KT/MT

TC02-163

TC02-163

DOCKET NO.

In the Matter of IN THE MATTER OF THE APPLICATION OF BUYERS UNITED INC. dba Buyersonline + dba United Carrier Networks FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
9/23	02	Filed and Docketed;
9/24	02	Tariff;
9/26	02	Weekly Filing;
12/2	02	Order Granting COA;
12/2	02	Docket Closed.

STATE PUBLISHING CO., PIERRE, SOUTH DAKOTA—SMEAD 104 SP14130

TC02-163

APPLICATION FOR CERTIFICATE OF AUTHORITY
FOR INTEREXCHANGE SERVICE
BUYERS UNITED INC.

Pursuant to SDCL 49-31-3 and in accordance with the requirements set forth in Chapter 20:10:24:02 of the *South Dakota Administrative Rules,* Buyers United Inc. ("Company") hereby submits the following application for authority.

RECEIVED
SEP 2 3 2002
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

1. The name address and telephone number of the Company is:

   Buyers United Inc.
   14870 South Pony Express Road
   Bluffdale, Utah 84065
   800-363-5029

2. The names under which the Company will provide services:

   Buyers United Inc.
   BuyersOnline
   United Carrier Networks

3. The Company is incorporated under the laws of the State of Delaware and has received authority from the South Dakota Secretary of State to transact business as a foreign corporation within the State of South Dakota. Attached hereto as **Exhibit A** is a copy of the Company's certificate of authority to transact business in South Dakota.

4. The Company's principal place of business is 14870 South Pony Express Road Bluffdale, Utah 84065. The Company's registered agent in South Dakota is National Registered Agents, Inc. and is located at 300 South Phillips Avenue, Suite 300 Sioux Falls, South Dakota 57102.

5. No corporation, association, partnership, cooperative, or individual holds a 20% or greater ownership or management interest in the Company.

6. The Company resells intrastate long distance and provides, on a limited capacity, Internet services.

7. Company contracts with Qwest, World Com MCI, Global Crossing, Williams, and Broadwing for the purchase of wholesale long distance.

8. The Company will offer its service throughout the entire State of South Dakota.

9. The Company's Financial Statements are attached hereto as **Exhibit B.** The Company's Annul Report to its Shareholders is attached hereto as **Exhibit C.** The Company's proposed Intrastate Tariff is attached hereto as **Exhibit D**.

10. Inquiries regarding complaints and regulatory matters should be addressed to:

Kimm Partridge
14870 South Pony Express Road
Bluffdale, Utah 84065
800 363-6177
kimm.partridge@buyoinc.com

11. Billing and Customer Service matter:

Bills are sent to customers, monthly, with payment terms of net 30 days. A sample bill is attached hereto as **Exhibit E.**

The Company maintains a customer service department 24 hours a day, seven days a week. All customer service representatives are trained to handle customer questions and concerns. In addition, technical experts are available to assist in handling technical matters.

The Company's billing manager contact is:

Linda Huffman
14870 South Pony Express Road
Bluffdale, Utah 84065
866-800-0007
Linda.Huffman@buyersonline.com

The Company's customer service manager contact is:

Jessica Stevens
14870 South Pony Express Road
Bluffdale, Utah 84065
800-363-5029
jessica.stevens@buyersonline.com

12. The Company has been certified in all states except Alaska and Hawaii. The Company has never been denied authority in any jurisdiction, with the exception of South Dakota on August 7, 2002 (Order TC02-013). The Company is in good standing in all states except the following: Arkansas, Illinois, Louisiana, Minnesota, Tennessee, and Wisconsin. The Company's authority was revoked in the aforementioned states because of failure to file required annual reports and/or pay the minimum franchise taxes. Within the past two years, the Company has undergone extensive managerial and personnel restructuring. These changes have proved beneficial in reorganizing the Company and its ability to provide and maintain services with customers, as well as relations with regulatory governing bodies.

13. The Company markets its service through the following basic methods:

Direct Response Marketing

The Company has successfully produced and tested an Infomercial, hosted by national celebrities that focus on the savings opportunities available through the Company. This targets residential customers. In order for the television viewer to take advantage of the attractive savings opportunities and rebate programs described in the Infomercials, they must activate a monthly service such as long distance or Internet access with the Company. No other membership fees are required.

Referral Rebate Program

Members can "zero-out" many of their monthly bills by participating in the Company's "Referral Rebate Program." Members who refer other residential or business customers to the Company will earn 10% of the monthly service revenue attributable to the referred member. This is a single-level commission structure.

Independent Agent Program

Independent Telecommunication Agents are commissioned salespeople who represent a client base that is seeking to find the best telecommunications value and service available in the market. The Company has relationships with approximately 2,400 agents.

Online Marketing

The Company markets via the Internet by purchasing outright or entering into contracts with companies that control large lists of Internet users that have requested notification of product and savings opportunities similar to those offered by the Company. Once the Company has access to the Internet lists, it offers incentives through its own web site, consisting of free products provided by affiliated retailers.

Attached as **Exhibit F** is a "Welcome Kit" that the Company sends to each new member.

14. The Company purchases long distance at a wholesale rate from national carriers. The Company reserves 30% above the wholesale rate to pay for customer service, bad debt, fraud, billing, and other services intended to benefit The Company's customers.

15. The Company's Federal tax identification number is: **87-0528557**.

16. Customer complaints filed against the Company regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered:

- Complaint to State of Texas by a customer who claimed that her services were switched without authorization. The Company never actually switched her services. Upon showing proof of this to the Texas Public Utility Commission, the matter was resolved and dismissed.

- Complaint to the New York State Public Service Commission by a customer claiming that service was switched without authorization. The Company responded that customer's service was switched due to a service error. All charges were reversed and the customer's claim was dismissed.

- Complaint to the State of North Carolina Department of Justice by a customer claiming that service was switched without authorization. The Company received documentation (authorization) from one of its agents, "Justpennies.com," directing the Company to switch service. Complaint was dismissed.

17. At this time, the Company does not have a request for waiver of any rules.

18. The Company has been in business over five years with revenues that increased 120% during the year 2001. In addition, the Company has the financial and managerial expertise to offer high quality, reliable service to South Dakota consumers. The Company takes pride in providing consumers with inexpensive, cost effective communications services. The Company will provide other information as required by the Commission.

Buyers United Inc. hereby submits the aforementioned information, including all accompanying Exhibits as its Application for Certificate of Authority for Interexchange Service.

Respectfully submitted,

Dated: September 17, 20002

Paul Jarman, Secretary

Exhibit A

Certificate of Authority to transact business in South Dakota

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

Certificate of Authority

ORGANIZATIONAL ID #: FB026551

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of **BUYERS UNITED INC. (DE)** 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 August 22, 2002.

Joyce Hazeltine
Secretary of State

Cert of Authority Merge.doc

Exhibit B

Financial Statements

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2002

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

For the transition period from to

Commission File No. 0-26917

BUYERS UNITED, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	**87-0528557**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14870 Pony Express Road, Bluffdale, Utah 84065
(Address of principal executive offices)

(801) 320-3300
(Issuer's telephone number)

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
State the number of shares outstanding of each of the issuer's classes of common equity: 5,730,161 of common stock as of July 31, 2002.

Transitional Small Business Format: Yes [ ] No [X]

FORM 10-QSB
BUYERS UNITED, INC.

INDEX

BUYERS UNITED, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	(unaudited) June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash	$744,286	$57,100
Restricted cash	430,932	690,312
Accounts receivable, net	3,526,885	2,271,873
Other current assets	1,065,972	282,240
Total current assets	5,768,075	3,301,525
Property and equipment, net	581,821	652,576
Debt issuance cost, net	-	187,756
Other assets, net	714,778	189,885
Total assets	$7,064,674	$4,331,742
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Checks drawn in excess of available cash balances	$ -	$186,866
Line of credit	811,072	574,172
Current portion of long-term debt	3,562,156	1,002,641
Accounts payable	4,269,808	3,879,517
Accrued liabilities	596,420	525,023
Accrued commissions and rebates	434,368	324,778
Accrued dividends payable on preferred stock	372,037	378,316
Total current liabilities	10,045,861	6,871,313
Long-term liabilities:		
Long-term debt, net of current portion	2,744,998	3,615,000
Total liabilities	12,790,859	10,486,313
Stockholders' deficit:		
Preferred stock	244	244
Common stock	573	531
Additional paid-in capital	15,633,197	15,190,855
Warrants and options outstanding	4,636,616	4,383,334
Deferred consulting fees	(71,181)	(98,406)
Accumulated deficit	(25,925,634)	(25,631,129)
Total stockholders' deficit	(5,726,185)	(6,154,571)
Total liabilities and stockholders' deficit	$7,064,674	$4,331,742

See accompanying notes

BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(unaudited) Three Months Ended June 30,	
	2002	**2001**
Revenues:		
Telecommunications services	$6,766,373	$3,474,312
Other	9,859	18,049
Total revenues	6,776,232	3,492,361
Operating expenses:		
Costs of revenues	3,679,263	2,517,616
General and administrative	1,809,707	1,762,434
Selling and promotion	856,276	827,157
Total operating expenses	6,345,246	5,107,207
Income (loss) from operations	430,986	(1,614,846)
Other income (expense):		
Interest income	5,998	3,873
Interest expense	(385,480)	(184,137)
Total other expense, net	(379,482)	(180,264)
Net income (loss)	$51,504	$(1,795,110)
8% dividends on Series A and B preferred stock	(186,019)	(180,321)
Net loss applicable to common stockholders	$(134,515)	$(1,975,431)
Net loss per common share:		
Basic and diluted	$(0.02)	$(0.45)
Weighted average common shares outstanding:		
Basic and diluted	5,730,161	4,437,312

See accompanying notes

BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	(unaudited) Six Months Ended June 30,	
	2002	**2001**
Revenues:		
Telecommunications services	$11,567,981	$6,394,029
Other	35,561	39,071
Total revenues	11,603,542	6,433,100
Operating expenses:		
Costs of revenues	6,179,829	4,507,460
General and administrative	2,942,940	3,317,083
Selling and promotion	1,721,319	1,553,737
Total operating expenses	10,844,088	9,378,280
Income (loss) from operations	759,454	(2,945,180)
Other income (expense):		
Interest income	6,802	9,124
Interest expense	(688,724)	(371,511)
Total other expense, net	(681,922)	(362,387)
Net income (loss)	$77,532	$(3,307,567)
Preferred stock dividends:		
8% dividends on Series A and B preferred stock	(372,037)	(360,642)
Beneficial conversion feature related to Series B preferred stock	-	(20,498)
Total preferred stock dividends	(372,037)	(381,140)
Net loss applicable to common stockholders	$(294,505)	$(3,688,707)
Net loss per common share:		
Basic and diluted	$(0.05)	$(0.86)
Weighted average common shares outstanding:		
Basic and diluted	5,604,441	4,283,210

See accompanying notes

BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(unaudited) Six Months Ended June 30, 2002	2001
Cash flows from operating activities:		
Net income (loss)	$77,532	$(3,307,567)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	438,208	558,651
Interest expense resulting from issuing stock and warrants with notes	14,520	103,997
Amortization of discount on notes payable	70,703	1,387
Amortization of note financing costs	94,060	84,410
Amortization of deferred consulting fees	27,225	18,547
Services rendered in exchange for shares of common stock	-	6,181
Expense related to the grant of options to purchase common shares	66,396	13,135
Changes in operating assets and liabilities:		
Restricted cash	259,380	(387,582)
Accounts receivable	(1,255,012)	(448,681)
Other assets	(1,330,721)	29,841
Checks in excess of available cash balances	(186,866)	-
Accounts payable	390,291	408,534
Accrued commissions and rebates	109,590	123,627
Accrued liabilities	87,395	(67,992)
Net cash used in operating activities	(1,137,299)	(2,863,512)
Cash flows from investing activities:		
Decrease (increase) in other assets	(17,060)	17,325
Purchases of property and equipment	(155,836)	(191,142)
Net cash used in investing activities	(172,896)	(173,817)
Cash flows from financing activities:		
Net borrowings under line of credit	236,900	415,722
Borrowings under notes payable, net of debt issuance costs	2,315,750	1,840,000
Principal payments on notes payable	(444,826)	(39,252)
Principal payments on capital lease obligations	(110,443)	(151,841)
Issuance of preferred/common shares for cash, net of offering costs	-	1,097,223
Net cash provided by financing activities	1,997,381	3,161,852
Net increase in cash	687,186	124,523
Cash at the beginning of the period	57,100	56,825
Cash at the end of the period	$744,286	$181,348

See accompanying notes

BUYERS UNITED, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

	(unaudited) Six Months Ended June 30, 2002	2001
Supplemental cash flow information:		
Cash paid for interest	$463,094	$132,181
Supplemental schedule of noncash investing and financing activities:		
Issuance of common shares in payment of preferred stock dividend	$378,316	$223,896
Issuance of common shares in payment of deferred services	-	125,000
Issuance of common shares in payment of deferred financing costs	49,548	205,000
Issuance of warrants with promissory notes	186,886	-
Beneficial conversion dividend on Series B preferred shares	-	20,498
Accrual of dividend payable on preferred stock	372,037	360,642

BUYERS UNITED, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2002
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Buyers United, Inc. ("the Company" or "Buyers United") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal recurring accruals) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-KSB for the year ended December 31, 2001.

2. Long-term Debt

In January 2002, the Company issued a $100,000 unsecured note payable to the Chairman of the Board which bears interest at 12% with both principal and interest due July 5, 2003.

Also in January 2002 the Company issued $79,998 in unsecured notes payable to three officers of the Company that bear interest at 12% which is payable monthly with the principal due July 5, 2003.

In April and May of 2002 the Company also issued $2,265,000 in unsecured promissory notes bearing interest at 10% to 12%, payable monthly. Principal payments are due monthly based on 38% to 40% of billings collected from specifically identified customers. These percentages will increase if the notes are not fully repaid within a specified period. After the notes' principal balance is paid in full, the Company will continue to remit a percentage of the billings collected from these customers but the percentage will be reduced to 18% to 20%. These payments will continue as long as the customers continue purchasing long distance services from the Company. In addition, each note holder received a two-year warrant to purchase shares of common stock at an exercise price of $2.50 per share. The amount of warrants issued equaled 10% of the note proceeds.

3. Capital Transactions

During the last half of 2001, preferred stock dividends amounted to $378,316, consisting of $150,942 on outstanding shares of Series A 8% cumulative convertible preferred stock, and $227,374 on outstanding shares of Series B 8% cumulative convertible preferred stock. These dividends were paid through the issuance of 374,534 shares of common stock to the holders of the preferred stock in February 2002.

On January 15, 2002, the Company issued 7,998 shares to three officers in consideration of notes payable in the amount of $79,998. The value of the shares was $8,798.

On January 18, 2001, the Company issued 10,000 shares to Theodore Stern, the Company's CEO and Chairman of the Board of Directors, in consideration of a note payable in the amount of $100,000. The value of the shares was $10,000.

On February 15, 2002, the Company issued 25,000 shares to Mr. Stern in consideration of him granting a $250,000 guaranty to MCI WorldCom, Inc. on behalf of Buyers United in connection with the Company entering in to a resale contract. The value of the shares was $30,750.

3. Capital Transactions – (continued)

In May 2002 the Board of Directors approved a plan to modify the exercise price on certain warrants from $2.50 to $2.00 per share, and to extend the expiration date of certain warrants from December 31, 2002 to December 31, 2004. As of mid-August, the Company was in the process of obtaining the required approvals from the warrant holders and expects the modifications to be completed by the end of August.

4. Major suppliers

Approximately, 87% and 62% of the Company's cost of revenue for the six months ended June 30, 2002 and 2001, respectively, was generated from two telecommunications providers. As of June 30, 2002 one of these providers had filed for bankruptcy protection under Chapter 11, and the other provider is currently being scrutinized by the Securities and Exchange Commission over certain accounting matters. Although the Company has not experienced a disruption of service and feels it could replace these sources with other wholesale telecommunications providers, the effect on the Company's operations of potentially losing both of these service providers can not be determined.

5. Subsequent events

During the first part of August 2002, the Company entered into loan agreements with several individuals aggregating $1,700,000. Under the terms of the agreements, the proceeds can be used for working capital or to partake in a direct response advertising campaign with an unrelated comparison shopping service to solicit new customers. The loans have a stated interest rate of 10%, and are to be repaid using a portion of collected revenues from specifically-designated new customers. After all principal and interest is repaid, the note holder will retain a 24% residual for as long as the specific customers remain active Buyers United customers. Unlike similar loan arrangements entered into earlier in the year, no warrants were issued in connection with these loans.

6. Going concern

Up through the end of 2001, the Company had experienced recurring losses from operations. As of June 30, 2002, the Company had a working capital deficit of $4.3 million and an accumulated deficit of $26 million. Although the Company achieved profitability during the first two quarters of 2002, and management believes the Company will continue to be profitable during the remainder of 2002, the foregoing matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Item 2. MANAGEMENTS'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Buyers United is engaged in the business of selling to consumers and small businesses long distance and Internet access services. Our business model is to offer these services at what we believe to be competitive prices and provide additional value to the customer through service maintenance and billing, product rebates, and other promotions. Buyers United uses the purchasing power of its customer base to obtain favorable rates for long distance and Internet access service and obtain rebates on products and services we offer to our customers as an added benefit for purchasing long distance or Internet access service through us. Buyers United's goal is to continue to expand and develop as a national reseller of our services. Our strategy for achieving this goal is to focus on expanding service and product offerings, continue our customer rebate program, continue development of our agent sales program, and pursue Internet marketing opportunities to obtain new customers.

Buyers United provides services that it believes are perceived by consumers and businesses as essential or are compatible with their normal annual expenditures. Since its inception in January 1996, Buyers United has focused on selling long distance service. This focus has enabled Buyers United to build the size of its customer base.

Buyers United currently has over 83,000 customers. Its target market includes networking professionals, small businesses, and middle-class families with an annual household income between $30,000 and $100,000, as these are the most likely to respond actively to the cost savings opportunity offered by Buyers United. Customers reside mostly in high population centers and they tend to spend more than the average on long distance services. Buyers United believes that approximately one-third of the present customers consist of small businesses and entrepreneurs who operate home-based businesses.

Results of Operations

Total revenues from telecommunications and other services increased 94% to $6.78 million for the three months ended June 30, 2002 as compared to $3.49 million for the same period in 2001. Year-to-date, revenues increased 80% as compared to the first half of 2001. The increase in revenue is due to an increase in the number of customers we serve resulting from our ongoing promotional efforts, primarily involving independent agents and referrals from an online shopping comparison service.

Costs of revenues for the three-month period ended June 30, 2002 were $3.68 million, a 46% increase as compared to $2.52 million incurred during the comparable three-month period for the prior year. For the six-month periods, costs of revenue increased 37%. Such costs as a percentage of revenue for the three and six-month periods ended June 30, 2002 were 54% and 53%, respectively, as compared to 72% and 70% during 2001. The higher gross margins is a result of obtaining better costs from our long distance carriers, along with an increase in sales to residential customers which earn higher gross margins.

