

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

**Form 10-QSB**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_, 20\_\_, to \_\_\_\_\_, 20\_\_.

Commission File Number: 000-31395  
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**VillageEDOCS**  
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California  
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(State or Other Jurisdiction of Incorporation or  
Organization)

14471 Chambers Road, Suite 105, Tustin, California  
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(Address of principal executive offices)

33-0668917  
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I.R.S. Employer Identification Number

92780  
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(Zip Code)

Registrant's telephone number, including area code: 714) 734-1030

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 has been subject to such filing requirements for the past 90 days.

YES

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NO

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There were 29,981,487 shares of the Registrant's common stock outstanding as of October 31, 2002.

Transitional Small Business Format (check one)    YES            NO            X

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# VillageEDOCS

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## **PART I – FINANCIAL INFORMATION**

### **ITEM 1 – FINANCIAL STATEMENTS**

Balance Sheet for September 30, 2002 (Unaudited)	1
Statements of Operations for the three and nine months ended September 30, 2002 and 2001 (Unaudited)	2
Statements of Cash Flows for the three and nine months ended September 30, 2002 and 2001 (Unaudited)	3
Notes to Unaudited Financial Statements	4

**VillageEDOCS**  
**Balance Sheet**  
**(Unaudited)**

	September 30, 2002
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<b>ASSETS</b>	
Current assets:	
Cash	22,860
Accounts receivable, net of allowance for doubtful accounts of \$58,000	120,296
Other current assets	10,456
	<hr/>
Total current assets	153,612
Property and equipment, net	218,816
Web site development costs, net	70,935
Other assets	22,373
	<hr/>
	\$ 465,736
	<hr/> <hr/>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	
Current liabilities:	
Accounts payable	\$ 236,056
Accrued expenses	101,072
Current portion of capital lease obligations	57,379
	<hr/>
Total current liabilities	394,507
Capital lease obligations, net of current portion	6,989
Convertible notes payable and accrued interest payable to related parties	1,344,043
	<hr/>
Total liabilities	1,745,539
	<hr/>
Stockholders' Deficit:	
Common stock, no par value:	
Authorized -- 90,000,000 shares	
Issued and outstanding -- 29,981,487 shares	6,805,550
Additional paid-in capital	1,336,889
Accumulated deficit	(9,422,242)
	<hr/>
Total stockholders' deficit	(1,279,803)
	<hr/>
	\$ 465,736
	<hr/> <hr/>

See accompanying notes to unaudited financial statements

**VillageEDOCS**  
**Statements of Operations**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Net sales	\$ 426,764	\$ 327,124	\$ 1,236,402	\$ 952,181
Cost of sales	228,236	261,856	652,316	712,175
Gross profit	198,528	65,268	584,086	240,006
Operating expenses:				
Product and technology development	126,557	127,605	314,186	395,599
Sales and marketing	141,750	83,441	376,073	332,396
General and administrative	178,144	135,604	519,762	658,527
Depreciation and amortization	29,069	21,837	87,740	70,096
Total operating expenses	475,520	368,487	1,297,761	1,456,618
Loss from operations	(276,992)	(303,219)	(713,675)	(1,216,612)
Interest income	-	-	-	13
Interest expense	30,745	50,481	135,860	132,701
Loss before provision for income taxes	(307,737)	(353,700)	(849,535)	(1,349,300)
Provision for income taxes	-	-	800	800
Net loss	\$ (307,737)	\$ (353,700)	\$ (850,335)	\$ (1,350,100)
Basic and diluted loss available to common stockholders per common share	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.10)
Weighted average shares outstanding	29,949,839	13,991,292	22,284,928	13,886,497

See accompanying notes to unaudited financial statements

**VillageEDOCS**  
**Statements of Cash Flows**  
(Unaudited)

	Nine Months Ended	
	September 30, 2002	September 30, 2001
<hr/>		
Cash Flows from Operating Activities:		
Net loss	\$ (850,335)	\$ (1,350,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	87,740	70,096
Provision for loss on doubtful accounts receivable	48,593	17,033
Estimated fair market value of stock options issued to non-employees for services rendered	17,877	170,320
Stock purchase warrants issued to employees for services rendered	25,565	-
Common stock issued to non-employees for services rendered	6,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(86,327)	(63,187)
Other current assets	-	(17,873)
Accounts payable	6,707	65,746
Accrued expenses and other	111,982	137,528
	<hr/>	<hr/>
Net cash used in operating activities	(632,198)	(970,437)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(39,005)	(2,730)
Web site development costs	(88,946)	-
	<hr/>	<hr/>
Net cash used by investing activities	(127,951)	(2,730)
	<hr/>	<hr/>
Cash Flows from Financing Activities:		
Proceeds from convertible notes payable to related parties	820,000	1,010,000
Principal payments under capital leases	(78,441)	(96,937)
Proceeds from the exercise of warrants	2,129	1,510
	<hr/>	<hr/>
Net cash provided by financing activities	743,688	914,573
	<hr/>	<hr/>
Net change in cash	(16,461)	(58,594)
Cash, beginning of period	39,321	82,266
	<hr/>	<hr/>
Cash, end of period	\$ 22,860	\$ 23,672
	<hr/> <hr/>	<hr/> <hr/>
Supplemental disclosure of cash flow information -		
Cash paid during the period for:		
Interest	\$ 9,946	\$ 17,184
	<hr/> <hr/>	<hr/> <hr/>
Income taxes	\$ 800	\$ 800
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to unaudited financial statements

# VillageEDOCS

## Notes to Unaudited Financial Statements – September 30, 2002

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Management's Representation

The management of VillageEDOCS (the "Company") without audit has prepared the financial statements included herein. The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Certain information and note disclosure normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. In the opinion of the management of the Company, all adjustments considered necessary for fair presentation of the financial statements have been included and were of a normal recurring nature, and the accompanying financial statements present fairly the financial position as of September 30, 2002, and the results of operations and cash flows for the three and nine months ended September 30, 2002 and 2001.

It is suggested that these unaudited financial statements be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2001, included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 29, 2002. The interim results are not necessarily indicative of the results for a full year.

#### 2. Background and Organization

VillageEDOCS was incorporated in 1995 in Delaware and reincorporated in California in 1997. The Company develops and markets internet-enabled fax services to organizations throughout the United States and internationally.

#### 3. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a working capital deficit and has incurred significant losses from operations in each year since inception. The Company's losses are continuing and are expected to continue until such time as the Company is able to sufficiently expand its internet-enabled fax services.

The Company's success is dependent upon numerous items, certain of which are the successful implementation and marketing of its internet-enabled fax services, its ability to obtain new customers in order to achieve levels of revenues adequate to support the Company's current and future cost structure, and its success in obtaining financing for equipment and operations, for which there is no assurance. Unanticipated problems, expenses, and delays are frequently encountered in establishing a new business. These include, but are not limited to, competition, the need to develop customer support capabilities and market expertise, setbacks in product development, technical difficulties, market acceptance and sales and marketing. The failure of the Company to meet any of these conditions could have a materially adverse effect upon the Company and may force the Company to reduce or curtail operations. No assurance can be given that the Company can, or will ever, operate profitably.

Until sufficient revenue levels are achieved, the Company will require additional financing to support its operations. Such sources of financing could include capital infusions, additional equity financing or debt offerings. Management plans to obtain convertible debt and equity financing from existing shareholders and equity financing from new shareholders during the remainder of 2002. Management is actively pursuing both of these financing arrangements. If the planned financings are obtained, the Company believes it will have adequate cash to sustain operations until it becomes profitable. There can be no assurance that funding will be available on acceptable terms, if at all, or that such funds, if raised, would enable the Company to achieve and maintain profitable operations.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the classification of liabilities that might result from the outcome of these uncertainties.

#### 4. Summary of Significant Accounting Policies

##### Concentration of Credit Risk

The Company extends credit to its customers and performs ongoing credit evaluations of such customers. The Company does not obtain collateral to secure its accounts receivable. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary. At September 30, 2002, the Company has recorded an allowance for doubtful accounts of approximately \$58,000. One customer accounted for approximately 11% of accounts receivable at September 30, 2002 and 2001. One customer accounted for approximately 17% of total sales for the nine months ended September 30, 2001. No single customer accounted for more than 10% of total sales for the nine months ended September 30, 2002.

##### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management are, among others, the realizability of accounts receivable, property and equipment and web site development costs, and valuation of deferred tax assets. Actual results could differ from those estimates.

##### Revenue Recognition

The Company provides internet-enabled fax services to businesses and charges for these services on either a per page faxed or per minute used basis. Service revenues are recognized when the services are performed.

##### Risks and Uncertainties

The Company operates in a highly competitive industry that is subject to intense competition, government regulation and rapid technological change. The Company's operations are subject to significant risks and uncertainties including financial, operational, technological, regulatory and other risks associated with an emerging business, including the potential risk of business failure.

##### Loss per Share

Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares assumed to be outstanding during the period of computation. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional common shares were dilutive. All potentially dilutive shares, 0 and 2,474,461 as of September 30, 2002 and 2001, respectively, have been excluded from dilutive loss per share, as their effect would be anti-dilutive for the periods ended September 30, 2002 and 2001.

##### Segment Information

The Company views its operations and manages its business as principally one segment.

##### Comprehensive Income

The Company has no items of comprehensive income.

##### Stock-Based Compensation

The Company accounts for non-employee stock-based compensation under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "*Accounting For Stock-Based Compensation*." SFAS 123 defines a fair value based method of accounting for stock-based compensation. However, SFAS 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "*Accounting for Stock Issued to Employees*." Under APB 25, compensation cost, if any, is recognized over the respective vesting period based on the difference, on the date of grant, between the fair value of the Company's common stock and the grant price. Entities electing to remain with the accounting method of APB 25 must make pro forma disclosures of net income and earnings per share, as if the fair value method

of accounting defined in SFAS 123 had been applied. The Company has elected to account for its stock-based compensation to employees under APB 25 (see Note 6).

