CYPOST CORP
Form 10QSB
May 15, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: March 31, 2003

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _______________ to _______________

Commission file number 000-26751

CyPost Corporation
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	98-0178674
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

502-1281 West Georgia St., Vancouver, British Columbia, Canada V6E 3J7
(Address of Principal Executive Offices) (Zip Code)

(604) 904-4422
(Issuer's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 30,392,025 as of April 30, 2003.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("Commission"). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the financial statements and footnotes thereto, which are included in the Annual Report on Form 10-KSB, as amended, of CyPost Corporation (the "Company"), for the fiscal year ended December 31, 2002, previously filed with the Commission.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2003
(UNAUDITED)

ASSETS	
CURRENT ASSETS:	
CASH	$ 13,182
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS of $77,210	32,413
PREPAID EXPENSES	45,933
NOTE RECEIVABLE & ACCRUED INTEREST - RELATED PARTY	41,884
TOTAL CURRENT ASSETS	133,412
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	232,580
INTANGIBLES:	
CUSTOMER LISTS	2,844,768
GOODWILL	1,399,045
LESS ACCUMULATED AMORTIZATION	(3,905,254)
INTANGIBLES, NET	338,559
DEPOSITS	89,719
OTHER ASSETS	9,173
	$ 803,443
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	$ 1,932,796

NOTE PAYABLE - RELATED PARTY	14,615
DUE TO BANK	14,171
DEFERRED REVENUE	305,057
TOTAL CURRENT LIABILITIES	2,266,639
COMMITMENTS AND CONTINGENCIES (NOTE 3)	
STOCKHOLDERS' DEFICIT:	
SHARE CAPITAL	
AUTHORIZED:	
5,000,000 PREFERRED STOCK WITH A PAR VALUE OF $.001	
200,000,000 COMMON STOCK WITH A PAR VAUE OF $.001	
ISSUED AND OUTSTANDING	
PREFERRED STOCK - NONE	-
COMMON STOCK - 30,391,993	30,393
ADDITIONAL PAID-IN CAPITAL	14,778,733
DEFICIT	(16,186,779)
CURRENCY TRANSLATION ADJUSTMENT	(85,543)
TOTAL STOCKHOLDERS' DEFICIT	(1,463,196)
	$ 803,443

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

	2003	2002
REVENUES	$ 709,603	$ 772,750
DIRECT COSTS	269,842	466,998
EXCESS OF REVENUES OVER DIRECT COSTS	439,761	305,752
EXPENSES:		
SELLING, GENERAL AND ADMINISTRATIVE	510,533	656,030
AMORTIZATION AND DEPRECIATION	50,298	372,286
	560,831	1,028,316

LOSS FROM OPERATIONS	(121,070)	(722,564)
OTHER INCOME (EXPENSE):		
GAIN ON SALE OF PROPERTY AND EQUIPMENT AND INTANGIBLES, NET	49,787	-
IMPAIRMENT LOSS OF LONG LIVED ASSETS	-	(4,180)
INTEREST, NET	(7,845)	525
TOTAL OTHER INCOME (EXPENSE)	41,942	(3,655)
NET LOSS	$ (79,128)	$ (726,219)
LOSS PER SHARE - BASIC AND DILUTED	$ (0.00)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED	30,391,993	23,191,576

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(UNAUDITED)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(79,128)	$(726,219)
Adjustments to reconcile net loss to cash used in operating activities:		
Amortization	2,978	307,457
Depreciation	47,320	64,829
Provision for bad debt	(27,049)	282
Accrued interest income	(471)	(525)
Consulting fees offsetting note receivable - related party	-	17,750
Gain on sale of property and equipment and intangibles, net	(49,787)	-
Impairment loss of long-live assets	-	4,180
Changes in assets and liabilities:		
Accounts receivable	74,890	6,070
Prepaid expenses	11,911	6,104
Deposits	13,110	(267)
Other assets	(613)	21
Accounts payable and accrued liabilities	31,186	244,526
Decrease in due to bank	(17,497)	-
Deferred revenue	(51,137)	38,233

