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CYBERADS INC  
Form 10QSB  
August 18, 2003

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

FORM 10-QSB

(Mark One)

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

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
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Commission File Number: 333-62690  
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CYBERADS, INC.  
-----

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

Florida  
-----

65-1000634  
-----

(State or other jurisdiction of  
incorporation or organization)

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

6001 Park of Commerce Boulevard, Boca Raton, Florida 33487  
-----

(Address of principal executive offices)

(561) 338-9399  
-----

(Issuer's telephone number)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes  
of common equity, as of the latest practicable date: 16,049,777 shares of Common  
Stock, par value \$.0001, as of May 1, 2002.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CYBERADS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF JUNE, 2003

ASSETS

CURRENT ASSETS	30-Jun-03
Cash	28,609.27
Accounts Receivable - net	139,061.92
Inventory	18,027.00
Total Current Assets	185,698.19
PROPERTY AND EQUIPMENT - NET	152,468.85
OTHER ASSETS	
Deposits	49,974.42
Intangible Assets	75,000.00
Other Assets	28,695.20
Total Other Assets	153,669.62
TOTAL ASSETS	491,836.66

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES	
Cash Overdraft	-
Accounts Payable	738,608.92
Advances from Related Parties	762,823.87
Accounts Payable _ Related Parties	807,713.00
Accrued Expenses	651,231.34
Deferred Commission Revenue	216,620.00
Factor Payable - net	1,017,278.57
Due to Officers	54,000.00
Loan Payable - Convertible Deventures	60,000.00
Total Current Liabilities	4,308,275.70
STOCKHOLDER'S DEFICIENCY	
Convertible Preferred Stock, \$.001 par value, 5,000,000 shares authorized none issued and outstanding	-
Common Stock, \$.001 par value, \$50,000,000 shares authorized, 16,049,777 shares issued and outstanding	16,049.50
Additional Paid In Capital	13,682,441.40
Accumulated Deficit	(17,514,929.94)

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Total Stockholder's Deficiency	(3,816,439.04)
Deferred Costs Financing	
TOTAL LIABILITIES AND STOCKHOLDER'S DEFICIENCY	491,836.66

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CYBERADS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
AS OF JUNE 30, 2003  
(UNAUDITED)

	For the three month ended Jun 30 2003	For the three month ended Jun 30 2002	For the month en Jun 30 2
NET REVENUES	1,115,845	2,110,368	3,576,87
COST OF REVENUES	(9,611)	1,080,582	986,61
GROSS PROFIT	1,125,456	1,029,786	2,590
OPERATING EXPENSES			
Selling & Advertising	448,449	878,637	1,062
Payroll Expenses	203,735	605,291	604
General and Administrative	246,014	594,985	980
Total Expenses	898,197	2,078,913	2,648
GAIN (LOSS) FROM OPERATIONS	227,258	(1,049,127)	(58
OTHER INCOME (EXPENSES)			
Gain on theft of assets		1,203	
Interest Expense	(10,653)	(71,631)	(29
Loss on Reduction of Inventory			(52
Loss on Idle Equipment			2
Other Income	1,965		
Interest Income			
Total Other Income	(8,688)	(70,428)	(78
NET GAIN (LOSS)	218,570	(1,119,555)	(136

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NET GAIN (LOSS) PER COMMON SHARE			
EQUIVALENT - BASIC AND DILUTED	0.014	(0.078)	(0

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CYBERADS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW  
 FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002  
 (UNAUDITED)

	For the six months ended Jun 30 2003	For the s months en Jun 30 20
	-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Net Gain (Loss)	(136,713.00)	(1,726,
Provision for doubtful accounts		172,
Depreciation	19,493.50	13,
Impairment Fix Assets	98,645.57	
Amortization of deferred Consulting Fees	-	100,
Amortization of deferred Interest	7,014.64	2,
Stock and options issued for service	-	142,
Gain on theft of assets		(1,
(Increase) decrease in:		
Accounts Receivable	934,698	588,
Prepaid expenses	(3,909)	
Inventory	138,207	223,
Deposits	27,277	(60,
Increase (decrease) in:		
Accounts Payable	(793,447)	129,
Accounts Payable - Related Parties	(362,246)	
Cash overdraft	(112,649)	
Accrued expenses, payroll and payroll taxes	(4,381)	257,
	-----	
Net Cash Used in Operating Activities	(188,010)	(158,