#### Web Site Development Costs

During the nine months ended September 30, 2002, the Company capitalized \$70,935, net of \$18,011 of accumulated amortization, related to the web site in accordance with the Emerging Issues Task Force Issue No. 00-2, "Accounting for Web Site Development Costs."

#### 5. Convertible Notes Payable to Related Parties

During the nine months ended September 30, 2002, the Company borrowed \$820,000 from C. Alan and Joan P. Williams and issued convertible promissory notes bearing interest at 10 percent per annum. The notes and accrued interest are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at a conversion price equal to the lower of \$2.50 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. Williams delivers written notice of his conversion election to the Company.

Total interest expense recognized on all the convertible notes payable was \$118,678 and \$115,517 during the nine months ended September 30, 2002 and 2001, respectively. Total interest accrued and not paid on the convertible notes payable to related parties as of September 30, 2002 totaled \$376,296 and is included in the accompanying balance sheet.

As an inducement for the extension of the due date with respect to \$2,039,245 in convertible promissory notes issued through April 10, 2002 and due between June 2002 and October 2003 (the "Notes") and as inducement for receipt of up to \$610,000 in debt financing during 2002, the Company entered into two agreements dated May 9, 2002 with Mr. and Mrs. Williams, a Promissory Note Modification Agreement and a Security Agreement (the "May 9, 2002 Agreements"). Pursuant to the May 9, 2002 Agreements, the Notes were modified and now include the following terms: the Notes, as modified, are secured by a security interest in all of the Company's assets. The principal and accrued interest on the Notes, as modified, are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible at any time into shares of the Company's common stock at a conversion price equal to the lower of \$2.50 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. and Mrs. Williams deliver written notice of his conversion election to the Company. In addition, the May 9, 2002 Agreements grant to Mr. and Mrs. Williams piggyback registration rights with respect to all previously unregistered shares of the Company's common stock held by them, whether issued for cash or for conversion of the Notes, as modified. As there was no beneficial conversion feature related to these modifications, no interest expense was recorded during the periods ended September 30, 2002.

On May 15, 2002, C. Alan Williams and Joan P. Williams acquired 15,686,502 shares of the restricted common stock of the Registrant by exercising their conversion rights with respect to \$2,039,245 in convertible promissory notes payable by the Registrant, at a conversion price of \$0.13 per share, the average of the Company's common stock closing bid price on the OTCBB for the ten (10) consecutive trading days prior to May 15, 2002.

At September 30, 2002, the outstanding principal balance of convertible secured promissory notes payable to Mr. and Mrs. Williams was \$460,000.

On July 15, 2002, the Company entered into a Promissory Note Modification Agreement with James Townsend with respect to \$507,747 in convertible promissory notes issued through January 12, 2001 and due between June 2002 and October 2003 (the "Townsend Notes"). Pursuant to this agreement, the Townsend Notes were modified and now include the following terms: the principal and accrued interest on the Notes, as modified, are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible at any time into shares of the Company's common stock at a conversion price

equal to the lower of \$0.10 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. Townsend delivers written notice of his conversion election to the Company. In addition, the agreement grants to Mr. Townsend piggyback registration rights with respect to all previously unregistered shares of the Company's common stock held by him, whether issued for cash or for conversion of the Notes, as modified. As there was no beneficial conversion feature related to these modifications, no interest expense was recorded during the periods ended September 30, 2002.

On July 30, 2002, the Company granted Mr. And Mrs. Williams a full ratchet anti-dilution right to receive additional shares of the Company's common stock in the event that Mr. Townsend converts some or all of his outstanding promissory notes to the Company's common stock at any price lower than \$0.13 per share such that Mr. and Mrs. William's conversion price shall be equivalent to Mr. Townsend's conversion price with respect to the same number of shares.

6. Stockholders' Equity (Deficit)

a. Common Stock

During the quarter ended June 30, 2002, the Company increased the number of authorized shares of its common stock from 40,000,000 to 90,000,000.

During the nine months ended September 30, 2002, the Company issued 212,839 shares of restricted common stock for \$2,129 in cash in connection with the exercise of warrants, and 32,000 shares of restricted common stock in consideration for \$6,000 in consulting services rendered.

On May 15, 2002, C. Alan Williams and Joan P. Williams acquired 15,686,502 shares of the restricted common stock of the Registrant by exercising their conversion rights with respect to \$2,039,245 in convertible promissory notes payable by the Registrant, at a conversion price of \$0.13 per share, the average of the Company's common stock closing bid price on the OTCBB for the ten (10) consecutive trading days prior to May 15, 2002.

b. Stock Options

Effective January 30, 2002, the Board of Directors of the Company adopted an equity incentive plan (the "2002 Plan") that authorizes the issuance of options to acquire up to 6,226,258 shares of common stock to employees and certain outside consultants. The 2002 Plan allows for the issuance of either non-qualified or, subject to stockholder approval, incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 2002 Plan, the exercise price of each option shall not be less than fair market value on the date the option is granted.

Options to purchase 6,148,530 shares of the Company's common stock under the 2002 Plan at per-share prices ranging from \$0.17 to \$0.21 (the fair market value on the date of grant) were issued to employees during the nine months ended September 30, 2002, vesting on various dates from the date of grant through September, 2007. 143,333 options under the 2002 or 1997 Plan were cancelled during the nine months ended September 30, 2002 due to the termination of employment. Subject to approval by the Company's Board of Directors to increase the number of shares reserved for issuance pursuant to the 2002 Plan, the Company has agreed to issue to an employee an option to purchase 1,000,000 shares of the Company's common stock at \$0.18 per share (the fair market value on the date of grant).

Subject to approval by the Company's Board of Directors to increase the number of shares reserved for issuance under the 2002 Plan, options to purchase 555,555 shares of the Company's common stock at \$0.18 per share (which was below the fair market value on the date of grant), vesting immediately, were issued to a non-employee in consideration for legal services during the nine months ended September 30, 2002. In connection with this issuance, and pursuant to APB 25 and SFAS 123, the Company recorded legal expense and prepaid expense of \$17,877 and \$4,123, respectively, during the nine months ended September 30, 2002. The Company recorded compensation expense of \$170,320 during the nine months ended September 30, 2001 for options and warrants issued to non-employee consultants.

c. Warrants

During the nine months ended September 30, 2002, the Company issued a warrant to purchase 24,019 shares of the Company's common stock at \$0.01 per share to an employee and recorded compensation expense of \$25,565 in connection with the issuance. During the nine months ended September 30, 2002, warrants to purchase 212,839 shares of common stock were exercised for cash, and warrants to purchase 113,777 shares of the common stock of the Company expired unexercised and were cancelled.

7. Earnings per Share

Basic and diluted loss per common share is computed as follows:

	September 30, 2002	September 30, 2001
Numerator for basic and diluted loss per common share:		
Net loss available to common stockholders	\$ (850,335)	\$ (1,350,100)
Denominator for basic and diluted loss per common share:		
Weighted average common shares outstanding	22,284,928	13,886,497
Net loss per common share available to common stockholders		
Net loss per share	\$ (0.04)	\$ (0.10)

8. Litigation

The Company is, from time to time, involved in various legal and other proceedings that arise in the ordinary course of operating its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position or results of operations of the Company.

9. Subsequent Events

Subsequent to September 30, 2002, the Company entered into a Consulting Services Agreement with a related party to provide marketing communications services for up to four months in consideration for up to 320,000 shares of the Company's common stock. The compensation shall be earned on a pro-rata basis at the end of each of four thirty-day work periods and only upon receipt and acceptance by the Company of the related party's work product.

Subsequent to September 30, 2002, the Company borrowed an additional \$140,000 from C. Alan and Joan P. Williams and issued convertible promissory notes with terms identical to those described in Note 5 above, except that, as to \$70,000 in convertible promissory notes, the conversion price of the convertible promissory notes is the lower of \$0.07 per share (which was below the fair market value on the date of issuance) or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. and Mrs. Williams deliver written notice of their conversion election to the Company. The beneficial conversion feature will result in a charge to interest expense.

# VillageEDOCS

## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

*Investors are cautioned that certain statements contained in this document, and the Company’s Form 10-KSB, as well as some statements in periodic press releases and some oral statements of VillageEDOCS officials during presentations about the Company, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements that do not directly and exclusively relate to historical facts constitute forward-looking statements within the meaning of the Act. The words “anticipate,” “believe,” “expect,” “plan,” “intend,” “seek,” “estimate,” “project,” “will,” “could,” “may,” and similar expressions are intended to identify forward-looking statements. In addition, any statements concerning future financial performance, ongoing business strategies or prospects, and possible future Company actions which may be provided by management, are also forward-looking statements as defined by the Act. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements and to vary significantly from reporting period to reporting period. Such factors include, among others, general economic and business conditions, changes in foreign, political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to achieve further market penetration and additional customers, and various other matters, many of which are beyond the Company’s control, including, without limitation, the risks described under the caption “DESCRIPTION OF BUSINESS - RISK FACTORS” in the Company’s Form 10-SB filed with the Securities and Exchange Commission on December 20, 2000. Although management believes that the assumptions made and the expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be different from the expectations expressed in this report or elsewhere by management. The Company has no specific intention to update these statements.*

### GENERAL OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited balance sheet as of September 30, 2002, and the unaudited statements of operations and cash flows for the three and nine months ended September 30, 2002 and 2001, and the related notes thereto as well as the audited financial statements of the Company for the years ended December 31, 2001 and 2000, included in the Company’s Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 29, 2002. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions.

