

Edgar Filing: CYBERADS INC - Form 10KSB/A

CYBERADS INC  
Form 10KSB/A  
April 15, 2005

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

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AMENDMENT NUMBER 1 TO  
FORM 10-KSB

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Commission File No.) 333-62690

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CYBERADS, INC.  
(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

-----

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

-----

65-1000634  
-----  
(I.R.S. Employer Identification No.)

-----

370 Amapola Avenue, Suite 202, Torrance, CA 90501

-----

(Address of principal executive office) (Zip Code)

(888) 288-7466

-----

(Issuer's telephone number)

Securities Registered Under Section 12 (B) of the Act: None  
Securities Registered Under Section 12 (G) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB contained in this form and no disclosure will be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB .

Revenues for the year ended December 31, 2004: \$303,120

The aggregate market value of voting stock held by nonaffiliates of CyberAds, Inc. ("CYAD") common stock, as of April 8, 2005 was approximately \$5,569,672 (based on the last sale price of such stock as reported by OTCBB). The number of shares outstanding of the registrant's common stock, as of April 8, 2005 was 32,762,777

Documents incorporated by reference. None

Transitional Small Business Disclosure Format (check one):

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

CyberAds, Inc., a Florida corporation ("CYAD" or the "Company"), was organized on April 12, 2000, under the laws of the State of Florida. We initially compiled member lists through an Internet based opt in email list and

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marketed cellular phone services through an affiliate program. Our affiliate program works by paying participating third party web sites commissions for referring cellular phone customers to our "freecellular.com" website. A third party website will receive a commission if a customer it refers to us purchases a cellular phone or cellular service.

All of our revenues during 2004 were derived from our cellular phone marketing services.

In December 2004, we determined that our previously announced acquisition of a 22% interest in The Vineyards Country Club ("The Vineyards") would not be completed due to due diligence items discovered during our review that management determined were too risky and not in the best interest of our over business development strategy.

During 2004, we focused on reviewing potential business models in both the Internet and real estate sectors for the possible acquisition of a business opportunity. After considerable review, we determined our Internet business model on cellular phones was not profitable and we discontinued active marketing via third party affiliate web sites. We have remained in the cellular phone business through a telemarketing agreement with a third party affiliate that is compensated only on sales of cellular services after confirmation by our third party fulfillment center. The telemarketing agreement model has reduced our liability on cancellations and returns as we now are paid on net sales after the termination period has passed.

During 2004, we became involved with the extreme sports industry through an affiliation with Aqua Xtremes Inc. and their product XBoard to assist with development of Aqua Xtremes web site for consumers and Distributors. Aqua Xtremes designs, manufactures and markets personal water sports equipment. Its most notable product is the Xboard, a jet-powered personal watercraft. During the course of our investigation and research for the web site, we developed a sales and marketing plan that has subsequently been adopted by Aqua Xtremes. We have entered into a letter agreement with Aqua Xtremes to provide sales and marketing support both online and for the development of the distribution network in North America. We plan to develop a network of distributors and dealers for Aqua Xtremes and implement a strategic marketing plan that we expect will provide revenues as Aqua Xtremes begins delivery of the XBoard. To maximize this opportunity, we will expect to enter into contracts with consultants for the representation and recruitment of distributors and dealers. We anticipate that we will be involved in the development of additional product lines and services for extreme sports market.

### GOVERNMENT REGULATION

At present, there are no specific regulations or approvals required by or from the Federal Government or state agencies for marketing the cellular services we offer. We are aware of no proposed regulations that may have an effect upon our business as a seller of cellular phone services.

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Laws and regulations that apply to Internet communications, commerce and advertising are becoming more prevalent. These regulations could affect the cost of communicating on the Internet and negatively affect the demand for our direct marketing solutions or otherwise harm business. Laws and regulations may be adopted covering issues such as user privacy, pricing, libel, acceptable content, taxation, and quality of products and services. This legislation could hinder growth in the use of the Internet generally and decrease the acceptance of the Internet as a communications, commercial, and direct marketing medium.

The laws governing the Internet remain largely unsettled, even in areas

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where there has been some legislative action. It may take years to determine whether and how existing laws apply to the Internet and Internet advertising. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad. This may impose additional burdens on companies conducting business over the Internet.

### PERSONNEL

As of the date of this report, we have one full time employee as well as a number of part time relationships with contractors for certain services. None of CYAD's personnel are covered by collective bargaining agreements.

### ITEM 2. PROPERTIES

During 2004, we relocated our offices to a 2,000 square foot facility located at 370 Amapola, Suite 202, Torrance, California We do not own any real property.

### ITEM 3. LEGAL PROCEEDINGS

None.