NET CASH USED IN OPERATING ACTIVITIES	(44,287)	(37,559)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Sales (Purchases) of property and equipment and intangibles	171,629	(16,595)
NET CASH (USED IN)/PROVIDED BY INVESTING ACTIVITIES	171,629	(16,595)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of Common Stock	-	250
Repayment of note payable - related party	(38,615)	-
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(38,615)	250
EFFECT OF EXCHANGE RATE CHANGES	(88,606)	695
NET INCREASE (DECREASE) IN CASH	121	(53,209)
CASH, BEGINNING OF YEAR	13,061	73,124
CASH, END OF PERIOD	$ 13,182	$ 19,915
OTHER CASH INFORMATION:		
Interest paid	$ 8,316	$ -
Taxes paid	$ -	$ -

See accompanying notes to the consolidated condensed financial statements.

CYPOST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(UNAUDITED)

1. ORGANIZATION BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

CyPost Corporation ("CyPost") was incorporated on September 5, 1997 under the laws of the State of Delaware and its principal executive offices are located in Vancouver, Canada. CyPost is engaged in the business of providing Internet connection services for business and personal use. Previously the Company was also involved in developing certain software products using encryption components to enhance user security and convenience for communication across digital networks, and in securing local data storage equipment, which activities the Company no longer currently pursues.

GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern" which assume that Cypost Corporation (the "Company") will continue in operation for at least one year and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several conditions and events cast doubt about the Company's ability to continue as a going concern. The Company has incurred net losses of approximately $16.2 million. Since its inception, the Company has a working capital deficiency at March 31, 2003 of approximately $2.1 million, and requires additional financing for its business operations. The Company is also involved in certain litigation that could adversely impact its results of operations and cash flow if it is unable to prevail in such matters.

The Company's future capital requirements will depend on numerous factors including, but not limited to, the Company development activities, and is able to generate profitable operations from its Internet connection services. The Company does not believe that bank borrowings are available under present circumstances, and there can be no assurance that any financing could be obtained from other sources. Even if funding were available, it might be available only on terms which would not be favorable to the Company or which management would not find acceptable. Meanwhile, management is working on attaining cost and efficiency synergies by consolidating the operations of Company's subsidiaries.

These financial statements do not reflect any adjustments that would be necessary to the carrying values of assets, the reported amounts of its liabilities, revenues and expenses, and the balance sheet classifications used if the Company was unable to continue as a "going concern". While management believes that the actions already taken or planned, as described above, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

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

BASIS OF PRESENTATION

The interim consolidated financial statements presented have been prepared by the Company without audit and, in the opinion of the management, reflect all adjustments of a normal recurring nature necessary for a fair statement of (a) the consolidated results of operations for the three months ended March 31, 2003 and 2002, (b) the consolidated financial position at March 31, 2003 and (c) the consolidated cash flows for the three months ended March 31, 2003 and 2002. Interim results are not necessarily indicative of results for the entire year ending December 31, 2003.

The consolidated financial statements and notes are condensed as permitted by Form 10-QSB and do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-KSB.

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 amounts reported in the financial statements, actual results may differ from those estimates.

CONSOLIDATION

The consolidated financial statements include the accounts of CyPost Corporation and its subsidiaries. The subsidiaries include, NetroverUSA Online Inc. (formerly known as ePost Innovations Inc.), NetRover Inc., NetRover Office Inc., Hermes Net Solutions Inc., Intouch.Internet Inc. and Fibra Communications, LLC. Connect Northwest and Internet Arena are DBA's of CyPost Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

FUNCTIONAL CURRENCY AND FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is U.S. dollars. Balance sheet accounts of international self-sustaining subsidiaries, principally Canadian, are translated at the current exchange rate as of the balance sheet date. Income statement items are translated at average exchange rates during the period. The resulting translation adjustment is recorded as a separate component of stockholders' equity. Dollar values in these consolidated financial statements are expressed in U.S. Dollars, unless indicated otherwise. On March 31, 2003 one Canadian Dollar (Cdn) was exchangeable for .67970 U.S. Dollars.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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. Estimates that are critical to the accompanying financial statements include estimates related to certain contingent liabilities discussed at Note 3. It is at least reasonably possible that our estimates could change in the near term with respect to these matters.