The Company cautions readers that important facts and factors described in this Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this document sometimes have affected, and in the future could affect, the Company’s actual results, and could cause the Company’s actual results during 2002 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

As reported in the Independent Auditors’ Report on our December 31, 2001 financial statements, the Company has suffered recurring losses from operations, had significant negative cash flows from operations, and had a net capital deficiency that raised substantial doubt about our ability to continue as a going concern.

Management is seeking additional financing by issuing convertible debt to existing shareholders during 2002. In addition, management plans to seek equity or a combination of equity and debt financing from new shareholders and/or lenders in the fourth quarter of 2002. Management is actively pursuing both of these financing arrangements. Between January and September 2002, one of our shareholders loaned us \$820,000 to fund our operating shortfalls; however, he has no binding obligation to continue providing funds. If the planned financings are obtained and/or the

shareholder continues to cover our operating shortfalls, the Company believes it will have adequate cash to sustain operations until it becomes profitable. There can be no assurance that funding will be available on acceptable terms, if at all, or that such funds, if raised, would enable the Company to achieve and maintain profitable operations.

## **RESULTS OF OPERATIONS**

### **Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001**

#### **Net Sales**

Net sales for the three months ended September 30, 2002 were \$426,764, a 30% increase over net sales for prior year quarter of \$327,124. The increase in the 2002 quarter reflected an improvement in the volume of sales to existing customers and growth in the number of customers billed.

#### **Cost of Sales**

Cost of sales for the three months ended September 30, 2002 were \$228,236 as compared to the \$261,856 reported for the three months ended September 30, 2001. Cost of sales during the 2002 quarter represented 53% of sales as compared with 80% of sales in the 2001 quarter due to a decrease in variable telecommunications costs.

#### **Gross Profit**

Gross profit for the three months ended September 30, 2002 increased 204% to \$198,528 as compared to \$65,268 for the prior year quarter. The increase of \$133,260 is attributable to both a reduction in variable costs of sales and an increase in sales volume for the Company's internet-enabled fax services.

#### **Operating Expenses**

Operating expenses for the three months ended September 30, 2002 increased by 29% to \$475,520 from the \$368,487 reported in the three months ended September 30, 2001, an increase of \$107,033. Product and technology development decreased \$1,048 to \$126,557 from the \$127,605 reported in the prior year quarter due to capitalization of certain payroll costs related to web site development. Sales and marketing increased by \$58,309 to \$141,750 from the \$83,441 reported in the prior year quarter due to the addition of sales staff and an increase in sales lead generation programs. General and administrative increased by \$42,540 to \$178,144 from the \$135,604 reported in the prior year quarter due to increases in legal, rent, and bad debt expenses. Depreciation and amortization expense increased \$7,232 to \$29,069 from the \$21,837 reported in the 2001 quarter due to an increase in capitalized web site development costs. During the three months ended September 30, 2002, expenses related to product and technology development, sales and marketing, general and administrative, and depreciation and amortization represented 30%, 33%, 42%, and 7% of net sales, respectively.

#### **Interest Expense**

Interest expense for the quarter ended September 30, 2002 decreased 39% to \$30,745 from the \$50,481 reported in the prior year quarter due primarily to the May 15, 2002 conversion to equity of convertible notes payable from a related party as well as a reduction in interest paid on capital leases.

#### **Net Loss**

As a result of the foregoing, net loss for the three months ended September 30, 2002 was \$307,737, or \$0.01 per share, compared to a net loss of \$353,700, or \$0.03 per share, for the three months ended September 30, 2001.

### **Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001**

#### **Net Sales**

Net sales for the nine months ended September 30, 2002 were \$1,236,402, a 30% increase over net sales for the prior year period of \$952,181. The increase in the 2002 period reflected an improvement in the volume of sales to existing customers and growth in the number of customers billed.

#### **Cost of Sales**

Cost of sales for the nine months ended September 30, 2002 were \$652,316 as compared to the \$712,175 reported for the nine months ended September 30, 2001. Cost of sales during the 2002 period represented 53% of sales as compared with 75% of sales in the 2001 period due to a decrease in variable telecommunications costs.

### **Gross Profit**

Gross profit for the nine months ended September 30, 2002 increased 143% to \$584,086 as compared to \$240,006 for the prior year period. The increase of \$344,080 is attributable to both a reduction in variable costs of sales and an increase in sales volume for the Company's internet-enabled fax services.

### **Operating Expenses**

Operating expenses for the nine months ended September 30, 2002 decreased by 11% to \$1,297,761 from the \$1,456,618 reported in the nine months ended September 30, 2001, a decrease of \$158,857. Product and technology development decreased \$81,413 to \$314,186 from the \$395,599 reported in the prior year period due to capitalization of certain payroll costs related to web site development. Sales and marketing increased by \$43,677 to \$376,073 from the \$332,396 reported in the prior year period due to increases in sales staff and in sales lead generation programs. General and administrative decreased by \$138,765 to \$519,762 from the \$658,527 reported in the prior year period. The overall decrease was comprised of increases of \$31,555 in rent, bad debt and legal expenses offset by a decrease of \$170,320 in non-cash compensation charges incurred in connection with the vesting of certain non-employee stock options taken during the 2001 period. Depreciation and amortization expense increased \$17,644 to \$87,740 from the \$70,096 reported in the 2001 period due to an increase in capitalized web site development costs. . During the nine months ended September 30, 2002, expenses related to product and technology development, sales and marketing, general and administrative, and depreciation and amortization represented 25%, 30%, 42%, and 7% of net sales, respectively.

### **Interest Expense**

Interest expense for the nine months ended September 30, 2002 decreased 2% to \$135,860 from the \$132,701 reported in the prior year period due primarily to the May 15, 2002 conversion to equity of convertible notes payable from a related party as well as a reduction in interest paid on capital leases.

### **Net Loss**

As a result of the foregoing, net loss for the nine months ended September 30, 2002 was \$850,335, or \$0.04 per share, compared to a net loss of \$1,350,100, or \$0.10 per share, for the nine months ended September 30, 2001.

## **LIQUIDITY**

During the nine months ended September 30, 2002, the Company's net cash position decreased by \$16,461 to \$22,860. Although the Company generated net cash of \$743,688 from financing activities, the Company's operating and investing activities used net cash of \$632,198 and \$127,951, respectively. These activities contributed to a net working capital deficit as of September 30, 2002 of \$240,895.

Net cash used in operating activities for the nine months ended September 30, 2002 was \$632,198, a decrease of \$338,239 from the \$970,437 used in operating activities for the nine months ended September 30, 2001, mainly due to a reduction in net loss as described above.

The Company's investing activities consisted of the purchase of computer software and computer equipment and capitalization of web site development costs. Net cash used for investment activities increased \$125,221 in the nine months ended September 30, 2002 to \$127,951 from the \$2,730 reported for the nine months ended September 30, 2001 due primarily to the acquisition of computer software in connection with service enhancements and capitalization of web site development costs.

The Company's financing activities include proceeds from the exercise of warrants to purchase common stock, issuance of convertible notes payable, and principal payments on capital leases.

Net cash provided by financing activities for the nine months ended September 30, 2002 was \$743,688, and included proceeds of \$820,000 and \$2,129 from stockholder loans and warrant exercises, respectively, less principal payments on capital leases of \$78,441.

Net cash provided by financing activities for the nine months ended September 30, 2001 was \$914,573. The Company received net proceeds from stockholder loans in the amount of \$1,010,000, and net proceeds from warrant exercises of \$1,510, but used \$96,937 in principal payments on capital leases during the 2001 period.

## CAPITAL RESOURCES

The Company does not currently have any material commitments for capital expenditures other than those expenditures incurred in the ordinary course of business.

Since our inception, our operating and investing activities have used substantially more cash than they have generated. Because we will continue to need working capital to fund the growth of our business, we expect to continue to experience negative operating and investing cash flows for the remainder of 2002. We currently anticipate that our available cash resources will be insufficient to meet our anticipated working capital and capital expenditure requirements through December 31, 2002. Accordingly, we believe we will require up to approximately \$5 million in additional financing to support our operations and to fund a substantially increased sales and marketing effort until we become profitable.

Between November 2000 and at least November 2002, our operating shortfalls have been, and are expected to be, funded by one shareholder, an affiliate, who has loaned us \$2,499,245 through September 30, 2002 for that purpose. Assuming that this shareholder continues to fund our operations, we will be able to sustain operations at current levels. On May 9, 2002, we modified the terms of the convertible promissory notes held by this shareholder to induce this shareholder to provide additional loans and to extend the due dates of existing loans, which resulted in this shareholder obtaining rights, preferences and privileges senior to those of other creditors and our stockholders. On May 15, 2002, this shareholder exercised his conversion rights with respect to \$2,039,245 in convertible promissory notes payable by the Company in consideration for 15,686,502 shares of the restricted common stock of the Company. This shareholder has no obligation to continue to fund our operating shortfalls and could stop doing so at any time. We may be required to provide similar terms to other existing and potential new investors which could further result in such investors obtaining rights, preferences or privileges senior to those of other creditors and our stockholders.

This estimate is a forward-looking statement that involves risks and uncertainties. The actual time period may differ materially from that indicated as a result of a number of factors so that we cannot assure you that our cash resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements for this period. We have stated that we will need to raise additional capital in the future to meet our operating and investing cash requirements. Such sources of financing could include capital infusions, additional equity financing, or debt offerings. There can be no assurance that additional funding will be available on acceptable terms, if at all, or that such funds, if raised, would enable the Company to achieve and maintain profitable operations. If we are not able to obtain sufficient additional funds from investors, we may be unable to sustain our operations. If we raise additional funds through the issuance of securities, these securities may have rights, preferences or privileges senior to those of our common stock, and our stockholders may experience additional dilution to their equity ownership.

