

Edgar Filing: CYPOST CORP - Form 10KSB/A

CYPOST CORP  
Form 10KSB/A  
November 16, 2001

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

AMENDMENT NO. 2  
TO  
FORM 10-KSB

(Mark One)

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

For Fiscal Year Ended: December 31, 2000

OR

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

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 (IRS Employer  
of incorporation or organization) Identification No.)

900-1281 West Georgia St.  
Vancouver, British Columbia, Canada V6E 3J7  
-----  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number (604) 904-4422  
-----

Securities registered under Section 12(b) of the Act: NONE  
-----

Securities registered under Section 12(g) of the Act: Common Stock, par value  
\$.001 per share  
-----

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  No

## Edgar Filing: CYPOST CORP - Form 10KSB/A

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

State issuer's revenues for its most recent fiscal year: \$4,595,823

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) \$7,046,037 as of April 2, 2001.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

### ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ]  
No [ ]

### APPLICABLE ONLY TO CORPORATE REGISTRANTS

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.

### DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

No documents are incorporated by reference into this Annual Report on Form 10-KSB.

Transitional Small Business Disclosure Format (check one):  
Yes [ ]; No [X]

PART II, Item 7 Financial Statements

CYPOST CORPORATION AND SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS

## Edgar Filing: CYPOST CORP - Form 10KSB/A

Consolidated Balance Sheets as of December 31, 2000 and 1999	F-2
Consolidated Statements of Operations for the years ended December 31, 2000 and 1999	F-3
Consolidated Statements of Stockholder's Equity for the years ended December 31, 2000 and 1999	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2000 and 1999	F-5
Notes to the Consolidated Financial Statements Independent Auditors' Report	F-6 F-21
Consolidated Balance Sheets as of December 31, 1999 and 1998	F-22
Consolidated Statements of Operations for the years ended December 31, 1999 and 1998	F-23
Consolidated Statements of Cash Flows for the years ended December 31, 1999 and 1998	F-24
Consolidated Statements of Stockholder's Equity for the years ended December 31, 1999 and 1998	F-25
Notes to the Consolidated Financial Statements	F-26

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
CyPost Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheet of CyPost Corporation and Subsidiaries as of December 31, 2000 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of CyPost Corporation and Subsidiaries as of December 31, 1999, were audited by other auditors whose report dated March 23, 2000, included an explanatory paragraph that raised substantial doubt about the Company's ability to continue as a going concern.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CyPost Corporation and Subsidiaries as of December 31, 2000, and the results of its operations and

Edgar Filing: CYPOST CORP - Form 10KSB/A

cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred operating losses since its inception and requires additional financing to continue operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

GOOD SWARTZ BROWN & BERNS LLP.

Los Angeles, California  
April 6, 2001

CYPOST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2000 AND 1999  
(U.S. DOLLARS)

	2000	1999
	-----	-----
ASSETS		
CURRENT ASSETS		
CASH	\$ 250,631	\$ 415,779
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS	173,207	233,188
INSURANCE PROCEEDS RECEIVABLE	58,488	-
PREPAIDS AND DEPOSITS	250,534	173,319
	-----	-----
TOTAL CURRENT ASSETS	732,860	822,286
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	751,020	599,582
GOODWILL AND OTHER INTANGIBLES, NET OF ACCUMULATED AMORTIZATION	3,193,015	5,036,785
OTHER ASSETS	5,371	69,389
SOFTWARE DEVELOPMENT, NET OF ACCUMULATED AMORTIZATION	-	139,535
	-----	-----
	\$ 4,682,266	\$ 6,667,577
	=====	=====
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	1,026,666	983,237
LOANS	2,110,000	875,000
DEFERRED REVENUE	640,483	626,143
PURCHASE OF INTERNET ARENA	-	240,000
	-----	-----

Edgar Filing: CYPOST CORP - Form 10KSB/A

TOTAL CURRENT LIABILITIES	3,777,149	2,724,380
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
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	-	-
COMMON STOCK 21,556,993 - 2000, 20,246,480 - 1999	21,557	20,246
PAID-IN CAPITAL	14,047,544	8,814,002
ACCUMULATED DEFICIT	(13,197,006)	(4,908,127)
CURRENCY TRANSLATION ADJUSTMENT	33,022	17,076
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	905,117	3,943,197
	-----	-----
	\$ 4,682,266	\$ 6,667,577
	=====	=====

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

F-2

CYPOST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999  
(U.S. DOLLARS)

	2000	1999
	-----	-----
REVENUE	\$ 4,595,823	\$ 1,020,541
DIRECT COSTS	2,138,456	563,118
	-----	-----
	2,457,367	457,423
	-----	-----
EXPENSES		
SELLING, GENERAL AND ADMINISTRATIVE	3,599,690	1,999,151
AMORTIZATION AND DEPRECIATION	2,859,519	588,538
	-----	-----
	6,459,209	2,587,689
	-----	-----
LOSS BEFORE OTHER INCOME (EXPENSE)	(4,001,842)	(2,130,266)
	-----	-----
OTHER INCOME (EXPENSE)		
NET RECOVERY FROM FIRE INSURANCE	228,966	-

Edgar Filing: CYPOST CORP - Form 10KSB/A

GAIN ON SALE OF INVESTMENT OF CYPOST KK	36,202	-
LOSS ON ABANDONMENT OF PLAYA OPERATIONS	(2,201,253)	-
IMPAIRMENT LOSS OF LONG LIVED ASSETS	(128,726)	-
INTEREST EXPENSE	(2,113,570)	(2,221,322)
	-----	-----
TOTAL OTHER INCOME (EXPENSE)	(4,178,381)	(2,221,322)
	-----	-----
MINORITY INTEREST	(108,656)	-
	-----	-----
NET LOSS	\$ (8,288,879)	\$ (4,351,588)
	=====	=====
LOSS PER SHARE BASIC & DILUTED	\$ (0.39)	\$ (0.28)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	21,182,796	15,816,232
	=====	=====

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

F-3

CYPOST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999  
(U.S. DOLLARS)

	COMMON STOCK NUMBER	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1998	13,264,500	\$13,264	\$ 624,416	\$ (556,5
Issued for acquisition of Intouch.Internet, Inc.	9,855	10	28,515	
Issued for acquisition of NetRover Inc. and NetRover Office Inc.	219,000	219	679,324	
Issued for acquisition of Connect Northwest	147,985	148	659,852	
Issued for acquisition of Internet Arena	20,140	20	59,980	
Issued for loan conversion	4,500,000	4,500	3,995,500	
Issued for exercise of warrants	2,085,000	2,085	553,915	
Beneficial conversion feature on loans			2,212,500	
Cummulative translation adjustment				
Net loss				(4,351,5
	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999	20,246,480	20,246	8,814,002	(4,908,1

Edgar Filing: CYPOST CORP - Form 10KSB/A

Issued for acquisition of Internet Arena	80,558	81	239,919
Issued for acquisition of Playa Corporation	785,455	785	2,699,215
Issued for services/debt	26,500	27	92,723
Issued for services	369,500	370	212,196
Issued for services	48,500	48	26,989
Beneficial conversion feature on loans			1,962,500
Cummulative translation adjustment			
Net loss			(8,288,8
BALANCE, DECEMBER 30, 2000	21,556,993	\$21,557	\$14,047,544
			\$(13,197,0

F-4

CYPOST CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999  
(U.S. DOLLARS)

