

Edgar Filing: CYBERADS INC - Form 10QSB

CYBERADS INC  
Form 10QSB  
November 25, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2003  
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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from July 1 to September 30, 2003  
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Commission File Number: 333-62690

CYBERADS, INC.

-----  
(Exact name of Small Business Issuer as specified in its Charter)

Florida

65-1000634

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer Identification No.)

21073 Powerline Road, Suit 57, Boca Raton, Florida 33433  
-----

(Address of principal executive offices)

Phone # (561) 6722193  
-----

(Issuer's telephone number)

(Former Name, former address and former fiscal year,  
if changed since last Report.)

Check mark whether the Issuer (1) has filed all reports required to be  
filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 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  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: 16,049,777 shares of Common  
Stock, par value \$.0001, as of September 30, 2003.

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PART I. FINANCIAL INFORMATION  
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ITEM 1. FINANCIAL STATEMENTS

CYBERADS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
AS OF JUNE 30, 2003

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CYBERADS, INC. AND SUBSIDIARIES  
FINANCIAL STATEMENTS  
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## CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30-Sep-03
<b>ASSETS</b> -----	
CURRENT ASSETS	
Cash	103,978
Net Accounts Receivable	
Inventory	
Other Current Assets	
Total Current Assets	103,978
PROPERTY AND EQUIPMENT - NET	14,171
OTHER ASSETS	
Deposits	6,725
Other Assets	2,379
Goodwill	
Total Other Assets	9,104
TOTAL ASSETS	127,253
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> -----	
CURRENT LIABILITIES	
Cash Overdraft	
Accounts Payable	734,704
Advance- Related Parties	1,528,508
Accounts Payable- Related Parties	106,202
Accrued Expenses	583,791
Deferred Commission payables	206,660
Factor Payable - net	1,060,085
Notes Payable	72,000
Loan Payable - Convertible Debentures	60,000
Total Current Liabilities	4,351,950
STOCKHOLDER'S DEFICIENCY	
Convertible Preferred Stock, \$.001 par value, 5,000,000 shares authorized none issued and outstanding	-
Common Stock, \$.001 par value, 50,000,000 shares authorized, 17,049,777 shares issued and outstanding	17,050
Additional Paid In Capital	13,857,415
Accumulated Deficit	(18,099,161)
Total Stockholder's Deficiency	(4,224,697)
Deferred Financing Costs	
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIENCY	127,253

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## CYBERADS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	For the three month ended Sept. 30, 2003	For the three months end Sept. 30, 2002
NET REVENUES	320,700	1,817,000
COST OF REVENUES	1,302	952,000
GROSS PROFIT	319,398	865,000
OPERATING EXPENSES		
Selling & Advertising	285,690	314,000
Payroll Expenses	147,762	819,000
General and Administrative	229,329	424,000
Total Expenses	662,782	1,558,000
GAIN (LOSS) FROM OPERATIONS	(343,384)	(693,000)
OTHER INCOME (EXPENSES)		
Gain on theft of assets		12,000
Common Stock Expense	(41,274)	
Interest Expense	(101,279)	(142,000)
Loss on Reduction of Inventory	(18,027)	
Loss on Idle Equipment	(138,648)	
Loss on write-off chargeback	(142,817)	
Loss on prepaid write-off	(20,057)	
Interest Income	27	
Total Other Expenses	(462,075)	(130,000)
NET GAIN (LOSS)	(805,459)	(823,000)
NET GAIN (LOSS) PER COMMON SHARE EQUIVALENT - BASIC AND DILUTED	(0.050)	(0.050)

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## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	For the nine month ended Sept. 30, 2003	For the nine month ended Sept. 30, 2002
NET REVENUES	3,897,574.45	6,058,247
COST OF REVENUES	987,918.26	2,834,279
GROSS PROFIT	2,909,656	3,223,968
OPERATING EXPENSES		
Selling & Advertising	1,348,577	1,813,856
Payroll Expenses	752,711	1,982,960
General and Administrative	1,209,866	1,726,860
Total Expenses	3,311,154	5,523,676
GAIN (LOSS) FROM OPERATIONS	(401,498)	(2,299,708)
OTHER INCOME (EXPENSES)		
Gain on theft of assets	(41,274)	12,027
Common Stock Expense		
Interest Expense	(130,536)	(263,441)
Loss on Reduction of Inventory	(18,027)	
Loss on Idle Equipment	(190,961)	
Loss on chargeback write-off	(147,917)	
Loss on prepaid write-off	(20,057)	
Other Income	2,878	1,203
Interest Income	121	
Total Other Expenses	(545,773)	(250,211)
NET GAIN (LOSS)	(947,271)	(2,549,919)
NET GAIN (LOSS) PER COMMON SHARE EQUIVALENT - BASIC AND DILUTED	(0.066)	(0.178)