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CASH FLOW FROM INVESTING ACTIVITIES		
Good faith deposit on future adquisition	-	(75,
Puerchases of property and equipment		(301,
		-----
Net Cash Used in Investing Activities	-	(376,
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issuance of Common Stock, net of offering costs		55,
Proceeds from issuance of convertible debentures		60,
Advances from third parties- Inphonic	216,620	(125,
Prepayments to third parties, net		274,826
Advances from factor, net		270,
		-----
Net Cash Provided by Financing Activities	216,620	535,
		-----
NET INCREASE IN CASH	28,609	
CASH- BEGINNING OF PERIOD	-	39,
		-----
CASH- END OF PERIOD	28,609	40,
		=====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2003

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(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange commission for the interim financial information. Accordingly, they do not include all of the information necessary for a comprehensive presentation of financial position and results of operations.

In management's opinion, however, all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results of the interim period are not necessarily indicative of the results to be expected for

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the year.

For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2002 included in Form 10-KSB of the Company as filed on May 16, 2003.

### NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. This statement is effective for contracts entered into or modified after June 30, 2003 and all of its provisions should be applied prospectively.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The Statement improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position.

SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2003

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(UNAUDITED)

such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

In addition to its requirements for the classification and measurement of financial instruments in its scope, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, all of whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. For private companies, mandatorily redeemable financial instruments are subject to the provisions of this Statement for the fiscal period beginning after December 15, 2003.

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Management does not expect the impact from the pronouncements in these statements to have a material impact on the Company's consolidated financial position or results of operations.

### NOTE 3 IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. An impairment loss of \$52,313 was recognized in the quarter ended March 31, 2003 for assets that became idle as a result of further staff reductions.

### NOTE 4 IMPAIRMENT OF INVENTORY

During the quarter ended March 31, 2003, the Company changed its business model whereby it will no longer maintain an inventory of cellular phones. For the cellular phone subscriptions obtained in the future, the phones shall be shipped either directly by the carrier or from a fulfillment company. Thus, the Company will not be responsible for delivering cellular phones to subscribers and revenue shall be recognized solely on a net basis going forward. As a result, the Company recognized an impairment charge on the remaining inventory in the amount of \$120,879, which is included in cost of revenues.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2003

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(UNAUDITED)

### NOTE 5 STOCKHOLDERS' DEFICIENCY

#### (A) Stock Issued for Services

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On March 10, 2003, the Company entered into a marketing and distribution agreement whereby the Company will provide customer names and contact information (that it obtains through its marketing efforts) to the other party who will provide fulfillment, activation and customer service for cellular phone service and other communications products and services. The Company is paid a commission for each activation and can be charged back for activations that are prematurely terminated by the customer. During the three months ended March 31,



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2003, the Company received \$150,000 in advances (pre-paid commissions) from the other party. The agreement provides for repayment of these pre-paid commissions via commissions earned on specific types of sales. As of March 31, 2003, the \$150,000 in advances has been offset against the commission accounts receivable. The Company has placed 1,250,000 restricted shares of its common stock in escrow as collateral in the event that the agreement is terminated for any reason prior to the time that the pre-paid commissions have been fully earned or repaid. As further consideration for performance of this agreement, a warrant will be issued to the Company for the purchase of 62,500 shares of common stock of the other party. Subsequent to March 31, 2003, the Company received an additional \$200,000 in advances.

