9278 COMMUNICATIONS INC
Form 10-K
May 08, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 number: 333-37654

9278 COMMUNICATIONS, INC.

(Name of business registrant in its charter)

DELAWARE	13-4165136
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1942 WILLIAMSBRIDGE ROAD, BRONX, NEW YORK 10461

(Address of principal executive offices)

Registrant's telephone number, including area code: (718) 887-9278

Securities registered pursuant to Section 12(b) of the Act:

Title of each	Name of each exchange on which registered
None	Not applicable

Securities registered pursuant to Section 12(g) of the Act:

None

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item

405 of Regulation S-K is not contained herein, and will not be contained, to the

best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the common stock held by non-affiliated stockholders of the registrant, as of March 28, 2003, was $1,009,053.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

The number of shares outstanding of the registrant's common stock, as of March 28, 2002, was 23,932,912.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS.

General

We are a value-added distributor of telecommunications services and technologies, specializing in the distribution of prepaid phone cards. We offer over 700 different prepaid card products, including 300 private label cards, through a network of over 1,000 primary distributors. Our headquarters is in New York City and historically a majority of our sales were generated in the New York metropolitan area. In recent years, we have established a nationwide network of 18 distribution centers, including centers in California, Virginia, Connecticut, Illinois, Michigan, North Carolina, Florida, Maryland, New Jersey and Ohio. Through this network we estimate that our products are sold through over 150,000 retail outlets. Several of our private label products are marketed under national or international brand names, such as Absolute(TM) or Extra(TM), and in some cases also under localized product variations and names tailored to meet the needs or preferences of localized markets. We are continuously seeking to introduce new proprietary or third-party telecommunications related products into our growing distribution channels, including prepaid wireless products and prepaid direct dial long distance services, and to expand upon our existing business relationships with the United States telecommunications companies and large national prepaid card providers we work with. We now offer direct pre-paid phone card sales through our Internet Websites 9278.com(TM), Callnation.com(TM) and Let's Dial.com(TM). Through our website, consumers can purchase 9278 phone cards over the Internet from a selection of hundreds of cards, searchable by various criteria, e.g., rates, brand name, country, etc., and receive immediate delivery of the card's access number and PIN codes via e-mail.

Recent Developments - Proposed Going Private Transaction

On January 31, 2003, we announced the execution of a Merger Agreement with NTSE Holding Corp., a corporation wholly owned by Sajid Kapadia, our Chairman, Chief Executive Officer and principal stockholder, which will result in 9278 Communications becoming a privately held corporation, owned by Kapadia.

Pursuant to this agreement, all of the outstanding shares of 9278 Communications will be cancelled and our existing stockholders will receive a cash payment of $.10 per share. The transaction is subject to numerous conditions, including the approval by the our public stockholders. It is expected that a stockholders meeting to approve the transaction will be held in May, and that the closing of the transaction, if approved, will occur immediately thereafter.

Industry Overview

Prepaid phone cards were introduced into the North American marketplace by small long distance consolidators and resellers, which purchase a high volume of long distance minutes from major carriers at rates significantly lower than those that could be obtained by individuals and small businesses and which then resell those minutes to their established customer base. Originally introduced to meet very specific telephony applications, prepaid telecommunications services have evolved into a widely accepted solution by both businesses

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and consumers. More recently, major long distance carriers such as AT&T, WorldCom and Sprint have committed considerable resources to the prepaid phone card market.

Prepaid phone cards are a reliable, convenient and cost-effective alternative to coin-operated calling, collect calling, operator assisted calls and standard credit calling cards. Unlike credit calling cards, which provide virtually unlimited credit and impose surcharges on long distance services, prepaid phone cards are paid for in advance and provide finite amounts of calling time. Shaped like a credit card, the prepaid phone card easily fits into a standard wallet. Generally, the front face denotes the denomination of the card, and the back of the cards contains a scratch-off surface covering the card number and personal identification number (a "PIN").

Most domestic prepaid cards utilize remote memory technology, which permits users to place local, long distance and international calls from any touch-tone phone by dialing a toll-free or local access number to connect to a prepaid phone card switching platform. After being prompted to enter a PIN, the caller is advised of the value remaining on the card and is prompted to enter the telephone number to be called. The call is then routed to its destination. The per-minute charges for the call are automatically deducted from the prepaid account corresponding to the PIN as the call progresses.

Prepaid phone cards are distributed through a vast network of retail outlets, including convenience stores, newsstands, grocery stores and discount stores. While prepaid phone card products are also sold through vending machines and, more recently, over Internet websites, the vast majority of phone card sales are still made through retail outlets.

The retail outlets are serviced by independent distributors, which often distribute newspapers or other items to the retail outlets. Typically, a wholesale distributor, like us, purchases large quantities of prepaid phone cards from a long distance carrier or reseller, or purchases PIN codes from the carrier to be printed by the distributor on private label cards, and sells the cards in smaller quantities, together with cards from other carriers, to the independent distributor for ultimate distribution to the retail outlet. The discount from face value at which cards are bought and sold by the participants in the distribution chain varies depending upon the carrier and the features of the card, such as local versus toll free dial-up access, or the rates and geographic regions for which the card can be used.

Products and Services

We are primarily a wholesale distributor of prepaid phone cards, distributing over 700 different types of prepaid phone cards issued from a variety of telecommunications carriers, including 300 private label cards. The long distance rates available to users of these cards are significantly less than the rates for domestic and international calls placed by traditional methods. Generally, each type of prepaid phone card is available in $5 and $10 denominations, and sometimes in smaller denominations of $2 or $3. We print our private label cards with PIN's purchased from the telecommunications carrier pursuant to a program established by the carrier and coordinate the activation of the cards with the carrier. For third party cards, we purchase pre-printed, pre-activated phone cards from the card provider. In either case, we distribute the cards through our network distribution centers though over 1,000 independent primary distributors.

We currently offer over 300 private label cards, serviced by several long distance carriers, including, "Extra(TM)", "Arroz Con Pollo(TM)" and "Bollywood(TM)". Generally, we determine the design and target market of the cards based upon our perception of market demand and seek appropriate

rates from the carriers. Many private label cards, such as the "Absolute" and "Extra" brand names are marketed in numerous varieties (e.g., "Absolute Europe," "Absolute New York," and "Absolute Chicago") designed to target the needs of certain markets or provide localized features. For example, our "Arroz con Pollo(TM)" card, with attractive rates to the Dominican republic, had become one of the most popular cards for use to place calls to that country, and has become one of the best selling phone cards in Florida. These private label cards are exclusive to us and, unlike the other types of prepaid phone cards which we distribute, we control the discounts for these products, leading to higher margins. Private label cards constituted over 75% of our sales in 2002 and over 70% of our sales in 2001.

Our retail customers can use the prepaid phone cards we distribute at any touch tone telephone by dialing an access number, followed by a PIN assigned to each card and the telephone number the customer seeks to reach. The carrier's switch completes the call, and its debit card platform reduces the outstanding balance of the card during the call. We believe that many of our customers use prepaid cards as their primary means of making long distance calls due to:

- Attractive rates;
- Reliable service;
- Ease of monitoring and budgeting long distance spending; and
- The appealing variety of calling cards offered to different market segments.

One of our focuses has been on distribution in certain ethnic markets in the U.S. that generate high levels of international traffic to specific countries. As a result, we have become one of the premiere phone card distribution channels in the New York City area, which has many such ethnic markets. Recent immigrants and members of ethnic communities are heavy users of international long distance, given their desire to keep in touch with family members and friends back home. In addition, recent immigrants often do not have established credit histories necessary to establish accounts with traditional

long distance carriers. An example of one of our products marketed to a specific ethnic group is the Bollywood Phone Card, from which we generated over $11,000,000 in revenues in 2002. There are approximately 500,000 Indians, Pakistanis, and Bengalis residing in the vicinity of New York City. The Bollywood Phone Card is designed for and has become a household name for peoples from the sub-continent of India, who, by using the card to place long distance calls to that region, receive deep discounts on rates. Other examples are La Ranchera(TM), with attractive rates to Central and South America.

We have over 1,000 independent primary wholesale distributors who purchase from us for resale directly to retail outlets or sub-distributors. These customers serve as a network, purchasing cards from us and further distributing them to an estimated 150,000 retail outlets. In 2002, one of our customers, Sohel Distributor, Inc., accounted for approximately 12% of our revenues. Sohel Distributor Inc. is owned by the brother of our Chief Executive Officer and controlling stockholder.

In February 2003, we introduced a pre-paid mobile phone product through our 9278 Mobile subsidiary. Our pre-paid mobile phones are purchased by consumers who must also purchase monthly service plans which permit the user to utilize the phone for a thirty day period, subject to limitations on

minute usage. Available minute usage may be increased through the purchase of "extended airtime" cards, and additional monthly service can be obtained from monthly access cards. To date, we have conducted such sales efforts on an introductory basis to allow us to better determine the best distribution processes and to allow us to test consumer acceptance, pricing and customer care issues. Although some of our existing distributor base will be viable outlets for this product, it is likely that new distribution channels will need to be established to maximize the potential sales of this product. Unlike our existing phone card business, the sale of mobile phones requires significant up front, out-of-pocket expenses to acquire the phones and the reliance on third party software vendors and carrier service providers for the continued functionality of the phones.

Strategy

Our goal is to solidify our position as a dominant player in the pre-paid distribution industry by continuously expanding the breadth of our distribution network and by offering the most sought after pre-paid products to the marketplace. Our focus also continues to be on building brand name awareness for "9278" with the consumer base, the distribution networks, and with telecommunications carriers. By shifting our product offerings to include a greater percentage and variety of 9278 private label cards, and by expanding our number of regional branch offices, we have strengthened our position as premiere provider of pre-paid calling cards.

Our goal is to continue our growth in our client base and market share of the prepaid card industry through internal expansion and by strategic expansion into new regional markets. We believe that this presents the opportunity for us to secure a significant share of the North American market and to expand into international markets such as Europe, Asia and the Pacific Rim.

In 2001 we implemented a retail e-commerce strategy that has expanded the geographic reach of our distribution. As this distribution channel expands, we expect that this distribution channel will also create operational efficiencies and ultimately increase margins. E-commerce sales accounted for

approximately 7.8% of our gross sales in 2002.

In 2002, we significantly expanded our direct sales efforts to penetrate markets not directly serviced by our existing branch offices. Our telemarketing team of almost 20 salespersons engages in telemarketing efforts as well as pursuing customer leads, both retail outlets and distributors, attracted by our advertising or public relations efforts or by word of mouth.

To date, the ultimate consumer of mass market prepaid phone cards have been predominantly immigrants needing access to the North American and/or international telecommunications systems and who have a need for competitive pricing for international calls to their native country, as well as other consumers making a significant volume of overseas or long distance calls. To a lesser extent, cards are purchased by travelers and niche market card collectors. Of our numerous private label cards, many are directed to specific geographic regions to gain market share and brand awareness with these consumers. To remain competitive, we will be conducting a targeted marketing program to distributors, retailers and corporations. In addition, we will seek out strategic partners who currently provide distribution and marketing of prepaid cards to different customers or regions as a means of increasing overall market share.