	2000	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
NET LOSS	\$(8,288,879)	\$(4,351,588)
Adjustments to reconcile net loss to cash used by operating activities:		
Amortization and depreciation	2,859,519	588,538
Interest expense	1,962,500	2,212,500
Net recovery from fire insurance	(228,966)	-
Gain on sale of investment on CyPost KK	(36,202)	-
Minority interest	108,656	-
Loss on abandonment of Playa operations	2,201,253	-
Impairment loss of long-live assets	128,726	-
Casualty loss on equipment	7,901	-
Fair value of stock issued for services	332,353	-
Currency translation adjustments on loss on abandonment	60,501	-
Translation adjustments	15,946	-
Changes in assets and liabilities		
Accounts receivable	59,981	(90,017)
Insurance receivable	(58,488)	-
Prepaid and deposit	(77,215)	(109,550)
Other assets	64,018	(15,972)
Accounts payable and accrued liabilities	(35,160)	645,204
Deferred revenue	14,340	149,921
NET CASH USED BY OPERATING ACTIVITIES	(909,216)	(970,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of business	(592,454)	(3,612,066)
Purchase of property and equipment	(338,602)	(270,100)
Investment in software development	(87,431)	(209,303)

Edgar Filing: CYPOST CORP - Form 10KSB/A

Proceeds from sale of investment in CyPost KK	220,000	-
Gross proceeds received from insurance company	306,344	-
Payment of insurance related claims	(77,378)	-
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(569,521)	(4,091,469)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	1,413,589	4,875,000
Loan repayment	(100,000)	-
Exercise of warrants	-	556,000
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,313,589	5,431,000
	-----	-----
NET INCREASE IN CASH	(165,148)	368,567
CASH, BEGINNING OF YEAR	415,779	47,212
	-----	-----
CASH, END OF YEAR	\$ 250,631	\$ 415,779
	=====	=====
NON-CASH TRANSACTIONS		
Common Stock issued for services and acquisitions	\$ 3,272,353	\$ 1,428,068
Common Stock issued for debt conversion	-	\$ 4,000,000
OTHER CASH INFORMATION		
Interest paid	\$ 29,059	\$ -

The accompanying notes are an integral part of these consolidated statements

F-5

CYPOST CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2000 AND 1999  
(U.S. Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

CyPost Corporation ("CyPost") was incorporated on September 5, 1997 under the laws of the State of Delaware and its principal executive offices are located in Vancouver, Canada. CyPost is engaged in the business of providing Internet connection services for business and personal use. Previously the Company was also involved in developing certain software products using encryption components to enhance user security and convenience for communication across digital networks, and in securing local data storage equipment, which activities the Company no longer currently pursues. The Company emerged from the development stage in 1999 and commenced revenue generating activities. The term "Company" refers to CyPost and its consolidated subsidiaries.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume 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 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 \$13.2 million for the period from inception September 5, 1997 to December 31, 2000, has a working capital deficiency at December 31, 2000 of



## Edgar Filing: CYPOST CORP - Form 10KSB/A

approximately \$3 million, and requires additional financing for its business operations.

The Company's future capital requirements will depend on numerous factors including, but not limited to, whether the Company wishes to recommence software development activities, and market penetration of and profitable operations from its Internet connection services. 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. Meanwhile, the management is working on attaining cost and efficiency synergies by consolidating the operations of the businesses acquired.

These financial statements do not reflect adjustments that would be necessary if the Company was 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 doubt 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, the reported revenues and expenses, and the balance sheet classifications used.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### CONSOLIDATION

The consolidated financial statements include the accounts of CyPost Corporation and its subsidiaries. The principal subsidiaries, all of which, except CyPost KK for a certain period of time during 2000, are wholly owned, include ePost Innovations Inc., NetRover Inc., NetRover Office Inc., Hermes Net Solutions Inc., and Intouch.Internet Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

### FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is U.S. dollars. Balance sheet accounts of international self-sustaining subsidiaries, principally Canadian, are translated at the current exchange rate as of the balance sheet date. Income statement items are translated at average exchange rates during the period. The resulting translation adjustment is recorded as a separate component of stockholders' equity. Dollar values in this consolidated financial statements are expressed in U.S. Dollars, unless indicated otherwise. On December 31, 2000 one Canadian Dollar (Cdn) was exchangeable for .66720 U.S. Dollars.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has, where practicable, estimated the fair value of financial instruments based on quoted market prices or valuation techniques such as present value of estimated future cash flows. These fair value amounts may be significantly affected by the assumptions used, including the discount rate and estimates of cash flow. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. Where these estimates approximate carrying value, no separate disclosure of fair value is shown.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives using the straight-line method over a period of five years. Maintenance and repairs are charged against operations and betterments are capitalized.

### EARNINGS (LOSS) PER SHARE

Earnings (loss) per share have been computed in accordance with SFAS 128. Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the respective periods. Diluted earnings (loss) per share is computed similarly, but also gives effect to the impact that convertible securities, such as warrants, if dilutive, would have on net earnings (loss) and average common shares outstanding if converted at the beginning of the year. The effect of potential common shares such as warrants would be antidilutive in each of the periods presented in these financial statements, and accordingly, are not presented.

### REVENUE RECOGNITION AND DEFERRED REVENUE

The Company's primary source of revenue is earned from Internet connection services. For contracts which exceed one month, revenue is recognized on a straight-line basis over the term of the contract as services are provided. Revenues applicable to future periods are classified as deferred revenue.

### DIRECT COSTS

Direct costs consist of telecommunications charges in respect to providing Internet connection services to customers. These costs are expensed as incurred.

### SOFTWARE DEVELOPMENT COSTS

SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", and Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", provide guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company has defined as the completion of beta testing of a working product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and

## Edgar Filing: CYPOST CORP - Form 10KSB/A

changes in software and hardware technology. Software developments costs are amortized on the straight-line method over the estimated economic life of the product of three years.

As at December 31, 1999, the Company capitalized \$209,303 of software development costs and amortized \$69,768 of these costs. During 2000, the Company capitalized \$87,431 of software development costs and amortized \$98,240 of these costs. At the end of 2000, the management of the Company assessed the recoverability of the Company's software products assets and determined that this asset was impaired. Therefore, the Company has written off the net book value of this asset in the amount of \$128,726.

### GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist primarily of customer lists and goodwill related to acquisitions accounted for under the purchase method of accounting. Amortization of these purchased intangibles is provided on the straight-line basis over the respective useful lives of the intangible assets which is estimated to be three years.

### IMPAIRMENT OF LONG-LIVE ASSETS

Long-live assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the aggregate of estimated future cash inflows less estimated future cash outflows, to be generated by an asset are less than the asset's carrying value. Future cash inflows include an estimate of the proceeds from eventual disposition. For purposes of this comparison, estimated future cash flows are determined without reference to their discounted present value. If the sum of undiscounted estimated future cash inflows is equal to or greater than the asset's carrying value, impairment does not exist. If, however, expected future cash inflows are less than carrying value, a loss on impairment should be recorded. Such a loss is measured as the excess of the asset's carrying value over its fair value. Fair value of an asset is the amount at which an asset could be bought or sold in a current transaction between a willing buyer and seller other than in a forced or liquidation sale. The Company measures an impairment loss by comparing the fair value of the asset to its carrying amount. Fair value of an asset is calculated as the present value of expected future cash flows.

### INCOME TAXES

The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

### ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", requires the recognition of all derivatives as either assets or liabilities and the measurement of those instruments at fair value. SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133", issued in August 1999, postpones for one year the mandatory effective date for adoption of SFAS No. 133 to January 1,

## Edgar Filing: CYPOST CORP - Form 10KSB/A

2001.

The Company does not currently engage in derivative trading or hedging activities; hence, SFAS No. 133 and SFAS No. 137 will not have a material impact on its financial position or results of operations.

### STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation", encourages, but does not require, companies to record compensation cost for stock-based employee

compensation under a fair value based method. Alternatively, stock-based employee compensation can be accounted for under APB No. 25, "Accounting for Stock Issued to Employees", under which no compensation is recorded.

The Company has not granted any stock-based compensation for any of the periods presented in these financial statements.