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

No matters were submitted to the vote of our security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The principal United States market for our common stock is the OTC Bulletin Board. The following are the high and low closing sale prices for our common stock for each quarter during the previous two years

	HIGH -----	LOW -----
FISCAL 2004		
Fourth Quarter (through December 31, 2004)	\$ 2.10	\$ 0.85
Third Quarter (through September 30, 2004)	\$ 1.50	\$ 0.27
Second Quarter (through June 30, 2004)	\$ 0.51	\$ 0.02
First Quarter (through March 31, 2004)	\$ 0.13	\$ 0.04
FISCAL 2002		
Fourth Quarter (through December 31, 2003)	\$ 0.19	\$ 0.02
Third Quarter (through September 30, 2003)	\$ 0.50	\$ 0.06
Second Quarter (through June 30, 2003)	\$ 2.60	\$ 0.25
First Quarter (through March 31, 2003)	\$ 3.60	\$ 1.00

The above prices presented are bid prices that represent prices between broker-dealers and do not include retail mark-ups and markdowns for any commissions paid to the dealer. These prices may not reflect actual transactions.

The Company has not paid any dividends

There are 73 shareholders of record as April 8, 2005 holding 32,762,777

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shares of common stock.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### OVERVIEW

CyberAds received its revenue of \$303,120 specifically from the Cellular business. We discontinued the third party affiliate sales of Cellular phones and services in the first quarter of 2004 due to the financial losses inherent with the commission structure paid to third party affiliates. The affiliates commission was earned on "leads" provided, rather than on sales made, therefore the cancellations and returns on cellular phones were not recouped from the third party affiliate and the losses became CyberAds expense.

#### CYBERADS CELLULAR OPERATIONS

##### DIRECT SUPPLIERS

On March 10th, 2003, CyberAds, Inc entered into an agreement with Inphonic, Inc that allows CyberAds to utilize all of Inphonic's cellular agreements. They include AT&T, Cingular, T-Mobile, Verizon and Alltel. This in effect increased the coverage area and provides our customers greater choices when selecting cellular service.

As a result of this agreement CyberAds, Inc. will no longer continue a direct relationship with the carriers. Instead we will work as a sales agent of Inphonic. Inphonic will be responsible for all order fulfillment including shipping, customer care, sales and verification. They will also provide Marketing and Creative support if required.

##### CELLULAR PHONE INVENTORY

As a result of the agreement with Inphonic we are no longer required to purchase Phones or maintain inventory. Inphonic assumes that responsibility.

##### RELATED PARTIES AND RELIANCE ON CERTAIN CELLULAR PROVIDERS

We rely on Inphonic as our provider for equipment for all of the carriers they have an affiliation with.

##### RECENT EVENTS

As noted above we entered into a partnership with Inphonic, Inc. on March 10, 2003 to handle all order fulfillment, sales, customer service, verification and marketing. As a result of this agreement, CyberAds was able to reduce staffing levels , and reduce payroll.

In December 2003 we agreed to acquire a 22% interest in The Vineyards Country Club ("The Vineyards"), a real estate development project located adjacent to Palm Springs, California. Our investment in The Vineyards was being acquired by our wholly owned subsidiary, The Vineyards, LLC. The Vineyards is a luxury motor coach facility including a recently completed clubhouse, swimming pool, tennis court, and nine-hole regulation size golf course.

In December 2004 we determined our previously announced acquisition of a 22% interest in The Vineyards Country Club ("The Vineyards") would not be completed due to due diligence items discovered during our review that management determined were too risky and not in the best interest of our companies development. Subsequently we filed an 8 K information statement announcing our cancellation of this announced acquisition.

During 2004 we engaged in multiple negotiations with Internet and Real Estate companies on merger and acquisition discussions, as of December 31, 2004 we were not party to any binding letter of intents.

#### PATENTS AND PROPRIETARY RIGHTS

We do not hold any trademark, copyright or patent protection.

#### RESULTS OF OPERATIONS

##### YEARS ENDED DECEMBER 31, 2004 AND 2003

We reported revenues of \$303,120 and \$4,197,128 for the years ending December 31, 2004 and 2003, respectively, losses of \$509,704 and \$767,528 during the years ended December 31, 2004 and 2003, respectively. The reduction in revenue from 2004 to 2003 is attributed to the change in revenue associated to the Inphonic agreement whereby the Company receives a net commission instead of the revenue for each phone and our discontinuance of cellular phone sales through affiliates. The decrease in losses for 2004 was the direct result of reduction in expenses and Salaries attributed to the agreement with Inphonic that allowed the Company to rely on the fulfillment processes at Inphonic reducing the requirement of employee related expenses at the Company.

#### LIQUIDITY AND CAPITAL RESOURCES

CYAD has not been profitable and has experienced negative cash flow from operations due to its development stage, substantial ongoing investment in research and development efforts. Consequently, CYAD has been dependent on the sales of equity to fund cash requirements.

#### ITEM 7. FINANCIAL STATEMENTS

The financial statements of CYAD are included (with an index listing all such statements) in a separate financial section at the end of the Annual Report on Form 10-KSB.

#### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements between us and our certifying auditors on any matter of accounting principals or practices, financial statement disclosure, or auditing scope or procedure..

#### ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange of 1934, within 90 days prior to the filing of this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, principally our President and Chief Executive Officer. Based on that evaluation, we concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our 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 rule and form. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information

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required to be disclosed in our reports is accumulated and communicated to management.

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### PART III

#### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our directors hold office until the next succeeding annual meeting of shareholders, or until their successors have been elected and qualified.