We recently established a strategic relationship with IBGH Communications, a New York based telecommunications carrier which will provide us with flexible utilization of IBGH's

telecommunications facilities to provide carrier services to cards developed and marketed by us. This relationship, in addition to providing flexibility and attractive rates, will provide us with a right of first refusal on IBGH's capacity which we expect will provide us with additional security against the risks of relying on many third party carriers for switching facilities. To facilitate this arrangement, we have made significant prepayments to IBGH to fund the establishment of the network to our specifications. Such prepayments are to be offset against future PIN purchases by us, and IBGH has agreed to repay the unused advance payment on or before December 31, 2003. Such repayment obligation is evidenced by a secured promissory note executed by IGBH.

Competition

The telecommunications services industry generally, and the prepaid phone card industry specifically, is intensely competitive, rapidly evolving and subject to constant technological change. There are several large and numerous small competitors in the industry, and we expect to face continuing competition based on price and service offerings from existing competitors and new market entrants. In addition, the increasing prevalence of the Internet and emerging technologies seeking to establish Internet telephony pose potential competitive threats to the market for long distance telephone services. The principal competitive factors in the market include:

- Price;
- Quality of service;
- Breadth of geographic presence;
- Customer service;
- Reliability;

- Network capacity; and
- Availability of enhanced communications services.

Our competitors include:

- Other distributors of prepaid products, such as Union Telecard Alliance and Blackstone Calling Card;
- Telecommunications companies that produce their own prepaid products, such as IDT and Qwest; and
- Other telecommunications companies, such as AT&T, and WorldCom.

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

Government Regulation

The provision of telecommunications services is regulated by the federal and state governments of the United States. Federal laws and regulations promulgated by the Federal Communications Commission apply to interstate and international telecommunications, while state regulatory authorities have jurisdiction over telecommunications services that originate and terminate within the same state. Various other international authorities also may seek to regulate telecommunications services originating in their respective countries. However, as of the date of this report, we are not aware of any requirement for government approval to manufacture, distribute and/or market prepaid phone cards.

Employees

As of March 15, 2003, we had 188 full-time employees. Of these, 25 were sales and marketing personnel, 13 were management and finance personnel, 24 were customer service personnel, 10 were information technology personnel, 11 were warehouse and shipping personnel, 12 were general and administrative personnel, and 93 were employed in our branch offices in a variety of roles. None of our personnel are covered by a collective bargaining agreement. We have never experienced an employment-related work stoppage and consider our employee relations to be satisfactory.

ITEM 2. PROPERTIES

Our executive offices are located at 1942 Williamsbridge Road, Bronx, New York, where we lease approximately 3,500 square feet, pursuant to a sublease agreement that expires on November 30, 2008. The aggregate annual base rental for this space is $63,000. We sublet these premises from an officer and director of ours, on terms substantially the same as those under which the officer leases the space.

We also lease approximately 2,600 square feet, located at 1938

Williamsbridge Road, Bronx, New York, pursuant to a lease that expires in March 2008. This space is used as additional office space and as a warehouse location for the off-site storage of our products. The annual rent for such space is $102,000.

In addition, we lease approximately 2,700 square feet, located at 1965 Williamsbridge Road, Bronx, New York to house our ecommerce, telemarketing and customer service operations. We lease this space pursuant to a lease agreement that expires on November 30, 2003. The aggregate annual base rental for this space is $60,000.

We also maintain sales and distribution offices in 13 additional sites, in the states of CT, FL, NC, MI, CA, MD, VA, NJ and OH servicing principally their respective local markets. These branch offices combine office and warehouse facilities and range in size from approximately 750 square feet to approximately 3,500 square feet, at annual rentals ranging from approximately $10,000 to $105,000.

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ITEM 3. LEGAL PROCEEDINGS.

We are subject to certain legal proceedings and claims which have arisen in the ordinary course of our business. These actions when ultimately concluded will not, in the opinion of management, have a material adverse effect on our financial position, results of operations or liquidity.

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

None

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

During the fiscal year ended December 31, 2002, our common stock was quoted on the over-the-counter bulletin board ("OTCBB") of the Nasdaq Stock Market under the symbol "NTSE". The following table sets forth the range of the high and low bid quotations for our common stock for the periods indicated. Such market quotations reflect inter-dealer prices, without mark-up, mark-down or commission and may not necessarily represent actual transactions. Since January 6, 2003, our common stock has been traded in the "pink sheets"

	High	Low

2002		
First quarter	$0.42	$0.25
Second quarter	0.36	0.10
Third quarter	0.10	0.04
Fourth quarter	0.08	0.04
2001		
First quarter	$1.59	$0.61
Second quarter	0.74	0.40
Third quarter	0.51	0.36
Fourth quarter	0.37	0.20

As of March 28, 2003, there were approximately 370 holders of record of our common stock and the closing bid quotation of our common stock on the pink sheets was $0.079 per share.

On January 31, 2003, we announced the execution of a Merger Agreement with NTSE Holding Corp., a corporation wholly owned by Sajid Kapadia, our Chairman, Chief Executive Officer and Principal Stockholder, which will result in 9278 Communications becoming a privately held corporation, owned by NTSE Holding Corp. Pursuant to this agreement, all of the outstanding shares of 9278 Communications will be cancelled and existing stockholders will receive a cash payment of $.10 per share. The transaction is subject to numerous conditions, including the approval by the stockholders of 9278 Communications. It is expected that a stockholders meeting to approve the transaction will be held in late May, and that the closing of the transaction, if approved, will occur immediately thereafter.

Dividend Policy

We do not intend to pay future dividends and intend to reinvest any earnings into our business to finance future growth. Accordingly, our Board of Directors does not anticipate declaring any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

	For the Year Ended December 31, (in thousands, except share data)			
	2002	2001	2000	1999
Net Sales	$246,980	$200,177	$80,763	$78,090

Cost of Sales	233,800	189,212	77,793	75,473
Operating Expenses	19,141	9,924	5,599	2,028
Earnings (loss) before income taxes	$(5,961)	$721	$(3,419)	$12
Earnings (loss) per common share	$(0.25)	$.03	$(0.16)	$(0.02)
Weighted-average shares	23,932,912	24,500,881	20,902,060	19,659,629
			As at December 31,	
Current Assets	$47,828	$32,879	$14,562	$6,827
Total assets	53,945	37,968	19,141	7,144
Convertible notes payable	140	176	-	-

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto set forth in Item 7 of this Annual Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Factors that could cause differences include, but are not limited to, expected market demand for the Company's products, fluctuations in pricing for products distributed by the Company and products offered by competitors, as well as general conditions of the telecommunications marketplace.

OVERVIEW

To date, our principal source of revenue has been the marketing and distribution of prepaid phone cards. We market and distribute branded prepaid phone cards, which are produced by a variety of telecommunications long distance carriers and resellers, as well as private label proprietary prepaid phone cards produced exclusively for us by various long distance carriers and/or resellers.

Prepaid phone cards are distributed through a vast network of retail outlets, including convenience stores, newsstands, grocery stores and discount stores. The retail outlets are serviced by independent distributors, which often distribute newspapers or other items to the retail outlets. We purchase large volumes of branded prepaid phone cards from the long distance carrier or reseller and sell the cards in smaller quantities, together with cards from other carriers and/or private label cards we distribute, to the independent distributor, for ultimate distribution to retailer outlet.

We purchase branded cards at a discount from the face value of the card, and resell them to the distributor at a slightly lower discount. The difference between the two discount rates, typically from 1% to 8%, represents the gross

margin we retain. We purchase branded cards on varying terms, from C.O.D. to an as used basis. Sales of our products are generally made on a net 21 basis.

Private label cards are generally designed and produced by us, utilizing card numbers and PINs provided by the telecommunications carrier or reseller providing the long distance service for the card. We incur the upfront expense of printing the phone cards. However, we do not pay the long distance carrier until it activates the cards, which occurs upon our sale to the distributor. Accordingly, through the use of private label cards, our cost of inventory is significantly reduced, as purchases are effectively made on an as-needed basis. In addition, private label cards generally provide us with the ability to achieve a greater gross margin percentage, typically ranging from 5% to 8%. During the past two years, we have continued to increase our sales of private label cards, both on an absolute dollar volume and as a percentage of our sales. During the year ended December 31, 2001, we sold over 120 varieties of private label cards which accounted for in excess of 70% of our total revenues.

We continue to seek to expand our geographic reach and to increase our sales. In recent years, we have established distribution centers in California, Connecticut, Florida, Illinois, Maryland, Michigan, North Carolina, New Jersey, Virginia, Upstate New York, as well as additional distribution centers

in the New York metropolitan area, and we have established strategic relationships with distributors in Canada and United Kingdom. In addition, we sell pre-paid phone card through our Internet Website 9278.com(TM). Through our website, consumers worldwide can purchase 9278 phone cards over the Internet from a selection of over 40 cards, searchable by various criteria, e.g., rates, brand name, country, etc., and receive immediate delivery of the card's access number and PIN codes via e-mail.

We are seeking to develop and acquire rights to additional prepaid telecommunications services and other prepaid products or services to diversify our product offerings and increase our overall gross margin. In the short-term, additional costs related to the development or acquisition of such products may have an impact on our net profits.

RESULTS OF OPERATIONS

The following table sets forth certain financial data as a percentage of net revenues for the periods indicated:

	For the Years ended December 31, 2002	2001
Net revenues	100.00%	100.00%
Cost of services	94.66	94.52
Gross margin	5.34	5.48
Selling expenses	3.07	1.11
General and administrative expenses	4.20	3.15
Depreciation and amortization	0.16	0.26
Provision for bad debts	0.32	0.44
Interest expense, net	0.01	0.06

Litigation settlement	-	0.10
	7.76	5.12
Earnings (loss) before income taxes	(2.42)%	0.36%

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

NET REVENUES. Net sales increased by approximately $47 million to $247 million for the year ended December 31, 2002, up over 23.4% from net sales of $200.0 million for the year ended December 31, 2001. The increase in net sales was primarily due to our geographic expansion since the third quarter of calendar year 2000 and continuing since then. New locations opened during 2002 contributed $9.1 million or 19.4% of the total increase in sales during 2002.

GROSS MARGIN. Gross margin increased to approximately $13.2 million in 2002, as compared to approximately $11 million in 2001, principally as a result of increased volume. As a percentage of sales, gross profit for 2002 and 2001 remained virtually flat, decreasing to 5.34% as compared to 5.48% for the year ended December 31, 2001. The no change in gross margin percentage was attributable to the Company's aggressive sales efforts to increase its market share by selling cards at a reduced gross margin during this period. Our gross margin varies from period to period depending upon discounts and promotions employed from time to time to stimulate sales.