### PENSIONS AND OTHER POSTRETIREMENT BENEFITS

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106", revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pension and other postretirement benefits to the extent practicable, requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer considered useful.

The Company does not offer any pension or other postretirement benefits.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements", to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company believes its revenue recognition practices are in conformity with the guidelines prescribed in SAB No. 101.

### 3. ACQUISITIONS

During 2000 and 1999, the Company completed a number of business and asset acquisitions. These acquisitions are accounted for using the purchase method, and accordingly, these consolidated financial statements include the results of operations from the date of acquisition of each respective business.

#### HERMES NET SOLUTIONS, INC. AND INTOUCH.INTERNET, INC.

On June 30, 1999, the Company acquired all of the shares of Hermes Net Solutions, Inc. (Hermes) for approximately \$528,000. Also on June 30, 1999, the Company purchased all the issued and outstanding shares of Intouch.Internet, Inc. (Intouch) for a purchase price of approximately \$293,000. The consideration for the purchase included cash of approximately \$265,000 and the issuance of 9,855 shares of the Company's Common Stock valued at approximately \$28,000. Both Hermes and Intouch are based in Vancouver, British Columbia, Canada.

In both acquisitions, the goodwill of approximately \$759,000 will be amortized on a straight-line basis over its estimated useful life of three

## Edgar Filing: CYPOST CORP - Form 10KSB/A

years.

### NETROVER INC. AND NETROVER OFFICE INC.

On October 4, 1999, the Company acquired all of the shares of NetRover Inc. and NetRover Office Inc. for approximately \$2,000,000. The consideration for the

purchase included cash of approximately \$1,335,000 and 219,000 shares of the Company's Common Stock valued at approximately \$665,000. NetRover Inc. and NetRover Office Inc. are based in Toronto, Canada.

The purchase included goodwill and other intangibles of approximately \$2,900,000 which will be amortized on a straight-line basis over its estimated useful life of three years.

### CONNECT NORTHWEST

On October 27, 1999, the Company purchased certain assets and assumed certain liabilities of Connect Northwest for a purchase price of \$1,400,000. The purchase price consisted of a cash payment to the sellers of \$670,000, the issuance to the sellers of 147,985 shares of the Company's Common Stock valued at \$660,000, and the payment of Connect Northwest liabilities in the aggregate amount of \$70,000. Connect Northwest is based in Washington State, United States and operates as a DBA of CyPost. The purchase included goodwill and other intangibles of \$1,300,000 which will be amortized on a straight-line basis over its estimated useful life of three years.

### INTERNET ARENA

On November 9, 1999, the Company purchased certain assets and liabilities of the business of Internet Arena for \$600,000. The consideration for the purchase included cash of \$300,000 and 100,698 shares of the Company's Common Stock for a value of \$300,000. As of December 31, 1999, 20,140 shares of common stock were issued and the remaining 80,558 were issued subsequent to year-end. Internet Arena is based in Oregon, United States.

The purchase included goodwill and other intangibles of approximately \$536,000 which will be amortized on a straight-line basis over its estimated useful life of three years.

### PLAYA CORPORATION

On February 23, 2000, the Company purchased all the shares of Playa Corporation (a Japan company) for \$3,000,000. The consideration paid by the Company consisted of cash in the amount of \$300,000 and 785,455 shares of the Company's common stock valued at \$2,700,000. Due to a clerical error subsequently discovered, the number of shares originally calculated to be issued, and actually issued to the seller, was incorrectly determined to be 771,426. Therefore, in January 2001, the Company issued an additional 14,029 shares of its common stock to the seller to account for the difference. For purposes of financial statement presentation, all 785,455 shares of the Company's common stock were deemed issued as of February 23, 2000.

The acquisition has been accounted for by the purchase method of accounting. The purchase included goodwill and other intangibles of \$3,665,778 which will be amortized on a straight-line basis over its estimated useful life of three years. Due to a number of factors, including without limitation, weak

## Edgar Filing: CYPOST CORP - Form 10KSB/A

performance by Playa, the difficulties of operating one small Japanese company following the sale by the Company of CyPost KK, a former subsidiary of the Company, and the Company's own liquidity needs, in the fourth quarter 2000, the

Company's management decided to abandon the business of Playa. In connection therewith, the Company has written off the assets of Playa in the net amount of \$2,201,253 which is reflected as "Loss on abandonment of Playa operations", consisting of approximately \$3,067,065 in actual assets, including the goodwill and approximately \$865,812 of liabilities owed by Playa to various parties for which the Company does not believe it is liable. These consolidated financial statements include the results of operations of Playa for the period from February 24, 2000 to September 30, 2000.

### CYPOST KK

On March 17, 2000, the Company purchased 400 shares of CyPost KK, representing 100% of the then issued and outstanding shares, for \$188,870 (20,000,000 Yen), and transferred 180 of such shares, or 45% of the then issued and outstanding shares, to certain members of the management of CyPost KK in consideration of their future effort to raise additional capital for CyPost KK.

On May 5, 2000, the Company purchased an additional 400 shares of CyPost KK from CyPost KK for \$184,915 (20,000,000 Yen). The Company funded this purchase \$106,326 (11,500,000 Yen) from its own funds (with respect to 230 shares) and \$78,589 (8,500,000 Yen) in the form of a loan from these certain members of CyPost KK management to the Company (with respect to the remaining 170 shares). Of the 400 shares purchased by the Company on such date, the Company transferred 180 shares to these individuals in consideration of their future effort to raise additional capital for CyPost KK. The transferred shares have been valued at the Company's cost. As a result of acquiring a net additional 220 shares of CyPost KK, the Company maintained its 55% ownership in CyPost KK.

On May 22, 2000, Access Media International, a company which is not affiliated with the Company, purchased 200 shares of CyPost KK from CyPost KK for 10,000,000 Yen, resulting in a reduction of the Company's interest in Cypost KK to 44%.

All 360 shares of CyPost KK stock which were transferred by the Company to these individuals were specifically intended to compensate them solely with respect to equity financing activities and were contingent upon their ability to raise additional equity financing in Japan for CyPost KK. Because these individuals were not able to raise such additional financing, no portion of the 360 shares were earned.

In part because these individuals were ultimately not able to arrange such financing, the Company decided to sell its entire interest in CyPost KK. On July 12, 2000, the Company sold all 630 shares it then owned in CyPost KK to Access Media International for \$220,000, resulting in a gain of \$36,202.

In connection with the sale by the Company of its entire interest in CyPost KK to Access Media International, on July 3, 2000 these certain members of CyPost KK management (i) returned to the Company 190 shares of the CyPost KK stock that the Company had previously transferred to them, consisting of the 180 shares transferred to them by the Company in March 2000 and 10 shares transferred to them by the Company in May 2000; (ii) canceled the \$78,589 loans made by them to the Company in May 2000 to purchase 170 of the shares; and (iii) retained those 170 shares purchased by the Company, for which the purchase price was \$78,589.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

Despite the fact that there was a brief period of time during which the Company owned less than a majority of the voting shares of CyPost KK (May 22, 2000 through July 3, 2000), the Company owned a majority interest for most of

the period from formation of CyPost KK through June 30, 2000 and therefore had the ability to control its operations. The Company has reflected the amounts of revenue, cost of revenue and expenses on a consolidated basis for the entire period of ownership. Had the Company reflected the amounts of revenue, cost of revenue and expenses on a consolidated basis for the period from April 1, 2000 through May 22, 2000 and an equity method for the period from May 22, 2000 through June 30, 2000, the impact on the consolidated financial statements would not have been material.