Our directors, executive officers and significant employees are as follows:

NAME	AGE	POSITION
-----	---	-----
Walter Tatum	47	President / Secretary

#### Director and Executive Officers

Walter Tatum has served as our President, Secretary and sole director since December 2003. Prior to joining Cyberads, Mr. Tatum was Vice President of Sales for DMX Music, a subsidiary of Liberty Media, for 9 years.

The Company's Bylaws currently authorize up to seven directors. Each director is elected for one year at the annual meeting of stockholders and serves until the next annual meeting or until a successor is duly elected and qualified. Executive officers serve at the discretion of our board of directors. There are no family relationships among any of the directors and executive officers.

#### CODE OF ETHICS.

Effective February 24, 2004, the Board of Directors adopted a Code of Ethics for Senior Financial Officers. The Code of Ethics was adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission thereunder. A copy of the Code of Ethics will be made available upon request at no charge. Requests should be directed in writing to the Company at 370 Amapola, Suite 202, Torrance, CA.

#### ITEM 10. EXECUTIVE COMPENSATION

##### SUMMARY COMPENSATION TABLE

The following table sets forth information relating to salary we paid during the past fiscal year to our chief executive officer; and to each of our executive officers that earned more than \$100,000 during the fiscal year ended December 31, 2004. Other than salary and stock options, we paid no other form of compensation to our executive officers and directors. No stock options were exercised during the fiscal year ended December 31, 2004.

Name and Principal Position	Year	Annual Compensation	Long Term Compensation
-----	----	-----	-----
Walter Tatum, President	2004	\$250,000	None

INCENTIVE AND NON-QUALIFIED STOCK OPTION PLAN

On November 1, 2001, we adopted a 2001 Incentive and Non-Qualified Stock Option Plan. We have reserved 500,000 shares of our common stock for issuance under the Plan. The Plan authorizes the granting of awards of up to 500,000 shares of common stock to our key employees, officers, directors and consultants. Awards consist of stock options (both nonqualified options and options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986), restricted stock awards, deferred stock awards, stock appreciation rights and other stock-based awards, as described in the Plan. No stock options are outstanding under the Plan at this time

The plan is administered by our board of directors which determines the persons to whom awards will be granted, the number of awards to be granted and the specific terms of each grant, including their vesting schedule, subject to the provisions of the plan.

In connection with incentive stock options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of grant (or 110% of the fair market value in the case of a grantee holding more than 10% of our outstanding stock). The aggregate fair market value of shares for which incentive stock options are exercisable for the first time by an employee during any calendar year may not exceed \$100,000. Nonqualified stock options granted under the plan may be granted at a price determined by the board of directors, not to be less than the fair market value of the common stock on the date of grant.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information known to us, as of the date of this report, relating to the beneficial ownership of shares of common stock by: each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of common stock; each director; each executive officer; and all executive officers and directors as a group. We believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock shown as being owned by them.

Title of Class	Name and Address of Beneficial Owner	Amount of Beneficial Ownership	Percent of Class
Common Stock	Walter Tatum 1681 Loma Roja Drive Santa Ana, CA 92705	250,000	*
All officers and directors (one person)		250,000	*

\* Less than one percent

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As of December 31, 2004, the amount due on various loans from previously related parties is approximately \$800,000. This amount is secured by the company's assignment of its agreement with its fulfillment provider.



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ITEM 13. EXHIBITS, LISTS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.		Description of Document
-----		
3.1(a)	*	Articles of Incorporation
3.1(b)	*	Articles of Amendment
3.1(c)	*	Designation of Series A Convertible Preferred Stock
3.2	*	Bylaws
4.0	*	Form of Stock Certificate

\* Incorporated by reference

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the period covered by this report.

January 6, 2004	Item 1. Changes in Control of Registrant; Item 7. Financial Statements and Exhibits
January 23, 2004	Item 2. Acquisition or Disposition of Assets; Item 7. Financial Statements and Exhibits
January 26, 2004	Item 2. Acquisition or Disposition of Assets; Item 7. Financial Statements and Exhibits

ITEM 14. PRINCIPAL ACCOUNTANT FEES FOR SERVICES

	2004	2003
	-----	-----
Audit fees	29,600	27,900

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Torrance, CA on April 15, 2005.

CYBERADS, INC.

By:/s/WALTER TATUM  
Walter Tatum  
Chairman, Chief Executive Officer

In accordance with the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/WALTER TATUM Walter Tatum	President	4/15/05

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CYBERADS, INC.

Years ended December 31, 2004 and 2003 (restated)

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## REPORT OF INDEPENDENT AUDITOR'S

To the Board of Directors  
CyberAds, Inc.

We have audited the accompanying consolidated balance sheets of CyberAds, Inc. as of December 31, 2004 and the related consolidated statements of operations, net capital deficiency and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of CyberAds, Inc. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company had a loss from continuing operations of \$1,201,111 and a working capital deficiency of \$2,720,748. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 15 to the consolidated financial statements, the Company incorrectly reported in 2003 the acquisition of an investment in real estate aggregating \$10,700,000 that had not yet been completed.

April 7, 2005  
Portland, OR

/s/TIMOTHY L. STEERS, CPA, LLC

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CYBERADS, INC.

