CYPOST CORP
Form 10QSB
May 15, 2001

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, 2001

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)

900-1281 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: 21,562,025 as of April 2, 2001.

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 generally accepted accounting principles 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 generally accepted accounting principles 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, 2000, previously filed with the Commission.

The Company's business operations are presently conducted in Canada and the United States. Dollar values in this Report are expressed in U.S. Dollars, unless indicated otherwise. On March 31, 2001, one Canadian Dollar ("CDN") was worth $.6342 U.S. Dollars.

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

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CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2001 AND DECEMBER 31, 2000
(U.S. Dollars)

	2001 (Unaudited)
ASSETS	
CURRENT ASSETS	
CASH	$ 185,811
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	297,031
INSURANCE PROCEEDS RECEIVABLE	38,984
PREPAIDS AND DEPOSITS	145,453
	667,279
PROPERTY AND EQUIPMENT, NET	712,054
GOODWILL AND OTHER INTANGIBLES, NET OF ACCUMULATED AMORTIZATION	2,735,052
OTHER ASSETS	4,079
	$ 4,118,464
LIABILITIES AND SHAREHOLDERS EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	$ 1,057,543
LOANS	2,110,000

DEFERRED REVENUE	626,746
TOTAL CURRENT LIABILITIES	3,794,289
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
SHARE CAPITAL	
AUTHORIZED	
5,000,000 PREFERRED STOCK WITH A PAR VALUE OF $.001	
30,000,000 COMMON STOCK WITH A PAR VAUE OF $.001	
ISSUED AND OUTSTANDING	
PREFERRED STOCK - NONE	0
COMMON STOCK 21,559,493 - 2001, 21,556,993 - 2000	21,560
PAID-IN CAPITAL	14,048,816
ACCUMULATED DEFICIT	(13,744,989)
CURRENCY TRANSLATION ADJUSTMENT	(1,212)
TOTAL STOCKHOLDERS' EQUITY	324,175
	$ 4,118,464

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

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CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(U.S. Dollars)

	2001
REVENUE	$1,063,823
DIRECT COSTS	(428,671)
	635,152
EXPENSES	
SELLING, GENERAL AND ADMINISTRATIVE	622,952
AMORTIZATION AND DEPRECIATION	518,857
	1,141,809
LOSS BEFORE OTHER INCOME (EXPENSE)	(506,657)
OTHER INCOME (EXPENSE)	
NET PROCEEDS FROM FIRE INSURANCE	0
INTEREST EXPENSE	(41,326)
MINORITY INTEREST	0

NET LOSS	$ (547,983)	$
LOSS PER SHARE BASIC & DILUTED	$ (0.03)	$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	21,559,521	

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

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CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(U.S. Dollars)

	2001	
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	$ (547,983)	$
Adjustments to reconcile net loss to cash used by operating activities:		
Amortization and depreciation	518,857	
Interest expense	41,326	
Fair value of stock issued for services	1,275	
Net recovery from fire insurance	-	
	13,475	
Changes in non-cash operating accounts	(56,367)	
NET CASH USED BY OPERATING ACTIVITIES	(42,892)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	-	
Purchase of property and equipment	(21,928)	
Investment in software development	-	
NET CASH USED IN INVESTING ACTIVITIES	(21,928)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	-	
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	
NET INCREASE IN CASH	(64,820)	

CASH, BEGINNING OF PERIOD	250,631	
CASH, END OF PERIOD	$ 185,811	$

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

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CYPOST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2001
(U.S. Dollars)

	Common Stock Number	Common Stock Amount	Additional Paid-in Capital	Deficit	Cummul Transl Adjus
BALANCE, JANUARY 1, 2001	21,556,993	$21,557	$14,047,544	$(13,197,006)	$ 33
Issued for services	2,500	3	1,272		
Cummulative translation adjustment					(34
Net loss				(547,983)	
BALANCE, MARCH 31, 2001	21,559,493	$21,560	$14,048,816	$(13,744,989)	$ (1

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

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CYPOST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(UNAUDITED)

(U.S. Dollars)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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 $13.7 million for the period from inception September 5, 1997 to March 31, 2001, has a working capital deficit of approximately $3.1 million at March 31, 2001, and requires additional financing for its business operations.

The Company is streamlining operations and consolidating its ISP's to enhance efficiency and reduce operating expenses. As a result of the foregoing efforts, the operations of Intouch Internet Inc. and NetRover Office Inc. have been fully consolidated into the Company's wholly-owned subsidiary, NetRover Inc.