During its period of ownership of CyPost KK, the Company loaned CyPost KK \$64,764 and CyPost KK paid certain expenses on behalf of the Company in the amount of \$25,542, leaving a balance of \$39,222 owed by CyPost KK to the Company at the time of sale. In connection with the sale by the Company of all of its interest in CyPost KK, the Company canceled the net outstanding balance of \$39,222 in loans made by the Company to CyPost KK and CyPost KK canceled \$39,222 in loans made by CyPost KK to Playa Corporation ("Playa"). At September 30, 2000, there was a balance of \$168,062 owed by Playa to CyPost KK. This loan bears interest at 5.5% per annum and is payable in 60 monthly installments beginning January 15, 2001. This loan balance has been written off in connection with the abandonment of Playa's business. See "Acquisition of Playa".

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2000	1999
	-----	-----
Office furniture	\$ 194,436	\$ 153,434
Leasehold improvement	14,360	15,704
Computer hardware and software	1,144,234	839,267
	-----	-----
	1,353,030	1,008,405
Less accumulated depreciation	(602,010)	(408,823)
	-----	-----
	\$ 751,020	\$ 599,582
	=====	=====

The depreciation expense charged to the operations for the years ended December 31, 2000 and 1999 were \$179,263 and \$60,012, respectively.

#### 5. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following:

	2000	1999
	-----	-----
Customer lists	\$ 3,663,000	\$3,663,000
Goodwill	1,832,543	1,832,543
	-----	-----
	5,495,543	5,495,543
Less accumulated amortization	(2,302,528)	(458,758)
	-----	-----
	\$ 3,193,015	\$5,036,785
	=====	=====

## Edgar Filing: CYPOST CORP - Form 10KSB/A

The amortization expense charged to the operations for the years ended December 31, 2000 and 1999 were \$2,582,016 and \$458,758, respectively.

### 6. LOANS

Loans as of December 31, 2000 and 1999 consist of:

	2000	1999
Blue Heron Venture Fund, Ltd.	\$ 2,085,000	\$ 875,000
Pacific Gate Capital	25,000	-
	-----	-----
	\$ 2,110,000	\$ 875,000
	=====	=====

Loans from Blue Heron Venture Fund, Ltd are pursuant to two promissory note agreements (\$2,000,000 and \$10,000,000 loan facilities). The loans are unsecured, bear interest at 8% per annum, and the principal and accrued interest are due on demand. The lender has the option to withdraw its offer to lend at any time and to convert the loans into shares of common stock of the Company. If the lender elects to convert the outstanding principal amount of the loans of \$2,085,000 as of December 31, 2000 into shares of common stock of the Company, the lender would be entitled to an aggregate of 2,780,000 shares of common stock.

At the commitment date of each of the promissory notes, the conversion price was less than the fair value of the common stock, hence a beneficial conversion feature is attributable to these convertible notes. The amount of this beneficial conversion feature is \$1,962,500 and has been recorded as interest expense and additional paid-in-capital for the year ended December 31, 2000.

Under the terms of the loan agreements, if the lender converts its debt to equity, it will waive its right to be paid interest on the loans. As of December 31, 2000 and 1999, the Company has accrued interest of \$158,583 and \$36,572, respectively.

During 1999, \$4,000,000 of loans were settled by the issuance of 4,500,000 shares of common stock valued at \$4,000,000.

The loan from Pacific Gate Capital is unsecured, bears interest at 8% per annum, and the principal and accrued interest are due on demand.

### 7. SHARE CAPITAL

#### AUTHORIZED STOCK

The Company is authorized to issue:

- (a) 30,000,000 shares of common stock at a par value of \$0.001 per share.
- (b) 5,000,000 shares of preferred stock at a par value of \$.001 per share.

The Board of Directors of the Company has the authority, without further action by the holders of the outstanding shares of common stock, to issue shares of preferred stock from time to time in one or more classes or series, to fix



## Edgar Filing: CYPOST CORP - Form 10KSB/A

the number of shares constituting any class or series and the stated value, if different from the par value, and to fix the terms of any such series or class, including dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price and the liquidation preference of such class or series. The designations, rights and preferences of any shares of preferred stock would be set forth in a Certificate of Designation which would be filed with the Secretary of State of the State of Delaware.

### STOCK SPLIT

On September 24, 1999, the Company effected a 3-for-2 stock split of its shares of common stock. All share, per share, unit, and warrant amounts in the accompanying consolidated financial statements have been adjusted retroactively to give effect to this stock split.

### COMMON STOCK SUBSCRIBED

As at December 31, 1999, the Company was obligated to issue 80,558 shares of common stock valued at \$2.98 per share as consideration for the purchase of the assets of Internet Arena. These shares were issued in 2000.

### ISSUANCE OF SHARES

On March 2, 2000, the Company issued 26,500 shares of its commons stock in an aggregate amount of \$92,750 at the closing price of \$3.50 per share on February 29, 2000, to Kaplan, Gottbetter and Levenson, as payment of services accrued at December 31, 1999 and through February 29, 2000.

On March 13, 2000, the Company issued 80,558 shares of its common stock at the closing price of \$2.98 on July 12, 1999 (as adjusted for a 3-for-2 stock split), the date of signing the Letter of Intent, to the owners of Internet Arena, Inc., as payment for the balance due in the amount of \$240,000 in connection with the Company's acquisition of that entity.

On June 8, 2000, the Company issued 785,455 shares of its common stock to the selling stockholders of Playa as partial payment of the purchase price \$3,000,000 in connection with the Company's acquisition of that company. See Note 3.

On August 1, 2000, the Company issued an aggregate 129,500 shares of its common stock in an aggregate amount of \$76,897 to seven employees at the closing price of \$0.5938 per share on July 17, 2000 in consideration for their providing certain services to the Company from June 16, 2000 through July 15, 2000. Subsequently 10,000 of these shares will be canceled. For purposes of financial statement presentation, those shares were deemed canceled as of October 1, 2000.

On August 1, 2000, the Company issued 75,000 shares of its common stock in an aggregate amount of \$133,605 to each of the Company's three directors at the closing price of \$0.5938 on July 17, 2000 in consideration for their providing certain services to the Company from June 16 through July 15, 2000.

On August 17, 2000, the Company issued an aggregate 43,500 shares of its common stock in an aggregate amount of \$25,787 to six people at the closing

price of \$0.5938 per share on July 25, 2000 in consideration for their providing consulting work to the Company from April 1, 2000 through June 30, 2000.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

On October 1, 2000, the Company accrued the issuance of an aggregate 27,500 shares of its common stock in an aggregate amount of \$8,800 to three employees and one consultant at the closing price of \$0.32 per share in consideration for their providing certain services to the Company. Subsequently in the first quarter 2001, 25,000 of these shares were issued and 2,500 share will be issued in the second quarter 2001. For purposes of financial statement presentation, all shares were deemed issued as of October 1, 2000.

On December 29, 2000, the Company accrued the issuance of 2,500 shares of its common stock in an aggregate amount of \$450 to a consultant at the closing price of \$0.18 per share in consideration for his providing certain services to the Company. As of December 31, 2000, these shares have not been issued, however for purposes of financial statement presentation, all shares were deemed issued as of December 29, 2000.

### 8. INCOME TAXES

At December 31, 2000 and 1999, the Company has net operating loss carry forwards for income tax purposes of approximately \$9,000,000 and \$2,800,000, respectively which are available to offset future taxable income. The Company's utilization of these carryforwards may be restricted due to changes in ownership of subsidiaries during the year. The components of the deferred tax asset as of December 31, 2000 and 1999 are as follows:

	2000	1999
	-----	-----
Net operating loss carryforwards	\$ 4,050,000	\$ 1,260,000
Less: valuation allowance	( 4,050,000)	(1,260,000)
	-----	-----
	\$ -	\$ -
	=====	=====

### 9. NET PROCEEDS FROM FIRE LOSS

On January 31, 2000, the Company suffered a fire loss at its Etobicoke (suburban Toronto), Ontario facility. The loss was completely covered by insurance. During the fiscal year ended December 31, 2000, the Company received net proceeds from fire insurance in the amount of \$228,966.