Total operating expenses other than costs of revenues were 3% higher during the quarter ended June 30, 2002 as compared to the same period of 2001, and were 4% lower during the six-month period as compared to the previous year. These changes are a result of the following factors:

- General and administrative costs in 2002's second quarter increased 3% to $1.81 million compared to $1.76 million in 2001. For the six months ended June 30, 2002, expenses were lower by 11% as compared to the previous year. Decreases in expenses during 2002 as compared to 2001 resulted from lower compensation costs incurred after we reduced employee levels in

2001. In addition, certain occupancy and maintenance costs were lower stemming from the cancellation of an equipment lease during the third quarter of 2001. These decreases were offset by increases during 2002 in billing costs and allowances for uncollectible accounts directly proportional to the increase in revenues.

- Selling and promotion expenses increased 4% to $856,276 during the second quarter of 2002 from $827,157 in 2001. Expenses for the six-month period ended June 30, 2002 rose 11% as compared to the same period of 2001. The increases resulted primarily from the proportionate higher commission amounts paid on higher revenue. Included in selling and promotion expenses for the first half of 2001 was $150,000 in celebrity contract renewal costs in connection with an infomercial marketing tool originally intended to air later in 2001. The infomercial was not used and we did not incur any contract renewal costs in the first half of 2002. Consequently, commissions on revenue represent a substantially higher proportion of selling and promotion expense in the first six months of 2002 as compared to 2001.

Interest income was $5,998 for the quarter ended June 30, 2002, and was $6,802 for the six months then ended. This compares to $3,873 and $9,124, respectively, earned during the comparable periods of 2001. The differences resulted from varying cash balances on hand during 2002 as compared to the corresponding periods in 2001.

Interest expense for the three and six-month periods ended June 30, 2002 was $385,480 and $688,724, respectively, compared to $184,137 and $371,511 for the comparative periods of 2001. The higher amounts were the result of higher debt balances outstanding in 2002 as compared to the previous year.

As a result of the above factors we earned overall net income before preferred stock dividends of $51,504 during the quarter ended June 30, 2002, as compared to a net loss of $1.80 million for the same period during 2001. For the first half of 2002 we earned income of $77,532, as compared to a net loss of $3.31 million incurred during the first half of 2001.

Liquidity and Capital Resources

Buyers United's current ratio as of June 30, 2002 increased slightly to 0.57:1 from 0.48:1 at the end of 2001. The components of current assets and current liabilities that changed significantly since the end of 2001 were accounts receivable, accrued commissions and rebates, other current assets, and the current portion of long-term debt.

Accounts receivable and accrued commission and rebates increased as a result of higher revenue amounts during 2002 as compared to 2001. Other current assets increased 278% since the end of December 2001, due primarily to higher capitalized amounts associated with our direct financing campaign that are expected to be recovered during the next twelve months.

The current portion of long-term debt rose 255%, partly because the balance of a $1.05 million promissory note, due February 28, 2003, was reclassified from a long-term to a current liability. In addition, although the majority of new promissory notes issued during 2002 have no stated maturity date, management believes we will repay the loans over a period of approximately twelve months. Accordingly, the entire amount of these loans have also been included in current liabilities.

As of June 30, 2002, we had a $1.05 million note payable to an individual bearing interest at 18%, payable monthly. The note is due February 28, 2003 and provides that 50,000 shares of common stock will be issued to the note holder at maturity. Should the note be prepaid, we are required to issue 100,000 shares to the note holder. The note provides a conversion feature whereby the holder may convert the note into common stock at $2.50 per share.

During October and November of 2001, we raised $825,000 via promissory notes to fund our participation in an unrelated comparison shopping service and to fund working capital needs. The notes are unsecured and bear interest at 12%, payable monthly. Principal is also payable monthly, based on 20% of billings collected during each monthly billing period from specifically designated existing customers or from any new customers that subscribed via the on-line shopping service in which the shopping services fee was paid from the proceeds. After the notes are repaid, we will continue to remit a percentage of the billings collected from these customers, but the percentage will be reduced to 10%. These payments will continue as long as the specific customers continue purchasing long distance services from Buyers United.

During the first half of 2002, Buyers United raised $2,265,000 through the sale of promissory notes to continue in the comparison shopping service and to fund working capital needs. These notes bear interest at 10% to 12%, and interest and principal payments are due monthly. Similar to the notes issued during 2001, principal is repaid out of collected billings from new customers generated through the online shopping service. However, only half the note proceeds are to be used for this service, the rest being allocated for working capital purposes, as needed. With respect to these 2002 notes, 38% to 40% of the new customer billings are to be reserved for principal repayment, depending on the particular note agreement. After the notes are repaid, we will continue to remit a percentage of the billings collected from these customers, but the percentage will be reduced to 18% to 20%. These payments will continue as long as the specific customers continue purchasing long distance services from Buyers United.

In August 2002, we sold an additional $1,700,000 in promissory notes bearing interest at the rate of 10% per annum that will be repaid out of a portion of billings to new customers obtained via the shopping service, similar to the terms of the promissory notes describe above.

At June 30, 2002, Buyers United had several unsecured promissory notes payable to Theodore Stern, an officer and director, totaling $2,665,000. All but one of the notes (for $400,000) bear interest at a rate of 12%, with interest payable upon maturity. The $400,000 note, along with the noteholder's personal guaranty, originated in connection with securing more favorable rates with certain of our telecommunication providers. Accordingly, based on savings in terms of these costs, interest on this note is calculated based on the monthly vendor billings incurred by Buyers United, not to exceed $15,000 per month, payable monthly. All the notes mature on July 5, 2003.

During the first quarter of 2002, we issued $79,998 in unsecured promissory notes payable to Paul Jarman, G. Douglas Smith, and Kenneth D. Krogue, all executive officers. The notes mature in July 2003 and bear interest at 12%, payable monthly.

Buyers United has a line of credit agreement with RFC Capital Corporation. The facility allows us to finance up to $2.5 million based on our eligible accounts receivable, and allows us to borrow against unbilled receivables as well as finance regular monthly billings. The facility bears interest at a rate of prime plus 6% and expires in June 2004. At June 30, 2002, we had financed the maximum amount available based on eligible accounts receivable at that time, which amounted to $811,072. This agreement also requires us to maintain a restricted cash account for the collection of our receivables. As of June 30, 2002 we had $430,932 of restricted cash primarily relating to the RFC Capital agreement.

Up through the end of 2001, we had experienced recurring losses from operations. As of June 30, 2002, we had a working capital deficit of $4.3 million and an accumulated deficit of $26 million. Although we achieved profitability during the first two quarters of 2002, the foregoing matters raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should we be unable to continue as a going concern. We are currently experiencing significant revenue growth and have seen the results of several fixed-cost reduction initiatives begun in 2001. While there can be no assurance that such will be the case, management believes that the trend of revenue increases will continue, and that we will continue to be profitable during the remainder of 2002.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by Buyers United, except where such statements are made in connection with an initial public offering. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of our operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect our operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of services and products offered to members, legal and regulatory initiatives affecting member marketing and rebate programs or long distance service, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we operate as of the date of this report. Because of the factors listed above, as well as other factors beyond its control, actual results may differ from those in the forward-looking statements.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On June 14, 2001, a lawsuit was filed against Buyers United by Profitec, Inc., in New Haven, Connecticut. Profitec asserts that it agreed to perform certain billing services in 1999 for our telecommunication customers and that we agreed to pay Profitec for such services. Profitec further claims that we breached the contract by terminating the contract and failing to pay fees allocable under a "liquidated damage" provision for early termination. Profitec claims damages in excess of $140,000, based upon the contract's liquidated damage provisions. Buyers United has retained counsel to defend this action. Our defenses include that Profitec breached the contract with respect to manner and time of performance and failed to cure these breaches after notice. We filed a general denial answer and asserted affirmative defenses, including breach of contract, failure of consideration, and other issues. We also filed a counter claim seeking damages for Profitec's breach of the contract. In November 2001, Profitec answered and denied the counter-claim but has never claimed the matter to any trial list, nor have they ever sought discovery. Management believes that Profitec's claims are without merit, and intends to defend the action and pursue its claims against Profitec as it deems appropriate.

We are a party to certain other legal proceedings that we consider incidental to our business activities. It is the opinion of management, after discussion with legal counsel, that the ultimate disposition of these other matters will not have a material impact on our financial position, liquidity, or results of operations.

Item 2. CHANGES IN SECURITES AND USE OF PROCEEDS

During the first half of 2002, Buyers United raised $2,265,000 through the sale of promissory notes to continue in the comparison shopping service and to fund working capital needs. These notes bear interest at 10% to 12%, and interest and principal payments are due monthly. Similar to the notes issued during 2001, principal is repaid out of collected billings from new customers generated through the online shopping service. Half the note proceeds are to be used for this service, the rest being allocated for working capital purposes, as needed. With respect to these 2002 notes, 38% to 40% of the new customer billings are to be reserved for principal repayment, depending on the particular note agreement. After the notes are repaid, we will continue to remit a percentage of the billings collected from these customers, but the percentage will be reduced to 18% to 20%. These payments will continue as long as the specific customers continue purchasing long distance services from Buyers United. In addition, each note holder received a two-year warrant to purchase shares of common stock at an exercise price of $2.50 per share. The amount of warrants issued equaled 10% of the note proceeds, or a total of 226,500 issued to the note holders. vFinance Investments, Inc. acted as agent for us in the placement of the notes and was paid commissions equaling 5% of the loan proceeds. vFinance also received two-year warrants to purchase shares of common stock in number equal to 3% of the loan proceeds. The warrants have an exercise price of $2.50 per share.

All of the aforementioned securities were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 or Rule 506 of Regulation D promulgated thereunder. Based on information provided by the investors, we believe each investor was an accredited investor within the meaning of Rule 501 of Regulation D.

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

At the Annual Meeting of Stockholders held on June 19, 2002, the stockholders voted on the following matters:

(1) The election of Theodore Stern, Gary Smith, Edward Dallin Bagley, and Steve Barnett as directors of Buyers United to serve for a term of one year and until their successors are duly elected and qualified; and

(2) Ratification of the appointment of Crowe, Chizek and Company LLP as independent auditors of Buyers United for 2002.

Each of the foregoing matters was approved or ratified by the stockholders. The number of votes cast on the foregoing matters is as follows:

	For	Against	Abstain
Election of Directors:			
Theodore Stern	2,943,153	5,983	0
Gary Smith	2,943,653	5,483	0
Edward Dallin Bagley	2,943,652	5,484	0
Steve Barnett	2,943,152	5,984	0
Appointment of Crowe, Chizek and Company LLP	2,943,802	5,219	115

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Reports on Form 8-K:

None.

Exhibits:

Exhibit 99.1 Certification required by the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

BUYERS UNITED, INC.

Date: August 13, 2002 By: /s/ G. Douglas Smith, Vice President

Date: August 13, 2002 By: /s/ Paul Jarman, Treasurer

Exhibit 99.1

Certification Pursuant to
Sections 302 and 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Buyers United, Inc. ("Company") on Form 10-QSB for the quarter ended June 30, 2002 ("Report"), each of the Chief Executive Officer and Chief Financial Officer of the Company whose names appear below certifies pursuant to §302 and §906 of the Sarbanes-Oxley Act of 2002, for himself that, to the best of his knowledge:

1. The Report has been read and reviewed by the undersigned;

2. The Report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to makes the statements made, in light of the circumstances under which such statements were made, not misleading; and

3. The financial statements, and other such financial information included in the Report, fairly present the financial condition and results of operations of the Company as of and for the period ended June 30, 2002.

Each of said officers further affirms that:

1. The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining a system of internal accounting controls, subject to the approval and supervision of the Audit Committee and Board of Directors. The Company's system of internal accounting controls is designed to assure, among other items, that material information relating to the Company and its consolidated subsidiaries is made known on a timely basis to the Chief Executive Officer and Chief Financial Officer.

2. He has evaluated the effectiveness of the Company's internal controls as of July 31, 2002, and has concluded that such controls are operating, as of such date, in a manner reasonably required to enable management to receive all material information necessary to produce financial statements that present fairly the financial condition, results of operations and cash flows of the Company for the respective periods presented in its periodic reports filed with the Securities and Exchange Commission. He has not identified as of July 31, 2002, any significant deficiencies or material weaknesses in the design or operation of the Company's internal controls to disclose to the Company's Audit Committee or independent auditors.

3. He has not identified any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's system of internal controls to disclose to the Company's Audit Committee or independent auditors.

4. There have been no significant changes in the Company's system of internal accounting controls or in other factors that could significantly affect the Company's system of accounting controls from July 31, 2002, to the date the Report is filed with the Securities and Exchange Commission.

/s/ Theodore Stern
Theodore Stern, Chief Executive Officer
Dated: August 13, 2002

/s/ Paul Jarman
Paul Jarman, Chief Financial Officer
Dated: August 13, 2002

Exhibit C

Annul Report to Shareholders

Buyers United

2001 ANNUAL REPORT TO STOCKHOLDERS

buyersonline
Helping you zero-out monthly bills

UCN
UNITED CARRIER NETWORKS

TABLE OF CONTENTS

buyersonline
Helping you zero-out monthly bills

UCN
UNITED CARRIER NETWORKS

May 15, 2002

Dear Fellow Shareholders:

Last September, I reported to you on the status of Buyers United and the exciting things that had happened in the first eight months of 2001. In spite of the tragic events of September 11 and the adverse impact on our economy, the growth momentum has continued undiminished. As I mentioned in my last letter to you, the true strength of the company is the collective commitment of our shareholders and employees.

Enclosed is a copy of our Annual Report, which describes the company's progress through the end of last year. In this letter I want to highlight the progress we have made since then.

- In my last letter I reported that we were completing successful testing of residential member direct-response advertising through LowerMyBills.com (LMB). LMB shows its members ways to save money by connecting them with service providers such as Buyers United. LMB studied our business plan and concluded that our long distance services, corporate infrastructure, and experience make us a good fit. We started slowly toward the end of last year and during the first quarter of this year assumed a leading position. By the end of April we have added over 30,000 new members through LMB. We have worked out the expected "kinks" and believe that we can, in the future, add in excess of 10,000 new members per month. Our LMB new member costs average about $30 per new member which we have been able to fund through a unique loan program with the help of our investment banking firm, vFinance Investments.

- In June of this year we will have completed our first year with RFC Capital Corporation, the company that finances our accounts receivable. The line of credit, allowing us to borrow up to $2,500,000, has been renewed for another two years.

- We have initiated marketing a new proprietary software program that increases the productivity of call centers. There are thousands of call centers in the U.S. that could benefit from this unique product. We did not expect to roll out this product before July but have already received several contracts based on our initial presentations.

- In February of this year, we signed Brad Miehl as our newest telecommunication agent. Brad has over 1,200 subagents who market telecommunication services for him. Brad is a great addition to our Independent Telecommunication Agent family.

- In March of this year, we rolled out a new division: United Carrier Networks ("UCN"). UCN was created to meet the specific needs of our many and diverse commercial customers. The advent of UCN is significant as it offers unique services to both small and large businesses. Our over 2,400 Independent Telecommunications Agents are marketing our services to businesses now through UCN.

- With UCN firmly in place, we retained BuyersOnline as a division to market our services to residential customers.

Sales 1-888-UCN-5515 · Service 1-888-UCN-9981
Fax 1-800-921-9366 · info@ucn.net
14870 Pony Express Road · Bluffdale, Utah, 84065

- Our first quarter 2002 performance saw substantial gains over the same period the year before. Our revenue for the first quarter of 2002 was $4,827,310. This exceeded the first quarter revenue of 2001 by 64%. Even more important we realized positive net income for the first time!

- Our first quarter 2002 revenue exceeded the fourth quarter revenue by 22%. Our membership grew from 32,935 on December 31, 2001, to 53,147 on March 31, 2002.

These are some of our successes this year. As one of Buyer's largest investors as well as a member of its Board and management team, I firmly believe in its success and future. It is rewarding to see the company grow when many of its competitors are stagnant or even closing their doors. I look forward to sustained growth. We are grateful to each of you and are working very hard to protect and enhance the value of each shareholder's investment.

Thank you all for your support and continued interest in our company.

Sincerely,

Theodore Stern
Chairman and CEO

OUR BUSINESS

Buyers United, Inc. ("the Company" or "Buyers United") is a Delaware corporation that has been engaged for the past five years in the business of selling telecommunication services and now represents approximately 33,000 small businesses and residential consumers across America. Buyers United offers long distance telephone service and related products, including calling cards and toll free 800/888 services. Long distance and related services are provided by five different long distance companies.

The Company has refined its business model over the past several years to address specific niche opportunities in the vast communications industry. The Company's new brand, United Carrier Networks (UCN), targets business customers, while the brand developed during 2000, BuyersOnline (BOL), is intended to cater to the residential consumer. The use of the two distinct brands allows the Company to specifically meet the needs of both customer types, without creating channel conflicts.

Buyers United plans to offer a suite of services to business customers such as teleconferencing, call center routing services, and enhanced data solutions. These different services would allow the Company to facilitate the specific, and sometimes sophisticated needs of large commercial customers. The Company began significantly marketing toward this particular segment in 2001, and will continue efforts to market to this segment through 2002.

Buyers United is now pursuing multiple marketing avenues, including marketing through the Internet, using independent agents, and contracting with partners to stimulate interest in service offerings. The Company's shopping and referral rebate programs give customers additional cost saving opportunities and significantly increases customer retention. The new UCN web site gives specialized services and options for business customers and the agents that represent them.

There are approximately 5,000 independent telecommunications agents around the country that are responsible for a substantial amount of annual U.S. telecommunication sales. Since the upsurge of agent-oriented business during mid-2000, Buyers United has engaged over 2,400 of these independent agents to sell its business and residential telecommunications services.

Buyers United intends to continue to pursue long distance customers through partners that market through the Internet and promote its services. Its largest partner is an online comparison shopping service, LowerMyBills.com.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of Buyers United trades sporadically in the over-the-counter market. The following table sets forth for the respective periods indicated the prices of the common stock in the over-the-counter market, as reported and summarized on the OTC Bulletin Board. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

Calendar Quarter Ended	High Bid ($)	Low Bid ($)
March 31, 2000	5.75	1.63
June 30, 2000	5.19	1.75
September 30, 2000	3.50	1.50
December 31, 2000	2.50	0.88
March 31, 2001	1.94	0.94
June 30, 2001	1.75	0.72
September 30, 2001	1.16	0.61
December 31, 2001	1.01	0.52

Since its inception, no dividends have been paid on the common stock. Buyers United intends to retain any earnings for use in its business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future. There are currently outstanding 1,870,000 shares of Series A Convertible Preferred Stock and 563,800 shares of Series B Convertible Preferred Stock. Under the terms of this preferred stock, Buyers United cannot make any distributions on its common stock without the approval of a majority of the preferred stockholders. At March 31, 2002, there were approximately 4,900 holders of record of the common stock.