### (B) Common Stock Options

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On November 1, 2001, the Company adopted the 2001 Stock Option Plan, (the "Plan") which authorized the issuance of up to 500,000 shares of common stock to employees, consultants, representatives, officers and directors of the Company. As of March 31, 2003, no shares have been issued under the Plan.

During the three months ended March 31, 2003, the Company granted 225,000 stock options to certain employees. The Company applies APB Opinion No. 25 and related interpretations in accounting for stock options issued to employees. Accordingly, compensation cost is recognized for options issued to employees only for the intrinsic value of those options. Had compensation cost been determined based on the fair market value at the grant date, consistent with SFAS 123, the Company's net loss for the period ended March 31, 2003 would have changed to the pro-forma amount indicated below.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model in accordance with SFAS 123 with the following weighted average assumptions: dividend yield of zero; expected volatility of 195% to 234%; risk-free interest rate of 2.0%, and expected lives of two years.

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### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2003

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(UNAUDITED)

			March 31, 2003
			-----
Net Gain	As Reported	\$	218,570
Basic and Diluted Net Loss Per		\$	

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Share As Reported \$ (0.14)  
\$

The effect of applying Statement No. 123 is not likely to be representative of the effects on reported net loss for future years due to, among other things, the effects of vesting.

A summary of the Company's stock options as of June 30, 2003, and the changes since December 31, 2002 is presented below:

Fixed Options	June 30, 2003	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	8,150,000	\$ .82
Granted	-	-
Forfeited	-	-
Expired	(100,000)	.25
Exercised	-	-
Outstanding at end of period	8,050,000	\$ .82
Options exercisable at end of period	8,050,000	
Weighted average fair value of options granted to employees during the period	\$ 0.03	

Options Outstanding				Opti
Range of Exercise Price	Number Outstanding at March 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable March 31,
\$ 0.00 - 0.99	2,225,000	1.89	\$ 0.35	2,225
\$ 1.00 - 1.99	5,825,000	3.55	1.01	5,825
\$ 0.00 - 1.99	8,050,000	3.09	\$ 0.82	8,050

(C) Common Stock Warrants

In June 2000, the Company issued to an officer of the Company a five-year warrant to purchase up to 50,000 common shares at an exercise price of \$1.00 per share as consideration for assistance with the sale of the Company's stock. The Company accounts for the warrants under APB 25. Accordingly, no direct offering costs or compensation expenses were recognized.

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2003

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(UNAUDITED)

### NOTE 6 SEGMENT INFORMATION AND DISCONTINUED OPERATIONS

In January 2002, Cyad was formed and the Company received 80% of the shares issued at Cyad's inception. The Company began developing the business of wholesaling cellular phones. In August 2002, the Company chose to discontinue Cyad's operations. As of March 31, 2003, there were no assets or liabilities related to Cyad.

Since the Company's only remaining segment is the Cellular Phone Contracts segment, segment information is not presented and the income statement has been updated to reflect the discontinued operations.

### NOTE 7 GOING CONCERN

The Company plans to raise additional funds through loans from third parties and the sale of common stock for cash. The Company is of the opinion that the cash generated from their resources will be sufficient to provide adequate liquidity and capital resources.

The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. Management believes that when it accomplishes the steps outlined above that the Company would have sufficient liquidity to remain viable for at least twelve months following the date of these condensed consolidated financial statements.

### NOTE 8 COMMITMENTS AND CONTINGENCIES

On February 7, 2003, the Company entered into a one-year agreement to make a health card available to its customers, whereby its customers are entitled to receive savings on purchases of goods and services from program participants. The Company receives a commission on each card activated and the other party handles fulfillment, activation and customer service. The agreement will automatically renew for terms of one-year each unless mutually terminated.

On February 10, 2003, the Company entered into a one-year agreement to make prepaid bank cards available to its customers, whereby its customers "load" their account with funds which they can use via the bank card. The Company receives a commission on each card activated and the second party to the agreement handles card fulfillment, activation and customer service. The agreement will automatically renew for successive one-year terms.