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CYBERADS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

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FOR THE NINE MONTHS ENDING SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2002

(UNAUDITED)

	For the nine months ending Sep 30 2003	For the nine months ending Sep 30 2002
	-----	-----
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Gain (Loss)	(947,272)	(2,549,919)
Provision for doubtful accounts		172,310
Depreciation		29,712
Impairment Fix Assets	190,961	-
Common Stock Expense	41,275	
Loss on write off of prepaids	361,463	
Amortization of deferred Consulting Fees		150,000
Amortization of deferred Interest	7,015	7,945
Stock and options issued for service		142,298
Gain on theft of assets		(1,203)
(Increase) decrease in:		
Accounts Receivable	1,073,760	603,571
Prepaids	22,406	-
Inventory	156,234	241,982
Deposits	70,526	(51,818)
Goodwill		
Fixed Assets		
Other Assets		
Increase (decrease) in:		
Cash Overdraft	(112,649)	
Accounts Payable	(1,043,920)	1,350,720
Advanced Related parties	281,100	(90,000)
Accounts Payable related parties	(725,423)	
Accrued Expenses	(71,821)	
Advanced Commission Payable	206,660	
Other Current Liabilities- Ken Loans	72,000	257,078
Factor Payable Net	446,662	
	-----	-----
Net Cash Used in Operating Activities	28,978	262,676
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Good faith deposit on future acquisitions		(75,000)
Purchases of property and equipment		(301,473)
	-----	-----
Net Cash Used in Investing Activities	-	(376,473)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of Common Stock, net of offering costs		55,000
Proceeds from issuance of convertible debentures		60,000
Proceeds from issuance of long term debt		22,368
Advances from third parties- Inphonic		-
Repayments to third parties, net		(76,034)
Goodwill	75,000	(455,271)
Net Advancement from Related Parties		135,527
Advances from factor, net		332,239
	-----	-----
Net Cash Provided by Financing Activities	75,000	73,829
	-----	-----
<b>NET INCREASE IN CASH</b>	<b>103,978</b>	<b>(39,968)</b>



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CASH- BEGINNING OF PERIOD		39,968
	-----	
CASH- END OF PERIOD	103,978	-
	=====	

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ITEM 2. MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL

Management's discussion and analysis contains various forward looking statements within the meaning of the Securities and Exchange Act of 1934. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward looking terminology such as "may," "expect," "anticipate," "estimates" or "continue" or use of negative or other variations of comparable terminology. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those contained in our forward looking statements, that these forward looking statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in our forward looking statements.

OVERVIEW

CyberAds, Inc. began operations in the fourth quarter of 2000 and began generating revenues in December 2000. Through our wholly-owned subsidiary, IDS Cellular, Inc., we generate revenues by marketing cell phone services to potential consumers we are introduced to through our internet affiliate program and other third party telemarketing services.

Commencing in the fourth quarter 2001, we began operating as a direct reseller of cellular phone service. This new operation provides us with increased revenues as well as a requirement to provide cellular telephones with each sale and maintaining an inventory of cellular telephones.

RESULTS OF OPERATIONS

Net revenues were \$320,700 for the three months ending September 30, 2003, and \$1,817,718 for the three months ending September 30, 2002. The \$1,497,018 decrease in revenues in the three months ending September 30, 2003 as compared to September 30, 2002 primarily reflects the change in operations. Since March, 2003 our main source of revenue is from direct commissions from InPhonic, eliminating almost completely the Cost of Goods Sold. As a result, our Gross profit is approximately 100% gross sales. In addition, we adjust revenues during the third quarter, 2003 to adhere to the service cancellation policies.

As a result of the change in operations since March 2003, our costs of goods sold were significantly reduced by \$950,870. Given the Third quarter of the current year revenues adjustment, the gross profit for this period was 319,398. Although \$546,148 lower than the same period on the previous year, the current gross period is 99.59% of revenues, as compared to 47.62% last year's third quarter.

Total operating expenses for the three months ending September 30, 2003 were \$662,782 as compared to \$1,558,709 three months ended September 30, 2002. Selling and advertising expenses for the three-month period ending September 30, 2003 decreased by \$28,645, as compared to \$314,335 for the same period in 2002.

