

NB Telecom, Inc.
Form 10-Q
November 14, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from

Commission File No. 333-134073

NB TELECOM, INC.

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

Nevada

04-3836208

(State or other jurisdiction of
incorporation or formation)

(I.R.S. employer identification
number)

106 May Drive
Saxonburg, Pennsylvania 16056
(Address of principal executive offices)

Issuer's telephone number: (724) 352-7606

Issuer's facsimile number: (315) 453-7311

No change

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

Copies to:

Richard W. Jones

Jones, Haley & Mottern, P.C.

115 Perimeter Center Place, Suite 170

Atlanta, Georgia 30346

(770) 804-0500

www.corplaw.net

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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. Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 49,632,222 shares of \$.0001 par value common stock outstanding as of September 30, 2008.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐
(Do not check if a smaller
reporting company)

Smaller reporting company
☒

INTERIM AND UNAUDITED FINANCIAL STATEMENTS INDEX

| | |
|--|------|
| PART I – FINANCIAL INFORMATION: | Page |
| Item 1. Financial Statements | 4 |
| Balance Sheet – September 30, 2008 (unaudited) December 31, 2008 | 4 |
| Statement of Operations for the three months ended September 30, 2008 (unaudited)5 and the nine Months ending September30, 2008 | |
| Statement of Cash Flows for the nine months ended September 30, 2008 (unaudited) | 7 |
| Notes to Unaudited Financial Statements | 8-16 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 17 |
| Item 3. Quantitive and Qualitative Disclosure About Market Risks | 20 |
| Item 4. Controls and Procedures | 20 |
| PART II – OTHER INFORMATION: | |
| Item 1. Legal Proceedings | 21 |
| Item 1A. Risk Factors | 21 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 21 |
| Item 3. Defaults Upon Senior Securities | 21 |
| Item 4. Submission of Matters to a Vote of Security Holders | 21 |
| Item 5. Other Information | 21 |
| Item 6. Exhibits | 22 |
| Signatures | 22 |

NB TELECOM, INC.
BALANCE SHEETS

| | (Unaudited) | |
|---|------------------|-------------------------|
| | 30-Sep 2008 | December 31, 2007 |
| CURRENT ASSETS | | |
| Cash | \$ - | \$ - |
| Commissions and Sales Receivable, Net | 5,553 | 6,820 |
| Inventory | 324 | 324 |
| Prepaid Expenses and Other Current Assets | - | 30 |
| TOTAL CURRENT ASSETS | 5,877 | 7,174 |
| FIXED ASSETS | | |
| Telephone and Office Equipment | 202,652 | 202,652 |
| Vehicle | 11,634 | 11,634 |
| Less: Accumulated Depreciation | (214,286) | (214,286) |
| Net Fixed Assets | - | - |
| TOTAL ASSETS | \$ 5,877 | \$ 7,174 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts Payable | \$ 190,588 | \$ 183,763 |
| Accrued Expenses | - | 1,186 |
| Bank Overdraft | 2,166 | 1,433 |
| Notes Payable Related Party | 119,214 | 74,080 |
| TOTAL CURRENT LIABILITIES | 311,968 | 260,462 |
| TOTAL LIABILITIES | 311,968 | 260,462 |
| STOCKHOLDERS' DEFICIT | | |
| Common Stock, .0001 par value 100,000,000 shares authorized, 49,632,222 shares issued and outstanding at June 30, 2008 and December 31, 2007 | 4,963 | 4,963 |
| Additional Paid in Capital | 501,474 | 501,474 |
| Accumulated Deficit | (812,528) | (759,725) |
| TOTAL STOCKHOLDERS' DEFICIT | (306,091) | (253,288) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 5,877 | \$ 7,174 |

The accompanying notes are an integral part of these financial statements.