Consolidated Balance Sheets

	December 31	December 31
	2004	2003
ASSETS		
Current asset -		
Accounts receivable	\$ -	\$ -
Property and equipment, net	14,171	14,171
Deposits	8,585	8,585
	-----	-----
	\$ 22,756	\$ 22,756
	=====	=====
LIABILITIES AND NET CAPITAL DEFICIENCY		
Current liabilities:		
Outstanding checks in excess of cash in bank	\$ -	\$ -
Note payable	294,192	294,192
Accounts payable	829,222	829,222
Accrued liabilities	653,136	653,136
Unearned revenue	-	-
Advances from related parties	786,555	786,555
Loans payable - convertible debentures	60,000	60,000
	-----	-----
Total current liabilities	2,623,105	2,623,105
Advances from stockholder	-	-
Commitments		
Net capital deficiency:		
Preferred stock, \$.001 par value, authorized 5,000,000 shares, of which 1,000,000 shares has been designated as Series A Convertible, issued and outstanding 835,660 shares in 2004 (no shares in 2003)	836	836
Common stock, \$.001 par value, authorized 50,000,000 shares, issued and outstanding 23,225,777 shares in 2004 (18,325,777 shares in 2003)	23,226	23,226
Common stock to be issued	440,050	440,050
Additional paid-in capital	16,170,085	16,170,085
Accumulated deficit	(19,234,546)	(19,234,546)
	-----	-----
Total stockholders' equity (deficit)	(2,600,349)	(2,600,349)
	-----	-----
	\$ 22,756	\$ 22,756
	=====	=====

See accompanying notes.

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CYBERADS, INC.

Consolidated Statement of Operations

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	Years ended Dec 2004	
Net revenues	\$ 303,120	\$
Cost of revenues	-	
Gross profit	303,120	
Selling expenses	-	
General and administrative expenses	812,824	
Loss from operations	(509,704)	
Other income (expenses):		
Impairment of property and equipment	-	
Other income, net	4,847	
Interest expense and financing costs, net	(15,663)	
Total other expenses	(10,816)	
Net loss	\$ (520,520)	\$
	=====	==
Net loss per common share	\$ (.026)	\$
	=====	==

See accompanying notes.

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CYBERADS, INC.

Consolidated Statement of Net Capital Deficiency  
Years ended December 31, 2004 and 2003 (restated)

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	Convertible preferred stock		Common stock		Common stock to be issued	Additional paid-In capital	Accum def
	Shares	Amount	Shares	Amount			
Balance at December 31, 2002	-	\$ -	14,774,777	\$ 14,775	\$ -	\$ 13,818,415	\$ (1
Shares issued or to be issued for debt	835,660	836	1,250,000	1,250	440,000	921,074	
Amortization of deferred financing costs	-	-	-	-	-	-	-
Shares issued in exchange for services	-	-	2,275,000	2,275	-	606,475	
Shares issued for interest on convertible debentures	-	-	26,000	26	-	53,274	
Net loss	-	-	-	-	-	-	(
Balance at December 31, 2003 (restated)	835,660	\$ 836	18,325,777	\$ 18,326	\$ 440,000	\$ 15,399,238	\$ (1

Continued on next page.

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CYBERADS, INC.

Consolidated Statement of Net Capital Deficiency (continued)  
 Years ended December 31, 2004 and 2003 (restated)

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	Convertible preferred stock		Common stock		Common stock to be issued	Additional paid-In capital	Accum def
	Shares	Amount	Shares	Amount			
Balance at December 31, 2003 (restated)	835,660	\$ 836	18,325,777	\$ 18,326	\$ 440,000	\$ 15,399,238	\$ (1
Shares issued for debt							
Options exercised	-	-	500,000	500	-	64,500	
Shares issued in exchange for payable to stockholder	-	-	2,000,000	2,000	-	212,297	
Shares issued in exchange for Settlement	-	-	50,000	50	50	109,900	
Shares issued in exchange for ompensation & services	-	-	2,350,000	2,350	-	384,150	
Net loss	-	-	-	-	-	-	-
Balance at December 31, 2004	835,660	\$ 836	23,225,777	\$ 23,226	\$ 440,050	\$ 16,170,085	\$ (1

See accompanying notes.

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CYBERADS, INC.

Consolidated Statement of Cash Flows

Years ended Dec



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	2004	
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (520,520)	\$ (
Adjustments to reconcile net loss to net cash provided by used in operating activities:		
Provision for doubtful accounts	-	
Impairment of long-lived assets	-	
Impairment of inventories	-	
Depreciation	-	
Amortization of deferred financing costs	-	
Common stock issued for compensation and services	496,500	
Common stock issued for interest	9,663	
Changes in assets and liabilities:		
Accounts receivable	20,380	
Inventories	-	
Deposits	-	
Other assets	-	
Outstanding checks in excess of cash in bank	(1,207)	
Accounts payable	(175,757)	
Accrued liabilities	69,941	
Unearned revenue	-	
	-----	-----
	(101,000)	
Cash flows from investing activities -		
Capital expenditures	-	
	-----	-----
	-	
Cash flows from financing activities:		
Cash overdraft	-	
Net proceeds from factored accounts receivable	-	
Principal repayments of note payable	(11,000)	
Advances from related parties	47,000	
Repayments to related parties	-	
Repayments to officers	-	
Net advances from stockholder	-	
Proceeds from sale of common stock	65,000	
	-----	-----
	101,000	
	-----	-----
Cash at end of year	\$ -	\$ =
	=====	=====

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CYBERADS, INC.