### 10. RELATED PARTY TRANSACTIONS

The Company has obtained most of its financing through Blue Heron Venture Fund Ltd. ("Blue Heron"), a corporation in which Kelly Shane Montalban may be deemed to have an "indirect pecuniary" interest as a result of his status as fund manager for Blue Heron. Blue Heron and Mr. Montalban are principal stockholders 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. Blue Heron loans are unsecured and are convertible into Common Stock at the lender's option, in which case Blue

Heron would waive its right to be paid interest. The balance of these loans as of December 31, 2000 and 1999 are \$2,085,000 and \$875,000, respectively. See Note 6.

During the fiscal year ended December 31, 2000, the Company borrowed an aggregate \$125,000 from Pacific Gate Capital Ltd. ("Pacific Gate"), of which amount \$25,000 was outstanding on December 31, 2000. These loans bear interest at 8% per annum and are payable on demand.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

As of December 31, 2000, the Company advanced \$30,615 to one of the executive officer. This advance bears no interest and no term.

### 11. COMMITMENTS AND CONTIGENCIES

#### LEGAL PROCEEDINGS

##### Canada Post Litigation

-----

On June 11, 1999, Canada Post Corporation 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, 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 Corporation'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 BC Court rejected summary judgment on the basis that no right of the Company 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.

ePost Innovations and Canada Post have commenced 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.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

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.

Edgar Filing: CYPOST CORP - Form 10KSB/A

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.

LEASE COMMITMENTS

The Company leases office space and equipment, and its lease payments in the next five years are as follows:

2001	\$	285,000
2002		202,000
2003		151,000
2004		92,000
2005		40,000
		-----
	\$	770,000
		=====

The Company entered into agreements with several companies that provides network infrastructure for some of the Company's Internet Services Provider services. The minimum payments in the next three years are as follows:

2001	\$	929,000
2002		109,000
2003		23,000
		-----
	\$	1,061,000
		=====

## Edgar Filing: CYPOST CORP - Form 10KSB/A

### EMPLOYMENT AGREEMENT

The Company has an employment agreement with Robert Adams. The employment agreement provides for Mr. Adams' employment by the Company as its "Operations Manager of Canadian ISP Division", at an annual salary of Cdn \$70,000. The employment agreement has an initial term of three years commencing on October 5, 1999 and ending on October 4, 2002. The employment agreement will automatically renew for successive terms, on a year to year basis, unless notice of non-renewal is given by either the Company or Mr. Adams at least 90 days prior to the expiration of the then applicable term of the contact. Bonuses may be awarded to Mr. Adams based on his annual review, which takes place each January. In addition, Mr. Adams is eligible for increases in his base salary, in the discretion of the Company, on the anniversary date of each year of the employment agreement.

### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of  
CyPost Corporation:

We have audited the accompanying consolidated balance sheet of CYPOST CORPORATION (a Delaware corporation) as of December 31, 1999 and the related consolidated statements of operations, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CyPost Corporation as of December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1, the Company has incurred operating losses since its inception and requires additional financing to continue operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that may result should the Company be unable to continue as a going concern.

The consolidated financial statements of CyPost Corporation as of December 31, 1998 and for the periods ended December 31, 1998 and 1997 were audited by another auditor whose report dated March 12, 1999 expressed an unqualified opinion with an explanatory going concern paragraph on those statements.

Edgar Filing: CYPOST CORP - Form 10KSB/A

Arthur Andersen LLP.

Vancouver, British Columbia  
March 23, 2000.

F-21

CYPOST CORPORATION  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 1999 AND 1998  
(U.S. Dollars)

	1999	1998
	-----	-----
ASSETS		
CURRENT ASSETS		
CASH . . . . .	\$ 415,779	\$ 47,212
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$34,000 (1998- \$NIL) . . . . .	233,188	--
PREPAIDS AND DEPOSITS . . . . .	173,319	27,998
	-----	-----
	822,286	75,210
PROPERTY AND EQUIPMENT, NET . . . . .	599,582	22,330
GOODWILL AND OTHER INTANGIBLES, NET OF AMORTIZATION OF \$458,758 (1998- \$NIL) . . . . .	5,036,785	--
OTHER ASSETS . . . . .	69,389	28,657
SOFTWARE DEVELOPMENT, NET OF AMORTIZATION OF \$69,768 . . . . .	139,535	--
	-----	-----
	\$ 6,667,577	\$ 126,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE . . . . .	\$ 849,300	\$ 11,090
ACCRUED LIABILITIES . . . . .	133,937	--
LOANS . . . . .	875,000	--
DEFERRED REVENUE . . . . .	626,143	--
PURCHASE OF INTERNET ARENA . . . . .	240,000	--
	-----	-----
	2,724,380	11,090
	-----	-----
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
AUTHORIZED		
5,000,000 PREFERRED STOCK WITH A PAR VALUE OF \$.001		
30,000,000 COMMON STOCK WITH A PAR VALUE OF \$.001		
ISSUED AND OUTSTANDING		
NIL PREFERRED STOCK		
20,246,480 COMMON STOCK (1998- 13,264,500) . . . . .		
	20,246	13,264
PAID-IN CAPITAL . . . . .	8,814,002	624,416
DEFICIT . . . . .	(4,908,127)	(556,539)
CURRENCY TRANSLATION ADJUSTMENT . . . . .	17,076	33,966
	-----	-----
	3,943,197	115,107
	-----	-----
	\$ 6,667,577	\$ 126,197
	=====	=====

Edgar Filing: CYPOST CORP - Form 10KSB/A

Approved by the Directors:

...../s/ Carl Whitehead..... Director  
 ...../s/ Robert Sendoh..... Director

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

F-22

CYPOST CORPORATION  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (U.S. Dollars)

	YEAR ENDED DECEMBER 31, 1999	Year Ended December 31, 1998	Period From September 5, 1997 to December 31, 1997
	-----	-----	-----
REVENUE . . . . .	\$ 1,020,541	\$ --	\$ --
DIRECT COSTS . . . . .	563,118	--	--
	-----	-----	-----
	457,423	--	--
	-----	-----	-----
EXPENSES			
SELLING, GENERAL AND ADMINISTRATIVE	1,999,151	383,046	--
AMORTIZATION AND DEPRECIATION . . .	588,538	6,233	--
DEVELOPMENT . . . . .	--	150,382	16,878
	-----	-----	-----
	2,587,689	539,661	16,878
	-----	-----	-----
INTEREST EXPENSE . . . . .	(2,130,266)	(539,661)	(16,878)
	2,221,322	--	--
	-----	-----	-----
NET LOSS . . . . .	\$ (4,351,588)	\$ (539,661)	\$ (16,878)
	=====	=====	=====
LOSS PER SHARE, BASIC AND DILUTED. . .	\$ (0.28)	\$ (0.08)	\$ (0.01)
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING. . . . .	15,816,232	7,033,479	3,345,283
	=====	=====	=====

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

F-23



Edgar Filing: CYPOST CORP - Form 10KSB/A

CYPOST CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(U.S. Dollars)