NB TELECOM, INC.
STATEMENT OF OPERATIONS

| | (Unaudited) For the Three Months Ended September 30, | | (Unaudited) For the Nine Months Ended September 30, | |
|------------------------------|---|--------|--|----------|
| | 2008 | 2007 | 2008 | 2007 |
| SALES | | | | |
| Commissions | \$ - | \$ 10 | \$ - | \$ 6,080 |
| Coin Collections | 951 | 1,032 | 1,591 | 5,161 |
| Dial Around | 1,011 | 7,965 | 8,705 | 14,708 |
| Equipment Sales | - | - | - | - |
| Service and Repair Sales | 7,560 | 9,335 | 25,803 | 27,714 |
| Total Sales | 9,522 | 18,342 | 36,099 | 53,663 |
| COST OF SALES | | | | |
| Telecommunications Costs | 10,329 | 13,465 | 22,423 | 44,245 |
| Depreciation | - | - | - | 9,342 |
| Repairs and Service Supplies | - | - | 155 | - |
| Travel | - | - | 808 | - |
| Total Cost of Sales | 10,329 | 13,465 | 23,386 | 53,587 |
| Gross Profit | (807) | 4,877 | 12,713 | 76 |

The accompanying notes are an integral part of these financial statements.

NB TELECOM, INC.
STATEMENT OF OPERATIONS
(Continued)

| | (Unaudited) For the Three Months Ended September 30, | | (Unaudited) For the Nine Months Ended September 30, | |
|------------------------------------|---|-------------|--|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| OPERATING EXPENSES | | | | |
| Payroll Wages and Taxes | \$ - | \$ 4,639 | \$ 1,763 | \$ 19,792 |
| Telephone | 2,583 | (296) | 2,583 | (296) |
| Vehicle Expenses | - | - | - | 2,063 |
| Rent | - | - | 30 | 593 |
| Professional Fees | 4,475 | 15,975 | 32,241 | 43,810 |
| Office Expense | 356 | 1,596 | 1,201 | 4,233 |
| Computer Repair Expense | 92 | - | 92 | - |
| Total Operating Expenses | 7,506 | 21,914 | 37,910 | 70,195 |
| Total Operating Loss | (8,313) | (17,037) | (25,197) | (70,119) |
| OTHER INCOME (EXPENSE) | | | | |
| Gain on Sale of Equipment | - | - | - | 6,160 |
| Bad Debt Expense | - | (448) | - | (448) |
| Other Expense | - | (286) | - | (286) |
| Interest Expense | (13,805) | (5,565) | (27,606) | (17,692) |
| Total Other Income (Expense) | (13,805) | (6,299) | (27,606) | (12,266) |
| NET LOSS BEFORE TAXES | (22,118) | (23,336) | (52,803) | (82,385) |
| TAXES | - | 44 | - | 691 |
| NET LOSS | \$ (22,118) | \$ (23,380) | \$ (52,803) | \$ (83,076) |
| Net Loss per Common Share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted Common Shares Outstanding | 49,632,222 | 49,632,222 | 49,632,222 | 49,632,222 |

The accompanying notes are an integral part of these financial statements.

NB TELECOM, INC.
STATEMENT OF CASH FLOWS

(Unaudited)
For the Nine
Months Ended
September 30,
2008 2007

Cash Flows From Operating Activities:

| | | |
|--|-------------|-------------|
| Net Loss | \$ (52,803) | \$ (83,076) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Depreciation Expense | - | 9,342 |
| (Gain) Loss on Sale of Equipment | - | (6,160) |
| (Increase) Decrease in Commission Receivables | 1,267 | (11,485) |
| (Increase) Decrease in Prepaid and Other Current Assets | 30 | 202 |
| (Increase) Decrease in Inventory | - | (324) |
| Increase (Decrease) in Accounts Payable | 6,825 | 30,765 |
| Increase (Decrease) in Accrued Expenses | (1,186) | (255) |
| Increase (Decrease) in Related Party Payable | - | 12,002 |
| Net cash used in operating activities | (45,867) | (48,989) |

Cash Flows From Investing Activities:

| | | |
|---|---|-------|
| Proceeds from Sale of Equipment | - | 6,160 |
| Net cash provided by investing activities | - | 6,160 |

Cash Flows From Financing Activities:

| | | |
|---|--------|--------|
| Proceeds from Bank Overdraft | 733 | 6,625 |
| Proceeds from Related Party Notes | 45,134 | 36,204 |
| Payments on Notes Payable | - | - |
| Net cash provided by financing activities | 45,867 | 42,829 |

| | | |
|---------------------------------|---|---|
| Net Increase (Decrease) in cash | - | - |
|---------------------------------|---|---|

| | | |
|----------------------------|---|---|
| Cash - Beginning of Period | - | - |
|----------------------------|---|---|

| | | |
|----------------------|------|------|
| Cash - End of Period | \$ - | \$ - |
|----------------------|------|------|