While we strongly believe that sustainable profitability is achievable and we intend to continue our strategy of increasing sales to more profitable clients while attempting to reduce variable costs of sales and overhead, we have a history of losses, have never been profitable, and may never achieve profitability. Should we achieve profitability in any period, we cannot be certain that we will sustain or increase such profitability on a quarterly or annual basis.

From inception through September 30, 2002, we generated net sales of only approximately \$3,303,000 and we incurred total expenses of approximately \$11,680,000 during that same period. We have incurred net losses each year since our inception. As of September 30, 2002, we had an accumulated deficit of \$9,422,242. To date, we have funded our capital requirements and our business operations primarily with funds provided from the sale of common stock and from shareholder borrowings, supplemented by revenues from sales of our services. From inception to September 30, 2002, the Company has received approximately \$5,173,000 from the sale of common stock and convertible notes subsequently converted into common stock.

The Independent Auditors' Report on our December 31, 2001 financial statements includes an explanatory paragraph stating that the recurring losses incurred from operations and a working capital deficiency raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **VillageEDOCS**

### **ITEM 3 – CONTROLS AND PROCEDURES**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, who concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal control or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

# VillageEDOCS

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## **PART II**

### **ITEM 1 – LEGAL PROCEEDINGS.**

The Company is not a party in any lawsuits.

A marketing company has threatened legal action related to its claim that the Company owes it \$48,000 for services rendered. The Company agrees that it owes \$24,000 for such services, which amount is recorded as a liability in the Company's financial statements. The Company believes the claim for the additional \$24,000 is without merit, and that the outcome of any legal action will not have a material adverse effect on the Company.

In early 1999, the Company received communications from a company asserting the ownership of certain United States and Canadian patents and making a licensing proposal for these patents on unspecified terms. The Company has not accepted the licensing proposal. If these claims prove accurate and the Company is not able to enter into a licensing agreement on acceptable terms, it would have a material adverse effect on the Company.

### **ITEM 2 – CHANGES IN SECURITIES.**

During the nine months ended September 30, 2002, the Company increased the number of authorized shares of its common stock from 40,000,000 to 90,000,000.

During the nine months ended September 30, 2002, the Company issued 212,839 shares of restricted common stock for \$2,129 in cash in connection with the exercise of warrants, and 32,000 shares of restricted common stock in consideration for \$6,000 in consulting services rendered.

On May 15, 2002, C. Alan Williams and Joan P. Williams acquired 15,686,502 shares of the restricted common stock of the Registrant by exercising their conversion rights with respect to \$2,039,245 in convertible promissory notes payable by the Registrant, at a conversion price of \$0.13 per share, the average of the Company's common stock closing bid price on the OTCBB for the ten (10) consecutive trading days prior to May 15, 2002.

Effective January 30, 2002, the Board of Directors of the Company adopted an equity incentive plan (the "2002 Plan") that authorizes the issuance of options to acquire up to 6,226,258 shares of common stock to employees and certain outside consultants. The 2002 Plan allows for the issuance of either non-qualified or, subject to stockholder approval, incentive stock options pursuant to Section 422 of the Internal Revenue Code. Options vest at the discretion of the Board of Directors as determined at the grant date, but not longer than a ten-year term. Under the 2002 Plan, the exercise price of each option shall not be less than fair market value on the date the option is granted.

Options to purchase 6,148,530 shares of the Company's common stock under the 2002 Plan at per-share prices ranging from \$0.17 to \$0.21 (the fair market value on the date of grant) were issued to employees during the nine months ended September 30, 2002, vesting on various dates from the date of grant through September, 2007. 143,333 options under the 2002 or 1997 Plan were cancelled during the nine months ended September 30, 2002 due to the termination of employment. Subject to approval by the Company's Board of Directors to increase the number of shares reserved for issuance pursuant to the 2002 Plan, the Company has agreed to issue to an employee an option to purchase 1,000,000 shares of the Company's common stock at \$0.18 per share (the fair market value on the date of grant).

Subject to approval by the Company's Board of Directors to increase the number of shares reserved for issuance under the 2002 Plan, options to purchase 555,555 shares of the Company's common stock at \$0.18 per share (which

was below the fair market value on the date of grant), vesting immediately, were issued to a non-employee in consideration for legal services during the nine months ended September 30, 2002.

During the nine months ended September 30, 2002, the Company issued a warrant to purchase 24,019 shares of the Company's common stock at \$0.01 per share to an employee and recorded compensation expense of \$25,565 in connection with the issuance. During the nine months ended September 30, 2002, warrants to purchase 113,777 shares of the common stock of the Company expired unexercised and were cancelled.

During the nine months ended September 30, 2002, the Company borrowed \$820,000 from C. Alan and Joan P. Williams and issued convertible promissory notes bearing interest at 10 percent per annum. The notes and accrued interest are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at a conversion price equal to the lower of \$2.50 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. Williams delivers written notice of his conversion election to the Company. Total interest expense recognized on all the convertible notes payable was \$118,678 and \$115,517 during the nine months ended September 30, 2002 and 2001, respectively.

As an inducement for the extension of the due date with respect to \$2,039,245 in convertible promissory notes issued through April 10, 2002 and due between June 2002 and October 2003 (the "Notes") and as inducement for receipt of up to \$610,000 in debt financing during 2002, the Company entered into two agreements dated May 9, 2002 with Mr. and Mrs. Williams, a Promissory Note Modification Agreement and a Security Agreement (the "May 9, 2002 Agreements"). Pursuant to the May 9, 2002 Agreements, the Notes were modified and now include the following terms: the Notes, as modified, are secured by a security interest in all of the Company's assets. The principal and accrued interest on the Notes, as modified, are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible at any time into shares of the Company's common stock at a conversion price equal to the lower of \$2.50 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. and Mrs. Williams deliver written notice of his conversion election to the Company. In addition, the May 9, 2002 Agreements grant to Mr. and Mrs. Williams piggyback registration rights with respect to all previously unregistered shares of the Company's common stock held by them, whether issued for cash or for conversion of the Notes, as modified.

On May 15, 2002, C. Alan Williams and Joan P. Williams acquired 15,686,502 shares of the restricted common stock of the Registrant by exercising their conversion rights with respect to \$2,039,245 in convertible promissory notes payable by the Registrant, at a conversion price of \$0.13 per share, the average of the Company's common stock closing bid price on the OTCBB for the ten (10) consecutive trading days prior to May 15, 2002.

At September 30, 2002, the outstanding principal balance of convertible secured promissory notes payable to Mr. and Mrs. Williams was \$460,000.

On July 15, 2002, the Company entered into a Promissory Note Modification Agreement with James Townsend with respect to \$507,747 in convertible promissory notes issued through January 12, 2001 and due between June 2002 and October 2003 (the "Townsend Notes"). Pursuant to this agreement, the Townsend Notes were modified and now include the following terms: the principal and accrued interest on the Notes, as modified, are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible at any time into shares of the Company's common stock at a conversion price equal to the lower of \$0.10 per share or the average of the Company's common stock closing bid price on the

OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. Townsend delivers written notice of his conversion election to the Company. In addition, the agreement grants to Mr. Townsend piggyback registration rights with respect to all previously unregistered shares of the Company's common stock held by him, whether issued for cash or for conversion of the Notes, as modified.

On July 30, 2002, the Company granted Mr. And Mrs. Williams a full ratchet anti-dilution right to receive additional shares of the Company's common stock in the event that Mr. Townsend converts some or all of his outstanding promissory notes to the Company's common stock at any price lower than \$0.13 per share such that Mr. and Mrs. William's conversion price shall be equivalent to Mr. Townsend's conversion price with respect to the same number of shares.

All offers and sales of our securities described above were made pursuant to Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder.

### **ITEM 3 – DEFAULTS UPON SENIOR SECURITIES.**

On July 10, 2002, James Townsend gave the Company a Notice of Default with respect to two convertible promissory notes in the aggregate principal amount of \$307,747. On July 15, 2002, the Company entered into a Promissory Note Modification Agreement with James Townsend with respect to the \$307,747 in convertible promissory notes, and an additional \$200,000 in convertible promissory notes, issued through January 12, 2001 and due between June 2002 and October 2003 (the "Townsend Notes"). Pursuant to this agreement, the Townsend Notes were modified and now include the following terms. The principal and accrued interest on the Notes, as modified, are due at the earlier of one of three events: 1) October 31, 2005; 2) acquisition of controlling interest in the Company by a third party; or 3) the Company achieves equity financing of a minimum of \$3,000,000. If the Company is acquired, the principal and accrued interest on the Notes, as modified, are convertible into shares of the Company's common stock at the lower of \$2.50 per share or the price paid per share by the acquirer. In addition, the principal and accrued interest on the Notes, as modified, are convertible at any time into shares of the Company's common stock at a conversion price equal to the lower of \$0.10 per share or the average of the Company's common stock closing bid price on the OTCBB, NASDAQ or other established securities exchange or market for the ten (10) consecutive trading days prior to the date Mr. Townsend delivers written notice of his conversion election to the Company. In addition, the agreement grants to Mr. Townsend piggyback registration rights with respect to all previously unregistered shares of the Company's common stock held by him, whether issued for cash or for conversion of the Notes, as modified.

### **ITEM 4 – SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.**

None.

### **ITEM 5 – OTHER MATTERS.**

On November 12, 2002, the Company entered into an agreement with Magnum Financial Group, LLC pursuant to which Magnum has agreed to provide certain financial communications and investor relations services on our behalf. The agreement does not have a stated term, but will remain in effect until terminated by either party upon thirty days prior notice to the other party. In consideration for the services to be performed by Magnum, we have agreed to pay Magnum a monthly consulting fee of \$500 and to issue to Magnum during each month a number of shares of our common stock determined by dividing \$5,000 by the average closing bid price of the stock for the trading days in that month. We have also agreed to provide Magnum piggyback registration rights with respect to any shares issued under the agreement.