Consolidated Statement of Cash Flows (continued)

Years ended Dec  
2004

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Supplemental disclosure of cash flow information - cash paid during the year for interest and financing costs	\$ - =====
Supplemental disclosure of non-cash investing and financing activities: Factor payable renegotiated into notes payable	\$ - =====
Preferred stock issued in exchange for factor payable	\$ - =====
Common stock issued or to be issued in exchange for debt	\$ 204,634 =====
Accounts payable to supplier converted to note payable	\$ 185,192 =====

See accompanying notes.  
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CYBERADS, INC.

Notes to Consolidated Financial Statements  
December 31, 2004

1. Business and summary of significant accounting policies  
Business: CyberAds, Inc. ("CyberAds") was incorporated in the state of Florida on April 12, 2000. The Company earns commissions from selling approved contracts to subscribers for cellular telephone service.

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Commissions are received either from master dealers or cellular phone service providers, not the subscriber. Applications for cellular telephone services are obtained from advertising banners placed at various websites. The Company does business with cellular phone service providers as well as master dealers that have contracted with various other carriers and with several website hosts, who receive a commission for each completed contract for cellular phone service. The Company has been idle during 2004 and management has devoted their attention toward restructuring debt and seeking profitable products.

**Principles of consolidation:** The accompanying consolidated financial statements for 2004 include the accounts of CyberAds and its wholly owned subsidiary IDS Cellular, Inc. ("IDS"). All significant intercompany transactions and balances have been eliminated in consolidation. The operations of IDS are currently idle.

**Cash and cash equivalents:** For purposes of the cash flow statement, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

**Property and equipment:** Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for over the estimated useful life of the assets of five to seven years. Leasehold improvements are amortized over the lesser of the original term of the related lease or their estimated useful life.

**Fair value of financial instruments:** The Company discloses certain information about the fair value of financial instruments as required by SFAS 107, "Disclosure About Fair Value of Financial Instruments". Accounts receivable, accounts payable, accrued expenses, factor payable and loans and advances payable to related and non-related parties are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

**Impairment of long-lived assets:** The Company assesses the recoverability of long-lived assets under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" by determining whether the depreciation and amortization of the asset's balance over its remaining life can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on fair value and charged to operations in the period in which the impairment is determined by management. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

The Company recorded an impairment loss of approximately \$266,000 during 2003 for assets that became idle as a result of staff reductions.

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### 1. Business and summary of significant accounting policies (continued)

**Revenue recognition:** The Company recorded revenue on a "net" basis when contracts are submitted to master dealers. The phones are shipped from the dealers to the subscriber and the Company does not bear the risk of loss on the cellular phone. Revenue is recognized when the master dealer ships the phones to the subscriber.

In 2003 the also Company recorded revenue on a "gross" basis when contracts are submitted directly to cellular phone service providers. The phones are shipped from the Company to the subscriber and the

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Company bears the risk of loss on the cellular phone. Under the gross method commission and related cost of goods sold for the cellular phone is recognized when the Company ships the phones.

Advertising costs: The Company expenses the cost of advertising as incurred as selling expenses. Advertising expenses were approximately \$9,500 for 2003.

Stock options and warrants: The Company uses a fair value based method of accounting for stock based compensation to employees. The Company also accounts for stock options and warrants issued to non-employees for services under the fair value method of accounting.

Website development costs: The Company accounts for website development costs under Emerging Issues Task Force ("EITF") Issue No. 00-2, "Accounting for Web Site Development Costs". Under EITF 00-2, costs that involve design of the web page that do not change the content are capitalized and amortized over their estimated useful life. Costs incurred in operating a web site that has no future benefits are expensed in the current period. The Company accounts for costs incurred in operating their website under the American Institute of Certified Public Accountants Statement of Position ("SOP") No. 98-1. Under SOP 98-1, costs that have a future benefit are capitalized and amortized over the estimated future periods that are expected to benefit from website changes.

Income taxes: The Company files a consolidated tax return that includes CyberAds and IDS. The consolidated tax liability, determined without taking credits into account, is allocated based on each company's contribution to consolidated taxable income. Tax credits are allocated on a pro rata basis equal to each company's contribution to the consolidated tax credits determined to be available each year.

Income taxes are determined using the liability method whereby deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases and reported amounts of assets and liabilities. Deferred tax assets and liabilities are computed using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a

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1. Business and summary of significant accounting policies (continued)  
change in tax rates is recognized in income in the period that includes the enactment date. The Company provides a valuation allowance for certain deferred tax assets, if it is more likely than not that the Company will not realize tax assets through future operations.