Supplemental Disclosures of Cash Flow Information:

| | | |
|----------------------------------|-------------|-------------|
| Cash Paid During The Period For: | | |
| Interest | \$ (27,606) | \$ (17,692) |
| Income Taxes | \$ - | \$ 691 |

The accompanying notes are an integral part of these financial statements.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies

Organization

NB Telecom, Inc. (the "Company") was originally incorporated as NB Payphones Ltd. under the laws of the state of Pennsylvania on November 16, 1999. On December 27, 2005 we migrated our state of organization to the state of Nevada and effective March 23, 2006, our name changed to NB Telecom, Inc.

Nature of Business

NB Telecom, Inc. is currently a provider of both privately owned and company owned payphones (COCOT's) and stations in Pennsylvania. The Company receives revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, the Company also receives revenues from the service and repair of privately owned payphones, sales of payphone units and the sales of prepaid phone cards.

Nature of Operations and Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplates the Company as a going concern. However, the Company has a retained deficit of approximately \$813,000. The company has a current ratio of .018 for the period ended September 30, 2008 and has a deficit in stockholders' equity. The Company's ability to continue as a going concern is dependent upon obtaining the additional capital as well as additional revenue to be successful in its planned activity. The Company is actively pursuing alternative financing and has had discussions with various third parties, although no firm commitments have been obtained. In the interim, shareholders of the Company have committed to meeting its minimal operating expenses. Management believes that actions presently being taken to revise the Company's operating and financial requirements provide them with the opportunity to continue as a going concern.

These financial statements do not reflect adjustments that would be necessary if the Company were unable to continue as a "going concern". While management believes that the actions already taken or planned, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

If the Company were unable to continue as a "going concern", then substantial adjustments would be necessary to the carrying values of assets, the reported amounts of its liabilities, the reported revenues and expenses, and the balance sheet classifications used.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Interim Reporting

The unaudited financial statements as of September 30, 2008 and 2007 and for the three and nine months then ended, reflect in the opinion of management, all adjustments (which include only nominal recurring adjustments) necessary to fairly state the financial position and results of operations for the three and nine months ended. Operating results for interim periods are not necessarily indicative of the results which can be expected for full years.

Summary of Significant Accounting Policies

This summary of accounting policies for NB Telecom, Inc. is presented to assist in understanding the Company's financial statements. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principals requires management 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

The Company's payphones are located primarily in Pennsylvania and usage of those phones may be affected by economic conditions in those areas. The company has experienced about a 30% drop in revenue's, due to increased competition from other payphone providers and increase usage of wireless communications.

The Company maintains cash balances with a financial institution insured by the Federal Deposit Insurance Corporation. There are no uninsured balances at September 30, 2008 and December 31, 2007.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents for purposes of classification in the balance sheets and statement of cash flows. Cash and Cash equivalents consists of cash in bank (checking) accounts.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

Fixed Assets and Depreciation

Fixed assets are stated at cost. Depreciation is calculated on a straight-line basis over the useful lives of the related assets, which range from five to seven years.

Financial Instruments

The Company's financial assets and liabilities consist of cash, accounts receivable, inventory, and accounts payable. Except as otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values due to the short-term maturities of these instruments.

Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred income taxes are recognized using the asset and liability method by applying tax rates to cumulative temporary differences based on when and how they are expected to affect the tax return. Deferred tax assets and liabilities are adjusted for income tax rate changes.

Reclassification

Certain reclassification have been made in the 2007 financial statements to conform to the September 30, 2008 presentation.

Net (Loss) per Common Share

Net loss per common share has been calculated by taking the net loss for the current period and dividing by the weighted average shares outstanding at the end of the period. There were no common equivalent shares outstanding at September 30, 2008 and 2007.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company derives its primary revenue from the sources described below, which includes dial around revenues, coin collections, and telephone equipment repairs and sales. Other revenues generated by the company include, phone card sales, and commissions.