**ITEM 6 – EXHIBITS AND REPORTS ON FORM 8-K.**

(a) Exhibits

- 4.1 Letter Agreement dated July 30, 2002 by and between the Company, C. Alan Williams, and Joan P. Williams previously filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-QSB for the period ended June 30, 2002.
  - 4.2 Promissory Note Modification Agreement dated July 15, 2002 by and between the Registrant and James W. Townsend previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 2, 2002 and incorporated herein by reference.
  - 4.3 Form of Unsecured Convertible Promissory Note. Previously filed as Exhibit 4.5 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference.
  - 4.4 Form of Convertible Secured Promissory Note. Previously filed as Exhibit 4.6 to the Registrant's Quarterly Report on Form 10-QSB filed with the Securities and Exchange Commission on May 15, 2002 and incorporated herein by reference.
  
  - 10.1 Engagement Agreement dated November 12, 2002 by and between the Company and Magnum Financial Group, LLC.\*
  - 10.2 Consulting Services agreement dated October 28, 2002 by and between the Company and Tim Dales.\*
  - 99.1 Certification Pursuant To 18 U.S.C. §1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 signed and dated November 14, 2002 by K. Mason Conner, Chief Executive Officer.\*
  - 99.2 Certification Pursuant To 18 U.S.C. §1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 signed and dated November 14, 2002 by Michael A. Richard, Principal Accounting Officer.\*
- \* Filed herewith

(b) Reports on Form 8-K

<u>Date</u>	<u>Subject</u>
July 2, 2002	Extension of due dates to October, 2005 with respect to \$508,000 in convertible promissory notes and modification of certain terms thereof.

## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereto duly authorized, in the capacities and on the dates indicated:

VillageEDOCS (Registrant)

Dated: November 14, 2002

By: /s/ K. Mason Conner  
K. Mason Conner  
Chief Executive Officer and Director

Dated: November 14, 2002

By: /s/ Michael A. Richard  
Michael A. Richard  
Controller  
(Principal Accounting Officer)

## CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I certify that:

1. I reviewed this quarterly report on Form 10-QSB;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all materials respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;
4. The Registrant's other certifying officers and I are 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 Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the 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 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. The Registrant's other certifying officers and I have indicated in this quarterly 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 evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ K. Mason Conner

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President and Chief Executive Officer

**CERTIFICATION UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I certify that:

1. I reviewed this quarterly report on Form 10-QSB;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all materials respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;
4. The Registrant's other certifying officers and I are 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 Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly 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 quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the 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 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. The Registrant's other certifying officers and I have indicated in this quarterly 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 evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Michael A. Richard

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Controller and Principal Accounting Officer

**Exhibit 10.1**

**VillageEDOCS, Inc.**

**Financial Communications  
Program Recommendations and Engagement Agreement**

**Submitted: October 2002**

## **FINANCIAL COMMUNICATIONS PROGRAM PROPOSAL AND ENGAGEMENT AGREEMENT**

Thank you for allowing us the opportunity to review ways in which Magnum Financial Group, LLC can assist VillageEDOCS, Inc. in gaining greater visibility within the investment community, and in securing a fair market value for the Company's common stock on a consistent basis.

Each year, the universe of publicly traded companies grows, as does the number of stockbrokers, investment analysts, money managers and institutional portfolio managers. As a result, small and/or recently listed companies experience an increased difficulty in being recognized in the overall market clamor. Today, most publicly traded companies acknowledge the importance of a well-crafted financial communications strategy in communicating their message to the investment community. Large companies generally manage this function in-house by hiring dedicated investor relations specialists. Small firms and new companies, however, are increasingly utilizing the services of financial communications consultants, such as Magnum Financial Group, to save them both time and money in getting their story out to the investing public.

We at Magnum Financial Group can provide both the *proactive* campaigning to bring your stock to the attention of those members of the investment community for which it is most suited, and the *reactive* contact necessary to satisfy the questions and need for information originating from existing stockholders and other interested parties.

While any plan upon which we embark will be crafted in consultation with you, we have herein developed a set of proposed Financial Communications Program Recommendations that will provide you with a professional and consistent communications program designed to gain additional exposure within the investment community.

### **TWO KEY FACTORS THAT PUT MAGNUM AHEAD OF THE REST**

- Customized Programs** – Unlike the competition, Magnum does not use a “cookie cutter” approach to investor relations. Instead, in recognizing that each client and management team is unique, we develop, in conjunction with significant input from the client, a plan that is within the client's budget, with reference to the client's short- and long-term objectives, and in

keeping with management's available time and marketing philosophy.

### **Evolutionary**

- Today, the investment world is changing at a dramatic pace and many Investor Relations firms are stuck in the past -- doing the same thing the same old way. Magnum prides itself on its ability to change and adapt to new market realities, to identify and evaluate new ideas and methods of communicating one's investment story, and to assist its clients in maximizing the opportunities inherent in being a publicly-traded company.

This Financial Communications Program Recommendations and Engagement Agreement shall serve as the complete and final understanding by and between VillageEDOCS, Inc. 2121 Palomar 14471 Chambers Road #105, Tustin, CA 92780 ("Village", "Client" or the "Company"), and Magnum Financial Group, LLC ("Magnum"), 2523 West 7<sup>th</sup> Street, Suite B, Los Angeles, CA 90057, both of which are also referred to collectively herein as "the Parties."

## **I. PRIMARY GOAL**

Our goal at Magnum Financial is to implement the necessary tools and communications strategy that will enable a client to broaden its reach of intended audiences in the financial communities, so as to stimulate interest in the Company and to attain a fair market value for its stock.

To reiterate statements previously made to the Company, the objective of our financial communications program is to broaden the awareness of the Company in the capital markets through a methodical, disciplined and proven communications process. The program will be structured to generate interest in the Company's securities, with a goal of achieving the highest sustainable market value for those securities, and executed based upon the budget available. We herein make no representations as to the effect of our programs on either the price and/or volume of the Company's securities. From our experience, a public company that expends time and effort in making the investment community aware of its story will trade at a higher price level and higher volume than otherwise might be the case. However, the markets for publicly traded stocks are complex, and are influenced by numerous factors beyond the control of Magnum and the Company.

## **II. MARKET CIRCUMSTANCES**

VillageEDOCS, Inc. is a company that provides worldwide, Internet based, business-to-business fax services. The Company's Internet based Fax service allows its customers to send individual faxes as well as 'blast' faxes to thousands of recipients through their web browser, email package, or directly from their Microsoft Windows based application, Enterprise Resource Planning, Customer Relationship Management System or Corporate Information System. The Company charges its clients a monthly fee for the aforementioned services, based on a per page (sent or received) basis or a per minutes usage basis.

For a company like Village that lacks the support and following of a major investment banking firm and other professional investors (i.e. securities analysts, portfolio managers and retail brokers), a communications plan that targets individual investors as well as investment community professionals, is paramount. Regardless of the investment audience, the basics of solid financial communications should be employed. Such basics include investor kits, corporate profiles, press releases, and fax/ mailing/e-mail lists.

Included in Magnum's recommendations is a paid media program. Due to the shifting dynamics of the investment community, statistics show that more than half of all trades in small cap stocks are being generated by individual investors. Through extensive research Magnum has identified that the primary methods of information on new investments for individual investors are coming from varying forms of paid media, including magazines, Internet sites, television, radio and financial conferences. Magnum employs an ongoing research program to identify and catalog paid media opportunities, including Internet sites. Through our extensive monitoring of these marketing tools, Magnum has identified, and continues to identify, those opportunities that provide the most cost-effective methods for reaching the individual investor audience. Further, as Magnum is continually directing business towards those paid media vendors that provide, in Magnum's opinion, superior results, Magnum is often able to obtain preferential pricing and other benefits for our clients, that are not available to other companies. Of course, the degree to which the Company will be able to avail itself of paid media opportunities specifically hinges upon the budget available for such activities.

Based on the Company's circumstances, Magnum Financial is recommending a program that covers the basics of solid financial communications, while targeting individual investors (through Internet exposure and paid media), and other members of the investment community (brokers, fund managers) that are known by Magnum to invest small cap stocks.

Specific program objectives and recommendations are outlined and discussed on the pages that follow.

### III. PROGRAM OBJECTIVES

- ◆ To develop and deliver a clear, concise, and compelling investment story to the investment community.
- ◆ To foster consistent and efficient communications between the Company and the investment community.
- ◆ To identify and engage in activities specifically designed to stop existing stockholders from selling their stock, if needed.
- ◆ To identify key supporters of the Company in the investment community, if any, and to enlist their support in getting new investors into the stock.
- ◆ To develop, coordinate and execute, on behalf of the Company, participation in programs, activities and events designed to attract the interest of individual investors and brokers.
- ◆ To communicate with individual investors, thereby creating a diverse market demand for the Company's stock.
- ◆ To identify key retail brokers and attempt to obtain their support for the stock, if appropriate.
- ◆ To counsel management on effective strategies for increasing the Company's exposure in the investment community, to provide management with realistic feedback from the investment community, and to identify for management weaknesses in their plans which may affect interest in the Company's stock.
- ◆ To introduce the Company to broker-dealers who can facilitate the Company listing on the American Stock Exchange or Nasdaq, at the appropriate time.
- ◆ To achieve the highest sustainable market value for the Company's securities, contributing to increased shareholder liquidity and enhanced corporate finance opportunities.