SELLING EXPENSES. Selling expenses increased by $5,347,000 or 240% to $7,576,000 in 2002 as compared to $2,229,000 during the year 2001. Of this, $2,700,000 was increase in advertising costs incurred in connection with the Company promoting its private label cards and sales over the Internet during the year 2002. The commission expense increased by $2,461,000 as the Company hired additional commissioned salespersons in 2002 to promote its sales. Trade shows expense was increased by $186,000 as a result of negotiated packages, and cost of printing of trade publications were reduced by $63,000 as the company utilized its in-house facilities in designing these publications.

Selling expenses as a percentage of net revenues increased to 3.07% for the year ended December 31, 2002, from 1.11%, for the same period in 2001.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by $3,964,000 or 58% to $10,774,000 for 2002 as compared to $6,810,000 for 2001. This increase was primarily due to the increase in salaries by $2,165,000 to $5,412,000 in 2002 as compared to $3,247,000 in 2001 resulting from additional personnel required for new offices, direct sales efforts and Internet customer service. Included in the general and administrative expenses is the cost of processing credit card sales over the Internet which increased by $440,000 to $666,000, for the year 2002 as compared to $226,000 for the year 2001. In addition the Computer services expense increased by $370,000 to $445,000 in 2002 as compared to $75,000 in 2001.Rent expenses increased by $252,000 to $560,000 in 2002 as compared to $308,000 in 2001 as the company continued to add new locations and expand its existing facilities. Telephone and utilities increased by $268,000. Other general and administrative expenses increased by $469,000 due to the company opening additional locations and expenses related to increase in sales volume.

General and administrative expenses as a percentage of net revenues increased to 4.20% for the year ended December 31, 2002, from 3.15%, for the same period in 2001.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization for the year ended December 31, 2002 totaled $393,000; a decrease of $119,000 as compared to the same period in 2001. The decrease is due to the fact that we no longer amortize goodwill as a result of the adoption, effective January 1, 2002, of SFAS No. 142 of the Financial Accounting Standards Board. This decrease was offset by an increase in depreciation expense of $138,000 due to acquisition of fixed assets for our new locations.

PROVISION FOR DOUBTFUL ACCOUNTS. Provision for bad and doubtful debts decreased by $95,000 to $790,000 in 2002 as compared to $885,000 in 2001. This decrease is due the Company's aggressive collection efforts of its accounts receivable.

NET INCOME (LOSS) FROM OPERATIONS. We had a net loss of $5,970,000 for the year ended December 31, 2002 as compared to a net profit of $656,000 for the year ended December 31, 2001. The decrease in net income was due to the increase in selling expenses and operating expenses. Our

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geographical expansion by opening up new offices nationwide has led to increase in selling, general and administrative costs. We also adopted an aggressive pricing policy by discounting our cards and giving away promotional cards in these new locations to gain market share. We believe that our loss from operations is temporary and that there should be a turnaround once these new offices are established.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Net sales increased by approximately $120 million to $200.2 million for the year ended December 31, 2001, up over 148% from net sales of $80.7 million for the year ended December 31, 2000. The increase in net sales was primarily due to our geographic expansion since the third quarter of calendar year 2000 and continuing in the first three quarters of 2001. In the third quarter of 2000 we acquired two businesses (in Yonkers, New York and Silver Springs, Maryland) that accounted for $27,437,000 of sales for the year ended December 31, 2001. In December 2000, we acquired Reliable Networks, Inc., a competitor of ours located in Queens, New York, which accounted for $36,342,000 of sales for the year ended December 31, 2001. In January 2001, we opened an office in Connecticut, which accounted for an aggregate of $8,469,000 in sales for the year ended December 31, 2001. In May 2001, we opened a new office in Los Angeles, California, which accounted for $14,991,000 in sales for the year ended December 31, 2001. In August 2001, we opened a new location in Brooklyn, New York, which accounted for $3,655,000 in sales since its inception and in September 2001 we opened a new location in Chicago, Illinois, which accounted for $5,079,000 in sales since its inception. Starting July 2001, we began actively selling phone cards over the Internet. Internet sales accounted for $6,649,000 for the year ended December 31, 2001. For the year ended December 31, 2001, same location sales for our Bronx office increased by approximately $21,939,000 or 29% to $98,667,000 in 2001 from $76,728,000 in the prior year.

Gross profit increased to approximately $11 million in 2001, as compared to approximately $3 million in 2000, principally as a result of increased volume and as a result of higher gross margins. As a percentage of sales, gross profit for 2001 increased to 5.48%, as compared to 3.68% for the year ended December 31, 2000. This increase in gross profit was attributable to the addition of

higher margin private label cards, slightly offset by the decrease in margins attributable to branded products and increasing competition from additional cards entering the marketplace.

Operating expenses for the year ended December 31, 2001 increased by $4,325,000 to $9,924,000, an increase of 77% over operating expenses of $5,599,000 for the year ended December 31, 2000. Of this, general and administrative expenses increased by $2,358,000 or 53% to $6,810,000 for 2001 as compared to $4,452,000 for 2000. This increase was primarily due to the increase in salaries by $969,000 to $1,998,000 in 2001 as compared to $1,029,000 in 2000 resulting from additional personnel required for new offices, direct sales efforts and Internet customer service. Included in the general and administrative expenses is the cost of processing credit card sales over the Internet in the amount of $225,000 for the year 2001. Rent expenses increased by $180,000 to $308,000 in 2001 as compared to $128,000 in 2000 as the company continued to add new locations and expand its existing facilities. Professional fees increased by $393,000 to $1,172,000 in 2001 as compared to $779,000 in 2000. The increase in professional fees was due to legal and accounting fees incurred primarily in connection with lawsuits settled in 2001 and legal and accounting costs incurred in connection with opening new locations during the year. Travel and related expenses increased by $197,000 whereas telephone and

utilities increased by $189,000. Other general and administrative expenses increased due to the company opening additional locations and expenses related to increase in sales volume.

Selling expenses increased by $1,680,000 or 306% to $2,229,000 in 2001 as compared to $549,000 during the year 2000. Of this, $330,000 was increases in promotional expenses incurred in connection with the Company promoting its private label cards during the year 2001. The commission expense increased by $892,000 as the Company hired commissioned salespersons in 2001 to promote its sales. Advertising costs increased by $658,000 to $817,000 in 2001 from $159,000 in 2000 as the company increased the sales of its private label cards and sales over the Internet. Trade shows expense was reduced by $138,000 as a result of negotiated packages, and cost of printing of trade publications were reduced by $63,000 as the company utilized its in-house facilities in designing these publications.

Provision for bad and doubtful debts increased by $287,000 to $885,000 in 2001 as compared to $598,000 in 2000 an increase of 48% over prior year. This increase is nominal compared to the 148% increase in sales.

Other Expenses decreased by $470,000 to $320,000 in 2001, as compared to $790,000 during the year 2000. Included in other expenses is a one-time charge for amount payable to an ex-vendor in connection with a litigation settlement in the amount of $203,000.

We had net earnings of $656,000 for 2001 as compared to net loss of $3,444,000 for the year ended December 31, 2000.

CAPITAL RESOURCES AND LIQUIDITY

At December 31, 2002, we had total current assets of approximately $47,828,000. This included $7,527,000 in cash, $1,021,000 in restricted cash, $18,041,000 of inventory and $19,675,000 of accounts receivable. Our cash balances vary significantly from day-to-day due the large volume of purchases and sales we make from the various prepaid phone card companies and the numerous distributors to whom we sell cards. Although we had current liabilities of $57,661,000 at

December 31, 2002, we believe that continued support from our trade creditors will provide us with adequate liquidity to fund our operations.

We provided $5,108,000 in cash from operating activities during the year ended December 31, 2002 as compared to $3,485,000 during the same period in 2001. Increases in cash flows during the year ended December 31, 2002 are related to an increase in accounts payable by $22,643,000, offset by increase in accounts receivables and inventories. Our decrease in working capital is attributable to our net loss from operations and to a lesser extent to our opening of new offices, which involve carrying of additional inventories and accounts receivable. We believe our working capital shortfalls will decline once these offices are established and profitable.

Investing activities used $1,266,000 during the year ended December 31, 2002 to acquire additional fixed assets and acquisition of business of a distributor in Virginia. Financing activities used $651,000 during the year ended December 31, 2002 to pay down notes payable and principal on debt obligations.

We believe that existing cash and cash equivalents, cash flow from operations and available vendor credit, including recently negotiated more favorable payment terms will be sufficient to meet its

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planned working capital and capital expenditure budget through the year 2003. However, circumstances could arise which would require the payment to our vendors sooner than we currently expect. We are largely dependent upon the credit granted to us by our vendors. In the event sufficient vendor credit is not available to us we would require other sources of financing. If we are required to seek other financing, there can be no assurance that we will be able to obtain such financing on commercially reasonable terms, or otherwise, or that we will be able to otherwise satisfy our short-term cash flow needs from other sources in the future which would have a material adverse effect on our operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

We are continuously renegotiating credit terms with our telephone card suppliers. The favorable changes in terms from our vendors has eliminated the temporary cash crunches that have occurred in the past, due to the restrictive credit terms previously made available to us from the telecommunications companies we buy branded cards from, as compared to the credit terms we make available to our customers. The Company believes its relationships with its vendors are satisfactory, however, the Company's creditors currently have the right to modify credit terms.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. The Company's significant accounting policies are summarized in Note A of its financial statements. While all these significant accounting policies impact its financial condition and results of operations, the Company views certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on the Company's financial statements and require management to use a greater degree of judgment and/or estimates. Actual results may differ from those estimates.

The Company believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on the Company's consolidated results of operations, financial position or liquidity for the periods presented in this report.

The accounting policies identified as critical are as follows:

REVENUE RECOGNITION. The Company recognizes revenues in accordance with generally accepted accounting principles as outlined in SAB No. 101 which requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) product delivery, including customer acceptance, has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collectibility is reasonably assured. The Company believes that its revenue recognition policy is critical because revenue is a very significant component of its results of operations. Decisions relative to criteria (4) regarding collectibility are based upon management judgments and should conditions change in the future and cause management to determine these criteria are not met; the Company's recognized results may be affected.

INCOME TAXES. In preparing the Company's consolidated financial statements, income tax expense is calculated for each of the jurisdictions in which the Company operates. This process involves estimating actual current taxes due plus assessing temporary differences arising from differing treatment for tax and accounting purposes which are recorded as deferred tax assets and liabilities. Deferred tax assets are periodically evaluated to determine their recoverability and where their recovery is not likely, a valuation allowance is established and a corresponding additional tax expense is recorded

in the Company's statement of operations. In the event that actual results differ from the Company's estimates given changes in assumptions, the provision for income taxes could be materially impacted. As of December 31, 2002, the company had a deferred tax asset of approximately $4,059,000 and a full valuation allowance due to uncertainty surrounding the company's ability to realize its deferred tax asset.

INVENTORIES. Inventories, which are composed of prepaid calling cards, are valued at the lower of cost (first in, first out) or market. On a periodic basis, we compare the amount of inventory on hand and under commitment with our latest forecasted requirements to determine whether write-downs for excess or obsolete inventory are required. Although we consider the amounts on hand at quarter-end to be realizable, there can be no assurance that these amounts will prove to be realizable over time.