Dial around revenues are generated from calls to gain access to a different long distance carrier than is already programmed into the phone. GAAP (SAB No. 101) requires the Company to recognize revenue when earned. In the past, we were recording the revenue when the money was wire deposited into our account. We are now recording a monthly accrual and adjusting the revenue to actual on a quarterly basis. The revenue is estimated monthly, based on prior quarter's actual receipts. We use prior quarter receipts as estimates because there has not been a significant change to total payphones in the previous few quarters. Also, historical figures have shown the revenue earned is not far different than estimates made. Revenues on commissions, phone card sales, and telephone equipment repairs and sales are realized when the services are provided.

Stock-Based Compensation

Effective January 1, 2006, the company adopted the provisions of SFAS No. 123 (R) requiring employee equity awards to be accounted for under the fair value method. Accordingly, share-based compensation is measured at grant date, based on the fair value of the award. Prior to June 1, 2006, the company accounted for awards granted to employees under its equity incentive plans under the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended. No stock options were granted to employees during the years ended December 31, 2006, and 2005 and accordingly, no compensation expense was recognized under APB No. 25 for the years ended December 31, 2007, and 2006. In addition, no compensation expense is recognized under provisions of SFAS No. 123 (R) with respect to employees as no stock options were granted to employees.

Under the modified prospective method of adoption for SFAS No. 123 (R), the compensation cost recognized by the company beginning on June 1, 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not vested as of June 1, 2006, based on the grant-dated fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to June 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (R). The company uses the straight-line attribution method to recognize share-based compensation costs over the service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock units, deferred tax assets for options and restricted stock units with multiple vesting dates are eliminated for each vesting period on a first-in, first-out basis as if each vesting period was a separate award.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

To calculate the excess tax benefits available for use in offsetting future tax shortfalls as of the dated of implementation, the company followed the alternative transition method discussed in FASB Staff Position No. 123 (R)-3. During the periods ended December 31, 2006 and 2005, no stock options were granted to non-employees. Accordingly, no stock-based compensation expense was recognized for new stock option grants in the Statement of Operations and Comprehensive Loss at September 30, 2008.

Recent Accounting Standards

In February 2007, the FASB issued SFAS no, 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financials assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFA No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 159 is effective for the Company as of the beginning of fiscal year 2008. The adoption of this pronouncement is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued No. 160, "Noncontrolling Interests in Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years beginning on or after December 15, 2008. Early adoption is not permitted. Management is currently evaluating the effects of this statement, but it is not expected to have any impact on the Company's financial statements.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

In December 2007, the FASB issued No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. SFAS 141(R) also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS 141(R) is effective for business combinations occurring in fiscal years beginning after December 15, 2008, which will require the Company to adopt these provisions for business combinations occurring in fiscal 2009 and thereafter. Early adoption of SFAS 141(R) is not permitted. Management is currently evaluating the effects of this statement, but it is not expected to have any impact on the Company's financial statements.

In March 2008, the FASB issued No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Management is currently evaluating the effects of this statement, but it is not expected to have any impact on the Company's financial statements.

Note 2. Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis (FIFO), or market value. Inventory consists of the following:

| | September 30, 2008 | December 31, 2007 |
|-----------------------|-----------------------|----------------------|
| Parts and Accessories | \$ 324 | \$ 324 |

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 3. Uncertain Tax Provisions

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of the provisions of FIN 48 did not have a material impact on the company’s financial position and results of operations. At January 1, 2007, the company had no liability for unrecognized tax benefits and no accrual for the payment of related interest.

Interest costs related to unrecognized tax benefits are classified as “Interest expense, net” in the accompanying statements of operations. Penalties, if any, would be recognized as a component of “Selling, general and administrative expenses”. The Company recognized \$0 of interest expense related to unrecognized tax benefits during 2007. In many cases the company’s uncertain tax positions are related to tax years that remain subject to examination by relevant tax authorities.

With few exceptions, the company is generally no longer subject to U.S. federal, state, local or non-U.S. income tax examinations by tax authorities for years before 2004. The following describes the open tax years, by major tax jurisdiction, as of January 1, 2007:

United States (a) 2004– Present

(a) Includes federal as well as state or similar local jurisdictions, as applicable.