2. SALE OF ASSETS

During the months of February and March 2003, the Company sold various receivables, customer lists, equipment, trade names, and related goodwill for gross consideration of approximately $253,000. The net book value of such assets at March 31, 2003 approximated $203,000, resulting in a net gain of approximately $50,000.

3. COMMITMENTS AND CONTINGENCIES

BERRY LITIGATION

On March 31, 2000, the Company commenced suit in the Supreme Court of British Columbia, Action #S001822, Vancouver Registry against Tia Berry (the "Tia Action"), the wife of Steven Berry ("Berry"), the former President and Chief Executive Officer of the Company. In the Tia Action, the Company claims Cdn$42,516 from Tia Berry on account of monies paid to her by the Company which she was not entitled to receive. Tia Berry has denied the allegations.

On May 19, 2000 CyPost and ePost Innovations commenced suit in the Supreme Court of British Columbia, Action #S002798, Vancouver Registry, against Berry and his wife, Tia Berry (the "BC Action"). Berry received 600,000 contingent shares upon condition that he would remain in the Company's employ as Chief Executive Officer for at least two years, which he did not. Following Berry's resignation, the Company attempted to cancel the 600,000 Contingent Shares. In the BC Action, the Company seeks an order directing Berry to return the 600,000 Contingent Shares to the Company for cancellation on the basis that Berry did not fulfill the employment conditions which were the condition precedent to his becoming the beneficial owner of the Contingent Shares. The Company also claims at least Cdn$800,000 from Berry on account of breach of fiduciary duty, negligence, breach of statutory duties and breach of contract arising from Berry's failure to properly carry out his employment responsibilities and

Cdn$34,013 from Berry and Tia Berry on account of conspiracy to defraud and injure the Company by causing certain personal expenses to be paid by the Company rather than by Berry and Tia Berry personally. The Company will vigorously pursue its position in all respects.

On December 21, 2000, Berry and Tia Berry commenced suit in the Supreme Court of British Columbia, Action #S006790, Vancouver Registry, against CyPost, ePost Innovations, Kelly Shane Montalban, J. Thomas W. Johnston, Carl Whitehead and Robert Sendoh (the "Berry Action"). Statements of Defense have been filed on behalf of the Company and the other defendants. The Plaintiffs in the Berry Action allege that the Tia Action, the BC Action, and the action by Kelly Shane Montalban (Supreme Court of British Columbia, Action #S002147, Vancouver Registry), against Berry for specific performance of an option agreement (the "Montalban Action"), collectively, amount to an abuse of process, malicious prosecution, unlawful interference with the Plaintiffs' economic rights, or were commenced pursuant to a civil conspiracy to injure the Plaintiffs. In the Berry Action, the Plaintiffs seek a declaration that Berry is entitled to the 600,000 Contingent Shares and claim unspecified damages which are estimated at Cdn$2,000,000 based on the Statement of Claim. They also claim punitive or aggravated damages and costs.

The Company believes that the allegations in the Berry Action are without merit and they will be vigorously defended. Because the case is in the discovery stage, the ultimate resolution of this matter cannot be determined. Accordingly, no provision for any loss that may result upon its resolution has been made in the accompanying consolidated financial statements.

ALLAN LITIGATION

On November 2, 2001, Tami Helen Allan ("Allan") commenced suit in the Ontario Superior Court of Justice of Chatham-Kent, against NetRover Inc., CyPost Corporation, Robert Sendoh, Kelly Shane Montalban, Angela Belcourt and J. Thomas W. Johnston. Allan claims that she has sustained damages as a result of a wrongful termination in the amount of Cdn$600,000.

The Company believes that the allegations in the Allan action are without merit and they will be vigorously defended. Because the case is in the discovery stage, the ultimate resolution of this matter cannot be determined. Accordingly, no provision for any loss that may result upon its resolution has been made in the accompanying consolidated financial statements.

OTHER LITIGATION

The Company is also subject to routine litigation from time to time in the operations of its business. None of such routine litigation is material to the Company, its assets or results of operations.