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Payroll expense for the three month period ending September 30, 2003 decreased by \$671,884 or 28.58% of sales as compared to \$819,646 or 45.09% of sales for the same period in 2002. The decrease is due to a significant reduction of personnel.

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General and administrative expenses for the three-month period ending September 30, 2003 were reduced by about half; \$195,399 during the current period compared to \$424,728 in September 30, 2002. This change follows a significant reduction in variable costs driven by reduction in personnel.

Our Loss from operations for the three months ending September 30, 2003, decreased by \$349,779. Loss from operation from the Third Quarter 2003 was \$343,384, as compared to 693,163 for the same quarter of 2002.

We wrote off \$18,027 in obsolete inventory. Since our March change in operations we no longer carry inventory.

We converted the Inphonic's revenue during the Third Quarter 2003 to accrual accounting, and therefore added an amount of \$147,917 of charge backs and created an allowance for future charge-backs in the amount of \$361,473.

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2003 Cyberads Inc and Subsidiaries had an accumulated deficit of \$18,460, 187 and cash in the bank of \$103,978. We had a working capital deficit in September 30, 2003 of \$4,609,435. The deficit was funded during the three-month period to September 30, 2003 by advances from third parties.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On January 5, 2002, we issued 50,000 shares of common stock and options to purchase 50,000 shares of our common stock exercisable at \$1.00 to Atlas Pearlman, P.A. as consideration for legal services provided to our company. The securities were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The securities issued contain a legend restricting their transferability absent registration or an available exemption. Atlas Pearlman, P.A. had access to information about our company and had the opportunity to ask questions about our company.

During the three months ended March 31, 2002, we issued an aggregate of 124,000 shares of common stock for an aggregate amount of \$90,400. These shares were issued to two option holders pursuant to the exercise of options with exercise prices ranging from \$.60 to \$1.00. The shares were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The shares issued contain a legend restricting their transferability absent registration or an available exemption. The option holders had access to information about our company and had the opportunity to ask questions about our company.

On January 6, 2002, we entered into a business consulting agreement with Gene Foland, under which Mr. Foland will provide our company with business consulting services. Mr. Foland received options to purchase 1,300,000 shares of our common stock exercisable at \$1.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Foland had access to information about our company and had the opportunity to ask questions about our company.

On January 6, 2002, we entered into a product and sales development consulting agreement with James L. Ricketts, under which Mr. Ricketts received options to purchase 200,000 shares of our common stock exercisable at \$1.00 per share and options to purchase 1,100,000 shares of our common stock exercisable at \$2.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Ricketts had access to information about our company and had the opportunity to ask questions about our company.

On January 6, 2002, we entered into a product and sales development consulting agreement with James L. Copley, under which Mr. Copley received options to purchase 300,000 shares of our common stock exercisable at \$2.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the

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Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Copley had access to information about our company and had the opportunity to ask questions about our company.

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On January 7, 2002, we issued an option to purchase 50,000 shares exercisable at \$1.00 per share to our controller. Our controller received these options for services performed. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Our controller had access to information about our company and had the opportunity to ask questions about our company.

On January 8, 2002, we issued options to purchase an aggregate of 125,000 shares of our common stock exercisable at \$1.00 per share to our current officers and directors. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption.

On January 8, 2002, we issued an option to purchase 5,000,000 shares of our common stock exercisable at \$1.00 per share to Lawrence Levinson. This option was issued in consideration for the advances that Mr. Levinson and his affiliates have made to our company and personal guarantees Mr. Levinson has made in favor of our company. The options were issued under an exemption from registration pursuant to section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability.

On January 21, 2002, we issued 625,000 shares of series A convertible preferred stock to Lawrence Levinson as consideration for a \$625,000 promissory note made by Mr. Levinson in favor of our company. The note is repayable in ten years. Interest for the term of the note is payable annually on the anniversary date of the note at an annual rate of 4.5%. Each share of the series A convertible preferred stock is convertible into one share of our common stock. These shares were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The shares issued contain a legend restricting their transferability absent registration or available exemption.

On January 21, 2002, we filed a certificate of designation designating 625,000 of our 5,000,000 shares of preferred stock as series A convertible preferred stock. The 625,000 shares of series A convertible preferred stock have a stated value of \$1.00 per share. The shares were issued to our chief executive officer. The preferred stock has the following rights, preferences and privileges:

**CONVERSION.** Each share of series A convertible preferred stock is convertible into one share of our common stock, at the option of the holder. The conversion rate is subject to adjustment upon the occurrence of certain events, including the issuance of our stock as a dividend or distribution on our common stock.