Reporting consolidated comprehensive income (loss): The Company reports and displays consolidated comprehensive income (loss) and its components as separate amounts in the consolidated financial statements with the same prominence as other financial statements. Consolidated comprehensive income (loss) includes all changes in equity during the year that results from recognized transactions and other economic events other than transactions with owners. There were no components of consolidated comprehensive income to report for the years ended December 31, 2004 and 2003.

Segment Reporting: The Company and its subsidiary reports information about operating segments and related disclosures about products and

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services, geographic areas and major customers under SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in principally one segment, obtaining cellular phone applications.

Net loss per common share: Net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period as defined by SFAS 128, "Earnings Per Share". The weighted average number of common stock shares outstanding was \$20,128,515 for 2004 (16,074,986 for 2003). Convertible debentures, convertible preferred stock, common stock options, and common stock to be issued are considered common stock equivalents. Common stock equivalents have not been included in the computation of diluted loss per share as the effect on net loss per common share would be anti-dilutive.

Use of Estimates: The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Operations

Management of the Company plans to continue to restructure debt, seek profitable products, reduce operating expenses, and seek additional capital and debt financing until operations achieve profitability. Management of the Company believes the

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2. Operations (continued)

above actions, along with other plans, will allow them to continue operations and ultimately achieve profitability. Until then, the Company is dependent upon its ability to obtain additional capital and debt financing. The consolidated financial statements do not reflect adjustments relating to the recorded asset amounts, or the amounts of liabilities that would be necessary should the Company not be able to continue in existence.

3. Property and equipment

Property and equipment consisted of the following at December 31:

	2004	2003
Furniture and fixtures	\$ 2,598	\$ 2,598
Leasehold improvements	20,085	20,085
Computer equipment	19,551	19,551
	-----	-----
	42,234	42,234
Less accumulated depreciation	(28,063)	(28,063)
	-----	-----
	\$ 14,171	\$ 14,171
	=====	=====

4. Notes payable

Notes payable consisted of the following at December 31:

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2004

Note payable; was due in installments of \$5,000 on January 15, 2004 and February 15, 2004 with final payment due March 15, 2004, plus interest at 10% per annum; secured by all of the Company's accounts receivable, inventories, and computer hardware and software and is personally guaranteed by two former officers of the Company.	\$ 109,000
Note payable to cellular phone service provider; due in installments of \$92,596 payable on January 2, 2005 and August 2, 2005, plus interest at 1 1/2% per month.	185,192
Total notes payable	\$ 294,192 =====

The Company is currently in default with the repayment terms of the installment note.

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5. Accrued expenses

Accrued expenses consisted of the following at December 31:

	2004
	-----
Payroll and payroll related liabilities	\$ 614,143
Commission charge-backs	-
Accrued interest	3,993
Professional fees	35,000
	-----
	\$ 653,136 =====

The Company is non-compliant with respect to certain federal and state payroll related taxes. Included in accrued payroll and payroll related liabilities is approximately \$540,800 of unpaid payroll taxes.

6. Advances from related parties

Advances from related parties consisted of the following at December 31:

	2004
	-----
Advance due to a corporation owned by a former officer of the Company, bearing interest at 10% per annum, due on demand and unsecured.	\$ 54,000
Advance due to a former officer of the Company, bearing interest at 10% per annum, due on demand and unsecured	732,555
	-----
	\$ 786,555 =====

7. Loans payable - convertible debentures

Loans payable - convertible debentures consists of unsecured loans from two individuals whereby the principal of the note is convertible into the Company's common stock at the option of the holder. Interest on borrowings is payable quarterly at a rate of 20% per annum.

The notes were originally convertible on or after May 13, 2003 at a

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conversion rate of 75% of the closing bid price of the Company's common stock one trading day prior to conversion. The beneficial conversion feature of the convertible debentures was valued at \$20,000 on the date of issuance and was amortized over the original one-year life of the debentures.

The due date of the convertible debentures was extended to February 13, 2004. In consideration for the extension, the repayment of one of the notes was increased by \$5,000 representing additional interest and the Company issued the holders an aggregate of 26,000 shares of its common stock for unpaid interest.

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7. Loans payable - convertible debentures (continued)  
The notes were due in installments of \$15,000 on November 13, 2003, \$13,750 on December 13, 2003 and January 13, 2004, with final payment due February 13, 2004. The Company is currently in default with respect to the agreement.

Interest expense was approximately \$4,000 for the year ended December 31, 2004 (\$3,300 for 2003).

8. Advances from stockholder  
Notes payable to stockholder consisted of advances from Novanet Media, Inc. for working capital purposes. The advances were unsecured, non-interest bearing and due on demand.

On September 2, 2004, the Company issued 2,000,000 share of its common stock to a major shareholder in exchange for \$204,634 of working capital advances. The shares were valued at \$.107 per share which represented a 68% discount from the closing bid price of the common stock on the date of issuance. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company also recorded imputed interest of \$9,663 as a result of the exchange.

9. Commitments and contingencies  
The Company is non-compliant with respect to certain federal and state payroll related taxes. Included in accrued payroll and payroll related liabilities at September 30, 2004 and December 31, 2003 is approximately \$540,800 of unpaid payroll taxes.

