CYBERADS INC
Form 10QSB
November 17, 2004

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 September 30, 2004

[ ] Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from __________ to __________.

Commission File Number: 000-31451

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.)

370 Amapola Ave. # 202, Torrance, California 90501

(Address of principal executive office) (Zip Code)

(561) 672 2193

(Issuer's telephone number)

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 XX No

As of September 30, 2004 , the number of outstanding shares of the issuer's common stock, $.001 par value, was 22,925,777 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes [ ] No [X]

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CYBERADS, INC.

Consolidated Balance Sheets
See accompanying notes.

	September 30, 2004	
Assets		
Current asset -		
Accounts receivable	$ -	$
Property and equipment, net	14,171	
Other assets:		
Investments	10,700,000	
Deposits	8,585	
Total other assets	10,708,585	
	$ 10,722,756	$
Liabilities and Stockholders' Equity		
Current liabilities:		
Outstanding checks in excess of cash in bank	$ 14,774	$
Notes payable	294,192	
Accounts payable	814,447	
Accounts payable to cellular phone service provider	-	
Accrued payroll and payroll related liabilities	614,143	
Other accrued liabilities	38,993	
Payable to related parties	786,555	
Loans payable - convertible debentures	60,000	
Total current liabilities	2,623,104	
Payable to stockholder	-	
Stockholders' equity:		
Preferred stock; $.001 par value; authorized 5,000,000 shares, of which 1,000,000 shares has been designated as Series A Convertible, shares issued and outstanding 835,660	836	
Common stock; $.001 par value; shares authorized 50,000,000; shares issued and outstanding 22,925,777 in 2004 (18,325,777 in 2003)	22,926	
Common stock to be issued	9,802,550	
Additional paid in capital	17,450,885	
Retained deficit	(19,177,545)	
Total stockholders' equity	8,099,652	
	$ 10,722,756	$

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CYBERADS, INC.
Consolidated Statements of Operations

	Three months ended September 30		Nine months September	
	2004	2003	2004	
Revenues	$ -	$ 320,700	$ 303,120	$
Cost of revenues	-	162,146	-	
Gross profit	-	158,554	303,120	
Operating expenses:				
Selling	-	285,690	-	
General and administrative	231,482	535,796	755,824	
Total operating expenses	231,482	821,486	755,824	
Net loss from operations	(231,482)	(662,932)	(452,704)	
Other income (expenses):				
Other income (expense)	-	(41,274)	4,847	
Interest expense and financing costs, net	(9,663)	(101,252)	(15,663)	
Total other income (expenses)	(9,663)	(142,526)	(10,816)	
Net loss before provision for income taxes	(241,145)	(805,458)	(463,520)	
Provision for income taxes	-	-	-	
Net loss	$ (241,145)	$ (805,458)	$ (463,520)	$
Net loss per common share	$ (.012)	$ (.050)	$ (.024)	$

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CYBERADS, INC.

Consolidated Statements of Cash Flows
September 30, 2004

	Three months ended September 30		Nine months September	
	2004	2003	2004	
Cash flows from operating activities:				
Net loss	$ (241,145)	$ (805,458)	$ (463,520)	$
Adjustment to reconcile net loss to net cash used in operating activities:				
Provision for doubtful accounts	-	-	-	
Impairment of inventories	-		-	
Impairment of long-lived assets	-	92,317	-	
Depreciation	-	-	-	
Deferred financing costs	-	-	-	
Common stock issued for in exchange for compensation and services	250,000	-	439,500	
Common stock issued for interest	9,663	-	9,663	
Changes in assets and liabilities:				
Receivables	-	139,062	20,380	
Inventories	-	18,027	-	
Deposits and other assets	-	190,547	-	
Outstanding checks in excess of cash in bank	-	-	13,567	
Accounts payable	(18,518)	403,469	(190,531)	
Accrued liabilities	-	(77,401)	69,941	
	-	(39,437)	(101,000)	
Cash flows from investing activities - capital expenditures	-	-	-	
Cash flows from financing activities:				
Borrowings from notes payable	-	72,000	-	
Principal repayments of note payable	-	-	(11,000)	
Advances from stockholder and related parties	-	-	47,000	
Proceeds from stock options exercised	-	-	65,000	
Net borrowings from factor	-	42,806	-	
	-	114,806	101,000	
Net increase in cash	$ -	$ 75,369	$ -	$

Continued on next page.