GOODWILL AND OTHER INTANGIBLES. Purchase accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market value of the assets and liabilities purchased, with the excess value, if any, being classified as goodwill. In addition, as described in Notes A of the Company's financial statements, as a result of the Company's acquisitions, values were assigned to intangible assets for customer lists and related relationships. Finite useful lives were assigned to these intangibles and they will be amortized over their remaining life. As with any intangible asset, future write-downs may be required if the value of these assets become impaired.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors collections and payments

from customers and a provision for estimated credit losses is maintained based upon its historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. Concentration risk exists relative to the Company's accounts receivable, as 25.2% of the Company's total accounts receivable balance at December 31, 2002 is concentrated in one affiliated customer. While the accounts receivable related to this customer may be significant, the Company does not believe the credit loss risk to be significant given the consistent payment history by this customer.

RECENT ACCOUNTING PRONOUNCEMENTS.

In June 2001, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Intangible Assets". Major provisions of these Statements are as follows: all business combinations initiated after June 30, 2001 must use the purchase method of accounting; the pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001; intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability; goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually using a fair value approach, except in certain

circumstances, and whenever there is an impairment indicator; other intangible assets will continue to be valued and amortized over their estimated lives; all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting; effective January 1, 2002, existing goodwill will no longer be subject to amortization. The adoption of SFAS No. 142 in January 2002 did not have a material impact on our operating results or financial condition.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The adoption of SFAS No. 144 in January 2002 did not have a material impact on our operating results or financial condition.

In July 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This Statement amends FASB No. 13,

Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. We have not yet determined the effect that the provisions of SFAS No. 145 would have on our operating results or financial position, if any.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts to be recognized.

In November 2002, the EITF reached a consensus on Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables". The EITF concluded that revenue arrangements with multiple elements should be divided into separate units of accounting if the deliverables in the arrangement have value to the customer on a standalone basis, if there is objective and reliable evidence of the fair value of the undelivered elements, and as long as there are no rights of return or additional performance guarantees by us. The provisions of EITF Issue No. 00-21 are applicable to agreements entered into in fiscal periods beginning after June 15, 2003. We are currently determining

what effect, if any, the provisions of EITF Issue No. 00-21 will have on our operating results or financial condition.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The recognition and measurement provisions will be applied to guarantees issued or modified after December 31, 2002. We have not determined the impact of FIN 45 on our operating results or financial condition.

In January 2003, the FASB issued FASB Interpretation No.46 "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No.46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal

year on interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has not adopted FIN No.46 for the year ended December 31, 2002 and has not completed its analysis of the effects of adopting FIN No. 46.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No. 123." This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have not yet determined the effect that the transition provisions of SFAS No. 148 would have on our operating results or financial position, if any.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

9278 Communications, Inc. and Subsidiaries

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders of
9278 COMMUNICATIONS, INC.

We have audited the accompanying consolidated balance sheets of 9278 Communications, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 9278 Communications, Inc. and Subsidiaries as of December 31, 2002, and the consolidated results of their operations and their consolidated cash flows for the years 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 A, the Company incurred a net loss of $5,970,000 during the year ended December 31, 2002 and its current liabilities exceeded its current assets as of December 31, 2002. These factors, among others, raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited Schedule II - Valuation and Qualifying Accounts for the year ended December 31, 2002. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

Grant Thornton LLP
New York, New York
April 11, 2003

(LETTERHEAD OF FRIEDMAN ALPREN & GREEN LLP)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
9278 Communications Inc.

We have audited the accompanying consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2000 of 9278 Communications, Inc. and Subsidiaries. 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 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 consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of 9278 Communications, Inc. and Subsidiaries for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

New York, New York
March 23, 2001

9278 Communications, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	$ 7,527,098	$ 4,335,936
Restricted cash	1,020,809	1,051,215
Accounts receivable, net of allowance of $760,000 in 2002 and $760,000 in 2001	14,711,918	13,058,773
Accounts receivable - related party	4,963,508	1,315,011
Inventories	18,041,063	12,969,347
Prepaid expenses and other current assets	32,622	149,044
Total current assets	46,297,018	32,879,326
PROPERTY AND EQUIPMENT, NET	1,801,798	1,306,884
NOTE RECEIVABLE-STRATEGIC PARTNER	1,530,975	
GOODWILL	3,624,071	3,624,071
OTHER ASSETS	690,831	158,187
	$53,944,693	$37,968,468

The accompanying notes are an integral part of these statements.

9278 Communications, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

LIABILITIES AND SHAREHOLDERS' EQUITY	2002
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$57,510,096
Accounts payable - related party	41,752
Current maturities of notes and advances payable, Shareholder	-
Current maturities of capital lease obligations	44,934
Current maturities of convertible notes payable	50,020
Income taxes payable	14,145

Total current liabilities	57,660,947
CAPITAL LEASE OBLIGATIONS, less current maturities	41,051
CONVERTIBLE NOTES PAYABLE, less current maturities	90,126
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Common stock - $.001 par value; 40,000,000 shares authorized; 23,932,912 and 22,932,912 shares issued and outstanding in 2002 and 2001, respectively	23,933
Capital in excess of par value	8,247,458
Accumulated deficit	(12,118,822)
	(3,847,431)
	$53,944,693

The accompanying notes are an integral part of these statements.

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9278 Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,

	2002	2001
Net sales	$246,979,717	$200,177,380
Cost of sales	233,800,151	189,212,225
Gross profit	13,179,566	10,965,155
Operating expenses		
Selling	7,575,872	2,228,816
General and administrative	10,774,408	6,809,862
Provision for bad debts	790,402	885,282

	19,140,682	9,923,960
Operating profit (loss)	(5,961,116)	1,041,195
Other expense		
Interest expense	33,638	116,821
Litigation settlement	-	203,000
Loss on disposal of assets	-	-
Unrealized loss on investment	-	-
	33,638	319,821
Earnings (loss) before income taxes	(5,994,754)	721,374
Income tax provision (benefit)	(24,949)	65,400
NET EARNINGS (LOSS)	$ (5,969,805)	$ 655,974
Earnings (loss) per common share		
Basic and diluted	$(0.25)	$0.03
Weighted-average shares		
Basic and diluted	23,932,912	24,500,881

The accompanying notes are an integral part of these statements.

9278 Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

Years ended December 31, 2002, 2001 and 2000

	Convertible preferred stock		Common stock		Addit pai cap
	Shares	Amount	Shares	Amount	
Balance January 1, 2000	1,500	$1,500,000	19,659,629	$19,659	$2,36
Conversion of preferred stock to common stock	(995)	(995,000)	873,340	873	99

Issuance of common stock through private placement			529,000	529	99
Issuance of common stock to officer in exchange for advances payable			250,000	250	49
Issuance of common stock for services rendered			855,000	855	92
Issuance of common stock upon acquisition of Reliable Networks, Inc.			1,000,000	1,000	1,96
Net loss					
	-------	----------	----------	-------	-----
Balance at December 31, 2000	505	505,000	23,166,969	23,166	7,74
Conversion of preferred stock to common stock	(505)	(505,000)	776,013	777	50
Repurchase and retirement of common stock			(1,010,070)	(1,010)	
Net income					
	-------	----------	----------	-------	-----
Balance at December 31, 2001	-	-	22,932,912	22,933	8,24
Issuance of common stock in connection with acquisition of Reliable Networks, Inc.			1,000,000	1,000	(
Net loss					
	-------	----------	----------	-------	-----
BALANCE AT DECEMBER 31, 2002	-	$ -	23,932,912	$23,933	$8,24
	=======	==========	==========	=======	=====

The accompanying notes are an integral part of these statements.

9278 Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2002	2001
Cash flows from operating activities		
Net income (loss)	$(5,969,805)	$ 655,974
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, net of assets acquired and liabilities assumed		
Depreciation and amortization	392,612	511,175
Provision for doubtful accounts	790,403	885,282
Issuance of common stock for services rendered	-	-

Unrealized loss on investments	-	-
Loss on sale of equipment	-	-
Changes in assets and liabilities, net of acquisitions		
Restricted cash	30,406	(1,051,215)
Accounts receivable	(2,443,546)	(8,015,461)
Accounts receivable - related party	(3,648,497)	(250,868)
Inventories	(4,832,365)	(9,319,292)
Prepaid expenses and other current assets	116,421	(149,044)
Other assets	(393,624)	(18,149)
Accounts payable and accrued expenses	22,919,795	20,110,295
Accounts payable - related party	(277,198)	91,006
Income taxes payable	(45,105)	34,995
Net cash provided by operating activities	6,639,497	3,484,698
Cash flows from investing activities		
Acquisition of property and equipment	(877,547)	(878,969)
Note receivable, Strategic Partner	(1,530,975)	
Acquisition of businesses	(388,351)	(207,742)
Disposition of marketable securities	-	20,962
Net cash used in investing activities	(2,796,873)	(1,065,749)
Cash flows from financing activities		
Notes and advances payable, shareholder, net	(570,100)	(2,334,836)
Principal payments on capital lease obligations	(45,538)	(38,771)
Proceeds from convertible notes payable	-	203,000
Principal payments on convertible notes payable	(35,824)	(27,030)
Repurchase and retirement of common stock	-	(27)
Issuance of common stock	-	-
Net cash provided by (used in) financing activities	(651,462)	(2,197,664)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,191,162	221,285
Cash and cash equivalents, beginning of year	4,335,936	4,114,651
Cash and cash equivalents, end of year	$ 7,527,098	$ 4,335,936

9278 Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Year ended December 31,

	2002	2001
Supplemental disclosures of cash flow information:		
Cash paid during the year for		
Interest	$ 55,694	$ 122,742
Income taxes	(24,949)	30,405
Noncash investing and financing activities:		
Equipment acquired under capital leases		$ 19,200
Conversion of notes and advances payable, shareholder for common stock		
Conversion of preferred stock to common stock		505,000
Notes issued for accrued dividends		
Issuance of common stock for net noncash assets received in merger		
Additional paid-in capital arising from contribution of treasury shares		
Acquisition of Reliable Networks, Inc.		
Net assets acquired		
Goodwill		
Less		
Common stock issued		
Contingent consideration - common stock		
Promissory notes payable		
Cash paid		

The accompanying notes are an integral part of these statements.

9278 Communications, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002, 2001 and 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company distributes prepaid telephone calling cards to distributors and

retail establishments through its various sales locations throughout the United States.

In addition, the Company markets certain prepaid calling cards directly to consumers via its internet website, 9278.Com. Sales via the internet were $19,327,000, $6,649,000 and $0 for the years ended December 31, 2002, 2001 and 2000 respectively.