### IV. SUMMARY OF RECOMMENDED ACTIVITIES

**Magnum Financial Group is recommending a financial communications program that begins immediately. We have herein outlined a detailed six-month plan designed to begin the process of informing the appropriate investment audiences, on an on-going basis, about the investment opportunity presented by the Company. Please note that our plan is not segregated by month, because many of the recommended activities are designed for implementation on a continual basis.**

**Our approach in developing this plan is to cover the basics of good communications, while instituting a modest program to promote the Company's stock.**

**Our program does not include "streetwork." A streetwork program involves the continual and active phone solicitation of brokers, fund managers and analysts to introduce them to the Company's story. A streetwork program is most suited to a company that is listed on a major exchange, and is exempt from the penny stock rules that prohibit most professional investors from buying low priced OTC Bulletin Board stocks. As trading activity in the Company's securities increases, and if there is price appreciation and the Company is successful in furthering its plans, a streetwork program may be of value as time goes by.**

**Our program does not include "roadshows". Roadshows are specific, planned trips to major financial centers for the purpose of holding a series of meetings, either one-on-one or group meetings, to introduce the client's story to members of the investment community. For those clients of Magnum for whom roadshows are appropriate, Magnum will separately develop and implement roadshow programs, and will charge the client an additional fee for such roadshows. The price of roadshows is not included in this proposal because 1) roadshows are not appropriate for all clients, 2) roadshows costs vary depending upon the location, duration and other factors, and 3) the frequency of roadshows will vary depending upon client's availability, client's results and market conditions.**

**Although we have outlined herein our intended activities, the scope and nature of our engagement, subject to the terms of this Agreement, may be changed and/or modified at any time by mutual agreement between the Parties.**

**Specific activities recommended by Magnum Financial Group are outlined below:**

1. Confer with management to obtain specifics about their activities and progress over the past year, so as to develop a positioning strategy and investment story to convey to investors. Due to the unique nature of the Company's business, this step is a key element in the Company's communications program, and an activity that needs to be allocated an appropriate amount of time and effort.
2. Identify key target dates and tasks to be accomplished over the coming months, in concert with any significant events or activities planned by the Company. Review with management the Investor Relations Activity Checklist and the division of responsibilities between client and Magnum. Adjust proposed program as necessary.
3. Develop a one-page to two-page fact sheet, to be used both in investor kits as well as a fax tool for giving interested parties a quick, summarized overview of the Company's activities.
4. Counsel management on public markets and the financial communications process.
5. Review the Company's investor kits, and make changes as needed. (Investor kits should be available on-line through the Company's website)
6. Review Company's press releases on significant events in the Company's business. Edit as necessary.
7. Compile names to be included on the Company's e-mail and mailing lists -- key brokers, stockholders, directors, individual investors, interested parties, investment bankers, etc. and others known to the Company and/or readily known to Magnum who would have an interest in the story.
8. Identify key investors and introduce Magnum as the main contact point.
9. Put the Company on Magnum's website. Magnum's website would include the one-pager, regulatory filings, press releases, stock quotes, and a link to the Company's website.
10. Research and prepare a list of financial publications and investment newsletters that may have an interest in the Company's story; add to fax/e-mail list, and plan timing of mailings.
11. Take incoming phone calls from members of the investment community, as needed.

12. List the Company's story on an investment securities-related Internet web site. (Dependent upon Client's budget for such activities).
13. Develop and implement a paid media program, that will most likely include direct mail, Internet marketing, television, radio, conferences, print ads, and other methods of reaching the investment community. Follow up on all leads generated by using a combination of fax, e-mail, regular mail and personal phone contact. Paid media programs also generate leads that Magnum employees can follow up on. (Implementation of this type of program is dependent upon Client's budget for such activities.)
14. Identify all market makers, update/apprise them of the Company's story, and add them to the e-mail and mailing list.
15. Coordinate quarterly and/or special event conference calls with management and the investment community, including invitations, scripting, and practice sessions, as needed.
16. Identify and introduce the Company to investment bankers that can facilitate a transition of the Company from the Bulletin Board to a senior exchange, as appropriate.
17. If needed, engage and manage the efforts of a promoter, or promoters, on behalf of the Company. Stock promoters are typically individuals who have a close network of investors with whom they work. These promoters will introduce the Company to their network, and encourage their network associates to purchase stock in the Company, which can often result in substantial buying activity. Promoters are best used when their efforts are supplemented by both paid media activities, and traditional investor relations activities, such as press releases and streetwork. Due to the manner in which promoters work, their programs tend to be short lived, and most promoters work with a client company for no more than three months. (Use of a promoter is depended upon the Client's budget for such activities.)

## **V. COMPENSATION AND EXPENSES**

**This proposal and engagement agreement has been prepared based upon what we believe, from our extensive experience in the business of financial communications and investor relations, to be the type of program necessary to bring the Company's story to the attention of its appropriate investment audiences. In accordance therewith, the proposal has been priced upon our estimate of the time and effort required to effectively execute the program, and the pricing is in line with the fees that we charge other companies with similar dynamics.**

**Fees are clearly a function of the staff time required to execute the plan. For some companies, it makes sense to keep cash outflow to a minimum and to provide for a financial communications plan over a longer period of time. Remember, in financial communications and investor relations, a consistent and steady program, even a low-budget program, executed over time, is always more effective than an expensive one-time effort.**

**Magnum is always prepared to discuss a compensation plan that provides more equity participation (stock and warrants) and less cash fees. We typically take some form of equity in payment because the monthly fee we charge often does not cover the cost of servicing an account, and we typically make our profits solely from the equity portion of our fees. In certain instances, we are prepared to “fund” part of the monthly cash fees on behalf of a client for a greater share in their equity.**

### *Consulting Fees*

#### *Cash*

As consideration for the services Magnum has agreed to provide, the Company shall pay Magnum a consulting fee of \$500 per month while this Engagement is in effect. The monthly fee may be increased or decreased at any time by mutual agreement of the Parties and depending upon the scope of activities.

Monthly fees are invoiced prior to the beginning of each month and due on the first day of the month. If payment of the monthly fee is not received by the 15<sup>th</sup> of the month for which that monthly fee is due, work on the account may be put on a temporary hiatus, until such time as the monthly fee is paid. However, the obligation of the Company to fulfill its financial obligations with respect to this engagement remains as stated.

At the end of each month, Magnum will assess a finance charge against all unpaid the Company invoices that are at least 30 days old, at the rate of 1.5% of the face amount of the unpaid invoices.

### *Non-cash Compensation*

In addition to the monthly consulting fee, and in consideration of Magnum's services, the Company will pay to Magnum each month an amount of restricted stock equal to \$5,000 divided by the average closing bid price of the stock for the trading days in that month. Such share will carry full

piggyback registration rights. Such stock will be issued within 30 days of the end of the month in which the stock was earned.

### ***Outside Services***

Based upon our vast experience, we have found specific paid financial media programs to be an integral part of our clients' *proactive* financial communications program. We have identified and successfully utilized various financial media programs including, but not limited to, paid independent research, internet stock sites, television and radio programs, investor conferences, and the like. Based upon our belief in the beneficial efficacy of such programs, we recommend that, in addition to the services provided by Magnum Financial, our clients consider utilizing certain paid financial media, that could include the following:

- Independent Research – We recommend that the Company commit to contract with an independent research firm for paid research coverage. The fees for this coverage typically range from \$8,000 to \$20,000. Paid research is most appropriate when the Company is in a position to confidently forecast its future results, and is able to provide the analyst with an appropriate business model.
- Internet Stock Site - We also recommend that the Company commit to contract with an Internet stock site (ISS) for Internet exposure and marketing. There are a number of Internet Web sites that promote growth and/or value stock opportunities. We have existing relationships with some, and there are others as well. We recommend exposure on at least one such Web site, and if the budget allows, maybe on two such sites. These Web sites will advise all Web site subscribers about the Company, and will generally issue a press release announcing that the Company is featured on the Web site. Then, on an ongoing basis, every time the Company issues a press release, all subscribers are advised of the press release by e-mail, and provided with a direct link to the release. The Web sites feature information on the Company, and may include additional investor services such as chat rooms, stock quotes and news links. Promotion of these Web sites is typically accomplished via banner ads, print advertising and hyperlinks on the Internet. Costs vary, and we will present a variety of Web sites to you and recommend one that is appropriate for the Company's budget.

- Other Activities - We also recommend that the Company commit to participate in other ancillary marketing activities, which could include financial shows, mailings, television, radio, investor publications, conferences, and other activities. While there is an added cost to such activities, if executed properly, these activities can be very instrumental in building an audience for a company's stock. We understand that the Company's budget may not provide for these additional activities. In some instances, via Magnum's influence, we may be able to provide some of these services for payment of stock. Regardless, we recommend that the Company fund such programs as soon as is practicable.
- **Promoters – We recommend the use of promoters only in special circumstances. If a promoter is used, it is important that their efforts be coordinated through Magnum, so as to obtain the maximum effect from their programs. Further, many promoters tend to over promise and under deliver, and therefore it is best to use a promoter that Magnum has experience with, and whom Magnum knows will perform the services agreed upon.**

As part of our services, we would coordinate all of these activities on the Company's behalf. One of the best audiences for small cap companies is individual investors, and the methods outlined herein constitute some of the more effective means of reaching those investors. **Further, these activities generate leads from interested and potential investors, which can be followed up on as part of our program.**

### *Expenses*

The Company will normally incur certain direct costs from time to time for news wire distribution services, broadcast media, website placement, print advertising, printing, 35mm color slides, color and black & white reproductions, meeting rooms and catering, bulk-mail postage, and bulk data entry of the contact database. It is the policy of Magnum to pass through these additional direct without markup. The direct costs that may be incurred from time to time will be billed to you directly from the vendor when practicable. It is Magnum's policy to obtain prior approval from the Company on all services and/or expenditures made on the Company's behalf, by Magnum.

