rules in time for its application to be considered at the Commission's November 20, 2002 meeting. Consequently, ePHONE respectfully requests that the Commission remove the above-referenced application from its meeting agenda and permit ePHONE to refile its application without prejudice once it has all of the necessary documentation completed.

If you have any questions or require additional information, please contact me via phone at (301)-774-5895 or e-mail at cschneider@telecom-legal.com.

Respectfully submitted,

Cheryl Lynn Schneider
Counsel for ePHONE Telecom, Inc.

cc: Michele M. Farris, P.E., Utility Analyst (via electronic mail)

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER PERMITTING
EPHONE TELECOM, INC. FOR A)	WITHDRAWAL OF
CERTIFICATE OF AUTHORITY TO PROVIDE)	APPLICATION AND
INTEREXCHANGE TELECOMMUNICATIONS)	CLOSING DOCKET
SERVICES IN SOUTH DAKOTA)	TC02-041

On April 22, 2002, ePHONE Telecom, Inc. (ePHONE) filed an application with the Public Utilities Commission (Commission) for a certificate of authority to operate as a telecommunications company within the state of South Dakota.

On November 19, 2002, ePHONE requested that its application for a certificate of authority be withdrawn.

At its regularly scheduled November 20, 2002, meeting, the Commission considered this matter. The Commission has jurisdiction over this matter pursuant to SDCL 49-31-3 and ARSD Chapter 20:10:24. The Commission found that ePHONE's request to withdraw its request for a certificate of authority is reasonable and closed the docket. It is therefore

ORDERED, that ePHONE shall be permitted to withdraw its request for a certificate of authority, and it is further

ORDERED, that this docket is closed.

Dated at Pierre, South Dakota, this 2nd day of December, 2002.

CERTIFICATE OF SERVICE
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.
By: <u><i>Heidi Kalko</i></u>
Date: <u>12/2/02</u>
(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Robert K. Sahr
ROBERT K. SAHR, Commissioner