CYBERADS, INC.

Consolidated Statements of Cash Flows (continued)
September 30, 2004
See accompanying notes.

	Three months ended September 30		Nine months September	
	2004	2003	2004	
Net increase in cash	$ -	$ 75,369	$ -	$
Cash at beginning of period	-	28,609	-	
Cash at end of period	$ -	$ 103,978	$ -	$
Supplement schedule of noncash investing and financing activities:				
Common stock issued in exchange for payable to stockholder	$ 204,634	$ -	$ 204,634	$
Accounts payable to supplier converted to note payable	$ 185,192	$ -	$ 185,192	$

CYBERADS, INC.

Notes to Consolidated Financial Statements
September 30, 2004

1. 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. 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 the three months ended September 30, 2004 and management has devoted their attention toward restructuring debt and seeking profitable products.

PRINCIPLES OF CONSOLIDATION: The accompanying consolidated financial statements include the accounts of CyberAds and it's wholly owned subsidiary IDS, Inc. ("IDS"). All significant intercompany balances have been eliminated in consolidation. The operations of IDS are currently idle.

INTERIM REPORTING: The Company's year-end for accounting and tax purposes is December 31. In the opinion of Management, the accompanying consolidated financial statements as of September 30, 2004 and 2003 and for the three and nine months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three and nine months ended September 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year.

INVESTMENTS: The Company's investments as of September 30, 2004 and December 31, 2003 consisted of a 22% interest in a limited liability company that owns real estate. The Company uses the equity method of accounting for its investment in this company.

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 during the three months ended September 30, 2003 of $92,317 and during the nine months ended September 30, 2003 of $190,962 for assets that became idle as a result of staff reductions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION: In 2004 and 2003, the Company recorded revenue on a "net" basis when contracts were 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 Company also recorded revenue on a "gross" basis when contracts were submitted directly to cellular phone service providers. The phones were shipped from the Company to the subscriber and the Company bore the risk of loss on the cellular phone. Revenue was recognized when the phones were shipped along with commissions and related cost of goods sold for the cellular phone.

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.

NET INCOME (LOSS) PER COMMON SHARE: Net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. The weighted average number of common stock shares outstanding was 20,208,386 for the three months ended September 30, 2004 and 19,115,193 for the nine months ended September 30, 2004.

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 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 as of September 30, 2004 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. CASH FLOWS

Supplemental disclosure of cash flow information was as follows:

	Three months ended September 30		Nine mo Septe
	2004	2003	2004
Cash paid during the period for - Interest	$ -	$ -	$ -

4. NOTES PAYABLE

Notes payable consisted of the following:

	September 30, 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.

5. PAYABLE TO RELATED PARTIES

Advances from related parties consisted of the following:

	September 30, 2004	De
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	$

5. PAYABLE TO RELATED PARTIES (CONTINUED)

	September 30, 2004	De
Advance due to a former officer of the Company, bearing interest at 10% per annum, due on demand and unsecured	$ 732,555	$
Total payable to related parties	$ 786,555	$

6. 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 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 the repayment terms of the agreements. The notes are convertible into the Company's common stock at a conversion rate of 75% of the closing bid price of the Company's common stock one trading day prior to conversion.

7. 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.

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

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7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

8. COMMON 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 1,000,000 shares of its common stock to a major shareholder of Novanet Media, Inc. in exchange for consulting services. The shares were valued at $.25 per share which represented a 12% 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 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. Stock options

The Company's stock option activity for options granted to employees and non-employees is summarized as follows for the nine months ended September 30, 2004:

	Fixed Plan		
	Shares	Weighted average exercise price	Shares exercisable
Outstanding at January 1, 2004	2,925,000	$ .48	
Exercised	(500,000)	.13	
Cancelled	(225,000)	.25	
Expired	(300,000)	1.04	
Outstanding at September 30, 2004	1,900,000	$ .51	1,900,000

9. STOCK OPTIONS (CONTINUED)

The Company's stock option outstanding and exercisable at September 30, 2004 is summarized as follows:

Fixed Plan					
Options outstanding				Options exerc	
		Weighted average			
Range of prices	Shares	remaining life	exercise price	Shares	exe
$.04 - $.99	1,200,000	1 yr. 5 mo.	$ .27	1,200,000	
$.99 - $1.25	700,000	1 yr. 2 mo.	$ 1.03	700,000	
$.04 - $1.25	1,900,000	1 yr. 3 mo.	$ .51	1,900,000	

10. SETTLEMENT

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 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.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

Management's discussion and analysis should be read in conjunction with the financial statements and the notes thereto.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2003:

In March 2003, the Company changed their business model whereby cellular phone service providers, or a fulfillment company, began shipping cellular telephones directly to the Company's subscribers, rather than the Company carrying cellular telephone inventories and shipping to the Company's subscribers.

Also, effective September 9, 2003, all then-existing officers of the Company resigned and were replaced with new management.

Revenues were $303,120 for the nine months ended September 30, 2004 compared to $3,897,574 for the nine months ended September 30, 2003. The $3,594,454 decrease reflects the impact of the change in the Company's business model. Under the new model, the Company records revenue on a "net" basis when the master dealers ship the phones to the subscriber. Under the previous business model, the Company recorded revenue on a "gross" basis when the Company shipped the phones. The decrease in revenues also reflects the impact of the elimination of unprofitable products by new management.

The Company had no revenues for the three months ended September 30, 2004 compared to $320,700 for the three months ended September 30, 2003. Management of the Company has devoted all of there efforts during the three months ended September 30, 2004 toward restructuring debt, settling claims and evaluating profitable products.

There were no costs of revenues for the nine months ended September 30, 2004 compared to $1,153,862 for the nine months ended September 30, 2003. Under the new business model the Company no longer carries cellular telephone inventories.

There were also no selling expenses for the nine months ended September 30, 2004 compared to $1,348,577 for the nine months ended September 30, 2003. The decrease reflects the impact of the change in the Company's business model whereby the service provider is now responsible for handling all order fulfillment processes, customer service, verification and shipping.

General and administrative expenses were $755,824 for the nine months ended September 30, 2004 compared to $2,173,595 for the nine months ended September 30, 2003. The decrease reflects the impact of the change in the Company's business model and the impact of new management reducing overhead. Also, losses from settlements of claims against the Company aggregated $254,500 during the nine months ended September 30, 2004 that the Company believes will not reoccur along with legal costs of $37,000 relating to those settlements.

General and administrative expenses were $231,482 for the three months ended September 30, 2004 compared to $535,796 for the three months ended September 30, 2003. The decrease reflects the impact of the change in the Company's business model and the impact of new management reducing overhead.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

AS OF SEPTEMBER 30, 2004 COMPARED TO DECEMBER 31, 2003:

The Company had a working capital deficit of $2,623,104 as of September 30, 2004 compared to a working capital deficit of $2,720,748 as of December 31, 2003. The decrease in the Company's working capital deficit of $97,644 was a result of the Company raising $65,000 from the exercise of stock options and $47,000 of advances from a stockholder.

Since September 2003 when new management began operating the Company approximately $1,668,400 of accounts payable and accrued liabilities have been renegotiated into term debt or converted to capital stock of the Company. New management expects to continue to improve its working capital by restructuring debt, seeking profitable products, reducing overhead, and seeking additional capital until debt can be satisfied and assets recovered through continued profitable operations.

ITEM 3. CONTROLS AND PROCEDURES

As of September 30, 2004 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, these principal executive officers and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in the Company's periodic SEC filings. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8K

(a) Exhibits.

Exhibit Number	Description of Document
3.1(a)	Articles of Incorporation (Incorporated by reference)
3.1(b)	Amendment to Articles of Incorporation (Incorporated by reference)
3.2	ByLaws (Incorporated by reference)
4.0	Description of Series A Convertible Preferred Stock (Incorporated by reference)
31	Rule 13a-14(a)/15d-14(a) Certification
32	Section 1350 Certification

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the period covered by this report.

SIGNATURES

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.

Date: November 16, 2004

CYBERADS, INC.

By: /s/ WALTER TATUM

Walter Tatum, President