9278 Communications, Inc. is the successor-consolidated entity formed by the merger, on December 10, 1999, of 9278 Distributor Inc. (the "Company") and iLink Telecom, Inc. ("iLink"). iLink was originally incorporated in Colorado on December 10, 1997 and was reincorporated in Nevada on July 14, 1998. Concurrent with the merger, iLink, a publicly held company and the legally surviving parent company, changed its name to 9278 Communications, Inc. This event has been given retroactive treatment in these financial statements. The Company was incorporated in New York on April 17, 1997 and reincorporated in Delaware on April 3, 2000. This reincorporation had no impact on the Company's authorized stock.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company sustained substantial losses from operations and its current liabilities exceeded its current assets by approximately $11,364,000 as of December 31, 2002. The company is largely dependent upon the extension of credit from its vendors, in particular on credit granted by a significant supplier. These factors raise substantial doubt about the Company's ability to continue as a going concern.

In the event sufficient vendor credit is no longer available, the Company would be required to seek other financing, however there can be no assurance that the Company will be able to obtain such financing on commercially reasonable terms, or otherwise or that the Company would be able to satisfy short-term cash flow needs. The Company is continuously renegotiating credit terms with its suppliers and, to date, has received favorable terms. The Company believes its relationships with its vendors are satisfactory; however, the Company's creditors currently have the right to modify credit terms.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. Principles of Consolidation

   The accompanying consolidated financial statements include the accounts of 9278 Communications, Inc. and its wholly-owned subsidiaries, 9278 Distributors, Inc., 9278 Dot Com, Inc., E-Store Solution, Inc., Reliable Acquisition Corp., 9278 Wireless Inc., 9278 Distributors Maryland Inc., 9278 Distributors Illinois Inc., NTSE Communications, Inc., 9278 Distributors Florida Inc., 9278 Distributors North Carolina Inc. and 9278 Distributors New Jersey Inc. (hereinafter, the

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

"Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

2. Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly liquid investments with an original maturity of three months or less.

3. Inventories

Inventories, which consist of prepaid telephone cards, are stated at the lower of cost (first-in, first-out) or market.

4. Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for, using straight-line and accelerated methods, in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leased property under capital leases is amortized over the shorter of the service lives of the assets or the term of the lease. Repairs and maintenance are charged to operations as incurred.

5. Goodwill

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. In accordance with the guidelines of this accounting principle, goodwill and indefinite-lived intangible assets are no longer amortized but will be assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following table presents a reconciliation of net income and earnings-per-share amounts, as reported in the financial statements, to those amounts adjusted for goodwill and intangible asset amortization determined in accordance with the provisions of SFAS 142.

	2002	2001	2000
Reported net income (loss)	$(5,969,805)	$655,974	$(3,444,426)
Add back: goodwill amortization	-	260,000	17,000

Adjusted net income (loss)	$(5,969,805)	$915,974	$(3,427,426)
EARNINGS (LOSS) PER SHARE (BASIC AND DILUTED):			
Reported net income (loss)	$ (0.25)	$ 0.03	$ (0.16)
Goodwill amortization	-	0.01	-
Adjusted net income (loss)	$ (0.25)	$ 0.04	$ (0.16)

Goodwill amortization, which was $260,000 and $17,000 for the years ended December 31, 2001 and 2000, respectively, ceased effective January 1, 2002. In the first quarter of 2002, pursuant to SFAS No. 142, the Company completed its reassessment of previously recognized intangible assets, and ceased amortization of indefinite-lived intangible assets.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of the business acquired and compare it to the carrying value, including goodwill, of such business. If the fair value exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step.

The Company completed the initial step of impairment testing during the first quarter which indicated that no goodwill impairment existed as of January 1, 2002. The Company determined the fair value of business acquired for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. Based on that analysis, no impairment was recognized.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company performed its annual impairment test as of the beginning of the fourth quarter of 2002. The Company determined the fair value of the business acquired for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. Based on comparing this discounted cash flow model to the carrying value of the reporting units, no impairment was recognized in the consolidated statement of

operations for the year ended December 31, 2002. On an ongoing basis, the Company expects to perform its annual impairment test during the fourth quarter absent any impairment indicators.

6. Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be fully recoverable. If an impairment indicator is present, the Company evaluates recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows that the Company expects to generate from these assets. If the assets are impaired, the Company recognizes an impairment charge equal to the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying values or fair values, less estimated costs of disposal.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 143 ("SFAS No. 143"), "Accounting for Asset Retirement Obligations," which is effective for years beginning after June 15, 2002. SFAS No. 143 addresses legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal operation of a long-lived asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Any associated asset retirement costs are to be capitalized as part of the carrying amount of the long-lived asset and expensed over the life of the asset. The Company has elected to adopt SFAS No. 143 for the year beginning January 1, 2002.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 clarifies accounting and reporting for assets held for sale, scheduled for abandonment or other disposal, and recognition of impairment loss related to the carrying value of long-lived assets. The Company has elected to adopt SFAS No. 144 for the year beginning January 1, 2002.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting of Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences

attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

8. Earnings (Loss) Per Share

Basic earnings (loss) per share are determined by dividing the Company's net earnings (loss) by the weighted-average shares outstanding. Diluted earnings per share include the dilutive effects of outstanding stock option and warrants. Excluded from the calculation of diluted earnings per share are 210,000, 235,000 and 23,000 options and warrants to purchase the Company's common stock in 2001, 2000 and 1999, respectively, as their inclusion would have been antidilutive.

9. Stock-Based Compensation Plans

The Company maintains two stock option plans, as more fully described in Note J to the consolidated financial statements, which are accounted for using the "intrinsic value" method pursuant to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and, accordingly, recognizes no compensation expense. Therefore, the Company has elected the disclosure provisions only of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

Pro Forma earnings (loss) and earnings (loss) per share are not presented as the pro forma information is not materially different from the Company's reported results.

10. Revenue Recognition

Revenue is recognized from sales when products are shipped and title passes to the customer. Sales incentives in the form of free products given to the Company's distributors are classified as a reduction of revenues.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Advertising

Advertising costs are expensed as incurred and totaled $3,517,000, $817,000 and $159,000 in 2002, 2001 and 2000, respectively.

12. Shipping and Handling Fees and Costs

The Company includes fees billed to a customer relating to shipping and handling costs in net sales. All shipping and handling expenses incurred by the Company are included in cost of sales.

13. Uses of Estimates and Fair Value of Financial Instruments

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management of the Company believes that the fair value of financial instruments, consisting of cash, accounts receivable and debt, approximates carrying value due to the immediate or short-term maturity associated with its cash and accounts receivable and the interest rates associated with its debt.

14. Accounts Receivable

Accounts receivable are due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payment subsequently received on such receivables are credited to the allowance for doubtful debts.

15. Reclassifications

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

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Recently Issued accounting pronouncements.

In June 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No.146 nullifies Emerging Issues Task Force Issue No. 94-3 and requires that a liability for a cost associated with and exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement

of the liability. SFAS No.146 is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of the adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No.148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No.123." SFAS No.148 amends SFAS No.123,"Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No.25 and related interpretations as provided for under SFAS No.148. Accordingly, compensation expense is only recognized when the market value of the Company's stock at the date of the grant exceeds the amount an employee must pay to acquire the stock. 2003. The adoption of SFAS No.148 did not have material impact on the Company's financial position or results of operations.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2002, the FASB issued FASB Interpretation No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No.45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN No. 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN No.45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual period ending December 15, 2002. The adoption of the disclosure requirements of FIN No. 45 did not have a material impact on the Company's financial position or results of operations. The Company is currently evaluating the effects of the recognition provision of FIN No. 45, but does not expect the adoption to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No.46 "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to

support its activities. A variable interest entity often holds financial assets, including loans or receivables real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No.46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year on interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has not adopted FIN No.46 for the year ended December 31, 2002, however the Company has provided for the required disclosures required by FIN No. 46 (see Note F). The Company has not completed its analysis of the effects of adopting FIN No. 46.

NOTE B - ACQUISITIONS

On August 31, 2002, the Company acquired certain assets of one of its distributors in an asset purchase transaction, wherein it acquired inventories and customer lists of the distributor. The Company paid $149,000 in excess of the tangible assets, which has been allocated to the estimated value of acquired customer lists. The assets acquired were recorded at estimated fair market value. The consolidated statements of operations include the results of this acquisition beginning September 1, 2002.

A summary of the transactions is as follows:

Assets purchased	
Inventory purchased	239,351
Customer lists	149,000
Net assets acquired	$ 388,351
Cash paid	$ 388,351

Pro forma results of operations are not presented, as they are not material to the historical results presented herein.

On January 23, 2001, the Company acquired certain assets of two of its distributors in an asset purchase transaction, wherein it acquired accounts receivable, inventories, fixed assets and customer lists of the distributors, net of accounts payable. The Company paid $100,000 in excess of its net assets for the customer lists. The assets acquired and liabilities assumed were recorded at estimated fair values. The consolidated statements of operations include the results of this acquisition beginning January 23, 2001. A summary of the transactions is as follows:

Assets purchased	
Accounts receivable	$ 147,904
Inventories	68,015
Other assets	5,500
Customer lists	100,000
	321,419
Liabilities assumed	
Accounts payable	(113,677)
Net assets acquired	$ 207,742
Cash paid	$ 207,742

Pro forma results of operations are not presented, as they are not material to the historical results presented herein.

NOTE C- INVESTMENTS AND OTHER TRANSACTIONS

On September 1, 2000, the Company entered into an agreement with Rapid Release Research, LLC ("Rapid Release"), a company that is in the business of providing services for management consulting, business advisory, shareholder information and public relations (the "Consulting Agreement"). Rapid Release was to be used to inform the public of the potential investment merit of the Company and its securities, thereby increasing investor recognition and market liquidity and improving shareholder value, and to assist the Company in acquisitions, mergers and other financial transactions. This agreement was for a period of four years. The Company issued Rapid Release 800,000 shares of its common stock and has recognized the expense from this agreement based on the market value of the stock of the Company at the date of issue, which was $875,040, in the year ended December 31, 2000.

On January 29, 2001, the Company acquired, for a nominal amount, a 27% equity interest in DMS Acquisition Corp., (a Delaware corporation) as an

inducement to enter into a long-term distribution agreement with DMS Acquisition Corp. DMS Acquisition Corp. is a facility-based carrier of long-distance telephone service. On February 8, 2001, DMS Acquisition Corp. was a party to a triangular merger with Capital One Ventures Corp. (an OTC publicly traded company) with Capital One Ventures Corp. as the surviving entity. DMS Acquisition Corp. became a wholly-owned subsidiary of Capital One Ventures Corp. Simultaneous with the merger, Capital One Ventures Corp. changed the corporate name to Cirus Telecom, Inc. ("Cirus"). As a result of the merger, the Company's equity interest of 10,800,000 shares of Cirus was diluted to 18%. The Company's investment in Cirus was restricted and subject to other conditions pursuant to the distribution agreement. The investment in Cirus is accounted for at cost and is not material to the Company's financial position. On September 26, 2001, under the terms of the Consulting Agreement between Rapid Release and the Company, Rapid Release returned to the Company 800,000 shares of the Company's common stock in exchange for 600,000 shares of Cirus stock held by the Company. As additional consideration, the two parties mutually agreed to declare the Consulting Agreement as null and void. The Company also delivered 60,000 shares of Cirus stock to a consulting firm, for its services in negotiating this settlement agreement. The Company has recorded no gain or loss from this transaction.