Note 4. Commissions and Sales Receivable

Commissions and Sales Receivable consists of the following:

| | September 30, 2008 | December 31, 2007 |
|------------------------|-----------------------|----------------------|
| Commissions Receivable | \$ 3,600 | \$ 5,607 |
| Sales Receivable | 1,953 | 1,213 |
| | \$ 5,553 | \$ 6,820 |

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 5. Related Party Note

The Company has a note payable to Craig Burton, Secretary of the Company. This note is payable on demand and carries an interest rate of 10%. The outstanding principal on the note was \$5,000 as of September 30, 2008 and December 31, 2007. The accrued interest was \$1,630 and \$1,153 as of September 30, 2008 and December 31, 2007, respectively.

The Company has a note payable with a relative of Joseph Passalaqua. This note is due on demand and carries an interest rate of 10%. The outstanding principal on the note was \$5,000 as of September 30, 2008 and December 31, 2007. The accrued interest was \$1,630 and \$1,153 as of September 30, 2008 and December 31, 2007, respectively.

The Company has note payables with Joseph Passalaqua. These notes carry a principal balance of approximately \$95,465 and \$57,200 at September 30, 2008 and December 31, 2007, respectively and are due on demand carrying interest ranging from 10% to 18%. The accrued interest was \$10,489 and \$4,574 as of September 30, 2008 and December 31, 2007, respectively.

Note 6. Commitments

As of September 30, 2008, all activities of the Company have been conducted by corporate officers from either Companies Parents business offices. Currently, there are no outstanding debts owed by the company for the use of these facilities and there are no commitments for future use of the facilities.

Note 7. Major Dial Around Compensation Providers (Commissions)

During 2008, the Company received approximately 95% of total dial around from two providers. The loss of these providers would adversely impact the business of the Company.

NB TELECOM, INC.
NOTES TO THE FINANCIAL STATEMENTS

Note 8. Income Taxes

As of December 31, 2007, the Company had a net operating loss carry forward for income tax reporting purposes of approximately \$397,997 that may be offset against future taxable income through 2025. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited. No tax benefit has been reported in the financial statements, because the Company believes there is a 50% or greater chance the carry-forwards will expire unused. Accordingly, the potential tax benefits of the loss carry-forwards are offset by a valuation allowance of the same amount.

| | 2007 | 2006 |
|---------------------|-----------|-----------|
| Net Operating Loss | 135,319 | 183,124 |
| Valuation Allowance | (135,319) | (183,124) |
| | - | - |

The provision for income taxes differs from the amount computed using the federal US statutory income tax rate as follows:

| | 2007 | 2006 |
|--|----------|----------|
| Provision (Benefit) at US Statutory Rate | (37,509) | (62,262) |
| Other Differences | (10,296) | (246) |
| Increase (Decrease) in Valuation Allowance | 47,805 | 62,508 |
| | - | - |

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and causes a change in management's judgment about the recoverability of deferred tax assets, the impact of the change on the valuation is reflected in current income.

Note 9. Common Stock Transactions

The spin off from USIP was effective August 24, 2007 which resulted in 49,632,222 shares being issued at \$.0001 per share. This change has been accounted for retro actively.

Item 2. Management Discussion and Analysis of Financial Conditions and Results of Operations

Forward Looking Statements

Some of the information in this section contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;

- contain projections of our future results of operations or of our financial condition; and

- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

Organization and Basis of Presentation

NB Telecom, Inc. is currently a provider of both privately owned and company owned payphones (COCOT's) and stations in Pennsylvania. The Company receives revenues from the collection of the payphone coinage, a portion of usage of service from each payphone and a percentage of long distance calls placed from each payphone from the telecommunications service providers. In addition, the Company also receives revenues from the service and repair of privately owned payphones, sales of payphone units and the sales of prepaid phone cards.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change, and the best estimates and judgments routinely require adjustment. The amounts of assets and liabilities reported in our consolidated balance sheet, and the amounts of revenues and expenses reported for each of our fiscal periods, are affected by estimates and assumptions which are used for, but not limited to, the accounting for allowance for doubtful accounts, goodwill and intangible asset impairments, restructurings, inventory and income taxes. Actual results could differ from these estimates. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition Policies

The Company derives its primary revenue from the sources described below, which includes dial around revenues, coin collections, and telephone equipment repairs and sales. Other revenues generated by the company include, phone card sales, and commissions.