SUMMARY FINANCIAL INFORMATION

Operating statement data for the years ended December 31, 2001, 2000, and 1999:

	2001	2000	1999
Revenue	$ 14,341,977	$ 7,355,559	$ 4,755,687
Operating expenses	19,811,215	13,853,238	6,446,271
Total other expenses, net	982,311	1,604,269	74,174
Extraordinary gains (losses)	383,520	(1,024,574)	-
Net (loss)	(6,068,029)	(9,126,522)	(1,764,758)
Preferred stock dividends	759,455	2,481,592	160,127
Net (loss) applicable to common shareholders	(6,827,484)	(11,608,114)	(1,924,885)
Net (loss) per share applicable to common shareholders	(1.49)	(3.12)	(0.60)

Balance sheet data as of December 31, 2001, 2000, and 1999:

	2001	2000	1999
Current assets	$ 3,301,525	$ 2,044,032	$ 2,196,734
Total assets	4,331,742	4,402,907	2,549,315
Current liabilities	6,871,313	5,910,462	1,294,557
Total liabilities	10,486,313	6,225,218	2,418,620
Stockholders' equity (deficit)	(6,154,571)	(1,822,311)	130,695

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Buyers United is engaged in the business of selling to consumers and small businesses long distance and Internet access services. The marketing strategy of Buyers United is based on a membership concept under which members are entitled to receive the services offered at lower prices. Buyers United uses the purchasing power of its membership to negotiate lower cost or rebates from producers and resellers of the services and products. Lower costs allow Buyers United to offer more competitive pricing to attract and retain members, and make it possible for Buyers United to offer rebate incentive programs to its members for referring new prospective members. Buyers United's goal is to build a national consumer membership organization. Its strategy for achieving this goal is to focus on expanding service and product offerings, continue its member referral and rebate program, continue development of its agent sales program, and pursue Internet advertising to attract new members.

Buyers United provides services that it believes are perceived by consumers and businesses as essential or are compatible with their normal annual expenditures. Since its inception in January 1996, the Company has focused on selling long distance service. This focus has enabled Buyers United to build the size of its membership base.

Buyers United currently has over 53,000 members. Its target market includes networking professionals, small businesses, and middle-class families with an annual household income between $30,000 and $100,000, as these are the most likely to respond actively to the cost savings opportunity offered by Buyers United. Members reside mostly in high population centers and they tend to spend more than the average on long distance services. The Company believes that approximately one-third of the present membership consists of small businesses and entrepreneurs who operate home-based businesses.

Results of Operations - Year Ended December 31, 2001 Compared to 2000

Revenues increased 95% during 2001 to $14.3 million as compared to $7.4 million during 2000. The increase was due to higher membership resulting from Buyers United's ongoing agent-related promotional efforts. Membership at the end of 2001 increased 80% as compared to the previous year. During the latter part of December 2001 the Company began seeing the results of its new online marketing programs. Due in large part to these efforts, membership growth during the first three months of 2002 has increased 61%.

During 2001, Buyers United continued its efforts of negotiating with its vendors to lower the cost of long distance service provided to members. By offering to increase business volume to certain levels, vendors agreed in exchange to offer lower rates. Accordingly, the Company began concentrating volume and new customer sign-ups with two of its largest long-distance wholesale carriers. At the end of 2001, the Company's business was primarily placed with these two carriers, but offered service to members through a total of five different wholesale vendors. In response to the lower costs thus achieved during 2001, the Company was able to offer services to new members, particularly those in the agent-sponsored channels, at lower, more competitive prices. This resulted in an increase in commission expense for the year. As a result of these offsetting factors, costs of revenues for the year ended December 31, 2001 were $9.3 million, or 66% of revenue, as compared to costs of $4.8 million, or 65% of revenue, for the year ended December 31, 2000. The resultant gross profit margin for 2001 was down slightly at 34.8%, as compared to the margin of 35.1% experienced during 2000. The Company expects that gross margins will increase slightly during 2002 as revenue from customers acquired through its online marketing programs becomes more significant in relation to overall revenue.

General and administrative expenses for 2001 increased 18% to $6.1 million as compared to $5.2 million for the previous year. Approximately two-thirds of the increase stemmed from higher bad debt estimated write-offs incidental to the increased level of revenue. The remaining increase resulted primarily from higher occupancy costs during the year. In December of 2000, the Company consolidated four separate facilities into one location. However, offsetting the higher rent and maintenance costs were decreased expenses for fund-raising and business promotion activities. Except for bad debt allowances which will vary according to revenue levels, the Company anticipates slightly lower levels of general administrative expenses throughout the 2002 year.

Selling and promotion expenses for the year ended December 31, 2001 were $3.3 million, a decrease of 14% over the prior year's expenses of $3.9 million. During the prior 2000 year, selling and promotion expenses were higher mainly due to infomercial production efforts. No such activity occurred during 2001, however the resultant significant decrease in production costs was offset somewhat by higher 2001 commission expenses in proportion to the increased revenue volume during 2001.

During 2001, the Company reviewed its investment in leased computer equipment and software, the related ongoing maintenance expenses, and the costs primarily incurred in 2000 in connection with the creation of various web sites designed to work with Oracle-based applications. The Company determined that it could achieve its growth objectives and serve existing and potential customers using a more economical equipment and software solution. Accordingly, the Company negotiated with the equipment lessor to return the equipment and cancel the lease.

The Company also replaced its web site software with newly developed programs designed to operate on a SQL-based operating system and determined that the costs previously capitalized and associated with the returned equipment and software no longer had a realizable value. The total cost of removing the unamortized book value of the lease obligation, equipment, software, and capitalized web site development costs totaled $980,086.

Interest income for 2001 was $15,571 as compared to $21,943 in 2000. The difference is attributable to the lower amount of funds on hand during 2001. Interest expense for 2001 was $997,882 as compared to $1.6 million for 2000, a decrease of 39%. The decrease is attributable primarily to the significant amount of bridge financing and related discount amortization and write-offs the Company experienced during 2000, before converting the bridge loans into the Series B Preferred Stock issuance.

In December 2001, Buyers United recognized an extraordinary gain on the early extinguishment of debt of $383,520. Earlier in the year, one of the Company's noteholders sold the obligation to an investment relations firm. Subsequently, the Company negotiated a settlement with the investment relations firm. The Company paid $120,000 and issued 35,000 shares of common stock in exchange for canceling the outstanding obligation plus $25,921 in accrued interest. The stock had a fair market value of $22,401. The difference between the balance due, the cash paid and the fair market value of the stock issued was recognized as a gain on early extinguishment of debt. By contrast, in 2000, the Company recorded a loss of $1.02 million on the early extinguishment of debt. Buyers United obtained $2.5 million of debt financing during 2000, which was subsequently exchanged for Series B 8% cumulative convertible preferred stock and warrants to purchase common stock. The difference between the estimated fair value of the Series B preferred stock and warrants and the carrying amount of the debt was recognized as a loss on early extinguishment of debt.

As a result of the above factors, the net loss before preferred stock dividends decreased 34% to $6.1 million for 2001 as compared to $9.1 million for 2000. During 2001, preferred stock dividends amounted to $759,455, consisting of $738,957 of 8% cumulative dividends on outstanding Series A and B preferred stock, and $20,498 of preferred stock dividends related to the beneficial conversion feature associated with the issuance of the last 110,000 Series B Preferred shares in early 2001. This compares to total preferred stock dividends during 2000 of $2.5 million, consisting of $383,458 of 8% cumulative dividends on Series A and B preferred stock, and $2.1 million of preferred stock dividends related to the beneficial conversion feature associated with the issuance of 453,800 shares of Series B preferred stock.

Liquidity and Capital Resources

Buyers United's current ratio at the end of 2001 increased to 0.5:1 from 0.3:1 at the end of 2000. The reasons for the increase mainly resulted from the net increase in current asset amounts related to higher revenues and offset by decreases in liabilities resulting from quicker payments and debt restructuring. Restricted cash increased over the 2000 level due to the line of credit established in 2000. The line of credit agreement requires control over the bank account to which customer payments are remitted as part of the repayment terms. While this cash eventually repays the debt obligation with the balance transferring to the Company, due to the controlled nature of the account it is reflected on the balance sheet as being "restricted." Accounts receivable increased 47% due to higher revenue levels. Other current assets rose 33% at the end of 2001 over 2000 due to amounts capitalized associated with the Company's direct response advertising campaign. The current portion of notes payable balance decreased 16% due to the amendment of the maturity date of the $1,050,000 note from September 2002 to February 28, 2003, offset by increased borrowing of $875,000 in unsecured promissory notes which are reflected as current obligations on the balance sheet. The current portion of capital lease obligations decreased 36% due to both lease payments and the elimination of one of the two capital leases. Accounts payable rose by a net amount of only 12% since a year earlier, despite higher revenue and related operating payable increases. Offsetting factors included paying off and settling older outstanding amounts owed to vendors. Accrued liabilities increased 29% due mainly to increase in accrued rebates and commissions explained below. Accrued dividends increased 69% once the majority of the shares were outstanding the entire year during 2001. Accrued rebates and commissions rose 330% at the end of 2001 as compared to the previous year due to revenue increases, a higher proportion of which involved outside sales agents.

On June 7, 2001 the Company entered into a one-year account receivable financing agreement with RFC Capital Corporation ("RFC"). The facility allows the Company to finance up to $2.5 million based on the Company's eligible accounts receivable. The facility bears interest at a rate of prime plus 6%, and also required the payment of a Commitment Fee of $50,000. The facility allows the Company to borrow against unbilled receivables as well as finance regular monthly billings. At December 31, 2001, the Company had financed the maximum amount available based on eligible accounts receivable at that time, which amounted to $574,172. This agreement also requires the Company to maintain a restricted cash account for the collection of the Company's receivables. As of December 31, 2001 the Company had $690,312 of restricted cash.

As of December 31, 2001, the Company had a $1,050,000 note payable to an individual bearing interest at 18%, payable monthly. On March 13, 2002, the noteholder agreed to extend the maturity date of the note to February 28, 2003. The note provides a conversion feature whereby the holder may convert the note into common stock at $2.50 per share. During extension negotiations earlier in 2001, provisions were added such that 50,000 shares of common stock will be issued to the noteholder at maturity. Should the note be prepaid, 100,000 shares are to be issued.

As of December 31, 2001, the Company had several unsecured promissory notes payable to a member of the Company's Board of Directors totaling $2,565,000. All but one of the notes (for $400,000) bear interest at a rate of 12%, with interest payable upon maturity. The $400,000 note originated in connection with securing more favorable rates with certain of the Company's telecommunication providers. Accordingly, based on savings in terms of these costs, interest on this note is calculated based on the monthly vendor billings incurred by the Company, not to exceed $15,000 per month, payable monthly. While originally payable on demand, by the end of 2001 the notes had been renegotiated to mature on July 5, 2003.

During October and November of 2001, the Company raised $825,000 via promissory notes to raise working capital and to take part in a service from an unrelated comparison shopping service to solicit new customers. All the notes carry essentially the same terms. They are unsecured and bear interest at 12%, payable monthly. Principal is also payable monthly, based on 20% of billings collected during each monthly billing period from specifically designated existing customers or from any new customers that subscribed via the on-line shopping service using the note proceeds. No principal repayments were made during 2001, these notes mature in October and November 2003.. Inasmuch as principal payments could vary over time, the Company believes the principal will be repaid over a period of approximately one year from the time the notes were issued. Accordingly, the entire $825,000 amount outstanding at December 31, 2001 is classified as current on the accompanying balance sheet. Up through the end of March 2002, the Company had repaid principal in the amount of $122,626.

During February 2002, Buyers United issued $350,000 in notes payable. Then during the first part of April 2002 the Company issued an additional $1.35 million in promissory notes. Similar to the notes issued during 2001, principal is to be repaid out of collected billings from new customers generated through the online shopping service. With respect to these 2002 notes, 38% of the new customer billings are to be reserved for principal repayment. However, only half the note proceeds are to be used for this service, the rest being allocated for working capital purposes, as needed. These notes bear interest at 10% and interest and principal payments are due monthly

During the years ended December 31, 2001 and 2000, the Company's net loss applicable to common stockholders was $6,827,484 and $11,608,114, respectively. As of December 31, 2001, the Company had a working capital deficit of $3,569,788 and an accumulated deficit of $25,631,129. During the years ended December 31, 2001 and 2000, the Company's operations used $4,145,290 and $3,418,987 of cash, respectively. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

During 2001, the Company began several cost-reduction initiatives. The net result of these efforts resulted in operating expenses (unrelated to either costs of revenue or asset disposals) decreasing as a percentage of revenue from 123% during 2000 to 66% during 2001. In addition the Company's revenues and number of customers increased 95% and 80%, respectively, during 2001 as compared to 2000.

Subsequent to December 31, 2001 the Company obtained $1.7 million of additional funding through the issuance of promissory notes and warrants. Of that amount, half is available for working capital, and the other half is intended to be used in the Company's ongoing online marketing activities. Such activities have increased the number of customers during the first quarter of 2002 by 61%. The Company also renewed its line of credit agreement through June 7, 2004. Moreover, revenue levels continued to increase during 2002's first quarter. Management estimates revenue for the first three months of 2002 to be approximately $4.7 million, or 19% higher than the previous quarter and expects the trend of revenue increases to continue throughout 2002. As a result of the revenue growth and ongoing cost-reduction efforts, the Company has achieved profitability during the first quarter of 2002 (unaudited), and management believes the Company will continue to be profitable during the year ended December 31, 2002.

Forward-looking statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by Buyers United. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that the Company expects or anticipates will or may occur in the future, including such things as expansion and growth of its operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect Buyers United's operations and financial condition. These factors include the availability of capital, competitive pressures, success or failure of marketing programs, changes in pricing and availability of services and products offered to members, legal and regulatory initiatives affecting long distance service, and conditions in the capital markets. Forward-looking statements made by Buyers United are based on knowledge of its business and the environment in which it operates as of the date of this report. Because of the factors listed above, as well as other factors beyond its control, actual results may differ from those in the forward-looking statements.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 20, 2002, Buyers United dismissed Arthur Andersen LLP ("Andersen") as its independent public accountants. The change was recommended by the Company's Audit Committee and approved by the Company's Board of Directors.

Andersen performed audits of the Company's financial statements as of and for the years ended December 31, 1999 and 2000. Their audit reports did not contain an adverse opinion or disclaimer of opinion; however, their audit reports for each of the years ended December 31, 1999 and 2000 were modified as to the uncertainty of the Company's ability to continue as a going concern. Their reports were not qualified or modified as to audit scope or accounting principles.

During the years ended December 31, 1999 and 2000, and during the interim period from December 31, 2000 to February 20, 2002, there were no disagreements between the Company and Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference to the subject matter of such disagreements in their reports.

During the years ended December 31, 1999 and 2000 and during the interim period from December 31, 2000 to February 20, 2002, Andersen did not advise the Company of any reportable events as described in Item 304(a)(1)(iv)(B) of Regulation S-B.

Andersen has furnished the Company with a letter to the SEC stating they agree with the above statements. The letter was attached as an exhibit on the Company's Form 8-K filed with the SEC on February 26, 2002.

On February 20, 2002, the Company's Board of Directors engaged Crowe, Chizek and Company LLP ("Crowe Chizek") as the Company's new independent public accountants. Up to that date, neither the Company nor anyone on its behalf consulted Crowe Chizek regarding the application of accounting principles to specific transactions or the type of audit opinion that might be rendered on the Company's financial statements.

BUYERS UNITED, INC. AND SUBSIDIARY

Consolidated Financial Statements

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Buyers United, Inc. and Subsidiary
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Buyers United, Inc. and Subsidiary as of December 31, 2001 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year 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 audit. The financial statements of Buyers United, Inc. and Subsidiary as of December 31, 2000 were audited by other auditors whose report dated March 29, 2001 expressed an unqualified opinion, with an explanatory paragraph as to the Company's continued existence, on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, deficit cash flows from operations, negative working capital, and has a net capital deficiency. These results as reported in the accompanying financial statements raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Crowe, Chizek and Company, LLP

Oak Brook, Illinois
March 9, 2002, except for Note 5,
as to which the date is March 13, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Buyers United, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity (deficit) and cash flows of Buyers United, Inc. (a Delaware corporation, formerly known as BuyersOnline.com, Inc.) and subsidiary for the year ended December 31, 2000. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of Buyers United, inc. and subsidiary and their cash flows for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, deficit cash flows from operations, negative working capital, and has a net capital deficiency. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
March 29, 2001

BUYERS UNITED, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
December 31, 2001

ASSETS	
Current assets	
Cash	$ 57,100
Restricted cash	690,312
Accounts receivable, net of allowance for doubtful accounts of $520,000	2,271,873
Other current assets	282,240
Total current assets	3,301,525
Property and equipment, net	652,576
Debt issuance costs, net of accumulated amortization of $149,104	187,756
Deposits	189,885
	377,641
Total assets	$ 4,331,742
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Checks drawn in excess of available cash balances	$ 186,866
Line of credit	574,172
Current portion of long-term debt	1,002,641
Accounts payable	3,879,517
Accrued liabilities	525,023
Accrued commissions and rebates	324,778
Accrued dividends payable on preferred stock	378,316
Total current liabilities	6,871,313
Long-term liabilities	
Long-term debt, net of current portion	3,615,000
Total liabilities	10,486,313
Stockholders' deficit	
Preferred stock, $0.0001 par value; 15,000,000 shares authorized; Series A 8% cumulative convertible preferred stock; 1,870,000 shares issued and outstanding (liquidation value of $3,740,000)	188
Series B 8% cumulative convertible preferred stock; 563,800 shares issued and outstanding (liquidation value of $5,638,000)	56
Common stock, $0.0001 par value; 100,000,000 shares authorized; 5,312,629 shares issued and outstanding	531
Additional paid-in capital	15,190,855
Warrants and options outstanding	4,383,334
Deferred consulting fees	(98,406)
Accumulated deficit	(25,631,129)
Total stockholders' deficit	(6,154,571)
Total liabilities and stockholders' deficit	$ 4,331,742

See accompanying notes to consolidated financial statements.

BUYERS UNITED, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2001 and 2000

	Years Ended December 31, 2001	Years Ended December 31, 2000
Revenues		
Telecommunications services	$ 14,256,990	$ 7,311,520
Other	84,987	44,039
Total revenues	14,341,977	7,355,559
Operating expenses		
Costs of revenues	9,348,215	4,773,707
General and administrative	6,163,505	5,224,290
Selling and promotion	3,319,409	3,855,241
Disposal of leased equipment and web site development costs	980,086	-
Total operating expenses	19,811,215	13,853,238
Loss from operations	(5,469,238)	(6,497,679)
Other income (expense)		
Interest income	15,571	21,943
Interest expense	(997,882)	(1,626,212)
Total other expense, net	(982,311)	(1,604,269)
Loss before extraordinary item	(6,451,549)	(8,101,948)
Extraordinary item – gain (loss) on early extinguishment of debt	383,520	(1,024,574)
Net loss	(6,068,029)	(9,126,522)
Preferred stock dividends		
8% dividends on Series A and B preferred stock	(738,957)	(383,458)
Beneficial conversion feature related to Series B preferred stock	(20,498)	(2,098,134)
Total preferred stock dividends	(759,455)	(2,481,592)
Net loss applicable to common stockholders	$ (6,827,484)	$ (11,608,114)
Basic and diluted net loss per common share		
Net loss applicable to common stockholders before extraordinary item	$ (1.57)	$ (2.84)
Extraordinary item – gain (loss) on early extinguishment of debt	0.08	(0.28)
Net loss applicable to common stockholders	$ (1.49)	$ (3.12)
Weighted average common shares outstanding Basic and diluted	4,583,698	3,724,671

See accompanying notes to consolidated financial statements.

