

Edgar Filing: EMAILTHATPAYS COM INC - Form 10QSB

EMAILTHATPAYS COM INC  
Form 10QSB  
May 15, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended: March 31, 2001  
Commission file number: 000-26047

EMAILTHATPAYS.COM, INC.  
(Exact Name of Small Business Issuer as Specified in Its Charter)

Florida 65-0609891  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

428 West Sixth Avenue  
Vancouver, British Columbia V5Y1L2  
(Address of Principal Executive Offices)

(604) 801-5566  
(Issuer's Telephone Number, Including Area Code)

(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.

X Yes No  
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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: May 1, 2001: 8,723,093 shares of common stock, \$.005 par value per share.

EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES  
FORM 10-QSB  
QUARTERLY PERIOD ENDED MARCH 31, 2001  
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

emailthatpays.com, Inc.  
 Consolidated Balance Sheets (unaudited)

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|  |           |
|--|-----------|
|  | March 31, |
|  | 2001      |

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Assets

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Current assets:

|   |    |            |
|---|----|------------|
| Cash  | \$ | -          |
| Accounts receivable                                   |    | 92,160     |
| Prepaid expenses                                      |    | 54,827     |
|   |    | -----      |
|   |    | 146,987    |
| Property and equipment, less accumulated depreciation |    | 147,021    |
|   |    | -----      |
|   |    | \$ 294,008 |
|   |    | -----      |

Liabilities and Stockholders' Deficit

Current liabilities:

|  |    |         |
|--|----|---------|
| Bank indebtedness                        | \$ | 93,088  |
| Accounts payable and accrued liabilities |    | 194,833 |
| Accrued salaries                         |    | 19,285  |
| Loans payable - current portion          |    | 152,567 |
| Lease obligation - current portion       |    | 5,548   |
|  |    | -----   |
|  |    | 465,321 |

|                        |         |
|------------------------|---------|
| Loans payable          | 88,166  |
| Note payable           | 50,000  |
| Lease obligation       | 13,808  |
| Due to related parties | 245,562 |
| -----                  |         |

|                   |         |
|-------------------|---------|
| Total liabilities | 862,857 |
|-------------------|---------|

Stockholders' deficit:

|  |             |
|--|-------------|
| Common stock                                   | 44,615      |
| Additional paid-in capital                     | 3,532,957   |
| Deficit  | (3,308,373) |
| Deferred stock-based compensation              | (842,750)   |
| Accumulated other comprehensive income (loss): |             |
| Foreign currency translation adjustment        | 4,702       |
| -----  |             |
| Total stockholders' deficit                    | (568,849)   |

|    |         |
|----|---------|
| \$ | 294,008 |
|----|---------|

See accompanying notes to unaudited financial statements.

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|  | Three Months Ended March 31, |                |
|--|------------------------------|----------------|
|  | 2001                         | 2000           |
| Revenue  | \$ 231,611                   | \$ 232,925     |
| Cost of revenue  | (188,894)                    | (187,164)      |
| Gross profit   | 42,717                       | 45,761         |
| Operating expenses:  |                              |                |
| Depreciation   | 16,670                       | 14,131         |
| Salaries and fringe benefits                                     | 184,965                      | 260,969        |
| Stock-based compensation   | 57,450                       | 57,450         |
| Legal and accounting   | 14,873                       | 23,922         |
| Consulting fees and computer services                            | 33,426                       | 50,652         |
| Phones and utilities   | 4,784                        | 11,343         |
| Rent   | 7,187                        | 24,286         |
| Advertising and promotion  | 1,789                        | 26,808         |
| Other selling, general and administrative                        | 14,772                       | 77,432         |
|  | 335,916                      | 546,993        |
| Loss from operations   | (293,199)                    | (501,232)      |
| Other income (expenses):   |                              |                |
| Interest income  | -                            | 24             |
| Interest expense   | (7,136)                      | (9,023)        |
|  | (7,136)                      | (8,999)        |
| Net loss   | (300,335)                    | (510,231)      |
| Deficit, beginning of period                                     | (3,008,038)                  | (1,372,793)    |
| Deficit, end of period   | \$ (3,308,373)               | \$ (1,883,024) |
| Net loss per common share, basic and diluted                     | (0.03)                       | (0.06)         |
| Weighted average common shares outstanding,<br>basic and diluted | (8,723,093)                  | (8,506,663)    |

See accompanying notes to unaudited financial statements.

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emailthatpays.com, Inc.