Dial around revenues are generated from calls to gain access to a different long distance carrier than is already programmed into the phone. Revenues from dial around calls are recorded based upon estimates until the coin collection revenues are generated when callers deposit coins into the phones to make calls. Coin revenues are recorded in an amount equal to the coins collected. Revenues on commissions, phone card sales, and telephone equipment repairs and sales are realized when the services are provided.

NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

REVENUES

Our total revenue decreased by \$17,564 or approximately 32.7% from \$53,663 in the nine months ended September 30, 2007 to \$36,099 in the nine months ended September 30, 2008. This decrease was primarily attributable to removal of unprofitable phone locations and lower call volumes on our payphones resulting from the growth in wireless communications.

Our commissions decreased by \$6,080 or approximately 100%, from \$6,080 in the nine months ended September 30, 2007 to \$0 in the nine months ended September 30, 2008. This decrease was primarily due to lower call volumes resulting in less commissions.

Our coin call revenues decreased by \$3,570 or approximately 69.2%, from \$5,161 in the nine months ended September 30, 2007 to \$1,591 in the nine months ended September 30, 2008. The decrease in coin call revenue was primarily attributable to the reduced number of payphones we operated coupled with the increased competition from wireless communication services.

Our non-coin call revenue, which is comprised primarily of dial-around revenue, decreased \$6,003 or approximately 40.8% from \$14,708 in the nine months ended September 30, 2007 to \$8,705 in the nine months ended September 30, 2008. This decrease was primarily attributable to a decrease in toll free calling in this quarter.

Service & Repair Sales decreased by \$1,911, when compared to the same period in 2007.

COSTS OF SALES

Our overall cost of sales decreased for the nine months ending September 30, 2008 by \$30,201 or approximately 56.4% when compared to the nine months ended September 30, 2007.

Our telecommunication costs decreased by \$21,822, or approximately 49.3% when compared to the same period in 2007. This decrease is primarily attributable to less payphones to support.

Depreciation expense decreased by \$9,342 when compared to the same period in 2007. This decrease is due to certain assets being fully depreciated and our on going strategy of identifying unprofitable payphones, and selling them to the site owners. Because an asset such as telephone equipment or motor vehicle is expected to provide service for many years, it is recorded as an asset, rather than an expense, in the year acquired. A portion of the cost of the long-lived asset is reported as an expense during each year over its life in a rational and systematic manner.

Our cost for travel increased \$808 when compared to the same period in 2007. Our supplies increased \$155 when compared to the same period in 2007.

OPERATION AND ADMINISTRATIVE EXPENSES

Operating expenses decreased by \$32,285 or approximately 46% over the same period in 2007. Approximately 55.8% of this decrease is related to decrease in salary expense. Salaries and related payroll taxes decreased by \$18,029 when compared to the same period for 2007. This decrease is attributable to reducing a full time employee to part time. Rent decreased by \$563 when compared to 2007. Professional fees decreased by \$11,569 over 2007. These are fees we pay to accountants and attorneys throughout the period for performing various tasks. Our office, telephone, repair and

vehicle expenses, together account for a decrease of \$2,124 when compared to the same period ending September 30, 2007.

Interest Expense

Interest expense, net, increased for the period ended September 30, 2008 to \$27,606 from \$17,692 for the period ended September 30, 2007. This increase was due to increased interest-rate debt.

Net Loss from Operations

We had net loss of \$52,803 for the period ended September 30, 2008 as compared to a net loss after taxes of \$82,385 for the period ended September 30, 2007. This decrease was due to a decrease in operating expenses for the period ended September 30, 2008.

Liquidity and Capital Resources

Our primary liquidity and capital resource needs are to finance the costs of our operations.

As of September 30, 2008, we had \$0 cash on hand, compared to \$0 as of September 30, 2007.

We believe that we will continue to need investing and financing activities to fund operations.

Net cash used in operating activities was \$45,867 during the nine-month period ended September 30, 2008, mainly representative of the net loss incurred during 2008. This compares to net cash used in operating activities of \$48,989 for the nine-month period ended September 30, 2007.

Net cash provided by investing activities was \$0 during the nine-month period ended September 30, 2008. This compares to net cash provided by investing activities of \$6,160 for the nine-month period ended September 30, 2007 due to proceeds from sale of equipment.