**REDEMPTION.** The shares are redeemable at our sole option for \$1.00 per share.

**VOTING.** Each share of preferred stock is entitled to eight votes.

**PREFERENCE ON LIQUIDATION.** Series A convertible preferred shares will be entitled to a preference on liquidation.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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None.

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

None.

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### ITEM 5. OTHER INFORMATION

On April 1, 2002, we entered into a three-year lease agreement with 6001, LLC for new office space to consolidate all of our operating facilities. Monthly rental under this agreement is \$16,667, \$18,333 and \$20,000 during the first, second and third year, respectively.

On April 10, 2002, we issued options to purchase an aggregate of 50,000 shares of our common stock to an employee of the Company for services performed. The options expire five years from the date of issuance and have an exercise price of \$1.00.

On April 17, 2002, we experienced a theft of all our phone inventory and some computer equipment at our new facilities. We estimate the loss to be approximately \$100,000 and anticipate to recuperate materially all of the loss through insurance.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation S-B

Exhibit No.	Description of Document
2.2	Stock Purchase Agreement with IDS Cellular and its shareholders(1)
3.1(a)	Articles of Incorporation(1)
3.1(b)	Articles of Amendment(1)
3.1(c)	Designation of Series A Convertible Preferred Stock(2)
3.2	Bylaws(1)
4.0	Form of Stock Certificate(1)
4.2	Loan Agreement with Levinson(1)
4.3	Promissory Note issued by Levinson in favor of CyberAds, dated January 21, 2002(3)
10.1	Employment/Consulting Agreement with Levinson(1)
10.2	Agreements with American Cellular, Inc. and GT Global Communications, Inc.(1)
10.3	Agreement with Triton PCS(1)
10.4	Agreement with Regal Marketing International(1)
10.6	Agreement with Beck Management, Inc.(1)
10.7	Consulting Agreement with Gene Foland(2)
10.8	Consulting Agreement with James L. Ricketts(2)
10.9	Consulting Agreement with James L. Copley(2)
10.10	Sales Agency Agreement with MCI WorldCom Wireless(2)
21.0	Subsidiaries of Registrant(1)

(1) Previously filed in Registration Statement on Form SB-2, File No. 333-62690.

(2) Previously filed in Registration Statement on Form SB-2, File No. 333-82104.

(3) Previously filed in the Annual Report on Form 10-KSB for the year ended December 31, 2001.

(b) Reports on Form 8-K

On January 29, 2002, we filed a current report on Form 8-K disclosing that on January 22, 2002 we issued 625,000 shares of series A preferred stock to

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Lawrence Levinson, our CEO, in consideration for advances in the aggregate of approximately \$350,000 that Mr. Levinson and his affiliates have made to our company and a personal guarantee that Mr. Levinson has made on behalf of our company.

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On February 6, 2002, we filed an amended current report on Form 8-K/A to disclose the designation, rights and preferences of the series A preferred stock that we issued to Lawrence Levinson on January 22, 2002. Each share of series A preferred stock is convertible into one share of our common stock at the option of the holder. In addition, the series A preferred shares have super voting rights.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned as duly authorized officers of the Registrant.

CYBERADS, INC.

DATED: November 14, 2003

By:/s/ LAWRENCE LEVINSON

-----  
Lawrence Levinson, Chairman and  
Chief Executive Officer

DATED: November 13, 2003

By:/s/ ROBERT B. KLINE

-----  
Robert B. Kline, Principal Accounting  
Officer and Director

FORM 10-QSB CERTIFICATION

I, Lawrence Levinson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of September 30, 2003.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of 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 material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods 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 person 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 or not there are significant changes in internal controls or 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 12, 2003

By: /s/ LAWRENCE LEVINSON

-----  
Lawrence Levinson, Chief Executive Officer

STATEMENT OF CHIEF EXECUTIVE OFFICER REGARDING  
FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Lawrence Levinson, state and certify as follows:

The financial statements filed with the report on Form 10-QSB for the period ended September 30, 2003 fully comply with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 and that the information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Cyberads, Inc.

This Statement is submitted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Date: November 12, 2003

By: /s/ LAWRENCE LEVINSON

-----  
Lawrence Levinson,  
Chief Executive Officer