In April 2004, the Company agreed to indemnify a former officer of the Company for any loss he sustained in a settlement reached with a cellular phone service provider against IDS and him personally. Under the indemnification, the Company was obligated to pay an aggregate of \$72,261 in installments of \$5,000 each on or before August 1, 2004 and September 1, 2004 with the balance due October 1, 2004. The indemnification had no effect on the accompanying financial statements as the amount owed to the cellular phone service provider was previously recorded as accounts payable in the records of IDS.

The Company is currently in negotiations with an individual who has threatened a lawsuit against the Company, a former officer and a cellular phone service provider. The Company has offered to issue the individual 250,000 shares of common stock to settle any claims he may have against the Company. This individual has verbally accepted the settlement offer. The Company has reserved 250,000 shares of common stock to be issued under this settlement offer.

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9. Commitments and contingencies (continued)

A claim against the Company of approximately \$500,000 has been threatened by the Creditors Committee of World Com. The Company does not believe that they owe the amount and intends to vigorously defend the claim. The claim has not been recorded in the accompanying consolidated financial statements due to the uncertainty of the matter.

10. Capital stock transactions

On May 19, 2004, the Company issued 50,000 shares of its common stock to a former officer of the Company in lieu of compensation. The shares were valued at \$1.59, the closing bid price of the Company's common stock on the date of issuance. The Company record compensation expense of \$79,500 as a result of the issuance.

On August 31, 2004, the Company issued 2,000,000 shares of its common stock to a major shareholder of Novanet Media, Inc. in exchange for consulting services. The shares were valued at \$.128 per share which represented a 63% discount from the closing bid price of the common stock on the date of issuance. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees of \$250,000 as a result of the issuance.

On November 1, 2004, the Company issued 300,000 shares of its common stock to in exchange for consulting services. The shares were valued at \$.19 per share which represented a 44% discount from the closing bid price of the common stock on the date of issuance. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees of \$57,000 as a result of the issuance.

In October 2003 and in connection with the Debt Paydown Agreement, the Company designated 1,000,000 shares of its preferred stock as Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock is non-voting and dividends accrue at a rate of 10% per annum payable quarterly. Unpaid accrued dividends are cumulative. The Series A Convertible Preferred Stock is convertible all or in part into the number of shares of the Company's common stock equal to 115% of the value of the preferred stock plus any cumulative dividends.

On March 7, 2003, the Company issued 1,250,000 shares of its common stock in exchange for debt of \$87,500 owed to the provider of its cellular phone service.

On April 4, 2003, the Company issued 25,000 shares of its common stock upon signing an investment banking agreement for services. The weighted average

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10. Capital stock transactions (continued)

issuance price of the shares was \$.05 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the



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volume of shares traded. The Company recorded professional fees aggregating \$1,250 during 2003 as a result of the issuance.

On September 30, 2003, the Company issued 1,000,000 shares of its common stock to a major shareholder of Novanet Media, Inc. in exchange for management services. The weighted average issuance price of the shares was \$.30 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$300,000 during 2003 as a result of the issuance.

On December 31, 2003, the Company issued 250,000 shares of its common stock to an investment-banking firm for services. The weighted average issuance price of the shares was \$1.15 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$287,500 for 2003 as a result of the issuance.

In December 2003, the Company agreed to issue 440,000 shares of its common stock in exchange for debt of \$440,000.

11. Stock based compensation

During 2003, the Company issued 1,000,000 shares of its common stock to a former officer as compensation for services through September 14, 2003. The weighted average issuance price of the shares was \$.02 per share. Compensation expense of \$20,000 was recorded for 2003 for the intrinsic value of the services rendered.

Had compensation cost been determined based on the fair market value at the grant date, consistent with SFAS 148, the Company's net loss would have changed to the following pro-forma amount for the years ended December 31:

	2004
	-----
Net loss as reported	\$(1,201,111)
Pro-forma effect	(280,000)
	-----
Pro-forma net loss	\$(1,481,111)
	=====

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11. Stock based compensation (continued)

Basic and diluted net loss per share as reported	\$ (.084)
Pro-forma effect	(.006)
	-----
Pro-forma basic and diluted net loss per share	\$ (.090)
	=====

12. Stock options

The Company's stock option activity for options granted to employees and non-employees is summarized as follows for the years ended December 31:

Fixed Plan

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	Shares	Weighted average exercise price	Shares exercisable	Weighted average exercise price
Outstanding at January 1, 2003	8,150,000	\$ .82	8,150,000	\$ .82
Expired	(225,000)	.70		
Cancelled	(5,000,000)	-		
Outstanding at December 31, 2003	2,925,000	.48	2,925,000	\$ .48
Exercised	(500,000)	.13		
Expired	(300,000)	1.04		
Cancelled	(225,000)	.25		
Outstanding at December 31, 2004	1,900,000	\$ .51	1,900,000	\$ .51

The Company's stock option outstanding and exercisable at December 31, 2004 is summarized as follows:

Range of prices	Options outstanding		Fixed Plan		Options exercisable	
	Shares	Weighted average remaining life	exercise price	Shares	Weighted average exercise price	
\$.04 - \$.99	1,200,000	1 yr. 5 mo.	\$ .27	1,200,000	\$ .27	
\$.99 - \$1.25	700,000	1 yr. 2 mo.	\$1.03	700,000	\$ 1.03	
\$.04 - \$1.25	1,900,000	2 years	\$ .51	1,900,000	\$ .51	

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13. Income taxes

Deferred income taxes consisted of the following at December 31:

	2004	2003
Deferred tax asset - net operating loss carryovers	\$ 6,539,600	\$ 6,362,600
Valuation allowance for deferred tax asset	(6,539,600)	(6,362,600)
Net deferred income taxes	\$ -	\$ -

As a result of the Company's continued losses and uncertainties surrounding the utilization of the net operating loss carryovers, management has determined that the realization of deferred tax assets is uncertain. Accordingly, a valuation allowance equal to the net deferred tax asset amount has been recorded as of December 31, 2004 and

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2003.