BUYERS UNITED, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years ended December 31, 2001 and 2000

	Preferred Stock		Common Stock		Additional Paid-in	Warrants/ Options	Deferred Consulting	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Outstanding	Fees	Deficit	Total
Balance at December 31, 1999	2,000,000	$ 200	3,508,835	$ 351	$ 7,146,175	$ 179,500	$ -	$ (7,195,531)	$ 130,695
Issuance of common shares and warrants for cash	-	-	150,000	15	187,184	112,801	-	-	300,000
Issuance of common shares for services	-	-	28,650	3	62,316	-	-	-	62,319
Conversion of preferred shares to common	(125,000)	(12)	125,000	12	-	-	-	-	-
Issuance of warrants for services and with consulting agreements	-	-	-	-	-	473,703	(429,069)	-	44,634
Amortization of deferred consulting fees	-	-	-	-	-	-	330,924	-	330,924
Issuance of warrants with notes payable	-	-	-	-	-	1,427,654	-	-	1,427,654
Issuance of options for debt guarantee	-	-	-	-	-	103,200	-	-	103,200
Beneficial conversion feature in connection with debt extension	-	-	-	-	722,050	-	-	-	722,050
Imputed interest on notes payable	-	-	-	-	37,742	-	-	-	37,742
Issuance of Series B preferred stock and warrants, net of offering costs	199,300	20	-	-	909,285	754,457	-	-	1,663,762
Issuance of Series B preferred stock and warrants upon conversion of notes	254,500	25	-	-	1,523,146	1,021,829	-	-	2,545,000
Beneficial conversion dividend on Series B preferred stock	-	-	-	-	2,098,134	-	-	(2,098,134)	-
Preferred stock dividends	-	-	-	-	-	-	-	(383,458)	(383,458)
Issuance of common shares as payment of preferred stock dividends	-	-	176,455	18	319,671	-	-	-	319,689
Net loss	-	-	-	-	-	-	-	(9,126,522)	(9,126,522)
Balance at December 31, 2000	2,328,800	233	3,988,940	399	13,005,703	4,073,144	(98,145)	(18,803,645)	(1,822,311)

(Continued)

BUYERS UNITED, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) - (Continued)
Years ended December 31, 2001 and 2000

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Warrants/ Options Outstanding	Deferred Consulting Fees	Accumulated Deficit	Total
Balance at December 31, 2000	2,328,800	$ 233	3,988,940	$ 399	$ 13,005,703	$ 4,073,144	$ (98,145)	$ (18,803,645)	$ (1,822,311)
Issuance of common shares for services	-	-	148,800	15	104,572	-	-	-	104,587
Issuance of common shares with consulting agreement	-	-	100,000	10	124,990	-	(125,000)	-	-
Issuance of common shares in connection with debt extinguishments	-	-	35,000	4	22,397	-	-	-	22,401
Conversion of preferred shares to common	(5,000)	-	5,000	-	-	-	-	-	-
Issuance of common shares in connection with notes payable	-	-	430,000	43	360,130	-	-	-	360,173
Issuance of warrants for services and with consulting agreements	-	-	-	-	-	54,515	-	-	54,515
Amortization of deferred consulting fees	-	-	-	-	-	-	45,774	-	45,774
Issuance of warrants with notes payable	-	-	-	-	-	32,239	-	-	32,239
Issuance of common stock for debt guarantee	-	-	100,000	10	144,990	-	-	-	145,000
Imputed interest on notes payable	-	-	-	-	25,500	-	-	-	25,500
Issuance of Series B preferred stock and warrants, net of offering costs	110,000	11	-	-	797,588	302,401	-	-	1,100,000
Beneficial conversion dividend on Series B preferred stock	-	-	-	-	20,498	-	-	(20,498)	-
Cancellation of options issued for services	-	-	-	-	-	(78,965)	78,965	-	-
Preferred stock dividends	-	-	-	-	-	-	-	(738,957)	(738,957)
Issuance of common shares as payment of preferred stock dividends	-	-	504,884	50	584,487	-	-	-	584,537
Net loss	-	-	-	-	-	-	-	(6,068,029)	(6,068,029)
Balance at December 31, 2001	2,433,800	$ 244	5,312,624	$ 531	$ 15,190,855	$ 4,383,334	$ (98,406)	$ (25,631,129)	$ (6,154,571)

See accompanying notes to consolidated financial statements.

BUYERS UNITED, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities		
Net loss	$ (6,068,029)	$ (9,126,522)
Adjustments to reconcile net loss to net cash used in operating activities		
Extraordinary item – (gain) loss on early extinguishment of debt	(383,520)	1,024,574
Depreciation and amortization	766,869	331,027
Interest expense resulting from issuing stock and warrants with notes	255,623	-
Interest expense associated with beneficial conversion feature in connection with debt extension	-	722,050
Amortization of discount on notes payable	6,140	614,119
Amortization of note financing costs	169,154	36,356
Amortization of deferred consulting fees	45,774	330,924
Services rendered in exchange for shares of common stock	104,587	62,319
Expense related to the issuance of options to purchase common shares	54,515	44,634
Loss on disposal of leased assets and web site development costs	980,086	-
Changes in operating assets and liabilities		
Accounts receivable	(724,591)	(657,385)
Other current assets	(112,176)	67,011
Checks in excess of available cash balances	186,866	-
Accounts payable	430,271	2,727,418
Accrued commissions and rebates	249,244	(29,847)
Accrued liabilities	(106,103)	434,335
Net cash used in operating activities	(4,145,290)	(3,418,987)
Cash flows from investing activities		
Increase in other assets	(63,535)	(208,210)
Purchases of property and equipment	(213,145)	(1,409,157)
Net cash used in investing activities	(276,680)	(1,617,367)
Cash flows from financing activities		
Change in restricted cash	(462,542)	(57,083)
Net borrowings under line of credit	574,172	-
Borrowings under notes payable, net of debt issuance costs	3,833,750	2,639,000
Principal payments on notes payable	(120,000)	(169,148)
Principal payments on capital lease obligations	(500,358)	(372,059)
Issuance of preferred/common shares for cash, net of offering costs	1,097,223	1,963,762
Net cash provided by financing activities	4,422,245	4,004,472
Net increase (decrease) in cash	275	(1,031,882)
Cash at the beginning of the year	56,825	1,088,707
Cash at the end of the year	$ 57,100	$ 56,825

(Continued)

	2001	2000
Supplemental cash flow information		
Cash paid for interest	$ 459,442	$ 250,186
Supplemental schedule of noncash investing and financing activities		
Conversion of notes payable to common shares	$ -	$ 2,545,000
Issuance of common shares in payment of preferred stock dividend	584,537	319,689
Issuance of common shares in payment of deferred services	125,000	-
Issuance of common shares in payment of deferred financing costs	249,550	-
Issuance of common shares in extinguishment of debt	22,400	-
Issuance of warrants with preferred shares	-	1,776,286
Issuance of warrants with promissory notes	32,239	1,427,654
Beneficial conversion dividend on Series B preferred shares	20,498	2,098,134
Accrual of dividend payable on preferred stock	738,957	383,458
Assets acquired under capital lease arrangements	109,100	719,954

See accompanying notes to consolidated financial statements.

NOTE 1 - DESCRIPTION OF THE COMPANY AND NATURE OF OPERATIONS

Buyers United, Inc. ("the Company") was incorporated on January 16, 1996 in the state of Utah and was reincorporated in the state of Delaware on April 9, 1999. The Company was formerly known as Linguistix, Inc., Buyers United International, Inc., BUI, Inc., and BuyersOnline.com, Inc. On November 20, 2001, the Company changed its name to Buyers United, Inc., the same name as its dormant, wholly owned Utah subsidiary. The Company plans to merge the subsidiary into the parent entity during 2002. At the time of the name change, the Company's trading symbol also changed to "BYRS."

The Company is a consumer buying organization with the objective of providing high quality consumer products and services at favorable prices to its members. The Company forms strategic alliances with various consumer service providers in an effort to combine the purchasing power of its members to negotiate favorable prices from these providers. The Company markets its products and services principally by offering incentives to its existing members to refer new members to the Company's products and services. During the years ended December 31, 2001 and 2000, the Company primarily provided discounted long distance telecommunication services to its members.

During the years ended December 31, 2001 and 2000, the Company's net loss applicable to common stockholders was $6,827,484 and $11,608,114, respectively. As of December 31, 2001, the Company had a working capital deficit of $3,569,788 and an accumulated deficit of $25,631,129. During the years ended December 31, 2001 and 2000, the Company's operations used $4,145,290 and $3,418,987 of cash, respectively. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

During 2001, the Company began several cost-reduction initiatives. The net result of these efforts resulted in operating expenses (unrelated to either costs of revenue or asset disposals) decreasing as a percentage of revenue from 123% during 2000 to 66% during 2001. In addition, the Company's revenues and number of customers increased 95% and 80%, respectively, during 2001 as compared to 2000.

As discussed in Note 13, subsequent to December 31, 2001, the Company obtained $1.7 million of additional funding through the issuance of promissory notes and warrants. Of that amount, half is available for working capital, and the other half is intended to be used in the Company's ongoing online marketing activities. Such activities have increased the number of customers during the first quarter of 2002 by 61% (unaudited). The Company also renewed its line of credit agreement through June 7, 2004. Moreover, revenue levels continued to increase during 2002's first quarter. Management estimates revenue for the first three months of 2002 to be approximately

(Continued)

NOTE 1 - DESCRIPTION OF THE COMPANY AND NATURE OF OPERATIONS (Continued)

$4.7 million, or 19% higher than the previous quarter and expects the trend of revenue increases to continue throughout 2002 (unaudited). As a result of the revenue growth and ongoing cost-reduction efforts, the Company has achieved profitability during the first quarter of 2002 (unaudited) and management believes that the Company will continue to be profitable during the year ended December 31, 2002.

The Company is subject to certain risk factors frequently encountered by companies lacking adequate capital and which are in the early stages of developing a business line that may impact its ability to become a profitable enterprise. These risk factors include:

a) The consumer buying organization industry is characterized by intense competition, and many of the Company's competitors are substantially larger than the Company with greater financial and other resources. In addition, the Company is currently marketing telecommunications services, including long distance services, to its members. The U.S. long distance telecommunications industry is highly competitive and significantly influenced by the marketing and pricing strategies of the major industry participants, which are significantly larger than the Company and have substantially greater resources.

b) The Company's relationship marketing system is or may be subject to or affected by extensive government regulation, including without limitations, state regulation of marketing practices and federal and state regulation of the offer and sale of business franchises, business opportunities, and securities. Long distance telecommunications carriers currently are subject to extensive federal and state government regulation.

c) Additional funds will be required to finance the Company's operations until profitability can be achieved and to fund the repayment of debt obligations and other liabilities. There can be no assurance that the additional funding will be available or, if available, that it will be available on acceptable terms or in required amounts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Buyers United, Inc. and its wholly owned subsidiary of the same name. All significant intercompany accounts and transactions have been eliminated upon consolidation.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in the Preparation of Financial Statements: 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition: The Company's revenue recognition policy with respect to reseller agreements is to record gross revenues and receivables from customers when the Company acts as principal in the transaction; takes title to the products or services; and has risks and rewards of ownership, such as risk of loss for collection, delivery, or returns. With respect to commission or other agent or broker arrangements, the Company recognizes net commission revenues. Revenues from sales of products and services are recognized upon shipment of the products or provision of the services to the customers, and revenues from commissioned services are recognized as the services are provided.

Restricted Cash: In accordance with the Company's agreement with RFC Capital Corp. (Note 4), the Company maintains a restricted cash account for the collection of the Company's receivables. As of December 31, 2001, the Company had $690,312 of cash that was restricted.

Property and Equipment: Property and equipment are stated at cost. Major additions and improvements are capitalized, while minor repairs and maintenance costs are expensed when incurred. In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes certain costs incurred for the development of internal use software. These costs include the costs associated with coding, software configuration, upgrades, and enhancements. In March 2000, the Emerging Issues Task Force issued its consensus on Issue No. 00-2, "Accounting for Web Site Development Costs." Pursuant to this pronouncement, the Company has capitalized the direct costs of major development related to its web site (see Note 3).

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Computer and office equipment	2 to 3 years
Internal-use software and web site development costs	2 years
Furniture and fixtures	3 to 7 years

Advertising Costs: The Company advertises its services through traditional venues, such as Internet, television, print media, and radio, to the general public. Costs associated with these advertising means are expensed as incurred, and approximated $1,057,000 and $446,000 for the years ended December 31, 2001 and 2000, respectively.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to the traditional advertising means noted above, the Company participates in a direct response advertising campaign with LowerMyBills.com (LMB), an Internet service provider. Through this campaign, the Company's name and the services it provides are displayed on LMB's web site. The Company is obligated to pay LMB a fee when a customer signs up for services through LMB's web site. The fees associated with this advertising campaign were deferred and approximated $170,000 during the year ended December 31, 2001. These fees have been amortized over the period during which the future benefits are expected to be received, which was six months at December 31, 2001. The fees and related accumulated amortization of $42,000 was included with other current assets as of December 31, 2001.

Fair Value of Financial Instruments: The carrying amounts reported in the accompanying consolidated balance sheet for cash, receivables, and accounts payable approximate fair values because of the immediate or short-term maturities of these financial instruments. The fair value of the Company's notes payable and preferred stock also approximate fair value based on current rates for similar debt and fixed-rate instruments.

Debt Issuance Costs: As an inducement to various shareholders and board members to lend monies to the Company, shares of common stock were issued to them. The fair market value of those shares at the date of issuance has been capitalized as debt issuance costs and is being amortized over the life of the loans. Amortization of these costs for the years ended December 31, 2001 and 2000 was $149,104 and $0, respectively, and are included in interest expense. The remaining amortization period for these costs is less than two years as of December 31, 2001.

Income Taxes: The Company recognizes a liability or asset for the deferred income tax consequences of all temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. These deferred income tax assets or liabilities are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more likely than not of realization in future periods.

Net Loss Per Common Share : Basic net loss per common share ("Basic EPS") excludes dilution and is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted net loss per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other common stock equivalents were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an antidilutive effect on net loss per common share.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Outstanding options of employees and directors to purchase 2,818,585 and 3,053,019 shares of common stock as of December 31, 2001 and 2000, respectively; 5,252,800 and 4,144,000 shares of common stock issuable upon the conversion of preferred stock as of December 31, 2001 and 2000, respectively; and 5,362,132 and 4,601,382 shares of common stock issuable upon exercise of warrants to purchase common stock as of December 31, 2001 and 2000, respectively, were not included in the computation of Diluted EPS because they would be antidilutive.

Reclassifications: Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Recent Accounting Pronouncements: In June 1998, Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. SFAS No. 133 establishes new accounting and reporting standards for companies to report information about derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. This statement, as amended, was adopted by the Company effective January 1, 2001. The adoption of this statement did not have a material impact on the Company's results of operations, financial position, or liquidity.

On June 29, 2001, the Financial Accounting Standards Board (FASB) approved its proposed SFAS No. 141 ("SFAS No. 141"), "Business Combinations," and SFAS No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets."

Under SFAS No. 141, all business combinations should be accounted for using the purchase method of accounting; use of the pooling-of-interests method is prohibited. The provisions of the statement apply to all business combinations initiated after June 30, 2001. SFAS No. 142 applies to all acquired intangible assets whether acquired singly, as part of a group, or in a business combination. The statement will supersede Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets," and will carry forward provisions in APB Opinion No. 17 related to internally developed intangible assets. The Company believes that the adoption of these statements will not have a material impact on the Company's results of operations, financial position, or liquidity.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Company is required to adopt SFAS No. 143 for fiscal years beginning after June 15, 2002. Thus, the Company will need to adopt SFAS No. 143 as of January 1, 2003. SFAS No. 143 requires businesses to recognize a liability for an asset retirement obligation when it is incurred. This liability should be recorded at its fair value, and a corresponding increase in the carrying amount of the related long-term asset should be recorded as well. The Company believes the adoption of SFAS No. 143 on January 1, 2003 will not have a material impact on the Company's results of operations, financial position, or liquidity.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On October 3, 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 develops one accounting model for long-lived assets that are to be disposed of by sale. The long-lived assets that are to be disposed of by sale should be measured at the lower of book value or fair value less any selling expenses. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The statement is effective for the Company for all financial statements issued for fiscal years beginning after December 15, 2001. Management believes that the adoption of this pronouncement will not have a material effect on the Company's results of operations, financial position, or liquidity.

NOTE 3 - PROPERTY AND EQUIPMENT

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

Computer and office equipment	$ 708,688
Internal-use software and web site development costs	558,548
Furniture and fixtures	217,690
	1,484,926
Accumulated depreciation and amortization	832,350
	$ 652,576

Property and equipment at December 31, 2001 includes $327,992 of assets under a capital lease and accumulated amortization of $208,369.

During the current year, the Company reviewed its investment in leased computer equipment and software, and determined that it could achieve its growth objectives and serve its customers with a different equipment and software solution. During the current year, the Company also replaced its web site software with a newly-developed program. The total cost of removing the unamortized book value of the above assets was $980,086 and is included in the consolidated statement of operations.

NOTE 4 - LINE OF CREDIT

On June 7, 2001, the Company entered into a line of credit agreement with RFC Capital Corporation ("RFC"). The facility allows the Company to borrow up to $2,500,000 based on the Company's eligible accounts receivable and unbilled receivables. The facility bears interest at prime plus 6% and expires June 2002.

As security for the line of credit, the Company is required to maintain a lock box at a financial institution. As of December 31, 2001, there was $690,312 of restricted cash associated with this agreement. At December 31, 2001, the Company had borrowed the maximum amount available based on eligible accounts receivable at that time, which amounted to $574,172.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

Unsecured notes payable – Chairman of the Board, bearing interest of 12%, with both principal and any unpaid interest due July 5, 2003.	$ 2,565,000
Secured note payable bearing interest at 18%, payable monthly. Principal and any unpaid interest due February 28, 2003. The note is secured by certain assets of a member of the Board of Directors.	1,050,000
Unsecured promissory notes bearing interest at 12%. Principal payments due monthly based on 20% of billings collected from specifically-designated customers. All unpaid interest and principal are due November 2003. The Company believes that the principal will be repaid over a period of one year from the date of issue based on forecasted billings to these customers.	825,000
Other	177,641
	4,617,641
Less current portion	1,002,641
	$ 3,615,000

(Continued)

NOTE 5 - LONG-TERM DEBT (Continued)

Long-term debt maturities are as follows:

2002	$ 1,002,641
2003	3,615,000
	4,617,641
Less current maturities	1,002,641
	$ 3,615,000

NOTE 6 - NOTES PAYABLE

The secured note payable provides a conversion feature whereby the holder may convert the note into common stock at $2.50 per share. This feature was amended to the note agreement during 2000. On the date of the amendment, the quoted market value of the Company's common stock exceeded the conversion price of $2.50 per share; therefore, in 2000, the Company recorded a non-cash charge to interest expense of $722,050 representing the intrinsic value of the beneficial conversion feature.