Net cash provided by financial activities was \$45,867 during nine-month period ended September 30, 2008, mainly representing the proceeds from related party notes. This compares to net cash provided by financing activities of \$42,829 for the nine-month period ended September 30, 2007 primarily due to proceeds from related party notes.

Our expenses to date are largely due to professional fees and the cost of sales for telephone communication costs.

We believe that our results of operations will provide us with the necessary funds to satisfy our liquidity needs for the next 3 months. To the extent they are not, however, our principal stockholders have agreed to fund our operations for the next twelve-month period and beyond.

Working Capital

As of September 30, 2008, we had total assets of \$5,877 and total liabilities of \$311,968 which results in working deficit of \$(306,091) as compared to total assets of \$13,130 and total liabilities of \$389,216 resulting in a working deficit of \$(376,087) as of September 30, 2007.

THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007

REVENUES

Our total revenue decreased by \$8,820 or approximately 48.1%, from \$18,342 in the three months ended September 30, 2007 to \$9,522 in the three months ended September 30, 2008. This decrease was primarily attributable to removal of unprofitable phone locations and lower call volumes on our payphones resulting from the growth in wireless communications.

Our commissions decreased by \$10 or approximately 100%, from \$10 in the three months ended September 30, 2007 to \$0 in the three months ended September 30, 2008. This decrease was primarily due to lower call volumes resulting in less commissions.

Our coin call revenues decreased by \$81 or approximately 7.8%, from \$1,032 in the three months ended September 30, 2007 to \$951 in the three months ended September 30, 2008. The decrease in coin call revenue was primarily attributable to the reduced number of payphones we operated coupled with the increased competition from wireless communication services.

Our non-coin call revenue, which is comprised primarily of dial-around revenue, decreased \$6,954 or approximately 87.3% from \$7,965 in the three months ended September 30, 2007 to \$1,011 in the three months ended September 30, 2008. This decrease was primarily attributable to a decrease in toll free calling in this quarter.

Service & Repair Sales decreased by \$1,775, when compared to the same period in 2007.

COSTS OF SALES

Our overall cost of sales decreased for the three months ending September 30, 2008 by \$3,136 or approximately 23.2% when compared to the three months ended September 30, 2007.

Our telecommunication costs decreased by \$3,136, or approximately 23.3% when compared to the same period in 2007. This decrease is primarily attributable to payphones to support.

OPERATION AND ADMINISTRATIVE EXPENSES

Operating expenses decreased by \$14,408 or approximately 65.7% over the same period in 2007. Salaries and related payroll taxes decreased by \$4,639 when compared to the same period for 2007. This decrease is attributable to reducing a full time employee to part time. Professional fees decreased by \$11,500 over 2007. These are fees we pay to accountants and attorneys throughout the period for performing various tasks. Our office, telephone and repair expenses, together, account for a increase of \$1,731 when compared to the same period ending September 30, 2007.

Interest Expense

Interest expense, net, increased for the period ended September 30, 2008 to \$13,805 from \$5,565 for the period ended September 30, 2007. This increase was due to increased interest-rate debt.

Item 3. Quantitative and Qualitative Disclosure About Market Risks.

Not Applicable.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended the ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required

disclosure.

20

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

(b) Changes in internal controls.

There have been no significant changes in our internal controls or other factors that could significantly affect such controls and procedures subsequent to the date we completed our evaluation. Therefore, no corrective actions were taken.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

To the best knowledge of the Company's officers and directors, the Company is currently not a party to any pending legal proceedings.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed under item 1 of the Company's Registration Statement on Form SB-2 as initially filed with the United States Securities and Exchange Commission on May 12, 2006.

Item 2. Unregistered sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a) Exhibits:

*3.1 Certificate of Incorporation.

*3.2 By-Laws.

31.1 Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002.

32.1 Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002.

32.2 Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002.

* Filed as an exhibit to the Company's Registration Statement on Form SB-2, as initially filed with the Securities and Exchange Commission on May 12, 2006, and incorporated herein by this reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Dated: November 12, 2008

NB TELECOM, INC.

By: /s/ Paul Kelly
Paul Kelly
President, Principal Financial Officer