	YEAR ENDED DECEMBER 31, 1999	Year Ended December 31, 1998	Period From September 5, 1997 to December 31, 1997
	-----	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
NET LOSS . . . . .	\$ (4,351,588)	\$ (539,661)	\$ (16,878)
Add items not affecting cash			
AMORTIZATION AND DEPRECIATION . . .	588,538	6,233	--
INTEREST EXPENSE. . . . .	2,212,500	--	--
NON-CASH EXPENSES . . . . .	--	207,500	--
	-----	-----	-----
	(1,550,550)	(325,928)	(16,878)
Changes in non-cash operating accounts			
ACCOUNTS RECEIVABLE . . . . .	(90,017)	--	--
PREPAIDS AND DEPOSITS . . . . .	(109,550)	(27,998)	--
OTHER ASSETS. . . . .	(15,972)	58,523	--
ACCOUNTS PAYABLE. . . . .	583,787	9,125	1,965
ACCRUED LIABILITIES . . . . .	61,417	--	--
DEFERRED REVENUE. . . . .	149,921	--	--
	-----	-----	-----
Net cash provided by (used in) operating activities	(970,964)	(286,278)	(14,913)
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of businesses, less cash			
THEREIN OF \$115,953 . . . . .	(3,612,066)	--	--
PROPERTY AND EQUIPMENT, NET. . . . .	(270,100)	(27,711)	(852)
SOFTWARE DEVELOPMENT	(209,303)		
	-----	-----	-----
Net cash used in investing activities	(4,091,469)	(27,711)	(852)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
LOAN . . . . .	4,875,000	--	--
SALE OF COMMON STOCK . . . . .	556,000	323,000	20,000
	-----	-----	-----
Net cash provided by financing Activities	5,431,000	323,000	20,000
Exchange rate changes on Cash in Foreign currency	--	33,966	--
	-----	-----	-----
NET INCREASE IN CASH . . . . .	368,567	42,977	4,235
CASH, BEGINNING OF PERIOD. . . . .	47,212	4,235	--
	-----	-----	-----
CASH, END OF PERIOD. . . . .	\$ 415,779	\$ 47,212	\$ 4,235
	=====	=====	=====

Edgar Filing: CYPOST CORP - Form 10KSB/A

CASH PAID DURING THE PERIOD FOR

INTEREST. . . . .	\$	--	\$	--	\$	--
INCOME TAXES. . . . .		--		--		--

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

F-24

CYPOST CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(U.S. Dollars)

	COMMON NUMBER	STOCK AMOUNT	Additional Paid-in CAPITAL	DEFICIT
	-----	-----	-----	-----
Incorporation date, September 5, 1997				
Issued for acquisition of ePost Innovations, Inc . . . . .	3,000,000	\$ 3,000	\$ (1,000)	\$
ISSUED ON SALE OF UNITS . . . . .	600,000	600	19,400	
Net loss				(16,8
Balance, December 31, 1997. . . . .	3,600,000	3,600	18,400	
Issued on sale of units . . . . .	2,400,000	2,400	77,600	
Issued for cash . . . . .	57,000	57	18,943	
Issued for legal services . . . . .	22,500	22	7,478	
Issued for acquisition of Communication Exchange Management, Inc. . . . .	6,270,000	6,270	(2,090)	
Issued for exercise of warrants . . . . .	915,000	915	243,085	
Offering expenses . . . . .	--	--	(20,000)	
Share transfer for services	--	--	281,000	
NET LOSS. . . . .	--	--	--	(539,6
Currency translation adjustment	--	--	--	
Balance, December 31, 1998. . . . .	13,264,500	13,264	624,416	(556,5
Issued for acquisition of Intouch.Internet Inc.	9,855	10	28,515	
Issued for acquisition of NetRover Inc. and NetRover Office Inc . . . . .	219,000	219	679,324	
Issued for acquisition of Connect Northwest . . . . .	147,985	148	659,852	
Issued for acquisition of Internet Arena. . . . .	20,140	20	59,980	
Issued for loan conversion. . . . .	4,500,000	4,500	3,995,500	
Issued for exercise of warrants . . . . .	2,085,000	2,085	553,915	
Beneficial conversion feature on loans. . . . .	--	--	2,212,500	
NET LOSS. . . . .	--	--	--	(4,351,5
Currency translation adjustment	--	--	--	
BALANCE, DECEMBER 31, 1999. . . . .	20,246,480	\$20,246	\$ 8,814,002	\$ (4,908,1

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

F-25

# Edgar Filing: CYPOST CORP - Form 10KSB/A

CYPOST CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999  
(U.S. Dollars)

## 1. NATURE OF OPERATIONS AND GOING CONCERN

CyPost Corporation was formed on September 5, 1997 under the laws of the State of Delaware and its head office is located in Vancouver, Canada. CyPost Corporation and its subsidiaries (the "Company") generate revenues from value-added protected internet connection services, web-site hosting, advertising sales, promotional opportunities, and sales of privacy and protection products. The Company's activities also include determining the feasibility of encryption software products, beginning initial programming and product development, conducting market research, and undertaking various private placement offerings. The Company emerged from the development stage in 1999 and commenced revenue generating activities.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume 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 operations.

Several conditions and events cast doubt about the Company's ability to continue as a "going concern". The Company has incurred net losses before interest expense of approximately \$2.7 million for the period from inception September 5, 1997 to December 31, 1999, has a working capital deficiency, and requires additional financing for its business operations. As of December 31, 1999, the Company has \$11.1 million of funding available which can be drawn against a promissory note agreement with a lender; however, the lender has the option, at any time, to withdraw its offer to lend this amount.

The Company's future capital requirements will depend on numerous factors including, but not limited to, continued progress in developing its software products, and market penetration and profitable operations from its internet connection services. The Company is actively pursuing alternative financing and has had discussions with various third parties, although no firm commitments have been obtained. Management is also pursuing acquisitions of other businesses with existing positive cash flows. In addition, management is working on attaining cost and efficiency synergies by consolidating the operations of the businesses acquired.

These 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 doubt 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, the reported revenues and expenses, and the balance sheet classifications used.

F-26

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### CONSOLIDATION

## Edgar Filing: CYPOST CORP - Form 10KSB/A

The consolidated financial statements include the accounts of CyPost Corporation and its subsidiaries. The principal subsidiaries, all of which are wholly owned, include ePost Innovations Inc., NetRover Inc., NetRover Office Inc., Hermes Net Solutions Inc. and Intouch.Internet Inc.

### FOREIGN CURRENCY TRANSLATION

The functional currency of the Company is U.S. dollars. Balance sheet accounts of international self-sustaining subsidiaries, principally Canadian, are translated at the current exchange rate as of the balance sheet date. Income statement items are translated at average exchange rates during the period. The resulting translation adjustment is recorded as a separate component of shareholders' equity.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### FINANCIAL INSTRUMENTS

The Company has, where practicable, estimated the fair value of financial instruments based on quoted market prices or valuation techniques such as present value of estimated future cash flows. These fair value amounts may be significantly affected by the assumptions used, including the discount rate and estimates of cash flow. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. Where these estimates approximate carrying value, no separate disclosure of fair value is shown.

### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives using the straight-line method over a period of five years. Maintenance and repairs are charged against operations and betterments are capitalized.

### EARNINGS (LOSS) PER SHARE

Earnings (loss) per share has been computed in accordance with SFAS 128. Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the respective periods. Diluted earnings (loss) per share is computed similarly, but also gives effect to the impact that convertible securities, such as warrants, if dilutive, would have on net earnings (loss) and average common shares outstanding if converted at the beginning of the year. The effects of potential common shares such as warrants would be antidilutive in each of the periods presented in these financial statements.

At December 31, 1999, there are no warrants outstanding (1998-2,085,000)

F-27

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### REVENUE RECOGNITION AND DEFERRED REVENUE

## Edgar Filing: CYPOST CORP - Form 10KSB/A

The Company's primary source of revenue is earned from internet connection services. For contracts which exceed one month, revenue is recognized on a straight-line basis over the term of the contract as services are provided. Revenues applicable to future periods are classified as deferred revenue.

### DIRECT COSTS

Direct costs consist of telecommunications charges in respect of providing internet connection services to customers. These costs are expensed as incurred.

### SELLING AND MARKETING COSTS

Selling and marketing costs are expensed as incurred and totaled \$342,888 and \$0 for the years ended December 31, 1999 and 1998, respectively. These costs are reported under selling, general and administrative expenses on the statement of operations.