Consolidated Statements of Cash Flows (unaudited)

|   | Three Months En |
|---|-----------------|
|   | 2001            |
| -----   |                 |
| Cash provided by (used in):                                     |                 |
| Operations:   |                 |
| Net loss  | \$ (300,335)    |
| Items not involving cash:                                       |                 |
| Depreciation  | 16,670          |
| Stock-based compensation  | 57,450          |
| Foreign exchange on subsidiary operations                       | 23,683          |
| Loss on disposal of equipment                                   | -               |
| Changes in operating assets and liabilities:                    |                 |
| Decrease (increase) in accounts receivable                      | (17,228)        |
| Decrease (increase) in prepaid expenses                         | 397             |
| Increase (decrease) in accounts payable and accrued liabilities | (34,273)        |
| -----   |                 |
| Net cash used in operating activities                           | (253,636)       |
| Cash flows used in investing activities:                        |                 |
| Purchase of property and equipment                              | (12,740)        |
| Proceeds from disposal of equipment                             | -               |
| -----   |                 |
| Net cash used in investing activities                           | (12,740)        |
| Cash flows from financing activities:                           |                 |
| Increase (decrease) in loans payable                            | (3,775)         |
| Increase (decrease) in advances from related parties            | 185,542         |
| Proceeds from bank indebtedness                                 | 84,609          |
| Issue of share capital  | -               |
| -----   |                 |
| Net cash provided by financing activities                       | 266,376         |
| -----   |                 |
| Increase (decrease) in cash                                     | 0               |
| Cash, beginning of period                                       | 0               |
| -----   |                 |
| Cash, end of period   | >               |

\*

If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\*

Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U

(1)

Restricted stock units granted under the terms and provisions of the Unisys Corporation 2003 Long

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letin board in the United States, issued 6,572,000 shares of its common stock in connection with the merger of a wholly owned subsidiary of Realm with and into emailthatpays.com ("email Nevada"), a company incorporated in the state of Nevada. This transaction was accounted for as a recapitalization of email Nevada, effectively as if email Nevada had issued common shares for consideration equal to the net monetary assets of Realm. On October 27, 1999 Realm changed its name to tvtravel.com, Inc. and subsequently on December 21, 1999 to emailthatpays.com, Inc. The Company's historical financial statements reflect the financial position, results of operations and cash flows of email Nevada since its inception and include the operations of Realm from the date of the effective recapitalization, being October 22, 1999. Stockholders' equity gives effect to the shares issued to the stockholders of email Nevada prior to October 22, 1999 and of the Company thereafter. email Nevada (formerly Hotel Media Group Inc.) was incorporated on June 26, 1998. In August 1999, it acquired 100% of Coastal Media Group Ltd ("Coastal"), a full-service advertising agency founded in May 1998. A common group of shareholders controlled both Coastal and email Nevada. For accounting purposes, the transaction was considered to be an acquisition by Coastal for consideration equal to the net assets and liabilities of email Nevada. Accordingly, the assets and liabilities of email Nevada have been recorded at their carrying values in the Company's accounts.

2. Liquidity and future operations: The Company has sustained net losses and negative cash flows from operations since its inception. At March 31, 2001, the Company has negative working capital of \$318,334. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required. Management is working to obtain sufficient working capital from external sources in order to continue operations. There is however no assurance that the aforementioned events, including the receipt of additional funding, will occur and be successful.

6 EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS March 31, 2001

3. Basis of Presentation: The unaudited consolidated financial statements of the Company at March 31, 2001 and for the three month period then ended include the accounts of the Company and its wholly-owned subsidiaries and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in these interim statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies used in fiscal 2001 are consistent with those used in fiscal 2000. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2001. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2000 and the notes thereto included in the Company's Form 10-KSB filed with the SEC on April 2, 2001.

4. Foreign currency: The functional currency of the operations of the Company's wholly-owned Canadian operating subsidiaries is the Canadian dollar. Assets and liabilities measured in Canadian dollars are translated into United States dollars using exchange rates in effect at the balance sheets date with revenue and expense transactions translated using average exchange rates prevailing during the period. Exchange gains and losses arising on this translation are excluded from the determination of income and reported as foreign currency translation adjustment (which is included in the comprehensive income (loss)) in stockholders' equity.

5. Net loss per share: The Company computes net loss per share in accordance with SFAS No. 128, Earnings per Share, and SEC Staff Accounting Bulletin ("SAB") No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic loss per share is computed using the weighted average number of common stock outstanding during the periods, and gives retroactive effect to the shares issued on the recapitalization described in note 1. Diluted loss per share is computed using the weighted average number of common and potentially dilutive common stock outstanding during the period. As the Company generated net losses in each of the periods presented, basic and diluted net loss per share are the same as any exercise of options or warrants would be anti-dilutive.

7 EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS March 31, 2001

6.

Comprehensive income (loss): Effective January 1, 1999, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income" SFAS No. 130 which establishes standards for reporting comprehensive income (loss) and its components in financial statements. Other comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive loss for each of the periods presented is as follows: ----- 2001 2000 -----

|                           |            |   |       |   |                               |            |
|---------------------------|------------|---|-------|---|-------------------------------|------------|
| ----- Net loss \$ 300,335 | \$ 510,231 | Other comprehensive (income) / loss: (23,683) | (456) | Foreign currency translation adjustment ----- | Comprehensive loss \$ 276,652 | \$ 509,775 |
|---------------------------|------------|---|-------|---|-------------------------------|------------|

----- 8 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Cautionary Statement Regarding