DEPENDENCE ON KEY SUPPLIERS

The Company's success depends upon the capacity, scalability, reliability and security of its network infrastructure, including the telecommunications capacity leased from WorldCom and other telecommunications network suppliers. The Company depends on such companies to maintain the operational integrity of their own telecommunications networks. Therefore, its operating results depend, in part, upon the pricing and availability of telecommunications network capacity from a limited number of providers in a consolidated market. A material increase in pricing or decrease in telecommunications capacity available to the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

In July 2002 WorldCom, Inc., the parent company of WorldCom Canada Ltd., filed for protection under Chapter 11, of the United States Bankruptcy Code. Chapter 11 reorganization is not a liquidation, but rather a medium for financially troubled United States companies to restructure their debt and resume operations.

WorldCom Canada Ltd. was not a part of this filing, nor have they filed for bankruptcy protection in the interim. The Company currently depends on WorldCom Canada Ltd.'s infrastructure for a significant portion of its revenue.

The Company has not experienced any disruption of service and does not anticipate any service disruptions in the future as a result of any reorganization of WorldCom Canada Ltds' parent company. Notwithstanding the aforementioned, the Company has had preliminary discussions with other providers as a contingency.

4. SUBSEQUENT EVENTS

On April 4, 2003, CyPost entered into a new lease with Mansa Holdings in respect to to its office premises located at 502-1281 West Georgia St., Vancouver, British Columbia for approximately 1,600 square feet of office space. The term of lease is for six years and ends on May 31st, 2009. The current monthly net rent under this lease is $2,196 CDN$. The property taxes and operating expenses are currently estimated at $2,230 CDN$ per month. As a result the Company has surrendered its' current office premises located at 900-1281 West Georgia St., Vancouver, British Columbia for approximately 6,500 square feet. The settlement payment for the release of this space is approximately $26,000 CDN$ payable over seven months commencing June 1, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENT

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the Consolidated Financial Statements of the Company and Notes thereto included elsewhere in this Report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. The statements which are not historical facts contained in this Report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes to the Consolidated Financial Statements, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and the Company's actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, dependence on existing and future key strategic and strategic end-user customers, limited ability to establish new strategic relationships, ability to sustain and manage growth, variability of operating results, the Company's expansion and development of new service lines, marketing and other business development initiatives, the commencement of new engagements, competition in the industry, general economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of its clients, the potential liability with respect to actions taken by its existing and past employees, risks associated with international sales, and other risks described herein and in the Company's other SEC filings.

OVERVIEW

The Company is engaged in the business of providing Internet service provider ("ISP") services ("ISP Services") for business and personal use. Previously, the Company was also involved in developing certain software products, which activities the Company no longer pursues.

The Company's business operations are presently conducted in the United States and Canada. The Company derives all of its revenues from its ISP Services. At present, most of the revenue from ISP Services can be attributed to connectivity, although the Company's network of ISP Services is moving towards expanding its Web hosting services.

The Company continues to streamline and consolidate its ISP Services operations to enhance efficiency and reduce operating expenses. The Company has embarked on a program to centralize ISP Services to the greatest extent possible, as follows:

o Customer Support. The Company has consolidated all aspects of customer support(including end user technical issues) for its Oregon, and Canadian ISP customers into the Chatham, Ontario facility.

o Billing and Collections. Billing and collections for all ISP customers are presently handled from the Chatham facility. The Company is also upgrading its billing platform to an industry specific application that will further streamline provisioning and billing of services.

o Network Operations. The Company's main network operation center is located in Etobicoke (suburban Toronto), Ontario. This operation center monitors network traffic, quality of services and security issues, as well as the performance of the equipment located at each of its physical locations, to ensure reliable service. The operation center is monitored on a 24 hours a day, seven days a week, 365 days a year basis, and maintains responsibility for communications between internal departments (customer care) as well as with external providers of services.

The Company has completed its consolidation of its Web hosting and dedicated services to its Toronto data center. Other ISP Services such as e-mail and user authentication (i.e., customer security) are also in the process of being consolidated to the main data center in Toronto.

The Company is also considering implementing other consolidated services to achieve greater efficiency and cost savings.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2002

All of the Company's revenue was earned from its ISP operations during the three months ended March 31, 2003. These revenues are attributable entirely to the operations of the Company's ISP businesses (NetRover Inc. and the Connect Northwest Internet Services and Internet Arena DBAs) which the Company acquired beginning late in the second quarter of 1999.