These consolidated financial statements do not reflect adjustments that would be necessary if the Company were unable to continue as a going concern. While management believes that the actions already taken or planned, as described above, will mitigate the adverse conditions and events which raise doubts 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.

INTERIM FINANCIAL STATEMENTS

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, 2001 and 2000, (b) the consolidated financial position at March 31, 2001, (c) the consolidated statement of stockholders' equity for the three months ended March 31, 2001 and (d) the consolidated cash flows for the three months ended March 31, 2001 and 2000. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 31, 2000 has been derived from the consolidated financial statements that have been audited by the Company's independent auditors. 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.

CONSOLIDATION

The consolidated financial statements include the accounts of CyPost Corporation and its subsidiaries. In 2000, the subsidiaries include CyPost KK, Playa Corporation, ePost Innovations Inc., NetRover Inc., NetRover Office Inc., Hermes Net Solutions Inc., and Intouch.Internet Inc. All of the subsidiaries, except CyPost KK, are wholly owned. Later in 2000, the Company sold its investment in CyPost KK and abandoned its investment in Playa Corporation. Connect Northwest and Internet Arena are DBA of CyPost Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

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2. SHARE CAPITAL

On March 31, 2001, the Company reflected the issuance of 2,500 shares of its common stock in an aggregate amount of $1,275 to one consultant at the closing price of $0.51 per share in consideration for his providing certain services to the Company. As of March 31, 2001, these shares have not been issued, however for purposes of financial statement presentation, all shares were deemed issued as of March 31, 2001.

On January 10, 2001, the Company issued an option to purchase 1,000,000 shares of the Company's common stock to Robert Adams, President, Chief Operating Officer, Secretary and Treasurer of the Company, and an option to purchase 125,000 shares of the Company's common stock to Tami Allan, Vice President of North American Operations of the Company. The exercise price of each option is $.10 per share and vests over time.

3. COMMITMENTS AND CONTIGENCIES

Canada Post Litigation

On June 11, 1999, Canada Post Corporation ("Canada Post") filed a Statement of Claim in the Federal Court of Canada (Court File No. T-1022-99) in which it sought injunctive and unspecified monetary relief for the allegedly "improper" use by the Company's subsidiary, ePost Innovations, Inc., ("ePost Innovations"), of certain marks and names which contain the component "post". On October 18, 1999, ePost Innovations filed its Defense and Counterclaim. In a motion heard November 24, 1999, Canada Post Corporation challenged certain parts of the Counterclaim and the Federal Court reserved judgment. There has been no pre-trial discovery and no trial date has been set.

On May 25, 1999, ePost Innovations filed a statement of Claim in the British Columbia Court (Court File No. C992649) seeking a declaration that the public notice of Canada Post's adoption and use of CYBERPOSTE and CYBERPOST on November 18, 1998 and December 9, 1998 respectively, did not affect the Company's use of CyPost and ePost Innovations as trademarks and trade-names prior to said dates. ePost Innovations sought summary judgment for such a declaration and on September 14, 1999, the court rejected summary judgment on the basis that no right of ePost Innovations was being infringed and that a trial of the issues was more appropriate. The rejection is pending appeal. There has been no pre-trial discovery (except to the extent that some was done as part of the summary judgment application) and no trial date has been set.

Canada Post seeks relief in the form of preventing ePost Innovations from using trademarks, trade-names or brand names and does not seek monetary damages. Accordingly, the Company does not believe that this litigation will have a material impact on its future results of operations, financial condition and liquidity.

By order of the Federal Court dated January 25, 2001, ePost Innovations was required to appoint new counsel in this matter, failing which Canada Post would be permitted to move to strike ePost Innovations' Statement of Defense and Counterclaim. On April 6, 2001, the Federal Court ruled on Canada Post's November 24, 1999 motion, whereby it was ordered that certain portions of ePost Innovations' Statement of Defense and Counterclaim be stricken, and that by a Supplemental Order of the Federal Court dated April 9th, 2001, Canada Post be required to file its Reply and Defense to Counterclaim by April 25, 2001. Canada Post has filed a motion to extend the time for filing its Reply and Defense to Counterclaim, which is scheduled to be heard by the Federal Court on May 14, 2001. ePost Innovations does not intend to oppose the motion. Canada Post's motion to extend time includes a motion to strike ePost Innovations' Defense and Counterclaim for failure to appoint new counsel. Canada Post is prepared to withdraw this aspect of its motion if ePost Innovations appoints new counsel by May 11, 2001. ePost

Innovations did not appoint new counsel by such date.

ePost Innovations and Canada Post are engaged in settlement discussions to resolve the litigation. However, due to the inherent uncertainties of litigation, the Company cannot predict whether the parties will reach a definitive settlement and, if they do, whether the terms of any settlement will be favorable to the Company.