In connection with the unsecured promissory notes, two-year warrants to purchase 211,850 shares of common stock at $2.50 per share were also issued to the noteholders. Warrants for an additional 25,500 shares were issued to the sales agent. The estimated fair value of the warrants of $32,457, based on using the Black-Scholes pricing model, was allocated to the warrants and recorded as a discount to the carrying value of the notes. The discount is being amortized to interest expense over the estimated term of the notes.

In June 2001, the Company entered into a joint sales agreement with Infotopia, Inc. ("Infotopia"), a direct response marketer. In connection with the agreement, Infotopia agreed to loan the Company $500,000. Subsequent to entering into the sales agreement, the two companies decided not to pursue further any joint activity. During 2001, Infotopia sold the loan obligation to Pali Investments, Inc. ("Pali"), an unrelated investment relations firm. In December 2001, the Company negotiated a settlement with Pali. Under the terms of the settlement, the Company paid $120,000 and issued 35,000 shares of common stock in exchange for canceling the outstanding obligation plus $25,921 in accrued interest. The stock had a fair market value of $22,401. Accordingly, based on these amounts, the Company recorded an extraordinary gain on the early extinguishments of the debt in the amount of $383,520.

During 2000, various investors, including three members of the Company's Board of Directors, loaned the Company $2,795,000 under promissory note agreements. Certain of the notes were non-interest-bearing for an initial term and, if not repaid, bore interest at rates ranging from

(Continued)

NOTE 6 - NOTES PAYABLE (Continued)

12% to 18%. The Company imputed interest of $37,742 for the non-interest periods, which was recorded as a discount on the notes. The other agreements bore interest at rates ranging from 12% to 18%. One note for $150,000 was repaid; an 18% $100,000 note remained outstanding at December 31, 2000 with a carrying amount of $98,613, net of discount, and an original due date of January 31, 2001. This note was amended to extend the interest and principal payments to be due in July 2003 (see Note 5). The remaining $2,545,000 of notes were exchanged for shares of Series B 8% cumulative convertible preferred stock and warrants in October 2000 (see Notes 9 and 10).

In connection with the loans described in the preceding paragraph, the Company issued 1,432,500 warrants to the note holders and 32,500 warrants to the Placement Agent. The warrants entitle the holders to purchase shares of common stock at prices ranging between $2.00 and $2.50 per share until June 30, 2005. The estimated fair value of the warrants of $1,427,654, based on using the Black-Scholes pricing model, was allocated to the warrants and recorded as a discount to the carrying value of the notes. The discount was being amortized to interest expense over the term of the notes. When the notes were subsequently exchanged for Series B preferred stock and warrants to purchase common stock, the difference between the estimated fair value of the Series B preferred stock and warrants and the carrying amount of the debt was recognized as an extraordinary loss on early extinguishment of debt. The extraordinary loss on early extinguishment in 2000 amounted to $1,024,574.

NOTE 7 - LEASES

In December 2000, the Company moved all of its operations into one building and entered into a noncancellable operating lease agreement for the office space. The Company has also entered into operating leases for various pieces of office equipment and has a capital lease for software. The following is a schedule of future minimum payments under the leases as of December 31, 2001:

	Capital Leases	Operating Leases
2002	$ 210,673	$ 376,581
2003	-	379,906
2004	-	387,681
2005	-	397,373
2006	-	407,307
Thereafter	-	417,490
Total future minimum lease payments	210,673	$ 2,366,338
Less amount representing interest	(8,516)	
Total obligations under capital leases – all current	$ 202,157	

(Continued)

NOTE 7 – LEASES (Continued)

Rent expense was approximately $517,600 and $220,000 for the years ended December 31, 2001 and 2000, respectively.

NOTE 8 - INCOME TAXES

The components of the Company's net deferred income tax assets and liabilities are as follows:

Deferred income tax assets:	
Net operating loss carryforwards	$ 6,550,000
Reserves and accrued liabilities	408,000
Other	11,000
Total deferred income tax assets	6,969,000
Valuation allowance	(6,752,000
Net deferred income tax asset	217,000
Deferred income tax liabilities:	
Capitalized software costs	-
Tax depreciation in excess of book depreciation	(217,000)
Net deferred income tax liability	(217,000)
Net deferred income taxes	$ -

As of December 31, 2001, the Company had net operating loss carryforwards for federal income tax reporting purposes of approximately $18,000,000. The tax net operating loss carryforwards will expire beginning in 2012.

No benefit for income taxes has been recorded during the year ended December 31, 2001. Inasmuch as the Company's history includes accumulated net operating losses, it is uncertain as to whether the Company's deferred tax asset can be fully realized. Accordingly, a valuation allowance has been recorded to reduce the deferred income tax assets. The net change in the valuation allowance for deferred tax assets during the year ended December 31, 2001 was an increase of $2,166,000.

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS

Preferred Stock: The Board of Directors is authorized to classify any shares of the Company's authorized but unissued preferred stock in one or more series. With respect to each series, the Board of Directors is authorized to determine the number of shares that constitutes such series; the rate of dividend, if any, payable on shares of such series; whether the shares of such series shall be cumulative, non-cumulative, or partially cumulative as to dividends and the dates from which any cumulative dividends are to accumulate; whether the shares of such series may be redeemed, and, if so, the price or prices at which and the terms and conditions on which shares of such series may be redeemed; the amount payable upon shares of such series in the event of the voluntary or involuntary dissolution, liquidation, or winding up of the affairs of the Company; the sinking fund provisions, if any, for the redemption of shares of such series; the voting rights, if any, of the shares of such series; the terms and conditions, if any, on which shares of such series may be converted into shares of capital stock of the Company of any other class or series; whether the shares of such series are to be preferred over shares of capital stock of the Company of any other class or series as to dividends or upon the voluntary or involuntary dissolution, liquidation, or termination of the affairs of the Company or otherwise; and any other characteristics, preferences, limitations, rights, privileges, immunities, or terms.

Series A 8% Cumulative Convertible Preferred Stock: During 1999, the Board of Directors authorized the issuance of 2,000,000 shares of Series A 8% Cumulative Convertible Preferred Stock ("Series A Preferred Stock") at an offering price of $2.00 per share. Gross proceeds of $4,000,000 were raised upon sale of the shares.

The Series A Preferred Stock is convertible to common stock at any time at the election of the holder and, under limited circumstances, at the election of the Company. The conversion rate is one for one, subject to adjustment in the event of a recapitalization, reorganization, or other corporate restructuring or in the event that the Company shall sell or otherwise issue securities at a price below $2.00 per share or the then adjusted conversion price. The Series A Preferred Stock can be redeemed at the Company's election at any time commencing January 1, 2005 at a redemption price of $2.00 per share plus all accrued dividends as of the redemption date. During 2001 and 2000, certain stockholders converted 5,000 and 125,000 Series A preferred shares, respectively, into common shares.

Series B 8% Cumulative Convertible Preferred Stock: In September 2000, the Board of Directors authorized the issuance of 1,234,500 shares of Series B 8% Cumulative Convertible Preferred Stock ("Series B Preferred Stock") and related warrants to purchase common shares at an offering price of $10.00 per unit. Each unit consists of one share of Series B Preferred Stock and five warrants to purchase one share of common stock at an exercise price of $2.50 per share. During 2000, various investors made loans to the Company and subsequently elected to exchange their promissory notes for units. In addition to the converted loans of $2,545,000, the Company raised $1,993,000 through the issuance of units through December 31, 2000 and $1,100,000 through the issuance of units in 2001.

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS (Continued)

In connection with the unit offering, the Company agreed to pay the Placement Agent a sales commission and expense allowance aggregating 13% of the gross proceeds from the sale of the Series B Preferred Stock, in addition to 10% of the gross proceeds of certain related bridge financing. The Company also incurred approximately $23,000 of direct expenses in connection with the offering. As additional consideration, the Company agreed to issue to the Placement Agent warrants to purchase 319,300 shares of the Company's common stock at an exercise price of $2.50 per share.

As part of the Series B Preferred Stock offering, the Company issued 2,269,000 warrants to purchase common stock at $2.50 per share. The Company allocated the net proceeds from the offering of $4,208,762 between the Series B Preferred Stock and the warrants based on estimated relative fair values. The Series B Preferred Stock was recorded at $2,432,476, and the warrants were recorded at $1,776,286. The estimated fair value of the warrants was determined using the Black-Scholes pricing model. The Series B Preferred Stock is convertible to common stock at any time at the election of the holder and, under limited circumstances, at the election of the Company. The conversion rate is five for one, subject to adjustment in the event of a recapitalization, reorganization, or other corporate restructuring or in the event that the Company shall sell or otherwise issue securities at a price below $2.00 per share or the then adjusted conversion price. On most of the dates the Series B preferred shares were issued, the quoted market price of the Company's common stock exceeded the $2.00 conversion price. Accordingly, the Company measured the intrinsic value of the beneficial conversion feature as the difference between the quoted prices of the common stock into which the Series B preferred shares are convertible and the recorded value of the Series B preferred shares of $2,432,476. The total intrinsic value of the beneficial conversion feature of $2,098,134 has been reflected in the accompanying 2000 consolidated financial statements as a preferred stock dividend and as an increase to additional paid in capital.

During the three months ended March 31, 2001, the Company issued an additional 110,000 shares of preferred stock and 550,000 warrants to purchase common stock. The Company allocated the net proceeds from the offering of $1,097,223 between the Series B Preferred Stock and the warrants based on estimated relative fair values. Accordingly, the stock was recorded at $794,822, and the warrants were recorded at $302,401. In connection with these additional Series B shares, the intrinsic value of the beneficial conversion feature of $20,498 was reflected in the accompanying 2001 consolidated financial statements as a preferred stock dividend and as an increase to additional paid in capital. The Series B Preferred Stock Offering closed on April 13, 2001.

The Series B Preferred Stock can be redeemed at the Company's election at any time commencing January 1, 2004, at a redemption price of $10.00 per share plus all accrued dividends as of the redemption date.

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS (Continued)

Cumulative dividends accrue on both Series A and B Preferred Stock at the rate of 8% per annum from the date of original issue and are payable semi-annually on June 30 and December 31 of each year out of funds legally available for the payment of dividends. Dividends are payable in cash or common stock at the election of the Company. If paid in common stock, the number of shares issued will be based on the average of the closing bid prices for the common stock over the five trading days immediately prior to the dividend payment date. If the Company fails to pay any dividend within 60 days of its due date, the conversion price (see below) is adjusted downward by $0.25 per share for each occurrence. During the years ended December 31, 2001 and 2000, the Company declared dividends aggregating $738,957 and $383,458, respectively, and to satisfy payment obligations, issued a total of 504,884 and 176,455 shares of common stock, respectively. As of December 31, 2001, the Company had accrued dividends payable in the amount of $378,316. In February 2002, the Company settled the dividend payable by issuing 374,534 shares of common stock.

The Series A and B Preferred Stock have no voting rights, except as required by the General Corporation Laws of Delaware that require class votes on certain corporate matters and matters affecting the rights of the holders of the Preferred Stock. The Preferred Stock is senior in right of payment in the event of liquidation and with respect to dividends to the common stock and all other subsequent preferred stock issuances that may be authorized. The Series A Preferred Stock has a liquidation preference of $2.00 per share and the Series B Preferred Stock has a liquidation preference of $10.00 per share.

Issuances of Common Stock: During 2001 the Company issued 113,300 to four employees in payment of services rendered, at an aggregated fair market value of $77,100.

The Company also issued 35,500 shares of stock to one of its directors during 2001 to personally act as a guarantor to certain of the Company's creditors with respect to business expansion activities. The fair market value of the shares was $27,475.

In March 2001, the Company entered into three-year marketing contracts with one of its Series B Preferred stockholders. Under the terms of the contracts, 100,000 shares of common stock were issued with a fair market value of $125,000. This amount was recorded on the balance sheet as a deferred consulting fee and included in operating expenses on a straight-line basis over the life of the contracts. During 2001, $39,931 was recorded in promotion expenses as a result of this amortization. Consideration granted under the contracts' terms also included options to purchase up to 150,000 additional shares of common stock at $2.50 per share. These options vest gradually over the term of the contract. These options are accounted for as variable plan options since the issuance of these options was under the premise that the grantee will be providing current and future services for the Company. Accordingly, using the Black-Scholes option pricing model, $29,581 in consulting expense was recorded to reflect the vesting of these options through December 31, 2001.

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS (Continued)

In August 2000, the Company sold 150,000 shares of common stock to an individual for $300,000. The individual also received warrants to purchase 200,000 additional shares of common stock at $2.00 per share. Proceeds from the sale were allocated between common stock and the warrants based on the relative fair values. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model. The common stock was recorded at $187,199 and the warrants were recorded at $112,801.

Warrants to Purchase Common Shares: As mentioned above, the Company issued warrants in connection with its Series B preferred stock offering and in connection with certain marketing contracts. In addition, the Company issued warrants when it issued and converted certain notes payable more fully described in Note 6.

During 2000, the Company issued warrants in connection with the sale of 150,000 shares of common stock as previously described above. The Company also issued 223,082 warrants to purchase common shares at prices ranging from $2.00 to $5.13 per share to various outside consultants and independent sales agents in exchange for services, which were valued at $473,703.

During 2001, the Company issued 10,000 warrants to purchase common shares at $2.50 per share to independent sales agents, which were valued at $9,236. In addition, the Company renegotiated and settled certain terms of an outside consulting contract entered into during 2000. Under the terms of the settlement, the Company modified the exercise price from $5.00 per share to $2.50 per share on 50,000 warrants outstanding and issued an additional 15,000 warrants with an exercise price of $2.50 per share. In connection with the settlement the Company recognized $15,696 in expense.

All of the warrants were exercisable at December 31, 2001. The following tables summarize the warrant activity for 2001 and 2000:

	Warrants	Price Range	Weighted Average Exercise Price
Balance at December 31, 1999	125,000	$1.25	$ 1.25
Issued	4,476,382	$2.00 - $5.13	2.47
Balance at December 31, 2000	4,601,382	$1.25 - $5.13	2.44
Cancelled or expired	(268,000)	$2.00 - $5.00	2.60
Issued	1,012,350	$2.50	2.50
Balance at December 31, 2001	5,345,732	$1.25 - $5.13	2.44

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS (Continued)

Long-Term Stock Incentive Plan: Effective March 11, 1999, the Company established the Buyers United International, Inc. Long-Term Stock Incentive Plan ("the Stock Plan"). The Stock Plan provides for a maximum of 1,200,000 shares of common stock of the Company to be awarded to participants and their beneficiaries. A Committee, as determined by the Board of Directors, determines and designates the eligible participants and awards to be granted under the Stock Plan. The Committee may grant incentive stock options; non-qualified options; stock appreciation rights ("SAR"); and on a limited basis, stock awards. The terms and exercise prices of options and SARs will be established by the Committee; except that the exercise prices cannot be less than 100 percent of the fair market value of a share of common stock on the date of grant. As of December 31, 2001, incentive stock options to purchase a total of 794,653 shares of common stock had been granted under this particular plan and, of that amount, 256,499 were still outstanding.

Stock Options: The Company's Board of Directors has from time to time authorized the grant of stock options to directors, officers, key employees, and consultants as compensation and in connection with obtaining financing. The following tables summarize the option activity for 2001 and 2000:

	Options	Price Range	Weighted Average Exercise Price
Balance at December 31, 1999	1,494,838	\$2.00 - \$9.00	\$ 2.40
Granted	2,026,633	\$2.00 - \$5.13	2.85
Cancelled or expired	(468,452)	\$2.00 - \$9.00	2.67
Balance at December 31, 2000	3,053,019	\$2.00 - \$9.00	2.66
Granted	562,501	\$2.50 - \$3.50	2.50
Cancelled or expired	(796,935)	\$2.00 - \$5.00	2.41
Balance at December 31, 2001	2,818,585	\$2.00 - \$9.00	2.69

(Continued)

NOTE 9 - CAPITAL TRANSACTIONS (Continued)

A summary of the options outstanding and options exercisable at December 31, 2001 is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2001	Weighted Average Exercise Price
$2.00 - $3.99	$ 2,535,359	4.5 years	$ 2.44	$ 2,190,359	$ 2.37
$4.00 - $5.99	280,726	3.6 years	4.90	280,726	4.90
$6.00 - $9.00	2,500	0.1 years	9.00	2,500	9.00
	$ 2,818,585	4.4 years	$ 2.69	$ 2,473,585	$ 2.67

Stock-Based Compensation: The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its grants of options to purchase common shares to employees. SFAS No. 123, "Accounting for Stock-Based Compensation," requires pro forma information regarding net income (loss) as if the Company had accounted for its stock options granted under the fair value method of the statement. The fair value of the stock options was estimated at the grant date by the Company based on the Black-Scholes option pricing model. For the years ended December 31, 2001 and 2000, the following assumptions were used in the Black-Scholes model: a weighted-average risk-free interest rate of 2.18% to 5.39% depending on the grant date, and 6.2%, respectively, a dividend yield of 0% and 0%, a weighted average volatility of 111% and 104.3%, and weighted-average expected lives of 5.6 and 5.8 years, respectively. The weighted average fair value of options granted during the years ended December 31, 2001 and 2000 was $2.51 and $2.66, respectively. The net losses applicable to common stockholders under SFAS No. 123 for the years ended December 31, 2001 and 2000 would have been increased to the pro forma amounts indicated below:

	2001	2000
Net loss applicable to common stockholders		
As reported	$ (6,827,484)	$ (11,608,114)
Pro forma	(7,538,246)	(13,526,510)
Basic and diluted net loss per common share		
As reported	$ (1.49)	$ (3.12)
Pro forma	(1.64)	(3.63)

The effects of applying SFAS No. 123 are not indicative of future amounts. Additional awards in future years are anticipated.

(Continued)

NOTE 10 - RELATED PARTY TRANSACTIONS

During 2001 and 2000, certain board members and stockholders performed various services to the Company. These services included, but were not limited to, consulting, marketing and capital and debt raising activities. The Company incurred $167,000 and $59,400 in fees associated with these services for the years ended December 31, 2001 and 2000, respectively. Amounts outstanding related to these services were $31,300 at December 31, 2001.

During 2000, certain board members made loans to the Company and subsequently exchanged their notes for Series B Convertible Preferred Stock and related warrants. The five and two-year warrants have an exercise price of $2.50 per share. The total number of warrants issued to these board members was 1,030,000 (see Note 9).