Forward-Looking Statements This Report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us and about our subsidiary companies, including, among other things: x development of an e-commerce market; X our ability to successfully execute our business model; X our ability to obtain additional funding; x growth in demand for Internet products and services; and x adoption of the Internet as an advertising medium. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur. Results of Operations For the Three Months Ending March 31, 2001 and 2000 Revenue We earn revenues by delivering online direct marketing, promotional, and informational offers and by developing and implementing integrated marketing and advertising strategies. We charge our advertisers based upon a number of criteria including offers delivered, qualified leads generated, online transactions executed and marketing services performed. Revenue consists of the gross value of our billings to clients and includes the price of the advertising that we purchase from offline and online suppliers. Under marketing services contracts, we recognize the cost of the advertising we purchase for our clients as an expense and the payments we receive from our clients for this advertising as revenue. Under these arrangements, we are ultimately responsible for payment to suppliers for the cost of the advertising that we purchase. We believe that our revenues will be subject to seasonal fluctuations as a result of general patterns of retail advertising, which are typically higher during the second and fourth calendar quarters. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and consumer buying patterns. To date, the vast majority of our revenue has been generated from the provision of integrated marketing and advertising strategies as our email delivery system, relational database program and Canadian email marketing sales offices were not fully operational until February 2000. With increased focus, time and expenditure being directed to these online services, we anticipate proportionate increases in revenue, both in absolute and percentage terms. However, if these services do not continue to achieve market acceptance, we cannot assure you that we will generate business at a sufficient level to support our continued operations. 9 Total revenue for the three months ending March 31, 2001 was \$232,000, an amount virtually equal to the three months ending March 31, 2000. The current quarter however, reflects increased billing levels to a smaller number of marketing services clients. Cost of revenue Cost of revenue represents the cost of advertising purchased for clients. Costs for the three months ending March 31, 2001 are equivalent to costs for the three months ending March 31, 2000. Operating Expenses Since the end of the first quarter of fiscal 2000, we have taken steps to substantively reduce our ongoing operating costs. These steps include the completion of the initial development of our relational database and email delivery system programs, consolidation of our two western Canada offices into one location, closure of our eastern Canada sales office, controlled use of professional services and the decision to reduce our internal technological staff, outsource the maintenance and storage of our technological facilities and utilize IT professionals on a project-by-project contract basis. The decrease in salary costs from \$261,000 for the three months ending March 31, 2000 to \$185,000 for the three months ending March 31, 2001 results from lower staffing levels generated from the steps noted above. Other operating expenses also reflect cost reduction strategies with non-compensation costs decreasing by almost 60%, from \$228,000 for the three months ending March 31, 2000 to \$93,000 for the three months ending March 31, 2001. At March 31, 2000, we have recorded aggregate deferred stock-based compensation totaling \$1,149,000 in connection with the granting of stock options to employees. The deferred compensation is being amortized over the estimated service life of the employees holding the options. For each of the three months ending March 31, 2001 and March 31, 2000, we recorded a non-cash compensation expense of \$57,000 related to these options. We expect this level of amortization to continue over each of the next three quarters. Liquidity and Capital Resources We have sustained net losses and negative cash flows from operations since our inception. At March 31, 2001, we have negative working capital of \$318,334. As of

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January 31, 2001, we have fully utilized our existing credit facilities. Advances from a company controlled by a principal stockholder are funding our current operations. Our ability to meet our current obligations is dependent upon these advances. We need to raise funds in order to continue operations and implement our strategies of client realization and servicing, expansion and maintenance of products, brand awareness, technological advancement and infrastructure development. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, our ability to continue operations, implement our strategies, take advantage of unanticipated opportunities, or otherwise respond to competitive pressures will be significantly limited. Net cash used in operating activities was \$254,000 and \$504,000 for the three months ending March 31, 2001 and 2000, respectively. Cash used in operations was primarily the result of the net losses of \$300,000 and \$510,000, for the three months ending March 31, 2001 and 2000, respectively. Net cash used in investing activities was \$12,000 and \$33,000 for the three months ending March 31, 2001 and 2000, respectively and relates to purchases of property and equipment. Net cash provided by financing activities was \$266,000 and \$1,023,000 for the three months ending March 31, 2001 and 2000, respectively. Cash provided by financing activities for the period ending March 31, 2001 consists of an increase in bank indebtedness of \$81,000 and \$185,000 in increased advances from related parties. Cash provided by financing activities for the three months ending March 31, 2000 consists of \$1,265,000 from the issuance of capital stock; less repayments of loans totaling \$95,000 and a reduction in advances from related parties of \$147,000. 10 PART II - OTHER INFORMATION Item 1. Legal Proceedings. None. Item 2. Changes in Securities and Use of Proceeds. None. Item 3. Defaults Upon Senior Securities. None. Item 4. Submission of Matters to Vote of Security Holders. None. Item 5. Other Information. None. Item 6. Exhibits and Reports on Form 8-K. None. 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. EMAILTHATPAYS.COM, INC. Dated: May 11, 2001 By: /s/ Daniel Hunter ----- Daniel Hunter Chief Executive Officer Principal Accounting and Financial Officer, Director