On September 26, 2001, the Company transferred the balance of 10,140,000 shares of Cirus stock back to Cirus in exchange for (i) Cirus' consent to the September 26, 2001 transaction between the Company and Rapid Release; (ii) 210,070 shares of the Company's common stock held by certain shareholders of Cirus; and (iii) an unconditional release from the Distribution Agreement dated February 6, 2001, signed between Cirus and the Company, from the day of its inception.

On September 30, 2001, the Company retired 1,010,070 shares of its common stock it received from the above settlements.

NOTE D- PREFERRED STOCK

During the year ended December 31, 2001, the Company converted 505 shares of Class B, $.001 par value convertible preferred stock into 776,013 shares of common stock.

NOTE E- RESTRICTED CASH

Restricted cash consists of the following:

	DECEMBER 31, 2002	DECEMBER 2
Amounts invested in certificate of deposit, which is pledged as collateral for a letter of credit issued by		

the bank	$1,020,809	$1,000,0
Amounts invested in certificate of deposit, held by bank as collateral fee deposited funds returned for insufficient funds by customer bank	-	$51,2
	$1,020,809	$1,051,2

NOTE F - NOTE RECEIVABLE - STRATEGIC PARTNER

On December 1, 2002, the Company entered into an agreement with a newly established telecommunications carrier ("Telecom") whereby the Company agreed to advance up to $3 million to establish a switching platform (the "platform") to provide telecommunication services in exchange for certain preferential rights to the said services. Such advances are evidenced by a promissory note which bears interest at 10% and is collateralized by all current and future assets of Telecom. The Company further agreed to utilize a minimum of $10 million of these services during the year ended December 31, 2003.

In the event that Telecom is not successful in establishing the platform or does not provide the aforementioned services to the Company in terms of the agreement, they will be required to repay all monies previously advanced to them and all equipment and infrastructure purchased with the said funds will revert to the Company.

Presently, the Company is Telecom's sole source of funds and sole customer. As a result, the operations of Telecom may be required to be consolidated with those of the Company in terms of FASB Interpretation No.46, "Consolidation of Variable Interest Entities". As of April 11, 2003, the Company had advanced approximately $3.9 million to Telecom. In addition, as of April 11, 2003, the Company had outstanding billings from Telecom for services aggregating approximately $3.9 million.

NOTE G- PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	Estimated useful life (years)	2002	2001
Furniture and equipment	5 - 7	$ 698,345	$ 483,164
Automobiles	5 - 7	270,064	224,566
Computer equipment	5	1,269,182	731,685
Leasehold improvements	3 - 8	325,100	245,729

	2,562,691	1,685,144
Less accumulated depreciation and amortization	760,893	378,260
	$1,801,798	$1,306,884

Depreciation and amortization expense for property and equipment for the years ended December 31, 2002, 2001 and 2000 was approximately $383,000, $242,000 and $115,000, respectively.

Property and equipment under capital leases totaled approximately $215,440 and $215,440 and accumulated amortization on such property and equipment aggregated approximately $92,149 and $61,185 at December 31, 2002 and 2001, respectively.

NOTE H - NOTES PAYABLE - SHAREHOLDER

On December 10, 1999, the Company declared $3,000,000 in dividends, of which $1,000,000 was paid. On December 13, 1999, the Company executed a promissory note for $2,000,000 for the declared but unpaid dividends, payable to the Company's chief executive officer, who is also a shareholder. A principal payment of $1,000,000 was originally due on June 13, 2000, and the second payment originally payable on December 13, 2001. On March 22, 2001, the Company amended the terms of these promissory notes to defer both payments to March 31, 2002 and December 31, 2002, respectively. The final payment is accelerated if the Company's gross revenue exceeds $10 million in each of any six consecutive calendar months or exceeds $60 million in any six-month period. During the year-ended December 31, 2002, the Company paid the remaining principal payments aggregating $570,000. Interest was payable at a rate of 8%. Interest expense on this note was $12,017 and $90,100 for the years ended December 31, 2002 and 2001, respectively.

NOTE I- INCOME TAXES

The provision (benefit) for income taxes is summarized as follows:

	2002	2001	2000
Current			
Federal	$ -	$31,400	$ -
State	(24,949)	34,000	25,404
	(24,949)	65,400	25,404
Deferred	-	-	-
	$(24,949)	$ 65,400	$25,404

The actual income tax expense (benefit) differs from the Federal statutory rate as follows:

	2002		2001		20
	Amount	%	Amount	%	Amount
Federal statutory rate	$(2,038,000)	(34.0)%	$ 245,000	34.0%	$(1,171,00
State income taxes, net of Federal income tax benefit	(24,949)	0.4	22,044	2.0	25,40
Utilization of net operating loss carry forwards	-		(201,644)	(31.0)	
Valuation allowance	2,038,000	34.0			1,171,00
	$ (24,949)	0.0%	$ 65,400	5.0%	$ 25,40

9278 Communications, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002, 2001 and 2000

NOTE I - INCOME TAXES (CONTINUED)

The tax effects of temporary differences which give rise to deferred tax assets at December 31, 2002 and 2001 are summarized as follows:

	2002	2001
Deferred tax assets		
Allowance for doubtful accounts	$ 342,000	$ 342,000
Accrued compensation	160,000	213,750
Net operating loss carry forwards	3,475,000	576,000
Federal AMT credit	-	14,400
Gross deferred tax assets	3,997,000	1,146,150
Valuation allowance	(3,997,000)	(1,146,150)
Net deferred tax asset	$ -	$ -

At December 31, 2002, the Company has net operating loss carry forwards for Federal income tax purposes aggregating approximately $7,722,000 expiring through 2022.

The tax loss carry forwards of the Company and its subsidiaries may be subject to limitation by Section 382 of the Internal Revenue Code with respect to the amount utilizable each year. This limitation reduces the Company's ability to utilize net operating loss carry forwards included above each year. The amount of the limitation has not been quantified by the Company.

NOTE J - STOCK OPTION PLANS AND WARRANTS

The Company established a nonqualified stock option plan pursuant to which options to acquire a maximum of 500,000 shares of the Company's common stock were exercisable (the "1993 Plan"). Under the terms of the Plan, the options, which expire ten years after grant, are exercisable at prices equal to the fair market value of the common stock at the date of the grant and become exercisable in accordance with terms established at the time of the grant. At December 31, 2002, there were 477,000 shares available for grant under the 1993 Plan.

In March 2001, the Company adopted, subject to shareholder approval, its 2001 Stock Option Plan (the "2001 Plan") and reserved 5,000,000 shares of common stock there under. Options are nonqualified and are granted at a price equal to the fair market value of the Company's common stock at the date of grant. At December 31, 2002, all 5,000,000 shares were available for grant under the 2001 Plan.

On June 13, 2000, in consideration for an officer's agreement to amend the repayment terms of a $2,000,000 promissory note, the Company issued a ten-year nonqualified warrant to purchase 200,000

NOTE J - STOCK OPTION PLANS AND WARRANTS (CONTINUED)

shares of the Company's common stock at an exercise price of $1.625 per share (which represented the fair market value of the underlying common stock at the time of grant). The warrant, which vested immediately, is exercisable through June 2010 (Note H).

On June 1, 2000, pursuant to an employment agreement between the Company and an officer, the Company issued nonqualified options to purchase 10,000 shares of common stock, at an exercise price of $4.00 per share. The options vested 100% upon grant and are exercisable for three years from the date of grant.

On March 15, 2000, the Company issued ten-year nonqualified options to purchase 25,000 shares of common stock, at an exercise price of $4.00 per share to a director of the Company. The options vested as to 50% of the

underlying shares on September 15, 2000 and the balance vested on March 15, 2001.

The following is a summary of activity with respect to stock options and warrants:

	Shares	Price per share
Outstanding at January 1, 2000	23,000	$5.25
Granted	235,000	1.63 to 4.00
Expired	(23,000)	5.25
Outstanding at December 31, 2000	235,000	1.63 to 4.00
Forfeited	(25,000)	4.00
Outstanding at December 31, 2001	210,000	1.63 to 4.00
Balance exercisable at December 31, 2002	210,000	1.63 to 4.00

The following table summarizes significant ranges of outstanding and exercisable options and warrants at December 31, 2002:

	Options and warrants outstanding			Options and warra
Ranges of exercise prices	Shares	Weighted-average remaining life in years	Weighted-average exercise price	Shares
$1.63	200,000	7.45	$1.63	200,000
$4.00	10,000	0.42	4.00	10,000

NOTE J - STOCK OPTION PLANS AND WARRANTS (CONTINUED)

The weighted-average fair value on the grant date was $1.96 for options and

warrants issued during the year ended December 31, 2000. No options or warrants were granted during the year ended December 31, 2002 and 2001.

NOTE K - RELATED PARTY TRANSACTIONS

Sales of inventory to a customer who is related to an officer of the Company were approximately $29,032,000 and $21,125,000 and $4,390,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The Company also purchased inventory from this customer in the amount of $4,058,000, $11,151,000 and $6,323,000 during the years ended December 31, 2002, 2001 and 2000, respectively. Sales to this related party represented 12%, 11% and 12% of total sales during the years ended December 31, 2002, 2001 and 2000, respectively. No other single customer represented greater than 10% of total sales during each of the three years in the period ended December 31, 2002.

NOTE L - CONCENTRATIONS

The Company made purchases from one prepaid telephone calling card supplier which aggregated approximately 61%, 43% and 16% of total purchases during the years ended December 31, 2002, 2001 and 2000, respectively. Additionally, liabilities to this supplier aggregated approximately 70%, 59% and 31% of total accounts payable and accrued expenses at December 31, 2002, 2001 and 2000.

The Company made purchases from two separate prepaid telephone card suppliers which aggregated approximately 13% and 15% of total purchases during the years ended December 31, 2001 and 2000, respectively.

NOTE M - COMMITMENTS AND CONTINGENCIES

Litigation

For the year ended December 31, 1999, purchases from one telephone card supplier were approximately 55% of total purchases. In November 1999, the Company commenced an action against this supplier to recover damages resulting from cancellation of the telephone card purchases by the Company. The supplier subsequently countersued. In the Company's opinion, with which its legal counsel concurs, no material liability will result from the countersuit. The Company incurred a loss of $553,547, which was reflected in the fourth quarter of 1999. The Company subsequently mitigated, in substantial part, its reliance on this supplier by increasing its purchases from other vendors. On September 30, 2001, in

NOTE M - COMMITMENTS AND CONTINGENCIES (CONTINUED)

order to avoid protracted litigation and mounting legal fees, the Company decided to settle the case, wherein it agreed to pay $250,000 to the supplier over a period of four years beginning in August 2001, pursuant to a nonnegotiable, convertible promissory note (the "Convertible Note"). This amount is payable in four monthly installments of $7,500 and 44 subsequent

monthly installments of $5,000, each exclusive of interest. The Company has recorded a $203,000 charge representing the net present value of the settlement amount. The Convertible Note contains conditions, whereby, upon occurrence of an event of default, as defined, the supplier shall have the right to convert 100% of the unpaid principal balance, plus an additional $200,000 (the "Default Amount") into fully paid nonassessable shares of the Company's common stock at a conversion price equal to the greater of the fair market value of the common stock on the date of default ($0.04 at December 31, 2002) or $1.00 per share.