Any costs associated with traveling to the client's facilities to meet with management for an orientation and initial planning meeting is also billable to the client.

Any direct expenses paid by Magnum shall be itemized and invoiced at the end of each month of the engagement and due upon receipt.

## **VI. EXCESS EVENTS, PREMIUM FEES**

Our monthly fees are designed to provide a planned financial communications program that is implemented consistently over a period of time based on a reasonable estimate of the hours of work required to effect that plan. For reasons beyond our control, particularly in times of crisis (proxy fights, auditor resignations, class-action litigation, suspension of trading, de-listing of securities, frenzied trading activity, etc) or rush situations (such as late SEC filings, last minute news releases, other critical news releases, after-hour meetings, etc.) the Company may require our involvement and time beyond the scope of this Agreement. In such situations, with client approval, we will provide additional services for additional fees.

The fees provide for service to the client during normal business hours, from 6:30 AM (market open) to 5:00PM, Monday through Friday. While Magnum makes every endeavor to meet the needs of its clients during these hours, there may be situations in which the client requires the services of Magnum employees outside of the normal business hours. Magnum will advise the Company of any instance when work requested cannot be accomplished during normal business hours, and if the Company requires that Magnum employees work beyond normal business hours to complete the work, Magnum will invoice the Company for those hours worked at the rate of \$150 per hour.

## **VII. EQUITY AND DEBT FINANCING EXPRESSLY EXCLUDED**

Further, while our scope of work traditionally interfaces with investment bankers and investment funds in the financial community, this engagement does not cover corporate finance. Our services are defined as financial communications and investor relations, and our fees are structured to cover only these services. Should the Company require any form of financing, we would be more than pleased to facilitate a separate corporate finance engagement. However, it is Magnum's policy to obtain from each Client a success fee agreement relating to financings, acquisitions, and/or other business combinations that result from Magnum's activities.

## **VIII. COMMENCEMENT DATE**

The date our activities will actually commence will be the date on which Magnum receives a signed Agreement with a check for \$500. However, our

engagements are on a calendar month basis, and therefore, if this engagement is entered into from the first to the fifteenth of the month, it will be deemed to be effective with the first of that month, if entered into from the sixteen to the thirtyfirst of that month, it will be deemed to be effective from the first of the month following (“Effective Date”).

## **IX. TERM OF AGREEMENT**

Upon the Company’s execution hereof and its timely delivery of compensation instruments as stipulated herein (see “Acceptance, Execution, & Completion”), this Agreement shall continue until cancelled.

## **X. TERMINATION**

Either Party may cancel this Agreement at then end of any month.

The Company may terminate this Agreement immediately without notice or demand if any of the following should occur:

- (i. Magnum’s material breach of this Agreement.
- (ii. Any willful breach of duty or habitual neglect of duty by Magnum as related to the performance of this Agreement.
- (iii. The dissolution, insolvency, or bankruptcy of Magnum.

Magnum may terminate this Agreement immediately without notice or demand if any of the following should occur:

- (i. Within thirty days of the Execution Date hereof, the Company fails to remit the compensation instruments and an original of this signed Agreement to Magnum as stipulated further in this Agreement (see “Acceptance, Execution, & Completion”).
- (ii. Within thirty (30) days of its due date, Magnum is not in receipt of its monthly fee or reimbursed for expenses billed.
- (iii. The Company’s material breach of this Agreement.
- (iv. The dissolution, insolvency, or bankruptcy of the Company.

## **XI. LAWS, REGULATIONS, & CONFIDENTIALITY**

In this relationship, Magnum agrees to comply fully with all federal and state securities laws and regulations, industry guidelines and applicable corporate law. Additionally, our firm shall maintain the confidentiality of all

information of the Company not cleared by the Company for public release.

## **XII. INDEMNIFICATION**

The Company agrees to indemnify and hold harmless Magnum, including its principals, members, and employees from and against any and all losses, claims, damages, expenses and/or liabilities which Magnum may incur arising out of Magnum's reliance upon and approved use of information, reports, and data furnished by and representations made by the Company with respect to itself, whereby Magnum in turn distributes and conveys such information, reports, and data to the public in the normal course of representing the Company in financial communications activities. Such indemnification shall include, but not be limited to, expenses (including all attorney's fees), judgments, and amounts paid in settlement actually and reasonably incurred by Magnum in connection with an action, suit or proceeding brought against Magnum and/or its principals, members, or employees.

Similarly, Magnum agrees to indemnify and hold harmless the Company, including its principals, directors, officers, and employees from and against any and all losses, claims, damages, expenses and/or liabilities which the Company may incur arising out of Magnum's representation of the Company to the investment community, media, or its shareholders. Such indemnification shall include, but not be limited to, expenses (including all attorney's fees), judgments, and amounts paid in settlement actually and reasonably incurred by the Company in connection with an action, suit or proceeding brought against the Company and/or its principals, members, or employees.

## **XIII. ACCEPTANCE, EXECUTION, & COMPLETION**

Should you accept the terms, conditions, and provisions outlined herein please indicate such by signing and dating as provided for below.

In order that Magnum Financial have documented authority to represent the Company, please forward a facsimile of the signed and dated document to us at (Fax: 213-351-3512) immediately upon execution.

To complete the transaction between us, the Company shall, within two (2) days of the execution date hereof, remit the following: i. an original of the signed and dated engagement agreement; ii. a check in the amount of \$500. We recommend that you express mail all aforementioned items for timely delivery.

## **XIV. ARBITRATION**

The parties shall submit any dispute arising out of this Agreement, including the interpretation of or the enforcement of rights and duties under this Agreement, to final and binding arbitration pursuant to the Commercial Arbitration Rules of the American Arbitration Association, in Los Angeles, California. At the request of any party, the arbitrators, attorneys, parties to the arbitration, witnesses, experts, court reporters, or other persons present at the arbitration shall agree in writing to maintain the strict confidentiality of the arbitration proceedings. Arbitration shall be conducted by a single, neutral arbitrator, or, at the election of any party, three neutral arbitrators, appointed in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitrator(s) shall be attorneys in practice for at least ten years, and experienced in the matter(s) being arbitrated. In any such arbitration, California Code of Civil Procedure Section 1283.05 (Right to Discovery; Procedure and Enforcement) shall be applicable. The award of the arbitrator(s) shall be enforceable according to the applicable provisions of the California Code of Civil Procedure. The arbitrator(s) shall have the same powers as those of a judge of the Superior Court of the State of California, shall be bound by the statutes and case law of the State of California, and shall render a decision as would a judge of a Superior Court of the State of California. Notwithstanding the foregoing, either party shall have the right to petition a court of competent jurisdiction, for (i) injunctive relief or other equitable remedies against the other for any violation or breach by such party of its obligations hereunder pending a decision by the arbitrator(s), and (ii) for a permanent injunction. If proper notice of any hearing has been given, the arbitrator(s) will have full power to proceed to take evidence or to perform any other acts necessary to arbitrate the matter in the absence of any party who fails to appear. EACH PARTY HERETO WAIVES THE RIGHT TO A JURY TRIAL.

## **XV. MAGNUM STAFF**

If during the term of this Agreement, and for one year following the termination of this Agreement, should Client hire on a permanent and/or full-time basis, any Magnum employee, contract worker, former employee or former contract worker (“Worker”), whether as an employee, contract worker or otherwise, who was at Magnum, or provided services to Magnum, at any time during the term of this engagement, then Client shall pay to Magnum a fee of \$10,000, plus twenty five percent (25%) of the estimated annual compensation that the Worker is expected to earn from Client, such payment to be made within fifteen days of hire. Should Client engage Worker on a part-time or project basis, then Client shall pay to Magnum a fee of \$5,000, such payment to be made within fifteen days of engagement, plus twenty five percent (25%) of all amounts paid to Worker, for a period of one year from the time Client first engages Worker’s services, such payments to be made when payment is made to Worker.

## **XVI. MISCELLANEOUS**

This Agreement shall be deemed to be executed and delivered within the State of California and is to be construed, interpreted and applied in accordance with the laws of the State of California, excluding that body of law relating to the Conflicts of Law. This Agreement shall have venue in the courts of Los Angeles County. If any provision, term, or condition of this Agreement, or any application thereof, shall be declared invalid or unenforceable by any court of competent jurisdiction, such invalid or unenforceable language shall not affect the enforceability or effectiveness of the remainder of the Agreement. As such, the remainder of this Agreement, and any other application of such provision, term, or condition, shall survive and continue in full force and effect.

The failure of either party to exercise any right, power, options or remedies provided hereunder, or to insist upon strict compliance with the terms hereof by the other, shall not constitute a waiver of the terms and conditions of this Agreement with respect to any other or subsequent breach thereof, nor a waiver by either party of its rights at any time thereafter to require exact and strict compliance with all terms hereof. The rights and remedies hereunder are cumulative to any other rights or remedies that may be granted by law.

The undersigned hereby represent, warrant and certify that they in fact have full authority to enter into this specific Agreement; and furthermore agree to provide each other proof of such authority should such proof be requested.

This is the complete and final Agreement between the Parties relative to the subject matter hereof and all prior and contemporaneous statements, both oral and written are hereby superceded.

On behalf of the entire staff at Magnum Financial Group, we wish to thank you for your confidence in retaining our firm. Your account team looks forward to working with you now and in the future toward our mutually beneficial goals.