### SOFTWARE DEVELOPMENT COSTS

Under SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company has defined as the completion of beta testing of a working product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in software and hardware technology. Software development costs are amortized on the straightline method over the estimated economic life of the product of three years.

As at December 31, 1999, the company capitalized \$209,303 of software development costs and amortized \$69,768 of these costs.

### GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist primarily of customer lists and goodwill related to acquisitions accounted for under the purchase method of accounting. Amortization of these purchased intangibles is provided on the straight-line basis over the respective useful lives of the intangible assets which is estimated to be three years.

The Company identifies and records impairment losses on intangible assets when events and circumstances indicate that such assets might be impaired. The Company considers factors such as significant changes in the regulatory or business climate and projected future cash flows. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### INCOME TAXES

The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are measured using currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain reclassifications have been made to conform prior years' figures to the current year presentation.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", requires the recognition of all derivatives as either assets or liabilities and the measurement of those instruments at fair value. SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133", issued in August 1999, postpones for one year the mandatory effective date for adoption of SFAS No. 133 to January 1, 2001.

The Company does not currently engage in derivative trading or hedging activities; hence, SFAS No. 133 and SFAS No. 137 will not have a material impact on its financial position or results of operations.

STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation", encourages, but does not require, companies to record compensation cost for stock-based employee compensation under a fair value based method. Alternatively, stock-based employee compensation can be accounted for under APB No. 25, "Accounting for Stock Issued to Employees", under which no compensation is recorded.

The Company has not granted any stock-based compensation for any of the periods presented in these financial statements.

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106", revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pension and other postretirement benefits to the extent practicable, requires additional information on changes in benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer considered useful.

The Company does not offer any pension or other postretirement benefits.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 (SOP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 is effective for financial statements for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use including the requirement to capitalize specified costs and amortization of such costs. The implementation of SOP 98-1 does not have a material impact on the Company's financial position or results of operations, as the Company has not incurred any costs for computer software developed or obtained for internal use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-Up Activities". SOP 98-5, which is effective for fiscal years beginning after December 15, 1998, provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The implementation of SOP 98-5 does not have a material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements", to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company believes its revenue recognition practices are in conformity with the guidelines prescribed in SAB No. 101.

## 3. ACQUISITIONS

During 1999, the Company completed a number of business and asset acquisitions. These acquisitions are accounted for using the purchase method, and accordingly, these consolidated financial statements include the results of operations from the date of acquisition of each respective business.

## NETROVER INC. AND NETROVER OFFICE INC.

On October 4, 1999, the Company acquired all of the shares of NetRover Inc. and NetRover Office Inc. for Cdn. \$4 million (U.S. \$2.7 million). The consideration for the purchase included cash of Cdn. \$3 million (U.S. \$2 million) and 219,000 shares of common stock for Cdn. \$1 million (U.S. \$700,000). NetRover Inc. and NetRover Office Inc. are based in Toronto, Canada.

The purchase included goodwill and other intangibles of Cdn. \$4.2 million (U.S. \$2.9 million) which will be amortized on a straight-line basis over its estimated useful life of three years.

## HERMES NET SOLUTIONS INC.

Under SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company has defined as the completion of beta testing of a working product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in software and hardware technology. Software development costs are amortized on the straightline method over the estimated economic life of the product of three years.

As at December 31, 1999, the company capitalized \$209,303 of software development costs and amortized \$69,768 of these costs.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

### 3. ACQUISITIONS (CONTINUED)

#### INTERNET ARENA

On November 9, 1999, the Company purchased certain assets and liabilities of the business of Internet Arena for \$600,000. The consideration for the purchase included cash of \$242,000, amount payable of \$58,000 and 100,698 shares of common stock for a value of \$300,000. As of December 31, 1999, 20,140 shares of common stock were issued and the remaining 80,558 were issued subsequent to year end. Internet Arena is based in Oregon, United States.

The purchase included goodwill and other intangibles of \$536,000 which will be amortized on a straight-line basis over its estimated useful life of three years.

#### CONNECT NORTHWEST

On October 27, 1999, the Company purchased certain assets and liabilities of the business of Connect Northwest for \$1.4 million. The consideration for the purchase included cash of \$670,000, amount payable of \$70,000 and 147,985 shares of common stock for a value of \$660,000. Connect Northwest is based in Washington State, United States. The purchase included goodwill and other intangibles of \$1.3 million which will be amortized on a straight-line basis over its estimated useful life of three years.

During 1998 and 1997, the Company completed two business acquisitions which are described below.

#### ePost INNOVATIONS, INC.

On September 17, 1997, the Company acquired ePOST Innovations, Inc. ("ePost"), a wholly-owned subsidiary of Mushroom Innovations, Inc. ("Mushroom"). The Company and Mushroom have officers and directors in common.

The Company issued 3,000,000 shares of common stock to Mushroom in consideration for all of the issued and outstanding shares of ePost. The shares of common stock were valued at \$.001 per share for an aggregate consideration of \$2,000. The Company acquired all the rights, title and interest to all the assets owned by ePost, and those assets consisted of proprietary knowledge of various computer software products under development by ePost.

Under SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed", capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company has defined as the completion of beta testing of a working product. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in software and hardware technology. Software development costs are amortized on the straightline method over the estimated economic life of the product of three years.

As at December 31, 1999, the company capitalized \$209,303 of software development costs and amortized \$69,768 of these costs.

#### b) Ownership Interests of CyPost

Prior to the acquisition of ePost, CyPost did not have any issued and outstanding shares. The acquisition of ePost involved CyPost issuing 3,000,000



## Edgar Filing: CYPOST CORP - Form 10KSB/A

of its shares to Mushroom; in turn, Mushroom distributed these shares to its shareholders in the following proportion:

Robert Sendoh	1,530,000 shares	51% interest
Carl Whitehead	900,000 shares	30% interest
William Kaleta	300,000 shares	10% interest
Chiyoko Asanumu	270,000 shares	9% interest
Total	3,000,000 shares	100% interest

Robert Sendoh at the time of acquisition was President and Director of Epost and Chairman and of CyPost Corporation, Carl Whitehead was Secretary/Treasurer and Director in Epost Innovations and President and Director in CyPost Corporation and William Kaleta was Chief Technical Officer and Director in EPost Innovations and Chief Technical Officer in CyPost Corporation.

Note: Robert Sendoh gifted 9% of his shares to Chiyoko Asanuma, his sister.

The Company acquired all the rights, title and interest to all the assets previously owned by ePOST. Those assets consisted of proprietary knowledge of various computer software products under development by ePost Canada.

F-31

### COMMUNICATION EXCHANGE MANAGEMENT, INC.

On October 29, 1998, the Company acquired Communication Exchange Management, Inc. ("CEM"), a subsidiary of Mushroom. The Company issued 6,270,000 post-split shares of common stock valued at \$4,180 for consideration of all of the issued and outstanding stock of CEM. The Company acquired all the rights, title and interest to all the assets owned by CEM which consisted of proprietary knowledge of various computer software products under development by CEM.

The acquisition of CEM involved CyPost issuing 6,270,000 of its shares to Mushroom; in turn, Mushroom distributed these shares to its shareholders in the following proportion:

ROBERT SENDOH	720,000 SHARES	11% INTEREST
CARL WHITEHEAD	1,350,000 SHARES	22% INTEREST
WILLIAM KALETA	1,950,000 SHARES	31% INTEREST
KELLY MONTALBAN	2,250,000 SHARES	36% INTEREST
	-----	-----
	6,270,000 SHARES	100% INTEREST

The acquisition has been accounted for under the purchase method. Operating results of CEM prior to the date of acquisition were not significant.