NOTE 11 - MAJOR SUPPLIERS

Approximately 84% of the Company's cost of revenue for the year ended December 31, 2001 was generated from three telecommunication providers, and approximately 89% of the Company's cost of revenue for the year ended December 31, 2000 was generated from four telecommunication providers. As of December 31, 2001, the Company owed approximately $1,685,600 to these providers. The Company has entered into contractual agreements with these vendors.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

On June 14, 2001, a lawsuit was filed against the Company by Profitec, Inc. ("Profitec") in New Haven, Connecticut. Profitec asserted that it agreed to perform certain billing services in 1999 for the Company's telecommunication members and that the Company agreed to pay Profitec for such services. Profitec further claimed that the Company breached the contract by terminating the contract and failing to pay fees allocable under a "liquidated damage" provision for early termination. Profitec has claimed damages in excess of $140,000, based upon the contract's liquidated damage provisions. The Company has retained counsel in New Haven to defend this action. The Company's defenses to this matter include the following: that Profitec failed to provide the contractual services in a timely or competent manner; that the Company notified Profitec on many occasions that it was not performing in accordance with the terms of the contract; that Profitec failed to cure the billing inadequacies and continued to deliver a billing product that caused the Company to lose members and spend excessive monies to correct; that Profitec breached the contract and that the Company followed its remedial course set forth in the contract by canceling the contract and obtaining billing services elsewhere; and that the liquidated damage provision upon which plaintiff bases its lawsuit is unenforceable.

(Continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

The Company has filed a general denial answer and has asserted affirmative defenses, including breach of contract, failure of consideration, and other issues. The Company has also filed a counter claim and has pled for damages based upon the plaintiff's failure under the above-described contract. On November 5, 2001, Profitec answered and denied the counter-claim but has never sought discovery. The Company believes that Profitec's claims are without merit and is aware of other actions by Profitec against defendants similarly situated as the Company. The Company intends to defend the action and pursue its claims against Profitec as it deems appropriate.

The Company is the subject of certain other legal matters, which it considers incidental to its business activities. It is the opinion of management, after discussion with legal counsel, that the ultimate disposition of these legal matters will not have a material impact on the financial position, liquidity, or results of operations of the Company.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to December 31, 2001, the Company obtained additional financing of $1,700,000 through the issuance of promissory notes and warrants.

The Company also received $100,000 from the issuance of a note payable to a director of the Company. The unsecured note bears interest at 12% and is due July 5, 2003. In connection with the issuance of this note, the Company issued 10,000 shares of common stock with a fair market value of $10,000. This amount was recorded as a debt financing cost and is being amortized to interest expense over the remaining term of the note.

On January 28, 2002, one of the Company's main telecommunication providers, as discussed in Note 11, filed for bankruptcy protection. Although the Company has not experienced a disruption of service and feels that it could replace this company with another telecommunications provider, the effect on the Company's operations of potentially losing this service provider cannot be determined.

Board of Directors and Executive Officers

Theodore Stern
Chairman of the Board
Chief Executive Officer

Gary Smith
Director
Business Consultant

Edward Dallin Bagley
Director
Business Consultant

Steve Barnett
Director
Business Consultant

Paul Jarman
Chief Operating Officer
Treasurer and Secretary

G. Douglas Smith
Executive Vice President

Kenneth D. Krogue
Executive Vice President

Upon written consent we will furnish to our stockholders without charge a copy of our report on Form 10-KSB for the year ended December 31, 2001 as filed with the Securities and Exchange Commission. Requests should be directed to:

Mr. Paul Jarman
Chief Operating Officer
Buyers United, Inc.
14870 Pony Express Road
Bluffdale, Utah 84065

This report is also available from the Securities and Exchange Commission's Internet web site, http://www.sec.gov.

Independent Public Accountants

Crowe, Chizek and Company LLP
Oak Brook, Illinois

Corporate Counsel

Cohne, Rappaport & Segal
Salt Lake City, Utah

Transfer Agent

Atlas Stock Transfer Company
Salt Lake City, Utah

Business Office

14870 Pony Express Road
Bluffdale, Utah 84065
(801) 320-3300

Exhibit D

Proposed Intrastate Tariff

Exhibit E

Sample Bill

buyersonline
Helping you zero-out monthly bills

14870 South Pony Express Road
Bluffdale UT 84065

Address Service Requested

Remittance Section

Bill Period:	04/01/2002 - 04/30/2002
Invoice Number:	99930023
Member Number:	1947437
Due Date:	05/25/2002
Total Due:	$6.32
Amount Enclosed:	$ ____________

Unpaid balance is subject to a 1.5% finance charge per month.
Please make checks payable to Buyersonline
☐ Check here for change of address (see reverse for details)

6131052916 4620 26291 <B>

X DFDF
XX
X
X NY 33333

Payment Center
P.O. Box 30701
Salt Lake City UT 84130-0701

100001947437000099930023000000006324

Please detach and return above portion with your payment

Invoice Information

Bill Period:	04/01/2002 - 04/30/2002
Due Date:	05/25/2002
Invoice Number:	99930023
Member Number:	1947437

Summary of Charges

Balance Information	
Previous Balance	$0.00
Payments Received - Thank You	$0.00
Past Due Balance	**$0.00**
New Charges	
New Usage Charges	$1.13
Recurring Charges	$5.00
Taxes and Surcharges	$0.19
Total New Charges	**$6.32**
Total Amount Due	$6.32

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Helping you zero-out monthly bills

FREE Subscription

We have arranged for a FREE annual subscription to Travel America Magazine for you! This is just another benefit for being a member of BuyersOnline. Thank you for your business.

Questions?

HAVE YOU MOVED OR CHANGED YOUR PHONE NUMBER?

Please provide your new address or telephone number and remit this portion with your payment. Your records will be updated upon request.

Effective Date: ____________________ Account Name: ____________________

New Address: ____________________ City: __________ State: ______ Zip: ______

Home Number: __________ Work Number: __________ Signature: ____________________

WE ACCEPT THE FOLLOWING CREDIT CARDS FOR PAYMENT:

☐ DISCOVER ☐ VISA ☐ MasterCard ☐ AMERICAN EXPRESS ☐ Monthly Recurring ☐ One-Time only

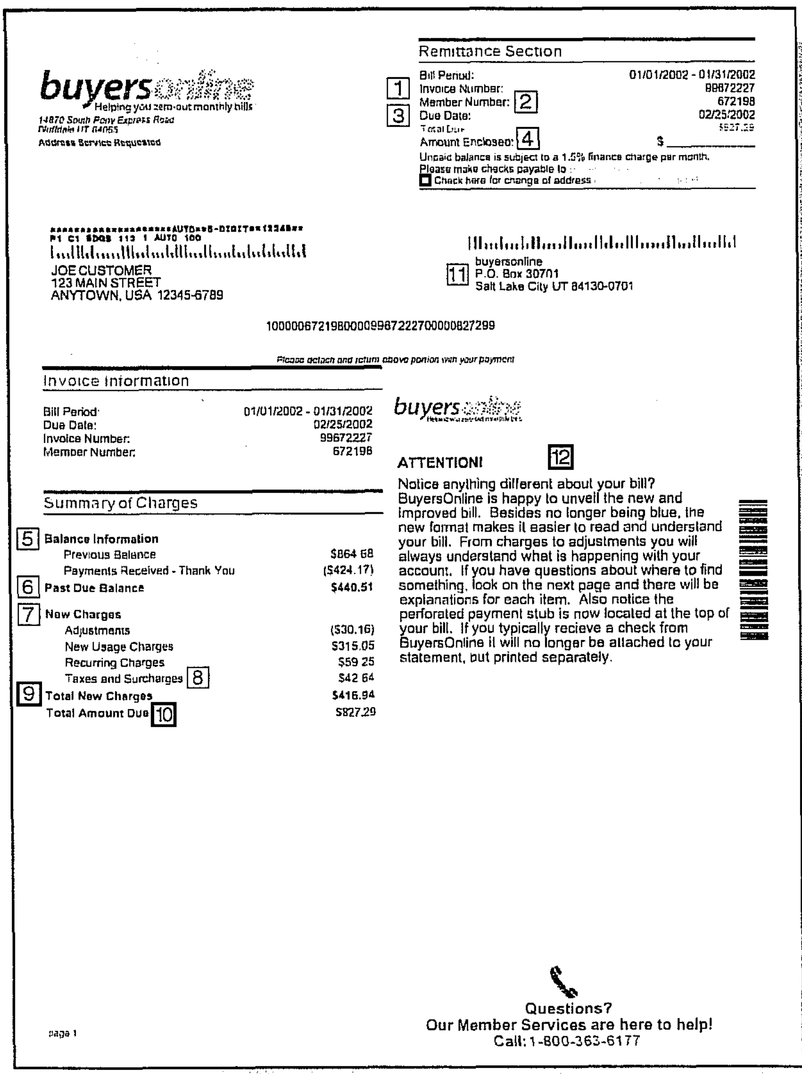
Card Number: ____________________ Expiration Date: ____________________

Billing Address: ____________________ City: __________ State: ______ Zip: ______

Amount Authorized: $__________ Signature: ____________________

If you wish to pay by phone, please contact us at 1-800-363-6177

HOW TO READ YOUR BILL



buyersonline
Helping you zero-out monthly bills
14870 South Pony Express Road
Bluffdale UT 84065
Address Service Requested

Remittance Section

Bill Period:	01/01/2002 - 01/31/2002
1 Invoice Number:	99672227
Member Number: 2	672198
3 Due Date:	02/25/2002
Total Due	$827.29
Amount Enclosed: 4	$ ________

Unpaid balance is subject to a 1.5% finance charge per month.
Please make checks payable to
☐ Check here for change of address

JOE CUSTOMER
123 MAIN STREET
ANYTOWN, USA 12345-6789

11 buyersonline
P.O. Box 30701
Salt Lake City UT 84130-0701

1000006721980000998722270000827299

Please detach and return above portion with your payment

Invoice Information

Bill Period:	01/01/2002 - 01/31/2002
Due Date:	02/25/2002
Invoice Number:	99672227
Member Number:	672198

Summary of Charges

5 **Balance Information**	
Previous Balance	$864.68
Payments Received - Thank You	($424.17)
6 **Past Due Balance**	$440.51
7 **New Charges**	
Adjustments	($30.16)
New Usage Charges	$315.05
Recurring Charges	$59.25
Taxes and Surcharges 8	$42.64
9 **Total New Charges**	$416.94
Total Amount Due 10	$827.29

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ATTENTION! 12

Notice anything different about your bill? BuyersOnline is happy to unveil the new and improved bill. Besides no longer being blue, the new format makes it easier to read and understand your bill. From charges to adjustments you will always understand what is happening with your account. If you have questions about where to find something, look on the next page and there will be explanations for each item. Also notice the perforated payment stub is now located at the top of your bill. If you typically recieve a check from BuyersOnline it will no longer be attached to your statement, but printed separately.

Questions?
Our Member Services are here to help!
Call: 1-800-363-6177

page 1

1. **Invoice Number** - A unique number which aids in identifying your invoice.
2. **Member Number** - Your member number. It will be helpful to have this number when calling customer service.
3. **Due Date**- Bill must be paid before the Due Date to avoid a late fee charge.
4. **Amount Enclosed** - Please indicate the payment amount included with your remittance.
5. **Balance Information** - Prior month bill charges and payments.
6. **Past Due Balance** - Reflects the difference between prior months charges and any payments or late charges.
7. **New Charges** - Monthly recurring charges for service.
8. **Taxes and Surcharges** - Total taxes and surcharges that have been applied to your bill.
9. **Total New Charges** - The total of this months current activity.
10. **Total Amount Due** - Current charges plus any remaining prior bill charges.
11. **Remittance Address** - Send your payment to this address with your remittance slip for proper credit to your account.
12. **Important Messages**

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Helping you zero-out monthly bills

Account Name	Member Number	Bill Period	Invoice Number
x dfdf	1947437	04/01/2002 - 04/30/2002	99930023

x dfdf
xx
x
x NY 33333
Account Number 1947437

Detail of New Charges

	# of Calls	Minutes	Charges
New Usage Charges			
Equal Access (1+)			
Domestic 1+ Interstate	1	25.2	1.1265
Total Equal Access (1+)			**1.1265**
Total New Usage			**$1.1265**
Recurring Charges			
Account Charges			
1- Agent: $2.50 if usage < $30			2.50
1- Agent: $2.50 if usage < $30			2.50
Total Account Charges			**5.00**
Total Recurring Charges			**$5.00**
Taxes			
Telecommunications Excise Tax Surcharge			0.03
Universal Service			0.11
NY State Sales Tax			0.01
Federal Excise Tax			0.04
Total Taxes			**$0.19**

Management Reports

Line Summary

Phone Numbers	Calls	Minutes	Cost
(914) 963-1255	1	25.2	$1.1265
Totals	**1**	**25.0**	**$1.1265**

Equal Access (1+)

	Date	Time	R	Min	Called #	Location	Cost
(914) 963-1255							
1	04/11/02	07:54P	2	25.2	228-831-3152	Gulfport MS	1.1265

1 Call	**25.2 for (914) 963-1255**	**$1.1265**
1 Call	**25.2 for Equal Access (1+)**	**$1.1265**

Credit Summary

Online Purchase Credits	$0.00
Referral Rebates	$0.00
Fast Cash	$0.00
Total New Credits	**$0.00**

Exhibit F

Welcome Kit

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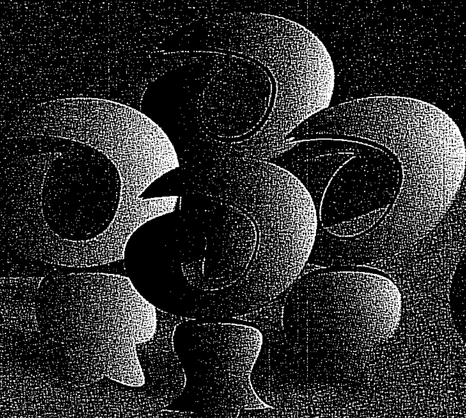
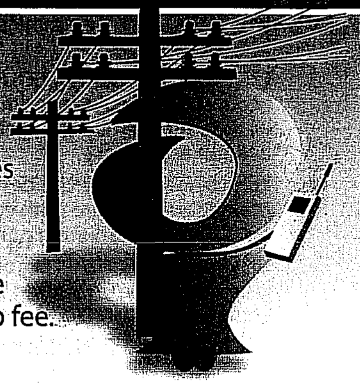
Helping you zero-out monthly bills

New Member Kit

Open Now! Start Saving Today!



Long Distance Services



- **Direct Dial (1+)**
  - **Interstate** - State-to-state calls
  - **Intrastate** - Long distance within your state
  - **International** - Long distance to other countries
- **Toll Free Numbers**
  A personal 800 number makes it easy for friends and family to call home, for a low per minute rate and only $1 per month with a one time $2 set-up fee.
- **Calling Cards**
  Easy to use, with no monthly fee or minimums and a low per minute rate for continental U.S. calls. In most cases, better international rates than Direct Dial (1+).

About your Long Distance Service:

- If you would like to confirm your long distance has been switched to BuyersOnline, dial 1-700-555-4141 from the line(s) to be switched. You will hear a welcome recording from Global Crossing or Qwest if the switch is completed.
- If there is a restriction at your local carrier, BuyersOnline will contact you with the information needed to complete the switch.
- Depending on where you live, your local phone company may not provide service for all of your intrastate long distance calls. In these cases, BuyersOnline will automatically provide this service for you.
- Warning – International calls may be charged a higher rate based on the country and number you are dialing. These calls are listed on your monthly bill as Special, Audio Text or Mobile. These rates and codes can be accessed on our web site under Long Distance Plan Details, or you can contact Member Services at 1-800-363-6177.

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Long Distance Services - FYI

1. LONG DISTANCE RATES: BuyersOnline's rates are subject to change without prior notification. Please see our web site for the most current rates.
2. AVOID SLAMMING: Place a restriction on each of your lines at your local phone company so your lines cannot be moved to another carrier without your authorization. This is called a "PIC Freeze".
3. CHANGES TO YOUR ACCOUNT: It is important to contact us with any changes to your account. This includes address changes, contact information or any new phone lines you wish to service. By doing this we can make sure your new service can be up and running as soon as possible.
4. TEST BEFORE YOU PUBLISH YOUR NUMBER: Please do not print new toll-free numbers on marketing literature until you have tested them and verified that they work. BuyersOnline is not liable for marketing or related expenses incurred as a result of service outages.
5. UNAUTHORIZED CALLS: You are responsible for charges accrued by all calls made from your telephone (including 900 #s) and to your toll-free lines. You may want to use 'account codes' if unauthorized calls are being made.
6. BILLING DISCREPENCIES: If you have any questions or discrepencies on your monthly bill, you have 30 days to dispute the charges to your account.
7. LIABILITY: BuyersOnline is not responsible or liable for service outages.
8. RATES ROUND UP: Per-minute rates are rounded up to the nearest penny.
9. PAY PHONE CHARGES: Laws have been passed that allow pay phone owners to pass on a 30¢ charge on all calls made using toll-free numbers or calling cards.
10. BUSINESS PICC FEES: If you have a Business Line (Designated by your Local Carrier), there may be a fee on your bill that will read 'FCC PICC'. It is a monthly fee passed on from the local carrier to connect your long distance (law passed in January 1998). Business accounts with only a single line will not be charged the fee. The fee only applies to accounts with multiple lines.
11. FEDERAL UNIVERSAL SERVICE FUND: The tax on your bill that says 'Universal Service Fund Charges' was also passed in January 1998 and is a federal tax that is charged to assist hospitals and libraries in receiving Internet access and is roughly 9.7% of your long distance usage.
12. IN-STATE DIAL-AROUND CODES: Some states (non-equal access states) require a seven-digit access code or a 'dial-around' code for in-state rates. Please call customer service to find out if you need this code in your state and to determine what your state code is.
13. ALASKA & HAWAII: BuyersOnline currently does not offer service in Alaska or Hawaii. You can call to those locations, and you can accept toll-free calls from those locations, but we currently do not offer membership outside of the continental United States.
14. INTERNATIONAL CALLING: BuyersOnline currently offers great international rates anywhere in the world through the standard 011 international dialing code. Often by using our Calling Card, you may find that international rates are significantly lower. Calling cards may not be used to call from international locations, except from U.S. Virgin Islands and Puerto Rico. Toll-free numbers may be set up to accept calls from Canada. Rates to international mobile phones and Audio Text Lines can be billed at a significantly higher rate.

15: INTRASTATE/INTRA-LATA CALLING: Many new members are surprised that in-state calls are billed at a different/higher rate. In-state rates vary by state, and are dramatically affected by local taxes and state fees. Most states are even divided by local calling regions (LATA), and depending on the state you live in, there are two kinds of in-state calls; those that are made within your LATA and those that are made from your LATA to another within your state.
By switching your state-to-state long distance to BuyersOnline, your LATA-to-LATA calls will also be switched, and you will be charged our in-state rate. In most cases, we can also switch your service so that calls made within your LATA are billed by BuyersOnline. Please let us know if you would like us to handle these calls as well.

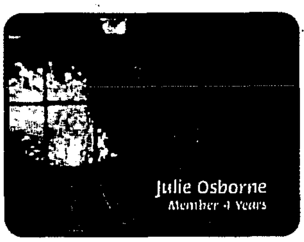
16: CANCELING MEMBERSHIP: If you decide to cancel your Membership, you must inform BuyersOnline so that we can deactivate your acount. If not, you may continue to accrue service charges.