The Company generated net sales of $709,603 for the three months ended March 31, 2003 compared to $772,750 for the three months ended March 31, 2002, a decrease of 8%. This decrease is primarily due to a decrease in marketing related activities, and the prolonged softening of technology related sector spending.

Direct costs, which consist primarily of telecommunications charges with respect to providing Internet connection services to customers, of $269,842, were incurred for the three months ended March 31, 2003, compared to $466,998 for the three months ended March 31, 2002, a 42% decrease. This decrease results primarily from having renegotiated or terminated certain telecommunication agreements and a decrease in overall usage.

Selling, general and administrative expenses were $510,533 for the three months ended March 31, 2003 compared to $656,030 for the three months ended March 31, 2002, a 22% decrease. This decrease results primarily from a decrease in professional fees, salaries and benefits and marketing related activities.

Amortization and depreciation expenses were $50,298 for the three months ended March 31, 2003, compared to $372,286 for the three months ended March 31, 2002, a 86% decrease. This decrease is primarily due to the fact that the balance of the Company's intangible assets were substantially amortized as of December 31, 2002, thus the expense attributable to the amortization of these assets decreased by approximately $305,000.

As a result of the above, the Company's loss from operations decreased by 83% to $121,070 during the three months ended March 31, 2003, compared to $722,564 during the three months ended March 31, 2002.

The Company incurred net interest expense of $7,845 for the three months ended March 31, 2003, compared to net income of $525 for the three months ended March 31, 2002. This increase in expense is primarily the result of the interest paid on the monies borrowed during the fourth quarter 2002.

During the three months ended March 31, 2003, the Company recognized a gain on sale of certain goodwill and intangibles of approximately $50,000 from the sale of various receivables, customer lists, equipment, trade names, and related goodwill for gross consideration of approximately $253,000.

As a result of the above, the Company's net loss decreased by 89% to $79,128, or $.00 per share, for the three months ended March 31, 2003, compared to a net loss of $726,219, or $.03 per share, for the three months ended March 31, 2002. This decrease is primarily a result of a decrease in direct costs, selling, general and administrative expenses, amortization of the intangible assets, and the gain on sale of certain assets.

LIQUIDITY AND CAPITAL RESOURCES

The accompanying financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for at least one year and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss for the three months ended March 31, 2003 of $79,128, compared to a net loss for the three months ended March 31, 2002 of $726,219. As of March 31, 2003, the Company had a working capital deficit of $2,133,227, which is primarily due to the Company's general operating activities and professional fees. These factors indicate that the Company's continuation as a going concern is dependent upon its ability to obtain adequate financing.

The Company's cash position on March 31, 2003 remained relatively stable at $13,182 compared to $13,061 on December 31, 2002.

The Company used $44,287 in operating activities for the three months ended March 31, 2003, compared to $37,559 for the three months ended March 31, 2002, an increase of 18%. This increase is primarily due to a decrease in deferred revenue, an increase in accounts payable, offset by a decrease in accounts receivable.

The Company's generated cash of $171,629 from investing activities for the three months ended March 31, 2003, compared to using $16,595 to purchase equipment during the three months ended March 31, 2002. During the three months ended March 31, 2003 the Company did not purchase any equipment and generated cash from the sale of certain assets of the Company's D/B/A Connect Northwest, consisting of customer list, trade name, computer hardware and software for cash. In addition the buyers assumed certain liabilities in the sale transactions.

The Company used $38,615 in financing activities during the three months ended March 31, 2003, to repay debt that the company did not have until the fourth quarter of 2002, compared to net cash provided of $250 through the sale of common stock during the three months ended March 31, 2002.

Since our inception, we have experienced negative cash flow from operations. In the past, we have funded our operating losses and capital expenditures borrowings of debt and convertible debt from private sources. We continue to evaluate alternative means of financing to meet our needs on terms that are attractive to us. We must either raise additional funds to support aspects of our business for 2003 or we will be forced to curtail certain aspects of our business operations, particularly in terms of the growth of and further enhancements to our ISP Services business, or recommencing research and development of Software Products. We need a minimum of $500,000 and a maximum of $4,500,000 to support current operations, grow and further enhance our ISP services business, and a minimum of $250,000 and a maximum of $500,000 to recommence the research and development of the Software Products. If financing were made available we would first apply the proceeds to the further enhancement of our ISP services business. We cannot be certain that additional financing will be available to us on favorable terms when required, or at all. If we are unable to obtain sufficient additional capital when needed, we could be forced to alter our business strategy, delay or abandon some of our expansion plans or sell assets. Any of these events could have a material adverse effect on our business, financial condition and results of operations. In addition, if we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to those of the rights of our Common Stock and our stockholders may also experience dilution.