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 $42,516 (CDN) from Tia Berry on account of monies paid to her by the Company which she was not entitled to receive. Tia Berry has filed a Statement of Defense in the Tia Action in which she alleges that the payments which she received from the Company were to reimburse her for business expenses which she had charged to her credit cards on behalf of Berry. The Tia Action has not yet been set for trial.

On April 4, 2000, Berry commenced an action in the Supreme Court of the State of New York, County of New York (Index No. 601448/2000), against the Company and Continental Stock Transfer Company ("Continental"), (the "New York Action"). In the New York Action, Berry claimed damages for alleged conversion, fraud, breach of contract and breach of fiduciary duty all arising from the alleged wrongful Stop Transfer Order which the Company placed relating to 75,000 shares of the Company's Common Stock registered in Berry's name and the Company's cancellation of a further 600,000 shares (the "Contingent Shares"). The complaint in the New York Action claims damages in excess of $3,000,000 with the precise amount to be determined at trial.

Berry received the 600,000 Contingent Shares upon condition that he would remain in the Company's employ as Chief Executive Officer for at least two years. Berry commenced his employment with the Company on January 4, 1999, and resigned his employment with the Company on January 17, 2000. Following Berry's resignation, the Company attempted to have a Stop Transfer Order issued with respect to the 75,000 shares registered in Berry's name and cancel the 600,000 Contingent Shares. The Stop Transfer Order was not effective and Berry subsequently sold the 75,000 shares.

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"). In the BC Action, the Company seeks an order directing Berry to return the 600,000 Contingent Shares to the Company for cancellation or an order entitling the Company to cancel the same 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.

In the BC Action, 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. In the BC Action, the Company also claims Cdn$34,013 from Berry and Tia Berry on account of conspiracy to defraud and injure the Company and ePost Innovations by causing certain personal expenses to be paid by the Company rather than by Berry and Tia Berry personally. The Company also claims punitive and exemplary damages from Berry and Tia Berry in the BC Action.

On May 25, 2000, the Company moved in the New York Action for an order dismissing the action against the Company for lack of jurisdiction or, in the alternative, on the basis of forum non conveniens. On September 5, 2000, the court dismissed the New York Action on forum non conveniens grounds, subject to the Company making certain stipulations in the New York Action. Those stipulations have been made and the appeal period in the New York Action has expired without Berry or any other party appealing the September 5, 2000 order.

The issues raised by Berry and the Company in the New York Action will be litigated in the BC Action together with the further issues raised by the Company in the BC Action. The Company feels that Berry's claims in the New York Action were without merit and that the Company will be successful in obtaining an order declaring that Berry's 600,000 Contingent Shares be cancelled and further entitling the Company to substantial damages. 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.

It is expected that the Tia Action, the BC Action and the Berry Action will be consolidated for the purposes of trial due to the fact that there are numerous issues of fact and law which are common to all of these actions. The Company believes that trial will likely take place in the fall of 2002.

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 this action and believes additionally that it would be able to negotiate reasonable payment terms should it lose this suit.

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.

Due to the inherent uncertainties of litigation, the Company cannot predict the outcome of any litigation to which it is a party.

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

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.

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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 was a development stage company until the first quarter of 1999, when it began to broaden its strategic focus through the acquisition of six ISPs. Currently, providing ISP Services is the focus of the Company's business. The Company's business operations are presently conducted in Canada and the United States.

The Company derives virtually 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 focusing on Web hosting and server co-location, anticipating a strong hold over connectivity by the larger ISPs in a few years' time.

During 2000, the Company began streamlining and consolidating 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. During the second half of 2000, the Company began consolidating all aspects of customer support (including end user technical issues) into the Chatham, Ontario facility. In early 2001, customer support for Oregon ISP Services customers were consolidated into the Chatham facility and by mid-2001 it is expected that customer support for all of the Company's ISP Services customers will be handled by the Chatham facility.

- Billing and Collections. During the second half of 2000, the Chatham facility took over billing and collections for British Columbia customers, in addition to continuing billing and collections for all other Canadian customers. It is anticipated that by mid-2001, billing and collections for the rest of the Company's ISP Services customers will be consolidated into the Chatham facility.