On March 14, 2003, the Company entered into a settlement agreement with a company owned by the former Chief Technology Officer. The other party is entitled to market the Company's customer list and the Company agrees to compensate the other party 50% of the revenue generated from

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2003

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(UNAUDITED)

the list for revenue it claims it lost as a result of the marketing and distribution agreement referred to above. The compensation is limited to \$15,000. As part of the settlement, the Company also provided the other party with used office furniture and equipment with an estimated market value of \$3,680.

On April 8, 2003, the Company renegotiated the lease for the building occupied by the corporate headquarters. The Company relinquished one of the two bays that it was occupying and reduced the leased space to approximately one-half of what was previously occupied. Rent expense was reduced accordingly. It was also agreed that the landlord would apply \$35,000 of the \$65,000 security deposit towards rent that was previously deferred. The lease amendment extends the lease term through February 28, 2006.

As of May 8, 2003, the Company's subsidiary, IDS Cellular, Inc., is being sued by a vendor for non-payment of goods delivered to IDS Cellular, Inc. in 2003. The Company's attorney believes the likelihood of loss is probable, therefore the Company has appropriately accrued \$80,895 for the loss in 2003.

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### Item 2. Management Discussion and Analysis

#### General

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

#### Overview

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

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

Management notes that a comparison of results of operations may be misleading as our operations were in its infancy during the first quarter of 2001.

#### Results of Operations

Total revenues were \$1,115,845 for the three months ended June 30, 2003 and \$2,110,368 for the three months ended June 30, 2002. The \$994,523 decrease in revenues in the three months ended June 30, 2003 as compared to June 30, 2002 primarily reflects the change in operations. Since March, 2003 our main source of revenue is from direct commissions from InPhonic, eliminating completely the Cost of Goods Sold. As a result, our Gross profit is approximately 100% gross sales.

The Company did not have Cost of Revenues for the three months ending June 30, 2003, and the (9,611) are returns of purchases. The gross profit for this period was \$1,125,456 or approximately 100%.

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Total expenses for the three months ended June 30, 2003 were \$898,197 as compared to \$2,078,913 three months ended June 30, 2002. Selling and advertising expenses for the three month period ended June 30, 2003 decreased to \$430,188 as compared to \$878,637 for the same period in 2002. The decrease in selling expenses in 2003 as compared to 2002 is primarily attributable to the decrease in our sales personnel. Payroll expense for the three month period ended June 30, 2003 decreased to \$203,735 or 18.3 % of sales as compared to \$605,291 or 28.7% of sales for the same period in 2002. The decrease is due to a significant reduction of personnel.

General and administrative expenses for the three-month period ended June 30, 2003 decreased to \$246,014 or 22.05% of sales as compared to \$594,985 or 28.20% of sales for the same period in 2002. The decrease in general and administrative expenses in 2003 as compared to 2002 is primarily attributable to the decrease in professional fees, office expenses and miscellaneous expenses directly related to decrease in personnel.

Our Gain from operations for the three months ended June 30, 2003 increased by \$1,276,68. Gain from operation from the Second Quarter, 2003 was \$227,258, as compared to a loss of \$1,049,127 for the same quarter of 2002. Our Net Gain for the three months ended June 30, 2003 increased by \$1,338,125. Net Gain for the three months ended June 30, 2003 was \$218,570 as compared to \$1,119,555 Net Loss for the same period of 2002 The increase in net Gain was due to an increase of our Gross Profit and a decrease in our Operating and Other Expenses.

Management believes that our increasing revenues and cost reductions should improve our operating performance for future periods.

### Liquidity and Capital Resources

As of June 30, 2003 had an accumulated deficit of \$17,514,930 and cash in the bank of \$28,609. We had a working capital deficit June 30, 2003 of \$3,816,439. The deficit was funded during the three-month period June 30, 2003 by advances from third parties.

Accounts receivable increased \$35,679 from \$ 103,383 Net Receivables as of March 31, 2003 to \$139,062 Net Receivable as of June 30, 2003. This increase is a result decrease in the allowance for charge-back during the current period.