Reconciliation of income taxes computed at the Federal statutory rate of 34% to the provision for income taxes is as follows for the years ended December 31:

	2004	2003
	-----	-----
Tax at statutory rates	\$ (176,977)	\$ (408,378)
Differences resulting from:		
Non-deductible and other items	(23)	178
Change in deferred tax valuation allowance	177,000	408,200
	-----	-----
Provision for income taxes	\$ -	\$ -
	=====	=====

At December 31, 2004, the Company had net operating loss carryovers of approximately \$19,234,000 available to offset future Federal taxable income, if any, expiring through 2024. The utilization of the net operating loss carryovers could be limited due to restrictions imposed under Federal tax laws upon a change in ownership. The amount of the limitation, if any, has not been determined at this time.

14. Settlements

The Company entered into a consulting agreement in September 2002 for advisory, investor relations and public relations services. The consulting firm and the Company have taken the position that the other is in default of the agreement. The Company and the consulting firm reached a settlement in April 2004 whereby the Company agreed to issue 100,000 shares of its common stock granted to the consulting firm under the original consulting agreement; however, the consulting firm was restricted from reselling the shares. Under the terms of the settlement agreement the consulting firm could resell no more than 3,000 share of the Company's common stock per week and no more than an aggregate of 50,000 shares over a period of 120 days from the date of the settlement. They were further

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14. Settlements (continued)

restricted from reselling the Company's common stock until September 13, 2004 at which time they could resell no more than 3,000 shares of the Company's common stock per week and no more than an aggregate of 50,000 shares over a period of 120 days. The Company recorded settlement expenses aggregating \$110,000 as a result of the agreement in April 2004.

Management of the Company valued the shares issued at \$1.10 per share, the closing bid price of the Company's common stock on the date of the agreement. Management of the Company estimated the value of the Company's shares granted after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded.

On April 27, 2004 the Company issued 50,000 shares of its common stock in accordance with the terms of the settlement. The Company has reserved an additional 50,000 shares of its common stock for issuance under the settlement.

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In April 2004, the Company agreed to indemnify a former officer of the Company for any loss he sustained in a settlement reached with a cellular phone service provider against IDS and him personally. Under the indemnification, the Company is obligated to pay an aggregate of \$72,261 in installments of \$5,000 each on or before August 1, 2004 and September 1, 2004 with the balance due October 1, 2004. The indemnification had no effect on the accompanying financial statements as the amount owed to the cellular phone service provider was previously recorded as accounts payable in the records of IDS.

15. Prior period adjustment

In 2003 the Company incorrectly reported the acquisition of an investment in real estate aggregating \$10,700,000 that had not yet been completed. In 2004, management determined that it was not in the best interest of the Company to acquire that real estate by issuing its common stock. The adjustment resulted in an decrease in previously reported total assets and net capital deficiency by \$10,700,000. The adjustment did not have any effect on previously reported net loss, net loss per share, or the statement of cash flows.

16. Recently issued pronouncements

In December 2004, the FASB issued a revision to SFAS 123, "Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95," that addresses the accounting for share-based payment transactions in which a Company receives employee services in exchange for either equity instruments of the Company or liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. This statement would eliminate the ability to account for share-based compensation transactions using the

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16. Recently issued pronouncements (continued)

intrinsic method and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the consolidated statement of operations. The effective date of this standard is for periods beginning after June 15, 2005. The Company previously adopted the fair-value-based method of valuing share-based payments and management does not expect any further impact of this new standard to have a material effect on its financial position, results of operations and cash flows.

In July 2004, the Emerging Issues Task Force issued a draft abstract for EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"). EITF 04-08 reflects the Task Force's tentative conclusion that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. If adopted, the consensus reached by the Task Force in this Issue will be effective for reporting periods ending after December 15, 2004. Prior period earnings per share amounts presented for comparative purposes would be required to be restated to conform to this consensus and the Company would be required to include the shares issuable upon the conversion of its convertible notes payable in the diluted earnings per share computation for all periods during which the convertible notes payable are outstanding. Management does not expect the implementation of this new standard to have a material impact on its computation of diluted earnings per share.

In December 2004, the Financial Accounting Standards Board Statement issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of

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APB Opinion No. 29", by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No.151 is effective for a fiscal year beginning after June 15, 2005, and implementation is prospectively. Management does not expect the implementation of this new standard to have a material impact on its financial position, results of operations and cash flows.

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