- Network Operations. During 2000, the Company reduced four maintenance and repair teams to two regionally-based teams. A team based in Toronto provides primary monitoring and repair of all servers and routers covering all Canadian ISP Services customers and provides overflow assistance to the Pacific Northwest, while a Seattle team provides primary monitoring and repair of all servers and routers covering all of the Pacific Northwest ISP Services customers and provides overflow assistance to Canada.

The Company is also consolidating Web hosting and dedicated services into Toronto, a process which began in late-2000 and is expected to be completed by late-2001. Other ISP Services such as e-mail and user authentication (i.e., customer security) will continue to be

handled from regional data centers. Beginning in early 2001, all new Web hosting customers, wherever located, are being hosted from Toronto. As a result of the foregoing efforts, the operations of Intouch Internet Inc. and NetRover Office Inc. have been fully consolidated into the Company's wholly-owned subsidiary, NetRover Inc. ("NetRover"). 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, 2001 Compared to the Three Months Ended March 31, 2000

Substantially all of the Company's revenue was earned from its ISP operations during the three months ended March 31, 2001. These revenues are attributable virtually entirely to the operations of the Company's ISP businesses (Hermes Net Solutions, Inc. and NetRover, 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 $1,063,823 for the three months ended March 31, 2001 compared to $1,039,560 for the three months ended March 31, 2000, indicating relative stability in revenue derived from ISP services.

Direct costs, which consist primarily of telecommunications charges in respect of providing Internet connection services to customers, of $428,671, were incurred for the three months ended March 31, 2001, compared to $620,381 for the three months ended March 31, 2000. The decrease in the above noted expenses for the three months ended March 31, 2001 compared to the three months ended March 31, 2000 results primarily from receiving service level agreement credits from certain telecommunication providers.

Selling, general and administrative expenses were $622,952 for the three months ended March 31, 2001 compared to $1,007,783 for the three months ended March 31, 2000. The decrease in the above noted expenses for the three months ended March 31, 2001 compared to the three months ended March 31, 2000 results primarily from a reduction in salaries and benefits, the abandonment of

Playa Corporation and consolidation of the operation of the Company's ISP businesses.

The Company incurred interest expense of $41,326 for the three months ended March 31, 2001, compared to $179,284 for the three months ended March 31, 2000, which amount included $35,784 of interest expense for the three months ended March 31, 2000 in respect of promissory notes issued by the Company in favor of Blue Heron Venture Fund, Ltd. (the "Blue Heron Demand Notes"), the Company's principal creditor. These notes are unsecured, bear interest at 8% per annum and are payable on demand. The decrease in interest expense is primarily the result of the fact that because the Company did not borrow any additional funds during the three months ended March 31, 2001, it did not incur any beneficial conversion feature for such period, partially offset by an increase in interest incurred with respect to the outstanding balance of the Blue Heron Demand Notes. See "Liquidity and Capital Resources" below.

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The Company had a net loss of $547,983, or $.03 per share, for the three months ended March 31, 2001, compared to a net loss of $1,303,753, or $.06 per share, for the three months ended March 31, 2000. The decrease in net loss for the three months ended March 31, 2001 was primarily a result of significant decreases in direct costs; selling, general and administrative expenses; amortization and depreciation of the assets acquired in the fiscal year 1999; and interest expense.

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, 2001 of $547,983, compared to a net loss for the three months ended March 31, 2000 of $1,303,753. As of March 31, 2001, the Company had a working capital deficit of $3,127,010, which is primarily due to the Company's use of current assets to acquire its ISP and Software Products businesses, 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 has obtained most of its financing through Blue Heron. The loans were made under agreements pursuant to which the Company could borrow up to $16,000,000 in unsecured loans from Blue Heron. The loans are evidenced by the Blue Heron Demand Notes. The Blue Heron Demand Notes bear interest at 8% per annum, are payable on demand and are convertible into shares of the Company's Common Stock at the lender's option, in which case Blue Heron would waive its right to be paid interest under the Blue Heron Demand Notes. During 1999, $4,000,000 of outstanding loans were converted into 4,500,000 shares of the Company's Common Stock. On August 16, 1999, $1,000,000 aggregate principal amount of Blue Heron Demand Notes were converted into 1,500,000 shares of Common Stock, at a conversion price of $0.67 per share. On November 24, 1999, an aggregate additional principal amount of $3,000,000 of Blue Heron Demand Notes were converted into an additional 3,000,000 shares of Common Stock, at a conversion price of $1.00 per share.