Since our inception we have experienced negative cash flow and have met our cash requirements by issuing, through a private placement, our common stock and by issuing stock as compensation for services provided. We have also funded current obligations through the issuance of common stock and related party loans. We generated additional funds through borrowings from a related party.

As a result of improved operating results and increasing revenues, we anticipate that cash generated from our operations should be sufficient to satisfy our contemplated cash requirements for the next 12 months. We believe if the trend of increasing revenues remains consistent, cash generated will be sufficient to support operations over the next 12 months. After such time, we anticipate that we will need to raise additional funds through private or public offerings or additional borrowings.

While our auditors have expressed substantial doubt as to our ability to continue as a going concern, we anticipate that funds received from loans and cash generated from our operations should be sufficient to satisfy our contemplated cash requirements for the next 12 months. We intend to take several steps that will provide the capital resources required to insure our viability over the next 12 months. These steps include the reduction of operating costs including rent, payroll and factoring expenses. These saving adding to the benefits of the Inphonic's contract should provide all the liquidity the company

requires.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds

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

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

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

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

On January 6, 2002, we entered into a product and sales development consulting agreement with James L. Copley, under which Mr. Copley received options to purchase 300,000 shares of our common stock exercisable at \$2.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Copley had access to information about our company and had the opportunity to ask questions about our company.

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

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

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

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

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



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

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

Voting. Each share of preferred stock is entitled to eight votes.

Preference on Liquidation. Series A convertible preferred shares will be entitled to a preference on liquidation.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

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

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

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

Item 6. Exhibits and Reports on Form 8-K

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

## Edgar Filing: CYBERADS INC - Form 10QSB

Exhibit No. -----	Description of Document -----
2.2	Stock Purchase Agreement with IDS Cellular and its shareholders(1)
3.1(a)	Articles of Incorporation(1)
3.1(b)	Articles of Amendment(1)
3.1(c)	Designation of Series A Convertible Preferred Stock(2)
3.2	Bylaws(1)
4.0	Form of Stock Certificate(1)
4.2	Loan Agreement with Levinson(1)
4.3	Promissory Note issued by Levinson in favor of CyberAds, dated January 22, 2002(1)
10.1	Employment/Consulting Agreement with Levinson(1)
10.2	Agreements with American Cellular, Inc. and GT Global Communications, Inc.(1)
10.3	Agreement with Triton PCS(1)
10.4	Agreement with Regal Marketing International(1)
10.6	Agreement with Beck Management, Inc.(1)
10.7	Consulting Agreement with Gene Foland(2)
10.8	Consulting Agreement with James L. Ricketts(2)
10.9	Consulting Agreement with James L. Copley(2)
10.10	Sales Agency Agreement with MCI WorldCom Wireless(2)
21.0	Subsidiaries of Registrant(1)
31.	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(4)
32.	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(4)
(1)	Previously filed in Registration Statement on Form SB-2, File No. 333-100000
(2)	Previously filed in Registration Statement on Form SB-2, File No. 333-100000
(3)	Previously filed in the Annual Report on Form 10-KSB for the year ended December 31, 2001
(4)	Filed herewith

(b) Reports on Form 8-K

On January 29, 2002, we filed a current report on Form 8-K disclosing that on January 22, 2002 we issued 625,000 shares of series A preferred stock to Lawrence Levinson, our CEO, in consideration for advances in the aggregate of approximately \$350,000 that Mr. Levinson and his affiliates have made to our company and a personal guarantee that Mr. Levinson has made on behalf of our company.

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

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SIGNATURES

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

CyberAds, Inc.

DATED: August 18, 2003

By:/s/Lawrence Levinson

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Lawrence Levinson, Chairman and  
Chief Executive Officer

DATED: August 18, 2003

By:/s/Robert B. Kline

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Robert B. Kline, Principal Accounting  
Officer and Director