Aggregate annual maturities of the Convertible Note are summarized as follows:

Year ending December 31,	
2003	$ 50,020
2004	55,258
2005	34,868
	$140,146

The Company from time to time is subject to other certain legal proceedings and claims which have arisen in the ordinary course of its business. These actions when ultimately concluded will not, in the opinion of management, have a material adverse effect upon the financial position, results of operations or liquidity of the Company.

Employment Agreements

On December 10, 1999, the Company entered into a three-year employment agreement with its chief executive officer. Base salary for each of the three years will be $200,000, $225,000 and $250,000, respectively. At the end of the three-year period, the employment agreement will automatically be extended for an additional year without any action by the Company or the chief executive officer, unless there is a submitted written notice four months prior to expiration of the agreement by either party. In addition to the base salary, the Company will compensate the chief executive officer with cash bonuses and stock option grants based on the Company's economic performance.

NOTE M COMMITMENTS AND CONTINGENCIES (CONTINUED)

Employment Agreements (continued)

On March 22, 2001, in consideration for this officer's agreement to further amend the repayment terms of a $2,000,000 promissory note (Note H), the

Company amended the officer's employment agreement whereby the officer shall receive an additional bonus equal to 5% of the gross profit of the Company, as defined. Such bonus shall be paid in cash, or, at the discretion of the officer, in shares of the Company's common stock, based upon a per share price equal to 75% of fair market value of the common stock. Approximately $356,000 is payable to the officer and is included in accounts payable and accrued expenses on the consolidated balance sheet at December 31, 2002.

Lease Commitments

The Company leases its main office and sales office facilities and certain equipment pursuant to noncancellable operating and capital leases expiring through November 2008. The minimum rental commitments under these noncancellable leases, at December 31, 2001, are summarized as follows:

	Operating leases	Capitalized leases
Year ending December 31,		
2003	$ 440,178	$53,268
2004	389,754	41,449
2005	322,412	2,075
2006	309,624	
2007	322,703	
Thereafter	381,227	
	2,165,898	96,792
Less amount representing interest	-	10,807
Total minimum lease payments	$2,165,898	85,985
Less current maturities		44,934
Long-term capitalized lease obligations		$41,051

Rent expense for all operating leases was $559,569, $234,080 and $128,067 in 2002, 2001 and 2000, respectively.

NOTE N - SUBSEQUENT EVENTS

On January 31, 2003, the Company announced the execution of a Merger Agreement with NTSE Holding Corp., a corporation wholly owned by the Chairman, Chief Executive Officer and the principal stockholder, which will result in 9278 Communications becoming a privately held corporation,

owned by the Company's Chairman. Pursuant to this agreement, all of the outstanding shares of 9278 Communications will be cancelled and our existing stockholders will receive a cash payment of $0.10 per share. The transaction is subject to numerous conditions, including the approval by our public stockholders. It is expected that a stockholder's meeting to approve the transaction will be held in May, and that the closing of the transaction, if approved, will occur immediately thereafter.

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9278 Communications, Inc. and Subsidiaries

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 2002, 2001 and 2000

Column A	Column B	Column C		Co
		Additions		
		(1)	(2)	
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts - describe	Dedu de
Allowance for doubtful accounts				
Year ended December 31, 2002	$ 760,000	$ 790,402	$ -	$ 7
Year ended December 31, 2001	$ 675,000	$ 885,282	$	$ 8
Year ended December 31, 2000	$ 125,000	$ 598,474	$ -	$
Valuation allowance-Deferred tax asset				
YEAR ENDED DECEMBER 31, 2002	$ 1,146,150	$ 2,850,850	$ -	$
YEAR ENDED DECEMBER 31, 2001	$ 1,512,180	$ -	$ -	$ 3
Year ended December 31, 2000	$ -	$ 1,512,180	$ -	$

(a) Accounts receivable written off

(b) Tax benefit recognized and adjustment of net operating loss carry forward

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

PART III

ITEM 10. Directors and Executive Officers of The Registrant.

The following persons are our executive officers and directors as of the date hereof:

NAME	AGE	OFFICES HELD
Sajid Kapadia	29	Chairman, Chief Executive Officer and Director
Haris Syed	28	President, Secretary and Director
Hanif Bhagat	29	Director

SAJID KAPADIA. Mr. Kapadia has been our Chairman, Chief Executive Officer and a director of ours since December 1999. In April 1997, Mr. Kapadia founded 9278 Distributor Inc. and served as its President from inception through its merger with iLink Telecom, Inc., our predecessor. Prior to this, Mr. Kapadia was involved in several short-term telemarketing positions. Mr. Kapadia has a degree in mechanical engineering from Gandhi Engineering College in Gujarat,

India.

HARIS SYED. Mr. Syed has been our President since March 2001 and has been our Secretary and a director of ours since December 1999. Prior to being named President, he served as our Chief Operating Officer beginning June 2000. Before being appointed as our Chief Operating Officer, he was a Vice President of ours, beginning December 1999. Prior to this, from November 1996 through December 1999, he was the Vice President of TCI Telecom of NY, a telecom switching and voice over Internet protocol integrator.

HANIF BHAGAT. Mr. Bhagat has been a director of ours since March 2001. He has provided consulting services to us since January 2001. Prior to this he was a student at Dawson College in Montreal, Quebec, where he received a Bachelor of Arts degree in communications.

Board of Directors

All of our directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Our executive officers are elected annually by the Board of Directors to hold office until the first meeting of the Board following the next annual meeting of stockholders and until their successors are chosen and qualified.

Directors' Compensation

We reimburse our directors for expenses incurred in connection with attending Board meetings but we do not pay director's fees or other cash compensation for services rendered as a director.

Item 11. Executive Compensation.

Summary Compensation

Set forth below is the aggregate compensation for services rendered in all capacities to us during our fiscal years ended December 31, 2002, 2001 and 2000 by our Chief Executive Officer and each other executive officer of ours who received compensation in excess of $100,000 during such fiscal years.

SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	ANNUAL BONUS ($)
Sajid Kapadia, Chairman and Chief Executive Officer	2002	$250,000	$675,000
	2001	$200,000	$475,000
	2000	$200,000	--
Haris Syed, President	2002	$150,000	--
	2001	$150,000	--

We did not grant any stock options to the named executive officers.

EMPLOYMENT AGREEMENTS

Contract with Sajid Kapadia

On December 10, 1999, we entered into an Employment Agreement with Sajid Kapadia. Under the terms of this agreement, Mr. Kapadia will serve as our Chairman of the Board and Chief Executive Officer for an initial term of three years, which term will be automatically extended for additional one

year periods unless either party submits a notice of non-extension to the other not less than four months prior to the end of the existing term.

Pursuant to the agreement, Mr. Kapadia receives a base salary of $200,000, $225,000 and $250,000 during his first, second and third years of employment, respectively. In addition, during each year of employment Mr. Kapadia shall receive cash bonuses and stock option grants in amounts to be determined by our Board of Directors. We also lease an automobile for Mr. Kapadia's exclusive use. Mr. Kapadia is also entitled to participate in all plans adopted for the general benefit of our employees and executive employees. In March 2001, in consideration for his agreement to extend the payment terms of a promissory note which we made to him and other consideration, we amended Mr. Kapadia's employment agreement to provide that he will receive additional bonus compensation equal to five (5%) percent of our gross profit. This bonus compensation may be paid in cash, or with restricted shares of our common stock based upon a price per share 75% of the fair market value of the shares, at Mr. Kapadia's sole discretion.

The agreement with Mr. Kapadia automatically terminates upon his death. In addition, we can terminate the agreement based on Mr. Kapadia's continued disability, for due cause or without due cause. Mr. Kapadia can terminate his employment for good reason. If the agreement is terminated for death, disability, or due cause, we will pay Mr. Kapadia any unpaid base salary and bonus through the date of termination. If we terminate Mr. Kapadia's employment for any other reason, or if he terminates it for good reason, we will pay him his base salary for the remaining term of the agreement, but in no event less than 24, nor more than 35 months.

Mr. Kapadia's agreement contains standard provisions regarding confidentiality and non-competition during the term of his employment.

Compensation Plans

iLink Telecom, Inc. Non-Qualified Stock Option Plan

Effective June 1, 1999, iLink Telecom, Inc., our predecessor, adopted the iLink Telecom, Inc. Non-Qualified Stock Option Plan (the "iLink Plan"). Options granted under the iLink Plan are not intended to be incentive stock options as defined in Section 422 of the Internal Revenue Code of 1954, as amended. Our employees, directors, officers, consultants and advisors are eligible to be granted options pursuant to the iLink Plan. The exercise price of the options is determined by our Board of Directors.

Options granted pursuant to the iLink Plan terminate on the date

established by the Board of Directors when the options are granted.

The iLink Plan is administered by our Board of Directors. The Board of Directors has the authority to interpret the provisions of the iLink Plan and supervise the administration of the iLink Plan. In addition, our Board of Directors is empowered to select those persons to whom options are to be granted, to determine the number of shares subject to each grant of an option and to determine when, and upon what conditions or options granted under the iLink Plan will vest or otherwise be subject to forfeiture and cancellation.

In the discretion of our Board of Directors, any option granted pursuant to the iLink Plan may include installment exercise terms so that the option becomes fully exercisable in a series of cumulating portions. The Board of Directors may also accelerate the date upon which any options, or any part of any options, are first exercisable. In the discretion of the Board of Directors payment for shares of common stock underlying options may be paid through the delivery of shares of our common stock having an aggregate fair market value equal to the option price, provided that such shares have been owned by the option holder for at least one year prior to the exercise. A combination of cash and shares of common stock may also be permitted at the discretion of the Board of Directors. Options are generally non-transferable except upon death of the option holder.

Our Board of Directors may at any time, and from time to time, amend, terminate, or suspend the iLink Plan in any manner it deems appropriate, provided that the amendment, termination or suspension cannot adversely affect rights or obligations with respect to shares or options previously granted.

The iLink Plan is not qualified under Section 401(a) of the Internal Revenue Code, and is not subject to any provisions of the Employee Retirement Income Security Act of 1974.

The maximum number of shares of our common stock for which options may be granted under the iLink Plan is 500,000. If any option expires or is canceled without having been fully exercised we may regrant that option. Options are not exercisable after ten years after the date we grant them. Options we grant under the iLink Plan generally are not transferable and terminate upon severance of employment.

As of the date hereof, no options were outstanding under the iLink Plan.

2001 Stock Option Plan

In March 2001, we adopted our 2001 Stock Option Plan (the "2001 Plan"). The purpose of the 2001 Plan is to further our growth, development and financial success by providing additional incentives and personal interest in our company by those responsible for securing our continued growth and success.