On April 27, 2000, the Company renegotiated the conversion share price of its remaining $2,000,000 and $10,000,000 loan facilities with Blue Heron. The conversion feature with respect to the loan facility in the amount of $2,000,000 was reduced from $1.33 per share to $.75 per share, and the conversion feature with respect to the loan facility in the amount of $10,000,000 was reduced from

$2.67 per share to $.75 per share.

During the fiscal year ended December 31, 2000, the Company borrowed an additional $1,210,000 from Blue Heron. The Company did not borrow any additional funds during the three months ended March 31, 2001. As of March 31, 2001, the aggregate outstanding principal amount of the loans was $2,085,000. If the Blue Heron Demand Notes in such aggregate principal amount were converted, Blue Heron would be entitled to an additional 2,780,000 shares of the Company's Common Stock.

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Blue Heron is free to withdraw this credit facility at any time, and since these loans are payable on demand, the Company's ability to continue operations is dependent upon the willingness of Blue Heron to forbear from demanding payment. The Company believes that Blue Heron will continue to forbear payment of the loans for the immediately foreseeable future, but it is under no obligation to do so. Should Blue Heron demand payment, the Company would be required to obtain financing from other sources to satisfy its obligations or would be in default under the loans. 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.

On April 11, 2001, the Company received a letter from Blue Heron, stating its willingness to renegotiate the terms of the Blue Heron loans from demand loans to term loans. No negotiations have commenced as of the date of filing this Report and no assurance can be given that negotiations will be undertaken. The actual terms of any such renegotiation are subject to agreement between the Company and Blue Heron, and no assurance can be given that the parties will reach agreement on the new terms of the loans. Kelly Shane Montalban, a principal stockholder of the Company, may be deemed to have an indirect pecuniary interest in Blue Heron as a result of his status as fund manager for Blue Heron. Blue Heron is also a principal stockholder of the Company. Blue Heron may be deemed to be an affiliate of Pacific Gate, another of the Company's lenders, in which Mr. Montalban is the sole stockholder, sole director and sole officer.

During the fiscal year ended December 31, 2000, the Company borrowed an aggregate $125,000 from Pacific Gate, of which amount $25,000 was outstanding on March 31, 2001. These loans bear interest at 8% per annum and are payable on demand. Since these loans are payable on demand, the Company's ability to continue operations is dependent upon the willingness of Pacific Gate to forbear from demanding payment. The Company believes that Pacific Gate will continue to forbear payment of the loans for the immediately foreseeable future, but it is under no obligation to do so. Should Pacific Gate demand payment, the Company would be required to obtain financing from other sources to satisfy its obligations or would be in default under the loans. 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.

On April 11, 2001, the Company received a letter from Pacific Gate, stating its willingness to renegotiate the terms of the Pacific Gate loans from demand loans to terms loans. No negotiations have commenced as of the date of filing this Report and no assurance can be given that negotiations will be undertaken. The actual terms of any such renegotiation are subject to agreement between the Company and Pacific Gate, and no assurance can be given that the parties will reach agreement on the new terms of the loans. Pacific Gate is an affiliate of Kelly Shane Montalban, a principal stockholder of the Company, who is also the sole stockholder, sole director and sole officer of

Pacific Gate; and may be deemed to be an affiliate of Blue Heron through Kelly Shane Montalban, who is fund manager for Blue Heron.

The Company's cash position during the three months ended March 31, 2001 was $185,811, compared to $250,631 on December 31, 2000. This decrease is primarily due to the Company's not borrowing additional funds during the three months ended March 31, 2001.

The Company's net cash used in operating activities totaled $42,892 during the three months ended March 31, 2001, compared to $405,199 during the three months ended March 31, 2000. This decrease is primarily due to streamlining and consolidating of the Company's ISP Services operations, and termination and resignation of employees in the Vancouver office during 2000.

The Company's net cash used in investing activities totaled $21,928 during the three months ended March 31, 2001, compared to $598,576 during the three months ended March 31, 2000. This decrease is primarily due to the Company's not acquiring any new businesses and making significantly fewer purchases of property and equipment during the three months ended March 31, 2001.