DEPENDENCE ON KEY SUPPLIERS

The Company's success depends upon the capacity, scalability, reliability and security of its network infrastructure, including the telecommunications capacity leased from WorldCom Canada Ltd. and other telecommunications network suppliers. The Company depends on such companies to maintain the operational integrity of its telecommunications networks. Therefore, its operating results depend, in part, upon the pricing and availability of telecommunications network capacity from a limited number of providers in a consolidated market. A material increase in pricing or decrease in telecommunications capacity available could have a material adverse effect on the Company's business, financial condition and results of operations. Management cannot be certain that telecommunication capacity will be available on favorable terms when required, or at all. If the Company is unable to obtain sufficient capacity when needed, it could be forced to alter its business strategy, delay or abandon some of its business aspects or sell assets. Any of these events could have a material adverse effect on the Company's business, financial condition and results of operations.

In July 2002 WorldCom, Inc., the parent company of WorldCom Canada Ltd., filed for protection under Chapter 11, of the Unites States tax code. Chapter 11 reorganization is not a liquidation, rather a medium for financially troubled United States companies to restructure their debt and resume operations.

WorldCom Canada Ltd. was not a part of this filing, nor have they filed for bankruptcy protection in the interim. The Company currently depends on the WorldCom Canada Ltd.'s infrastructure for a significant portion of it's revenue.

The Company has not experienced any disruption of service and does not anticipate any service disruptions in the future as a result of any reorganization of Worldcom Canada Ltds' parent company. Notwithstanding the aforementioned, the Company has had preliminary discussions with other providers as a contingency.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes the following critical accounting policies affect the Company's more significant estimates and assumptions used in the preparation of its financial statements. The Company's significant estimates and assumptions are reviewed and any required adjustments are recorded on a quarterly basis.

Carrying value of the intangible asset - goodwill. As of March 31, 2003, the net book value of goodwill was $338,559. Management reviews the un-amortized goodwill associated with its various acquisitions, comparing the un-amortized goodwill to the estimated current acquisition costs. Should the estimated current acquisition costs decrease, this asset could become partially or fully impaired.

ITEM 3 - CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer (who also effectively serves as the Chief Financial Officer), of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various litigation for which a loss by the Company of the claim for monetary damages would have a material adverse effect on the Company's future results of operations, financial condition and liquidity; however, the Company does not expect to lose these actions and believes additionally that it would be able to negotiate reasonable payment terms should it lose these suits. Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of any litigation to which it is a party.

Item 2. Changes in Securities

NONE

Item 3. Defaults upon Senior Securities.

NONE

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

NONE

Item 5. Other Information.

NONE

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits
99.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Khazali

(b) Reports on Form 8-K
NONE

SIGNATURE

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

"Registrant"

CYPOST CORPORATION

DATE: May 15, 2003

By: /s/ Javan Khazali

Javan Khazali
Chief Executive Officer
(Principal Financial Officer)

CERTIFICATIONS

I, Javan Khazali, certify that:

1. I have reviewed this quarterly report on Form 10QSB of CyPost Corporation;

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 annual report; and

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

4. I and the issuer's other certifying officers are responsible for establishing and maintaining disclosure controls and procedures for the issuer and have:

(i) Designed such disclosure controls and procedures to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic reports are being prepared;

(ii) Evaluated the effectiveness of the issuer's disclosure controls and procedures as of March 31 2003 ("Evaluation Date"); and

(iii) Presented in the report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. I and the issuer's other certifying officers have disclosed, based on our most recent evaluation, to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):

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

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

(6) I and the issuer's other certifying officers have indicated in the report whether or not 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: May 15, 2003

/s/ Javan Khazali
JAVAN KHAZALI
Chief Financial Officer and CEO