17: PRIVACY: In order to administer our Referral Rebate program, your monthly billing amount will be known by the person or entity that referred you. If you wish to keep this information private you may cancel your service with BuyersOnline.

Referral Rebates

Zero-out your monthly bills by referring friends- we will pay you a 10% commission on all of their BuyersOnline monthly services.

Your Referrals Spend		Your Referral Rebate
$500/mo.	10%	$50/mo.



*"We receive between **$300 &** **$500** a month in rebate checks!"*
- Julie Osborne ~ Member 4 years

Referring Friends And Family Is As Easy As 1-2-3

1 ***Think of a friend that likes to save money***

2 ***Give them your Member number***

3 ***Have them call Member Services at 1-800-363-6177***

We do the rest. It's a quick and easy way to zero-out your monthly bills! Your rebates will be credited to your monthly statement.

A Bonus For Your First Referral

just tell One

Our "Just Tell One" program gives you a bonus on your very first referral. See the enclosed "Just Tell One" insert for current program details.

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Helping you zero-out monthly bills

Referral Rebates - Terms and Conditions

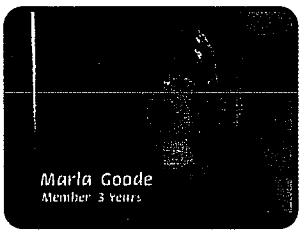
The agency or organization you are enrolling through has designed their offering to include the opportunity for you to refer other individuals or organizations and receive referral rebates to wipe out the cost of your own monthly bills. As a "Referring Member," it is your responsibility to read and understand the Referral Program Terms and Conditions. By enrolling as a member in the Referral Program, you agree to be bound by these Terms and Conditions in their entirety. BuyersOnline (BOL) has the right to change these Terms and Conditions in whole or in part, at any time with or without notice. Please read the most current 'Referral Program Terms and Conditions' on our web site at: http://www.buyersonline.com/memberbenefits. **ELIGIBILITY AND ACCEPTABLE USE** You must be at least 18 years old and of legal age in your state of residence to be a member of BOL and participate in the Referral Program. You may maintain only one account. Any duplicate accounts will be subject to cancellation. Furthermore, any attempts to duplicate, or defraud the Program at all including but not limited to through the usage of automated services, duplicate or secondary email accounts or false names will result in termination from the Referral Program. If a member loses membership, they cannot rejoin BOL for a minimum of six months. BOL reserves the right to refuse membership or services to any applicant for any reason. **SPONSORS** A sponsor is a member of BOL who refers others to join. Members may choose whom they sponsor and who sponsors them, but once chosen, a sponsor cannot be changed. A member cannot change sponsors on their own unless they terminate their membership for at least six months and then rejoins the Referral Program. Members may not sponsor themselves. Individuals or business entities may only join one time; however, a Member may sponsor any legally recognized business that they own. The legally recognized entity must have a separate tax ID number from the sponsoring entity. Businesses may also sponsor multiple locations or offices beneath a central office. Membership is available to individuals, couples, partnerships, LLC's or corporations. A correct and unique social security or tax ID number is required to differentiate accounts and receive Referral Rebates. However, a separate address per service location qualifies as grounds for a separate membership account even though the tax ID may be the same for all locations. **MARKETING TERMS AND CONDITIONS** The Member agrees not to use services provided by the Company in a manner inconsistent with the terms and conditions of the Company's Internet service. Further, the Member agrees not to use the Company's services, name, trademarks or other intellectual property or cause to be used the Company's equipment, network capacity or other resources in conjunction with the origination, delivery, relay or transmittal of unsolicited email ("spam") either directly or through the use of any other provider, third-party agent, re-mailing service or address forwarding service. Use or modification of the Company's intellectual property in any form, including but not limited to use on any other web site or networked computer environment, without express written authorization is a violation of BOL's copyrights and other proprietary rights and is strictly prohibited. If a Member creates a marketing tool, it is their responsibility to use the most current rates and most current company and program details available. To receive express authorization to use a personal marketing tool, a Member must email .jpg images to BOL at "marketingapproval@buyersonline.com". Refusal to abide by these or any other rules will result in the cancellation of the Member's account, the forfeiture of accumulated rebates and accumulated referral bonuses, and the severing of any Referral tree established by the Member. Reports of "spamming" or similar inappropriate behavior such as "slamming" or "fax broadcasting" should be reported to "consumerrelations@buyersonline.com". **REFERRALS** Members are qualified to refer once their application has been received and approved by both Member Services and the Member Credit Department. The company checks credit of member applicants. Applicants who do not want a credit check must offer a secure form of payment (acceptable credit card). A social security or tax ID number is required to complete all membership applications regardless of method of payment. Members are 'Independent Members'. They are not independent contractors, franchisees, agents employees or partners of the Company and may not state or imply any such relationship. Members should not represent themselves as an office or affiliate of the Company. Members may not represent or bind the Company to contracts or agreements other than those in the membership application. Members should not make claims for specific savings or income to prospective members. Members, who are found responsible for misrepresenting the Company, will be immediately terminated. **NONTRANSFERABILITY** No rebates earned or granted under the Referral Program may be assigned or transferred to any third party except as expressly permitted by BOL in writing. The sale or barter of any such rebate, other than by BOL, is expressly prohibited. Accrued rebates do not constitute property and are not transferable. Any violator of the foregoing restriction is subject to account termination, forfeiture of accrued rebates and/or liability for damages and litigation and transaction costs. **DISCLOSURE OF ACCOUNT INFORMATION** You authorize BOL to disclose to third parties information you have provided, or information that BOL has obtained about your membership account: (i) to agents of BOL or its affiliates, such as independent auditors, consultants or attorneys; (ii) to comply with government agency or court orders or requests or (iii) where it is necessary for redemption or transfer of your rebates. Further, you authorize BOL to receive any account information from any Affiliate Merchant including, but not limited to information regarding the Qualified Purchase such as the products ordered, the order number, the time and date the Qualified Purchase occurred, the email address entered for the Qualified Purchase. You agree to hold the Affiliated Merchant harmless for any information disclosed to BOL. **DISCLAIMER** The BOL Referral Program is being provided to member "as is" with no warranty. To the maximum extent permitted by law, BOL disclaims all representations and warranties, express or implied, with respect to the Referral Program, including but not limited to, implied warranties of merchantability and fitness for any particular purpose and implied warranties arising from course of dealing or course of performance. BOL does not warrant, guarantee or make any representations regarding the quality of, or accuracy of advertisements for, any merchandise, products or services offered or provided by affiliated merchants or suppliers in conjunction with the Referral Program. In addition, although BOL intends to take reasonable steps to prevent the introduction of viruses or other destructive materials to the BOL web site, BOL does not warrant, guarantee or make any representations that this site is free of destructive materials. In addition, BOL does not warrant that access to this site will be uninterrupted or error-free, and BOL assumes no responsibility for any damage caused by your access, or inability to access, this site. Including, but not limited to, your inability to accrue rebates by purchasing items with an affiliated merchant. **LIMITATION OF LIABILITY** In no event will any other company with which BOL has a corporate partnering relationship, including without limitation, co-branding, co-marketing, joint development, a merchant relationship or a supplier relationship (each a "corporate participant") be liable to you for non-performance of BOL's obligations. You agree not to sue any corporate participant for non-performance by BOL. In no event shall BOL be liable for any damages, claims or losses incurred (including without limitation compensatory, incidental, indirect, special, consequential or exemplary damages), however caused and under any theory of liability arising in connection with: (i) the Referral Program; (ii) any failure, delay or decision by BOL in administering the Referral Program; (iii) the use or inability to use this web site; or (iv) the purchase or use of any merchandise, products, or services of merchants or suppliers, even if BOL, or representatives thereof, are advised of the possibility of such damages, claims, or losses and notwithstanding any failure of essential purpose of any limited remedy. **DISPUTES/ERRORS** All questions or disputes regarding the Referral Program, including without limitation, questions or disputes regarding eligibility for the Referral Program, or the eligibility of rebates for accrual or redemption, must be submitted in writing within 60 days of the qualifying transaction, to BuyersOnline, 14870 S. Pony Express Rd., Bluffdale, UT 84065, or email us at consumerrelations@buyersonline.com. Any such disputes shall be resolved by BOL at its sole discretion. All interpretations of Referral Program Terms and Conditions shall be at the sole discretion of BOL.

Attention: The most current 'Referral Program Terms and Conditions' are available on our web site at: http://www.buyersonline.com/memberbenefits.

Shopping Rebates

credited to your monthly bill
for BuyersOnline services.

BARNES&NOBLE.com www.bn.com · brookstone.com · buy.com · Cooking.com · ESPRIT · Delta delta.com · Disney store · Mattel · Eddie Bauer · NORDSTROM · Lands' End · DELL · OfficeMax.com · sharperimage.com · Hallmark · REI www.rei.com · Walmart.com · perfumania.com America's Favorite Online Fragrance Store · PETsMART.com · fogdog.com The athlete's toy store. · SonyMusic DIRECT · Spiegel.com · OLD NAVY oldnavy.com



*"I was able to **zero-out** my phone bill from the purchases I've made through BuyersOnline!"*
- Marla Goode ~ Member 3 years

Earning Shopping Rebates is as easy as 1-2-3

1. ***Enter the shopping area at www.buyersonline.com***
2. ***Select a store***
3. ***Sign in and start shopping***

Follow these simple steps and your rebates will be credited to your monthly BuyersOnline statement.

buyersonline
Helping you zero-out monthly bills

Shopping Rebates - Terms and Conditions

To be eligible to participate in the BuyersOnline Shopping Rebate program, you must first be a member of BuyersOnline. A member must be at least 18-years years of age. BuyersOnline reserves the right to change the Shopping Rebate percentages without notice, for any reason. Members receive their Shopping Rebates as long as their personal account is paid in full within thirty (30) days of the bill date indicated on the Monthly Statement.

1. I understand that participation in any BuyersOnline incentive program(s) constitutes agreement to these terms and conditions.
2. You will be credited, subject to the terms and conditions enumerated in this Agreement, a percentage of the net purchases made by you at one of the online merchants affiliated with the Company's rebate program (an "Affiliated Merchant"). The percentage will be enumerated on the BuyersOnline web site as it relates to each Affiliated Merchant. The net purchase is defined as the total amount paid to the merchant minus tax, gift wrapping, shipping, promotional credits, returns, cancellations and transaction fees or as the Affiliated Merchant defines on their respective Web site and as is enumerated in their respective Affiliate Membership and/or Operating Agreement document, whichever is less. All Affiliated Merchant Membership and/or Operating Agreements as they relate to their affiliate or partner programs with the Company and which reside on the Affiliated Merchant's respective web sites are hereby incorporated into this Agreement by reference.
3. The determination of whether or not a purchase made through the Company's Affiliated Merchant is a "Qualified Purchase" is at the sole discretion of BuyersOnline.
4. Rebates awarded to Members are subject to adjustments for returns, cancellations and other events. Such adjustments can be applied to Member accounts at any time by BuyersOnline at its sole discretion. Should you disagree with any adjustments made to your account, your sole remedy is to withdraw from the Program.
5. Members are responsible for all state and federal taxes that are due and payable as a result of receiving any and all rebates from the Program. You may be taxed on your accrual of rebates, depending on the amount of rebates you accrue and the tax laws of federal, state, and local jurisdictions. BuyersOnline will provide you with those notices and forms required by law, but you will be responsible for any and all tax liability arising out of your accrual or redemption of rebates.
6. You will be credited the full amount of the rebate which we receive from the Affiliated Merchant subject to the following exceptions: 1) In the case that an Affiliated Merchant pays the Company a different percentage of the net purchase price based upon the aggregate net purchases made during a finite period of time delineated by the Affiliated Merchant, the Member will receive the lowest amount on that sliding scale due to the current inability to track aggregate sales. At this time, only a handful of Affiliated Merchants implement this sliding scale rebate structure. 2) Should the Affiliated Merchant withhold a portion of your rebate for any reason whatsoever, the Company will withhold the exact same amount from your rebate for the Qualified Purchase.
7. The following purchases are not eligible for accrual or payment of rebates: All merchants: Gift certificates are not eligible for to earn rebates; Beyond.com: Purchases of gift certificates and coupons are not eligible to earn rebates; Beyond.com: Hardware purchases are not eligible for rebates; Dell Computers: Any purchase of Dell products and services in which the transaction is substantially completed by telephone or a Dell sales person receives commission for the sale.
8. It is your responsibility to check your account regularly to ensure that rebates have been properly credited and that your account balance is accurate. The Member must inform BuyersOnline of any rebates that the Member believes they are entitled to within 30 days of the Member's claim of a valid Qualifying Purchase. Furthermore, all rebates earned by Members are subject to review. Necessary adjustments may be applied to Member accounts at any time by the Company at its sole discretion. If you do not agree to adjustments made to your account, your only recourse will be to terminate your membership in the Program. BuyersOnline reserves the right to terminate any account for abusive or fraudulent activity or if the Member is no longer reachable at the email address provided. If you make no transactions that update your rebates account for any consecutive twelve-month period, your account is designated as "abandoned." Abandoned accounts are automatically closed and forfeit any existing balance to BuyersOnline.
9. BuyersOnline is not responsible for changes to, or discontinuance of, any Affiliated Merchant, or any Affiliated Merchant withdrawal from the Program or for any effect on accrual of rebates caused by such changes, discontinuance or withdrawal.
10. BuyersOnline shall not be held responsible or liable for any actions taken, either wholly or in part, based on the information provided on BuyersOnline.com, or for any loss, damage, expense or injury resulting from any transactions conducted with any online merchant or other third party listed on BuyersOnline.com. Including, but not limited to exchanges, returns, refunds or damaged goods.

ZIONS FIRST NATIONAL BANK
Private Banking 310 South Main - Suite 100
Salt Lake City, Utah 84101

18806

31-5/1240
275

Buyers United
ACCOUNTS PAYABLE
14870 SOUTH PONY EXPRESS DR.
BLUFFDALE, UT 84065
PH. 801-523-8929

9/20/2002

PAY TO THE ORDER OF South Dakota Public Utilitiy Comm $ **250.00

Two Hundred Fifty and 00/100** DOLLARS

South Dakota Public Utilitiy Comm
500 E Capitol Ave
Pierre, South Dakota 57501-5070

VOID AFTER 90 DAYS

G. Douglas Smith

Paul Jarman

MEMO Cert of Auth

MP

⑈018806⑈ ⑆124000054⑆ 275 00301 0⑈

18806

South Dakota Public Utilitiy Comm | 9/20/2002
690000 · Other operating expense:690450 · Licens Certificate of Auth | 250.00

RECEIVED
SEP 23 2002
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Operating Cert of Auth 250.00

TC02-163

Capitol Hill Consulting
Telecommunications & Technology Regulatory Services

901 N Brutscher, D 358
Newberg, OR 97132

350 South 400 East, Suite 203
Salt Lake City, UT 84114

RECEIVED
SEP 24 2002
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

September 23, 2002

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, South Dakota 57501

RE: Buyers United, Inc. Proposed Tariff

Dear Mr. Bullard, Jr.

Enclosed please find an original and three copies of Buyers United, Inc.'s proposed intrastate tariff. Under the advice of Kelly Frasier, we have listed the tariff issued date as "September 24, 2002" and the effective date as "upon approval." The following pages are included in this filing:

Page	Revision
1-18	Original

If there are any additional requirements under the Commissions' rules and regulations, please contact me directly at 801-558-8149 or via e-mail at liz@capitolhillconsulting.com.

Please acknowledge receipt of this filing by returning a date stamped copy of this cover letter, in the postage paid envelope, provided.

Thank you for your assistance.

Sincerely,
Capitol Hill Consulting, LLC

Liz Petroni
Regulatory Affairs Consultant
for Buyers United Inc.

Buyers United, Inc.

TELECOMMUNICATIONS TARIFF

This tariff contains the rates, terms and conditions applicable to the Intrastate Resale Telecommunications Services provided by **Buyers United, Inc.** within the State of South Dakota.

Issued by: Paul Jarman, Secretary
14870 South Pony Express Drive
Bluffdale, Utah 84070

CHECK SHEET

Pages of this tariff, as indicated below, are effective as of the date shown at the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

PAGE	REVISION	PAGE	REVISION
1	Original*	10	Original*
2	Original*	11	Original*
3	Original*	12	Original*
4	Original*	13	Original*
5	Original*	14	Original*
6	Original*	15	Original*
7	Original*	16	Original*
8	Original*	17	Original*
9	Original*	18	Original*

* - Indicates those pages includes with this filing

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SYMBOLS

The following are the only symbols used for the purposes indicated below:

(C) - Change in Rule or Regulation.

(D) - Delete or discontinue.

(I) - Change Resulting in an increase to a customer's bill.

(M) - Moved from another tariff location.

(N) - New

(R) - Change resulting in a reduction to a customer's bill.

(T) - Change in text or regulation.

SECTION 1.0 - TERMS AND ABBREVIATIONS

Access Line - An arrangement which connects the Subscriber's or Customer's location to the Carrier's designated point of presence or network switching center.

Authorized User - A person, firm or corporation, or any other entity authorized by the Customer or Subscriber to communicate utilizing the Company's services.

Carrier or Company - Buyers United, Inc. unless otherwise indicated by the context.

Customer - The person, firm or corporation, or other entity which orders, cancels, amends, or uses service and is responsible for the payment of charges and/or compliance with tariff regulations.

Customer Premises Equipment - Terminal equipment, as defined herein, which is located on the Customer's premises.

Dedicated Access - See Special Access Origination/Termination.

Holiday - One of the following federally recognized holidays: New Year's Day (January 1), Independence Day (July 4), Labor Day, Thanksgiving Day, and Christmas Day (December 25).

SDPUC - Refers to the South Dakota Public Utilities Commission.

Special Access Origination/Termination - Where originating or terminating access between the Customer and the interexchange carrier is provided on dedicated circuits. The Access Provider provides these dedicated circuits from the Customer's location to the Company's point of presence. The rates and charges for dedicated circuits are determined by the Access Provider and the Customer is responsible for payment of these charges to the Access Provider.

Subscriber - The person, firm, corporation, or other legal entity, which arranges for services of the Company on behalf of itself or Authorized Users. The Subscriber is responsible for compliance with the terms and conditions of this tariff. A Subscriber may also be a Customer when the Subscriber uses services of the Company.

Switched Access Origination/Termination - Where originating or terminating access between the Customer and the interexchange carrier is provided on Feature Group circuits.

Terminal Equipment - Devices, apparatus, and associated wiring, such as teleprinters, telephones, or data sets.

SECTION 2.0 - RULES AND REGULATIONS

2.1 Undertaking of the Company

Buyers United, Inc. offers intrastate service originating at specified points within the state of South Dakota under terms of this tariff. The Company's services and resold facilities are provided on a monthly basis unless otherwise provided, and are available twenty-four hours per day, seven days per week.