The Company did not have any proceeds from financing activities during the three months ended March 31, 2001, compared to $1,025,000 of such proceeds during the three months ended March 31, 2000.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Canada Post Litigation

On June 11, 1999, Canada Post Corporation ("Canada Post") filed a Statement of Claim in the Federal Court of Canada (Court File No. T-1022-99) in which it sought injunctive and unspecified monetary relief for the allegedly "improper" use by the Company's subsidiary, ePost Innovations, Inc., ("ePost Innovations"), of certain marks and names which contain the component "post". On October 18, 1999, ePost Innovations filed its Defense and Counterclaim. In a motion heard November 24, 1999, Canada Post Corporation challenged certain parts of the Counterclaim and the Federal Court reserved judgment. There has been no pre-trial discovery and no trial date has been set.

On May 25, 1999, ePost Innovations filed a statement of Claim in the British Columbia Court (Court File No. C992649) seeking a declaration that the public notice of Canada Post's adoption and use of CYBERPOSTE and CYBERPOST on November 18, 1998 and December 9, 1998 respectively, did not affect the Company's use of CyPost and ePost Innovations as trademarks and trade-names prior to said dates. ePost Innovations sought summary judgment for such a declaration and on September 14, 1999, the court rejected summary judgment on the basis that no right of ePost Innovations was being infringed and that a trial of the issues was more appropriate. The rejection is pending appeal. There has been no pre-trial discovery (except to the extent that some was done as part of the summary judgment application) and no trial date has been set.

Canada Post seeks relief in the form of preventing ePost Innovations from using trademarks, trade-names or brand names and does not seek monetary damages. Accordingly, the Company does not believe that this litigation will have a material impact on its future results of operations, financial condition and liquidity.

By order of the Federal Court dated January 25, 2001, ePost Innovations was required to appoint new counsel in this matter, failing which Canada Post would be permitted to move to strike ePost Innovations' Statement of Defense and Counterclaim. On April 6, 2001, the Federal Court ruled on Canada Post's November 24, 1999 motion, whereby it was ordered that certain portions of ePost Innovations' Statement of Defense and Counterclaim be stricken, and that by a Supplemental Order of the Federal Court dated April 9th, 2001, Canada Post be required to file its Reply and Defense to Counterclaim by April 25, 2001. Canada Post has filed a motion to extend the time for filing its Reply and Defense to Counterclaim, which is scheduled to be heard by the Federal Court on May 14, 2001. ePost Innovations does not intend to oppose the motion. Canada Post's motion to extend time includes a motion to strike ePost Innovations' Defense and Counterclaim for failure to appoint new counsel. Canada Post is prepared to withdraw this aspect of its motion if ePost Innovations appoints new counsel by May 11, 2001. ePost Innovations did not appoint new counsel by such date.

ePost Innovations and Canada Post are engaged in settlement discussions to resolve the litigation. However, due to the inherent uncertainties of litigation, the Company cannot predict whether the parties will reach a definitive settlement and, if they do, whether the terms of any settlement will be favorable to the Company.

Item 2. Changes in Securities

On January 10, 2001, the Company issued an option to purchase 1,000,000 shares of the Company's common stock to Robert Adams, President, Chief Operating Officer, Secretary and Treasurer of the Company, and an option to purchase 125,000 shares of the Company's common stock to Tami Allan, Vice President of North American Operations of the Company. The exercise price of each option is $.10 per share and vests over time. The options were issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), for transactions by an issuer not involving a public offering or Regulation S promulgated thereunder for transactions by an issuer outside the United States.

On January 23, 2001, the Company issued an aggregate 25,000 of its common stock to three employees in consideration for their providing certain services to the Company from September 1, 2000 through September 30, 2000. These shares were issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act for transactions by an issuer not involving a public offering or Regulation S promulgated thereunder for transactions by an issuer outside the United States.

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On June 8, 2000, the Company issued 771,426 shares of its Common Stock to the selling stockholders of Playa Corporation ("Playa") as partial payment of the purchase price $3,000,000 in connection with the Company's acquisition of that company. Due to the discovery of a clerical error in the share conversion price of the terms of the transaction, an additional 14,029 shares of the Company's Common Stock were issued to the selling stockholders of Playa on January 23, 2001. These shares were issued pursuant to the exemption from registration contained in Section 4(2) of the Securities Act for transactions by an issuer not involving a public offering or Regulation S promulgated thereunder for transactions by an issuer outside the United States.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Capacity Agreement dated January 4, 2001 between Verizon Northwest Inc. and CyPost Corporation for the State of Washington

10.2 Stock Option Agreement dated as of January 12, 2001 between the Company and Robert Adams

10.3 Stock Option Agreement dated as of January 12, 2001 between the Company and Tami Allan

(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, 2001

By: /s/ Robert Adams

Robert Adams
President and Treasurer
(Principal Financial Officer)