The 2001 Plan is administered by our Board of Directors, and provides for the grant to our employees of both incentive options, intended to qualify under Section 422 of the Internal Revenue Code, and non-qualified options to purchase our common stock. The compensation committee, or Board of Directors if there is no compensation committee, will grant options subject to a vesting schedule, conditions, restrictions and other provisions.

The price of the shares subject to each option will be equal to the

fair market value of the shares on the date we grant them. However, if we grant incentive stock options to an individual owning more than 10% of the total combined voting power of all classes of our stock, the exercise price of the options will not be less than 110% of the fair market value of the underlying shares on the date of grant, as required by Section 162(m) of the Internal Revenue Code. If the aggregate fair market value of our shares with respect to which incentive stock options are exercisable by any person for the first time during any calendar year exceeds $100,000, the options will be treated as non-qualified options.

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A holder of options to purchase our common stock under the 2001 Plan may exercise the options by delivery to us of cash equal to the exercise price, or with approval of the board of directors, shares of our common stock equal to the exercise price, a promissory note equal to the exercise price, or a combination of these forms of payment.

If the outstanding shares of our common stock are changed into or exchanged for a different number or kind of shares or other securities by reason of reorganization, merger, consolidation, reclassification or combination of shares, we will make adjustments in the number and kind of shares for the purchase of which options may be granted.

The holders of options under our 2001 Plan will not be considered shareholders of ours unless and until certificates representing shares of our common stock have been issued by us to such holders.

The maximum number of shares of our common stock for which options may be granted under the 2001 Plan is 5,000,000. If any option expires or is canceled without having been fully exercised we may regrant that option. Options are not exercisable after ten years after the date we grant them. Options we grant under the 2001 Plan generally are not transferable and terminate upon severance of employment.

As of the date hereof, no options are outstanding under the 2001 Plan.

Compensation Committee Interlocks and Insider Participation

Each member of our Board of Directors participates in the determination of the level of compensation of our executive officers. Two of such directors, Sajid Kapadia and Haris Syed, are officers of ours. Hanif Bhagat, the third director is the brother-in-law of Sajid Kapadia and an employee of ours.

Limitation of Liability and Indemnification Matters

Article nine of our certificate of incorporation provides that the personal liability of our directors will be eliminated to the fullest extent permitted by the provisions of paragraph (7) of subsection (b) of ss.102 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented.

Article ten of our certificate of incorporation provides that we will, to the fullest extent permitted by the provisions of the General Corporation Law of the State of Delaware, as now or hereafter in effect, indemnify all persons whom we may indemnify under such provisions. The indemnification provided by this section shall not limit or exclude any rights, indemnities or limitations of liability to which any person may be entitled, whether as a matter of law, under our bylaws, by agreement, vote of our stockholders or disinterested

directors, or otherwise. Except as specifically required by the General Corporation Law of the State of Delaware, as the same exists or may be amended; none of our directors of will be liable to us or our stockholders for monetary damages for breach of his or her fiduciary duty as a director. No amendment to or repeal of this provision of our certificate of incorporation will apply to or have any effect on the liability or alleged liability of any director for or with respect to any acts or omissions of that director occurring prior to the amendment or repeal.

Under Section 145 of the Delaware General Corporation Law, we have the power, under certain circumstances, to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or contemplated action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of ours, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including attorneys' fees, and judgments against, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, that type of indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information as of the date hereof, based on information obtained from the persons named below, with respect to the beneficial ownership of shares of our common stock by (i) each of our directors, (ii) our named executive officer, (iii) each person known by us to be the owner of more than 5% of our outstanding shares of common stock and (iv) all executive officers and directors as a group.

Unless otherwise indicated, we believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them. A person is deemed to be the beneficial owner or securities that can be acquired by such person within 60 days from the date of this prospectus upon exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that all options, warrants or convertible securities that are held by that person, but not those held by any other person, and which are exercisable within 60 days of the date of this prospectus have been exercised and converted. This table assumes a base of 23,593,173 shares of common stock outstanding as of the date hereof, before any consideration is given to outstanding options, warrants or convertible securities.

Unless otherwise noted, the address for each of the persons listed below is: c/o 9278 Communications, Inc., 1942 Williamsbridge Road, Bronx, New York 10461.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF CLASS
Sajid Kapadia	12,465,215(1)	52.1%
Haris Syed	256,000(2)	1.0%
Hanif Bhagat	0	*
Honest Holdings Inc. 9229 Queens Blvd 17H Rego Park, NY 11374	2,000,000	8.4%
All executive officers and directors as a Group (4 persons)	12,721,215(1)(2)	53.2%

(1) Represents shares held by NTSE. Does not includes warrants to purchase 200,000 shares of our Common Stock currently held by Mr. Kapadia, which expire on June 13, 2010.

(2) Represents shares of common stock held by KAPH Groups, Inc., a company 100% owned by Mr. Syed.

* Equals a percentage less than 1% of the outstanding shares of the Company's Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In March 2001, Sajid Kapadia, an officer and director of ours, agreed to amend the repayment terms of a $2.0 million promissory note made to him by us at the time of the merger between iLink Telecom, Inc., our predecessor, and 9278 Distributor Inc., in December 1999. As amended, the terms provide for principal repayments by us of (i) $1.0 million on March 31, 2002, and (ii) $1.0 million on December 31, 2002. In consideration for his agreement to extend the payment terms of the note and other consideration, we amended Mr. Kapadia's employment agreement to provide that he will receive an annual bonus equal to five (5%) percent of our gross profit. This bonus compensation may be paid in cash, or with restricted shares of our common stock based upon a price per share 75% of the fair market value of the shares, at Mr. Kapadia's sole discretion. Mr. Kapadia had previously extended the payment terms of this promissory note, in June 2000. At that time, in consideration for his agreement to extend the repayment terms of the note, we issued him a warrant to purchase 200,000 shares of our common stock at an exercise price of $1.625 per share. The warrant vested immediately as to 100% of the shares of common stock underlying the warrant and is exercisable for ten years from the date of the grant.

In December 1999, iLink Telecom, Inc., our predecessor, agreed to purchase 9278 Distributor Inc., a company controlled by Sajid Kapadia, an officer and director of ours. Mr. Kapadia was not an officer or director of iLink. In connection with that merger, the shareholders of 9278 Distributor were issued an aggregate of 14,900,000 shares of our common stock, as well as a dividend of $3.0 million, of which $1.0 million was paid in December 1999 and the balance of $2.0 million was in the form of a two-year promissory note. Of these shares, 13,205,125 were issued to Mr. Kapadia. In addition to such

shares, Mr. Kapadia was granted proxies to vote an aggregate of 2,150,000 additional shares of our common stock.

In December 1999, we entered into a sublease agreement with Sajid Kapadia, an officer and director of ours, pursuant to which we sublease the entire premises at 1942 Williamsbridge Road, Bronx, New York as our corporate offices, at an annual rent of $63,000. The rental terms of the sublease agreement are substantially the same as the terms under which Mr. Kapadia leases the space.

ITEM 14. CONTROLS AND PROCEDURES.

Based on their evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing of this Annual Report on Form 10-K, the Chief Executive Officer and the Principal Accounting Officer have concluded that such controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect such controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report:

(1) Financial Statements. See Index to Consolidated Financial Statements in Item 8 hereof.

(2) Financial Statement Schedules.

None

(3) Exhibits.

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated December 17, 1999, among iLink Telecom, Inc., 9278 Distributors Acquisition Corp. and 9278 Distributor Inc. (3)
2.2	Agreement and Plan of Merger, dated April 24, 2000, between the Company and 9278 Communications, Inc., a Nevada corporation (5)
2.3	Agreement and Plan of Merger, dated December 8, 2000, among Reliable Networks, Inc., Nasir Ghesani, Reliable Acquisition Corp. and the Company (6)
3.1	Certificate of Incorporation of the Company (5)
3.2	Bylaws of the Company (5)

4.1	Specimen Common Stock Certificate of the Company (2)
4.2	Non-Qualified Stock Option Plan of the Company (4)
4.3	2001 Stock Option Plan of the Company (7)
4.4	Amended and Restated Promissory Note, in the Amount of $2.0 million, made by the Company to Sajid Kapadia, dated December 10, 1999 (7)

4.5	Promissory Note, in the amount of $400,000, made by the Company to Nasir Ghesani, dated December 8, 2000 (6)
4.6	Promissory Note, in the amount of $100,000, made by the Company to Nasir Ghesani, dated December 8, 2000 (6)
4.7	Promissory Note, in the amount of $500,000, made by the Company to Nasir Ghesani, dated December 8, 2000 (6)
10.1	Employment Agreement, dated December 10, 1999, between the Company and Sajid Kapadia (4)
10.2	Employment Agreement, dated December 8, 2000, between the Company, Reliable Acquisition Corp. and Nasir Ghesani (6)
10.3	Amendment, dated March 22, 2000, to Employment Agreement between the Company and Sajid Kapadia (7)
21.1	Subsidiaries of the Company (1)
99.1	Certificate of 9278 Communications, Inc. CEO pursuant to Sec 906 of the Sarbanes-Oxley Act of 2002
99.2	Certificate of 9278 Communications, Inc., CEO and Principal Accounting Officer pursuant to Sec 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed herewith

(2) Incorporated by reference from the Company's registration statement on Form SB-2 (Registration No. 333-84845)

(3) Incorporated by reference from the Company's report on Form 8-K, dated December 10, 1999

(4) Incorporated by reference from the Company's report on Form 10-KSB for the year ended December 31, 1999

(5) Incorporated by reference from the Company's report on Form 10-QSB for the three-month period ended March 31, 2000

(6) Incorporated by reference from the Company's report on Form 8-K, dated December 8, 2000

(7) Incorporated by reference from the Company's report on Form

10KSB for the year ended December 31, 2000

(b) Reports on Form 8-K. We filed the following Current Reports on Form 8-K during the fiscal year ended December 31, 2002:

None

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

9278 COMMUNICATIONS, INC.

Date: May 1, 2003

By: /s/ Sajid Kapadia

Sajid Kapadia, Chairman,
Chief Operating Officer
and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Sajid Kapadia -------------------- Sajid Kapadia	Chairman, Chief Executive Officer, (Principal Executive Officer and Director)	May 1, 2003
/s/ Haris Syed -------------------- Haris Syed	President and Director	May 1, 2003

CERTIFICATION

I, Sajid B. Kapadia, certify that:

1. I have reviewed this annual report on Form 10-K of 9278 Communications, Inc. (the "registrant");

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

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

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

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

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

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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

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

6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of my most recent evaluations, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ SAJID B. KAPADIA

SAJID B. KAPADIA
CHIEF EXECUTIVE OFFICER

I, Sajid B. Kapadia, certify that:

1. I have reviewed this annual report on Form 10-K of 9278 Communications, Inc. (the "registrant");

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

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

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

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

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

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

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

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

6. I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluations, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 1, 2003

/s/ SAJID B. KAPADIA

SAJID B. KAPADIA
CHIEF EXECUTIVE OFFICER AND PRINCIPAL
ACCOUNTING OFFICER