Respectfully,

**MAGNUM FINANCIAL GROUP, LLC**

/s/ Rana Thomas (on behalf of Michael S. Manahan)

Michael S. Manahan  
President

In agreement and acceptance of the terms and conditions herein:

**VillageEDOCS, Inc.**

/s/ Mason Conner

November 12, 2002

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Mason Conner, President

Date

CONSULTING SERVICES AGREEMENT

This Consulting Services Agreement is entered into between Tim Dales, ("Consultant") and VillageEDOCs ("Client"). And whereas Client desires to engage Consultant as an independent contractor to consult with Client on matters pertaining to Client's business, including the development and implementation of a marketing communications program.

Therefore, in consideration of the retention of Consultant by Client, the mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Client and Consultant agree as follows:

1. DEFINITIONS

1.1 CLIENT. The term "Client" includes all divisions and subsidiaries of VillageEDOCs and all joint ventures and partnerships of which VillageEDOCs is a member or participant.

1.2 CONSULTANT. The term "Consultant" includes all employees, agents, and associates of named Consultant who provide services related to this agreement.

1.3 Definition of Confidential and Trade Secrets. "Confidential Information and Trade Secrets" means all information, processes, process parameters, methods, practices, fabrication techniques, technical plans, algorithms, inventions, computer software programs and related documentation, customer lists, price lists, supplier lists, marketing and business plans, financial information, and all other compilations of information (whether or not designated or marked "CONFIDENTIAL") or the like (a) which relate to the business of either party and which have not been disclosed by such party to the general public, or (b) which are received by either party from a third party under terms of non-disclosure agreement with the third party.

1.4 Agreement. "Agreement" means this Consulting Agreement, and all attachments hereto.

2. CONSULTING SERVICES

2.1 Consulting Term. Client agrees to retain Consultant, subject to all of the terms, conditions, and provisions of this Agreement. The initial term of this agreement is one year from the date of signatures of both parties. After the one year the agreement converts to a month to month term. During the term of the agreement Consultant and Client will agree on work product to be provided by Consultant and the compensation for defined work product.

The initial work product, as defined in Appendix A is to be completed during the first 120 days of this agreement.

2.2 Compensation. As express consideration for Consultants completed work product described in Appendix A and that is accepted by Client, Client agrees to cause 80,000 shares of its common stock, par value \$.001 per share, to be payable to Consultant for each 30 day period of the 120 day period Consultant is engaged for work product described in Appendix A. Company will to the best of it's ability cause such shares to be registered with the U.S Securities and Exchange Commission on its Form S-8 or similar registration. Consultant requires and Client agrees to compensate Consultant the total shares of this agreement (320,000) prior to work beginning. Consultant agrees that each period's compensation is earned when Client accepts work product for that period.

2.3 Expenditures. Client shall reimburse Consultant for any reasonable expenditures incurred by Consultant on behalf of Client, in the performance of this Agreement, provided such expenditures have been approved by Client in writing (Client President or VP of Sales and Marketing) prior to Consultant incurring any such expenditure.

### 3. TERMINATION

3.1 Termination by Notice. Either Client or Consultant may terminate this agreement, with 30 days notice, at any time. If Consultant or Client terminate the agreement prior to the initial 120 day period Consultant agrees to return share certificates issued but not earned.

3.2 Termination by Default. If either party is in default of any term(s) of this Agreement, for whatever reason, the other party may withdraw from the agreement, until such time as the default is remedied, or other party may elect at any time during a default to terminate on 10 days notice, and this Agreement shall be deemed to have been terminated by defaulting party on the date set out in such notice, unless remedied prior to such date.

### 4. TRADE SECRETS AND CONFIDENTIAL INFORMATION

4.1 Trade Secrets and Confidential Information. During the term of this agreement, each of the parties hereto may be given access to or become acquainted with Confidential Information and Trade Secrets of the other party. Each party agrees not to use or disclose, directly or indirectly, any Confidential Information and Trade Secrets of the other party at any time or in any manner, except as required in the course of performance under this Agreement. The obligations of this paragraph survive the termination of this Agreement.

4.2 Restrictions on Documents and Equipment. All documents and equipment relating to the business of Client, whether prepared or supplied by Client to Consultant or otherwise coming into Consultant's possession, are the exclusive property of Client, and all such documents and equipment will be returned to Client at the termination of this Agreement.

4.3 No Disclosure or Use from Others. Consultant agrees not to disclose to Client or use on behalf of Client and confidential information or trade secrets obtained from other companies or persons, and not to bring confidential information or trade secrets of others onto Client's premises.

5. OTHER RESTRICTIONS

5.1 No Commitment. Neither party is authorized to make any commitments whatsoever to a third party on behalf of the other party, and shall when appropriate inform third parties of this limitation.

5.2 Confidentiality of Agreement. Notwithstanding the right of each party to obtain legal counsel with respect to the performance of this agreement, or the right to legal enforcement of this agreement, without the prior written permission of the other party, each party shall not reveal to any third party the existence of this agreement, its terms and conditions, the nature and scope of Consultant's services for Client.

6. GENERAL PROVISIONS

6.1 Legal Fees. If any arbitration, litigation, or other legal proceeding occurs between the parties relating to this Agreement, the prevailing party shall be entitled to recover (in addition to any other relief awarded or granted) its reasonable costs and expenses, including attorneys' fees, incurred in the proceeding.

6.2 Independent Contractor. This Agreement does not constitute a partnership agreement, nor does it create a joint venture or agency relationship between the parties. Neither party shall hold itself out contrary to the terms of this Paragraph. Neither party shall be liable for the representations, acts, or omissions of the other party contrary to the terms of this Agreement. It is specifically understood the Consultant is an independent contractor and shall not be considered as an employee of Client, and shall not represent itself as such to any third party.

6.3 Notices. All notices, or consents required or permitted under this Agreement must be in writing and must be delivered personally, or sent by facsimile or telecopier transmission, or sent by certified or registered mail or courier to the other party at the address set forth below, or to any other address given by either party to the other party in writing. Any written notice so given shall be deemed to have been given on the day it was transmitted by facsimile/telecopier (provided that the original thereof is posted by registered or certified mail within two days thereafter) or three days after the day it was so mailed by registered or certified mail or upon the day it was so delivered, as the case may be.

The current addresses of the parties are as follows:

VillageEDOCs  
Attention: Controller  
14471 Chambers Rd.  
Suite 105  
Tustin, CA.92780

Tim Dales  
23652 Via Ortega,  
Coto de Caza, CA 92679

- 6.4 Waiver and Amendment. No waiver, amendment, or modification of this Agreement shall be effective unless in writing and signed by the party against whom the waiver, amendment, or modification is sought to be enforced. No failure or delay by either party in exercising any right, power, or remedy under this Agreement shall operate as a waiver of the right, power, or remedy. No waiver of any term, condition, or default of this agreement shall be construed as a waiver of any term, condition, or default.
- 6.5 Successors or Assigns. This Agreement is intended to benefit and is binding on successors and assigns of the parties, and neither party may assign the rights or duties under this Agreement without the prior written consent of the other party hereto.
- 6.6 Separate Enforcement of Provisions. If any provision of this Agreement is held by a court or arbitrator of competent jurisdiction to be unlawful or unenforceable, the remaining provisions of this Agreement shall not be enforced to the extent possible.
- 6.7 Governing Law and Forum. The validity, construction, and performance of this Agreement is governed by the Laws of California. Suit or arbitration with respect to this Agreement may be brought only in California.
- 6.8 Entire Agreement. This Agreement, including all contemporaneous attachments, constitute the complete and final agreement between the parties, and supersedes all prior negotiations and agreements between the parties concerning its subject matter.

IN WITNESS WHEREOF THE PARTIES HERETO HAVE EXECUTED THIS AGREEMENT  
EFFECTIVE AS OF \_\_\_\_\_

Consultant

Client: VillageEDOCS

Signature: /s/ Tim Dales

Signature: /s/ K. Mason Conner

Printed Name: Tim Dale

Printed Name: K. Mason Conner

Title: \_\_\_\_\_

Title President

Date: 10/28/2002

Date: 10/28/2002

## Appendix A

Work Product to be developed by Consultant in coordination with the VP of Sales and Marketing.

### 1.) Channel Program

- Lead Generation Program
  - Database Identification
  - Campaign Material and Implementation Management
- Pre-Sales Channel Tools
  - Presentations
  - Literature
- Pre-Sales Channel Kit
- New Channel Partner Launch Kit

### 2.) Lead Generation Marcom Road – Map

- Public Relations Media Kit
- Plan and Create Sample Kit

### 3.) Media Program

- Articles and Editorials Calendars – Target List
  - I.E. People Talk, SAP Info, SAP Insider, Info Week, Telephony, Oracle Profit, CIO, OAUG Insight, Midrange Magazines, Silicon Valley Reporter, Electronic Commerce World, Business 2.0, construction marketing today, construction monthly, Insurance Journal, National Mortgage News, Wall Street Lawyer, The Complete Lawyer, etc.
- Go to market plan and implementation
  - By Verticals
    - I.E. CRM, ERP, EDI, EDP, Medical, Insurance, Mortgage, Manufacturing, Legal, Construction, E-Commerce, etc.
  - Press Release
    - Schedule, authoring, management up through corporate approval (Excluding Release)
  - Speaking Engagement Calendar

### 4.) Literature Road Map

- Road Map
- Manage Literature Rework
- Assist in Content Development

Consultant

Client:

VillageEDOCS

Signature: /s/ Tim Dales

Signature: /s/ K. Mason Conner

Printed Name: Tim Dale

Printed Name: K. Mason Conner

Title: \_\_\_\_\_

Title: President

Date: 10/28/2002

Date: 10/28/2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VillageEDOCS (the "Company") on Form 10-QSB for the period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2002

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/s/ K. Mason Conner

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President and Chief Executive  
Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VillageEDOCS (the "Company") on Form 10-QSB for the period ended September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2002

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/s/ Michael A. Richard

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Controller and Principal Accounting  
Officer