The Company installs, operates, and maintains the communications services provided herein under in accordance with the terms and conditions set forth under this tariff. The Company may act as the Subscriber's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Subscriber, to allow connection of a Subscriber's location to the Company's network. The Subscriber shall be responsible for all charges due for such service arrangement.

2.2 Limitations

2.2.1 Service is offered subject to the availability of the necessary resold facilities and equipment, or both facilities and equipment, and subject to the provisions of this tariff.

2.2.2 The Company reserves the right to discontinue or limit service when necessitated by conditions beyond its control, or when the Subscriber or Customer is using service in violation of provisions of this tariff, or in violation of the law.

2.2.3 The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.

2.2.4 All services and resold facilities provided under this tariff are directly or indirectly controlled by the Company and the Subscriber may not transfer or assign the use of service or facilities without the express written consent of the Company. Such transfer or assignment shall only apply where there is no interruption of the use or location of the service or facilities.

2.2.5 Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

SECTION 2.0 - RULES AND REGULATIONS, (CONT'D.)

2.3 Use

Services provided under this tariff may be used for any lawful purpose for which the service is technically suited.

2.4 Liabilities of the Company

2.4.1 The Company's liability for damages arising out of mistakes, interruptions, omissions, delays, errors, or defects in transmission which occur in the course of furnishing service or facilities, shall be determined in accordance with SDCL 49-13-1 and 49-13-1.1 and any other applicable law.

2.4.2 The Company shall not be liable for claim or loss, expense or damage (including indirect, special or consequential damage), for any interruption, delay, error, omission, or defect in any service, facility or transmission provided under this tariff, if caused by any person or entity other than the Company, by any malfunction of any service or facility provided by any other carrier, by an act of God, fire, war, civil disturbance, or act of government, or by any other cause beyond the Company's direct control.

2.4.3 The Company shall not be liable for, and shall be fully indemnified and held harmless by Customer and Subscriber against any claim or loss, expense, or damage (including indirect, special or consequential damage) for defamation, libel, slander, invasion, infringement of copy-right or patent, unauthorized use of any trademark, trade name or service mark, unfair competition, interference with or misappropriation or violation of any contract, proprietary or creative right, or any other injury to any person, property or entity arising out of the material, data, information, or other content revealed to , transmitted, or used by the Company under this tariff; or for any act or omission of the Customer or Subscriber; or for any personal injury or death of any person caused directly or indirectly by the installation, maintenance, location, condition, operation, failure, presence, use or removal of equipment or wiring provided by the Company, if not directly caused by negligence of the Company.

2.4.4 The Company shall not be liable for any defacement of or damages to the premises of a Subscriber resulting from the furnishing of service, which is not the direct result of the Company's negligence.

SECTION 2.0 - RULES AND REGULATIONS, (CONT'D.)

2.5 Taxes

All state and local taxes (i.e., gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates.

2.6 Terminal Equipment

The Company's facilities and service may be used with or terminated in Subscriber-provided terminal equipment or Subscriber-provided communications systems, such as a PBX or Pay Telephone. Such terminal equipment shall be furnished and maintained at the expense of the Subscriber, except as otherwise provided. The Subscriber is responsible for all costs at his or her premises, including personnel, wiring, electrical power, and the like, incurred in the use of the Company 's service. When such terminal equipment is used, the equipment shall comply with the generally accepted minimum protective criteria standards of the telecommunications industry as endorsed by the Federal Communications Commission.

2.7 Installation and Termination

Service is installed upon mutual agreement between the Subscriber and the Company. The agreement will determine terms and conditions of installation, termination of service, any applicable sales commission structure, and sales commission payment schedule. The service agreement does not alter rates specified in this tariff.

When Customers are members of the transient public, they do not contract directly with the Company for provision of service. Subscribers contract for service on behalf of themselves and/or their transient patrons. Service provided to Customers (patrons of the contracting party) is governed by the terms of this tariff schedule and the lawful terms of the billing agency. No contractual agreements are required of the Customer.

SECTION 2.0 - RULES AND REGULATIONS, (CONT'D.)

2.8 Cancellation by the Company

Without incurring liability, the Company may immediately discontinue services to a Subscriber or End User or may withhold the provision of ordered or contracted services:

2.8.1 For nonpayment of any sum due for more than thirty days after issuance of the bill for the amount due,

2.8.2 For violation of any of the provisions of this tariff,

2.8.3 For violation of any law, rule, regulation or policy of any governing authority having jurisdiction over the Company 's services, or

2.8.4 By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting the Company from furnishing its services.

2.9 Interruption of Service by the Company

Without incurring liability, the Company may interrupt the provision of services at any time in order to perform tests and inspections to assure compliance with tariff regulations and the proper installation and operation of subscriber and the Company 's equipment and facilities and may continue such interruption until any items of non-compliance or improper equipment operation so identified are rectified.

The Company may discontinue Service without notice to the subscriber, by blocking traffic to certain countries, cities, or NXX exchanges, or by blocking calls using certain customer authorization codes, when the Company deems it necessary to take such action to prevent unlawful use of its service. The Company will restore service as soon as it can be provided without undue risk, and will, upon request by the customer affected, assign a new authorization code to replace the one that has been deactivated.

2.10 Termination of Service by Subscriber

Unless otherwise specified by contractual commitment, any Subscriber may terminate service with the Company upon thirty days written notice.

SECTION 2.0 - RULES AND REGULATIONS, (CONT'D.)

2.11 Payment for Service

All charges due by the Customer are payable to any agency duly authorized to receive such payments. The billing agency may be a local exchange telephone company, credit card company, or other billing service. Terms of payment shall be according to the rules and regulations of the agency and subject to the rules of regulatory agencies, such as the South Dakota PUC. Any objections to billed charges must be promptly reported to the Company's billing agent. Adjustments to Customer's bills shall be made to the extent that circumstances exist which reasonably indicate that such changes are appropriate.

Customer inquiries regarding service or billing may be made in writing or by call the toll free number listed below:

Kimm Partridge
14870 S. Pony Express Rd.
Bluffdale, UT 84065
800 363-6177
kimm.partridge@buyoinc.com

Customers who are dissatisfied with the response to their complaint may contact the South Dakota Public Utilities Commission for resolution of the issues at the following address:

South Dakota Public Utilities Commission
500 East Capitol
Pierre, South Dakota 57501
(605) 773-3201
(800) 332-1782
TTY through Relay South Dakota 800-877-1113

SECTION 2.0 - RULES AND REGULATIONS, (CONT'D.)

2.12 Other Rules

2.12.1 Regulatory Changes

The Company reserves the right to discontinue service, limit service, or to impose requirements on Subscribers as required to meet changing regulatory rules and standards of the South Dakota Public Utilities Commission and the Federal Communications Commission.

2.12.2 Refunds or Credits for Service Outages or Deficiencies

Credit allowances for interruptions of service caused by service outages or deficiencies are limited to the initial minimum period call charges for re-establishing the interrupted call.

2.13 800 Numbers

2.13.1 The Company will make every effort to reserve "800" vanity numbers on behalf of customers, but makes no guarantee or warrantee that the requested "800" number(s) will be available or assigned to the customer requesting the number.

2.13.2 If a Customer accumulates undisputed past-due charges, the Company reserves the right not to honor the Customer's request for a change in 800 service to another carrier (e.g., "porting" of the 800 number), including a request for a Responsible Organization (Resp Org) change, until such time as all charges are paid in full.

2.13.3 800 numbers shared by more than one Customer, whereby individual customers are identified by a unique Personal Identification Number, may not be assigned or transferred for use with service provided by another carrier. Subject to the limitations provided in SECTION 2.0.14.2, the Company will only honor Customer requests for change in Resp Org or 800 service provider for 800 numbers dedicated to the sole use of that single Customer.

SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES

3.1 General Description of Rates and Charges

3.1.1 Application of Charges

Long Distance Communications Service includes recurring and nonrecurring charges. Stabilized recurring charges may be offered on a Customer specific basis where service demands or competitive necessity justify such charges. Recurring charges consist of flat-rated monthly and usage-sensitive charges. Service also may include a Minimum Charge. Nonrecurring charges for installation of a service and additions to service, as well as a Termination Charge and Cancellation Charge, are also included.

(a) Non-Recurring Charges: Non-Recurring Charges are billed in advance.

(b) Recurring Charges: Recurring Charges, including usage-sensitive charges, are billed in arrears.

3.1.2 Taxes

The Customer will be billed for, and is responsible for payment of any taxes, surcharges, fees or assessments (excluding taxes on the Company's net income) imposed on or based upon provision, sale or use of the Company's services.

3.1.2.1 Jurisdiction

When the location of the calling and the called stations is a factor in rate determination, the rate is calculated according to whether the termination of the call is intrastate, interstate or international. This tariff contains rates for intrastate calls only.

SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)

3.2 Timing of Calls

3.2.1 Timing for all calls begins when the called party answers the call (i.e. when two way communications are established.) Answer detection is based on standard industry answer detection methods, including hardware and software answer detection.

3.2.2 Chargeable time for all calls ends when either one of the parties disconnects from the call.

3.2.3 The minimum call duration and additional billing increments are specified on a per product basis in this section of the tariff.

3.2.4 The Company will not bill for incomplete calls.

3.3 Special Access Channels

Special access channels (i.e.: dedicated facilities), if utilized, are provided and billed to the Customer by the local exchange telephone company. Charges for the special access channel are determined by the local access provider and the Customer is responsible for payment of these charges to the local exchange telephone company. The Company will, at the Customer's request, act on behalf of the Customer in the ordering and installation of the special access channel with the access provider. The Company may also request the access provider to bill them for the account, in the name of the Customer. If this option is utilized, the Company will pass the charges, including a billing service fee, through to the Customer.

3.4 Quality and Grade of Service Offered

Minimum Call Completion Rate - Customers can expect a call completion rate of not less than 90% during peak use periods. The call completion rate is calculated as the number of calls completed (including calls completed to a busy line or to a line which remains unanswered by the called party) divided by the number of calls attempted.

SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)

3.5 Service Offerings

3.5.1 Switched Long Distance Service

Switched Long Distance Service is a usage based direct dialed interexchange service, which utilizes switched access facilities, from equal access locations, on the originating end of each call. Calls are billed in a maximum of sixty-second increments. All charges are billed monthly in arrears.

3.5.2 Switched Toll-Free Service

Switched Toll-Free Service provides Toll-Free calls to terminating points throughout the state of South Dakota, which utilizes switched access facilities, from equal access locations, on the terminating end of each call. Charges for the Toll-Free calls are billed to the Company's customers rather than the caller. Calls are billed in a maximum of sixty-second increments with initial call duration of sixty-seconds. All charges are billed monthly in arrears.

3.5.3 Dedicated Long Distance Service

Dedicated Long Distance Service is a flat rate direct dialed interexchange service, which utilizes dedicated access facilities on the originating end of each call. Calls are billed in six (6) second increments with initial call duration of six (6) seconds. All charges are billed monthly in arrears.

3.5.4 Dedicated Toll Free Service

Dedicated Toll Free Service provides inbound '800/888' calling to points terminating within the State of South Dakota utilizing dedicated access facilities on the terminating end of each call. Charges for the '800/888' calls are billed to the Company's Customers rather than to the originating caller. Calls are billed in six (6) second increments with initial call duration of eighteen (18) seconds. All charges are billed monthly in arrears.

3.5.5 Calling Card

Calls are billed in sixty-second increments. All calls are billed in arrears.

SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)

3.6 Rates and Charges

3.6.1 Switched Long Distance Service

Initial and Each Additional Minute: 0.2472

3.6.2 Switched Toll-Free Service

Initial and Each Additional Minute: 0.2472

3.6.3 Dedicated Long Distance Service

Initial and Each Additional Minute: 0.1544

3.6.4 Dedicated Toll Free Service

Initial and Each Additional Minute: 0.1741

3.6.5 Calling Card

Initial and Each Additional Minute: 0.1490

Issued by:

Paul Jarman, Secretary
14870 South Pony Express Drive
Bluffdale, Utah 84070

SECTION 3.0 - DESCRIPTION OF SERVICE AND RATES, (CONT'D.)

3.7 Public Telephone Surcharge

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all interstate, intrastate and international calls that originate from any domestic pay telephone used to access the Company's services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with the Company's service, applies for the use of the instrument used to access the Company service and is unrelated to the Company's service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and other interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call (i.e., using the "#" symbol).

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

3.7.1 Public Telephone Surcharge

Rate per Call	$0.50

SECTION 4.0 - MISCELLANEOUS

4.1 General

Each Customer is charged individually for each call placed through the Company. Charges will vary by service offering, class of call, time of day, day of week, class of call and/or call duration.

4.2 Late Payment Charge

The company will charge a one-time 1.5% late payment fee on all invoices not paid by the due date identified on the Company bill.

4.3 Return Check Charge

The Company will assess a return check charge of up to $20.00 whenever a check or draft presented for payment of service is not accepted by the institution on which it is written. This charge applies each time a check is returned to the Company by a bank for insufficient funds.

SECTION 5.0 - PROMOTIONS

5.1 Promotions - General

From time to time the Company shall, at its option, promote subscription or stimulate network usage by offering to waive some of all of the nonrecurring or recurring charges for the Customer (if eligible) of target services for a limited duration, not to exceed 90 days, or by offering premiums or refunds of equivalent value. Such promotions shall be made available to all similarly situated Customers in the target market area. All promotions will be filed with and approved by the Commission prior to offering them to Customers.

5.2 Demonstration of Calls

From time to time the Company shall demonstrate service by providing free test calls of up to four minutes duration over its network.

SECTION 6.0 - CONTRACT SERVICES

6.1 General

At the option of the Company, service may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff. The terms of each contract shall be mutually agreed upon between the Customer and Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Service shall be available to all similarly situated Customers for six months after the initial offering to the first contract Customer for any given set of terms.

Each contract will be filed with the South Dakota Public Utilities Commission.

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of September 19, 2002 through September 25, 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

TELECOMMUNICATIONS

TC02-160 In the Matter of the Application of All-Star Acquisition Corporation for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

All-Star Acquisition Corporation has filed an application for a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The applicant intends to provide resold intrastate telecommunications services, including MTS, in-WATS, out-WATS, and Calling Card services throughout South Dakota.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 09/19/02
Intervention Deadline: 10/11/02

TC02-161 In the Matter of the Filing for Approval of an Amendment to an Interconnection Agreement between Qwest Corporation and McLeodUSA Telecommunications Services, Inc.

On September 20, 2002, the Commission received for approval a Filing of Amendment to the Interconnection Agreement between McLeodUSA Telecommunications Services, Inc. (McLeodUSA) and Qwest Corporation (Qwest) f/k/a U S WEST Communications, Inc. According to the parties, this is an Amendment to the negotiated Interconnection Agreement which was approved by the Commission effective July 23, 1999, in Docket No. TC99-057. The filing is intended to amend the Amendment approved on or about January 24, 2001, by adding language to the end of section 1.11 and by replacing the platform recurring rates column with the chart which was attached to the filing. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than October 10, 2002. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 09/20/02
Initial Comments Due: 10/10/02

TC02-162 In the Matter of the Filing by Qwest Corporation for Approval of Revisions to its Access Services Tariff.

On September 23, 2002, Qwest Corporation filed revised pages from its Access Services Tariff. The revisions introduce Managed Long Distance Service (MLD) for interexchange carriers. MLD is a wholesale platform service offered by Qwest to IXCs to monitor and control long distance spending of end-users. Qwest requests an effective date of October 14, 2002.

Staff Analyst: Heather Forney
Staff Attorney: Karen Cremer
Date Docketed: 09/23/02
Intervention Deadline: 10/11/02

TC02-163 In the Matter of the Application of Buyers United Inc. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

Buyers United Inc. has filed an application for a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The applicant will provide service under Buyers United Inc., BuyersOnline, and United Carrier Networks. The applicant intends to resell intrastate long distance and provide in a limited capacity, internet services throughout South Dakota.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 09/23/02
Intervention Deadline: 10/11/02

TC02-164 In the Matter of the Application of NobelTel, LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

NobelTel LLC is seeking a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The Applicant intends to offer a full range of interexchange services on a resale basis. Services include direct and dial-around outbound dialing, toll free inbound dialing, directory assistance, data services, travel card services and prepaid calling card services.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 09/24/02
Intervention Deadline: 10/11/02

TC02-165 In the Matter of the Filing for Approval of Amendments to Interconnection Agreements between Qwest Corporation and Covad Communications Company and Qwest Corporation and McLeodUSA Telecommunications Services, Inc.

On September 25, 2002, the Commission received a Petition for Approval of Amendments to Interconnection Agreements regarding the following Agreements: 1) U S WEST Service Level Agreement with Covad Communications Co. dated April 19, 2000; 2) Confidential Billing Settlement Agreement Between U S WEST and McLeodUSA dated April 28, 2000; 3) Confidential Settlement Agreement Between U S WEST and McLeodUSA dated May 1, 2000; and 4) Confidential Agreement Between McLeodUSA and Qwest dated October 26, 2000. According to Qwest, the company is petitioning the Commission to approve the attached agreements such that, to the extent any active provisions of such agreements relate to Section 251(b) or (c), they are formally available to other CLECs under Section 252(i) of the 1996 Telecommunications Act. Qwest reserved the right to demonstrate that one or more of these agreements need not have been filed in the event of an enforcement action in this area. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than October 15, 2002. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 09/25/02
Initial Comments Due: 10/15/02

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF BUYERS UNITED, INC. D/B/A BUYERSONLINE AND D/B/A UNITED CARRIER NETWORKS FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA	)))))))	**ORDER GRANTING CERTIFICATE OF AUTHORITY** **TC02-163**

On September 23, 2002, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Buyers United, Inc. d/b/a BuyersOnline and d/b/a United Carrier Networks (Buyers United).

Buyers United intends to resell intrastate long distance and provide in a limited capacity, internet services throughout South Dakota. A proposed tariff was filed by Buyers United. The Commission has classified long distance service as fully competitive.

On September 26, 2002, the Commission electronically transmitted notice of the filing and the intervention deadline of October 11, 2002, to interested individuals and entities. No petitions to intervene or comments were filed and at its November 20, 2002, meeting, the Commission considered Buyers United's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that Buyers United not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission.

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that Buyers United has met the legal requirements established for the granting of a certificate of authority. Buyers United has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Buyers United's application for a certificate of authority, subject to the condition that Buyers United not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that Buyers United's application for a certificate of authority to provide interexchange telecommunications services is hereby granted, effective November 22, 2002, subject to the condition that Buyers United not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. It is

FURTHER ORDERED, that Buyers United shall file informational copies of tariff changes with the Commission as the changes occur.

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 first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 12/3/02

(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

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State of South Dakota

Authority was Granted effective November 22, 2002
Docket No. TC02-163

This is to certify that

BUYERS UNITED, INC. D/B/A BUYERSONLINE AND D/B/A UNITED CARRIER NETWORKS

is authorized to provide interexchange telecommunications services in South Dakota, subject to the condition that it not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 2nd day of December, 2002.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

JAMES A. BURG, Chairman

PAM NELSON, Commissioner

ROBERT K. SAHR, Commissioner