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Edgar Filing: CYPOST CORP - Form 10KSB/A

	1999	1998
	-----	-----
OFFICE AND COMPUTER EQUIPMENT	\$1,008,405	\$ 28,563
LESS- ACCUMULATED DEPRECIATION	(408,823)	(6,233)
	-----	-----
	\$ 599,582	\$ 22,330
	=====	=====

5. GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles consist of the following:

	1999	1998
	-----	-----
CUSTOMER LISTS	\$3,663,000	\$ -
GOODWILL	1,832,543	-
	-----	-----
	5,495,543	-
LESS- ACCUMULATED AMORTIZATION	(458,758)	-
	-----	-----
	\$5,036,785	\$ -
	=====	=====

6. LOANS

During 1999, the Company borrowed \$4,875,000 pursuant to two promissory note agreements. The loans are unsecured, bear interest at 8% per annum, and the principal and accrued interest are due on demand. The lender may elect to convert the loans into shares of common stock of the Company as follows:

PRINCIPAL	SHARES	
	PRE-SPLIT	POST-SPLIT
\$ 1,000,000	1,000,000	1,500,000
3,000,000	2,000,000	3,000,000
875,000	437,500	656,250

At the commitment dates of the promissory notes, the conversion prices were less than the fair values of the common stock, hence a beneficial conversion feature is attached to these convertible notes. The amount of this beneficial conversion feature is \$2,212,500 and has been recorded as interest expense and additional paid-in-capital for the year ended December 31, 1999.

F-32

6. LOANS (CONTINUED)

During 1999, \$4,000,000 of loans were settled by the issuance of common stock valued at \$4,000,000. At December 31, 1999, the loans balance is \$875,000. Subsequent to year end, the Company borrowed an additional \$625,000 against the promissory note.

## Edgar Filing: CYPOST CORP - Form 10KSB/A

The fair values of the loans at December 31, 1999 are not practicable to estimate because of the conversion features associated with the loans; accordingly, it is not possible to estimate the present value of the future cash flows with any reasonable degree of precision.

Subsequent to year end, the lender has offered to lend a further \$10,000,000 to the Company under similar terms except that the loans are convertible to 3,750,000 shares of common stock at a conversion price of \$2.67 per share. The lender has the option to withdraw its offer to lend any amount of the \$10,000,000 at any time. (see Note 12)

### 7. SHARE CAPITAL

#### AUTHORIZED STOCK

The Company is authorized to issue:

- (a) 30,000,000 shares of common stock at a par value of \$0.001 per share.
- (b) 5,000,000 shares of preferred stock at a par value of \$.001 per share. The Board of Directors of the Company has the authority, without further action by the holders of the outstanding shares of common stock, to issue shares of preferred stock from time to time in one or more classes or series, to fix the number of shares constituting any class or series and the stated value, if different from the par value, and to fix the terms of any such series or class, including dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price and the liquidation preference of such class or series. The designations, rights and preferences of any shares of preferred stock would be set forth in a Certificate of Designation which would be filed with the Secretary of State of the State of Delaware.

#### SHARE SPLIT

On September 24, 1999, the Company effected a three-for-two subdivision of its shares of common stock. All share, per share, unit, and warrant amounts in the accompanying financial statements have been adjusted retroactively to give effect to this subdivision.

#### COMMON STOCK SUBSCRIBED

As at December 31, 1999, the Company is obligated to issue 80,558 shares of common stock valued at \$2.98 per share as consideration for the purchase of the assets of Internet Arena and this obligation has been reported as a liability of \$240,000 on the balance sheet. These shares were issued subsequent to year end.

F-33

### 7. SHARE CAPITAL (CONTINUED)

#### SALE OF UNITS AND WARRANTS

In 1997, the Company offered for sale to persons who qualified as "accredited investors" as defined under Regulation D promulgated by the Securities and Exchange Commission 3,000,000 units at \$0.05 per unit. Each unit consists of one share of the Company's common stock and one warrant to purchase

## Edgar Filing: CYPOST CORP - Form 10KSB/A

one share of common stock at \$0.27 per share.

In 1997, the Company sold 600,000 units for aggregate consideration of \$20,000. In 1998, the Company sold an additional 2,400,000 units for aggregate consideration of \$80,000 less offering expenses of \$20,000.

During 1998, the Company issued 915,000 shares of common stock through the exercise of 915,000 warrants for aggregate consideration of \$244,000. As of December 31, 1998, 2,085,000 warrants were outstanding. These warrants were exercised for 2,085,000 shares of common stock during 1999 and at December 31, 1999, there are no warrants outstanding.

### PRIVATE PLACEMENT

Pursuant to a private placement pursuant to Rule 504 of Regulation D, the Company offered on March 26, 1998, 57,000 shares of common stock at \$0.33 per share. As of On May 5, 1998, the Company sold an aggregate 57,000 shares of common stock for an aggregate consideration of \$19,000. On May 5, 1998, the Company sold 22,500 shares of common stock pursuant to Rule 504 of Regulation D to Kaplan Gottbetter and Levenson, LLP in consideration for \$7,500 in legal fees valued at \$0.33 per share.

### 8. INCOME TAXES

In accordance with SFAS 109, "Accounting for Income Taxes", income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement reporting and the tax bases of the assets and liabilities, and are measured at the enacted tax rates that will be in effect when the differences are expected to reverse. Such differences principally arise from the timing of income and expense recognition for accounting and tax purposes.

The application of SFAS 109 does not have any material effect on the assets, liabilities, or operations for the periods presented in these consolidated financial statements. Deferred tax assets arising from the Company's net operating loss carryforwards have been fully offset by a valuation allowance.

F-34

### 8. INCOME TAXES (CONTINUED)

At December 31, 1999, the Company has net operating loss carryforwards for income tax purposes of approximately \$2,800,000 which are available to offset future taxable income. The Company's utilization of these carryforwards may be restricted due to changes in ownership of subsidiaries during the year. The components of the deferred tax asset as of December 31, 1999 and 1998 are as follows:

	1999	1998
	-----	-----
NET OPERATING LOSS CARRYFORWARDS	\$1,260,000	\$ 82,000
LESS- VALUATION ALLOWANCE	1,260,000	82,000
	-----	-----
	\$ -	\$ -
	=====	=====

### 9. COMMITMENTS AND CONTIGENCIES

## Edgar Filing: CYPOST CORP - Form 10KSB/A

### Litigation

Subsequent to year end, the former president of the Company filed various Legal claims against the Company and the Company's transfer agent in respect of the ownership of 600,000 shares of common stock of the Company awarded to him. The claims do not include any dollar amounts.

The Company believes that the claims are without merit and intends to contest them vigorously. As a result, no amounts have been accrued in the financial statements in respect to these claims, and the outcome of the claims is not determinable.

### Lease Commitments

The Company leases office space and equipment, and its lease payments in the next five years and thereafter are as follows:

2000		\$	1,236,000
2001			1,091,000
2002			293,000
2003			122,000
2004			109,000
THEREAFTER			55,000
			-----
		\$	2,906,000
			=====

### 10. PRO FORMA DISCLOSURES ON BUSINESS COMBINATIONS (UNAUDITED)

As described in Note 3, the Company completed various business and asset acquisitions during 1999 and has entered into another acquisition in 2000 described in Note 12. The following presents unaudited pro forma financial information as though each of the transactions occurred on January 1, 1999 and 1998. This pro forma financial information include adjustments giving effect to goodwill amortizations associated with the acquisitions and interest expense on debt incurred to finance the acquisitions.

#### PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1999 (UNAUDITED)

(US DOLLARS)	CYPOST	HERMES	NTOUCH	NETROVER	INTERNET ARENA	CONNECT NORTHWEST	PLAYA	PRO F ADJUST
REVENUE	1,020,000	87,000	189,000	1,402,000	466,000	63,000	452,000	
NET INCOME (LOSS)	(4,352,000)	0	(7,000)	90,000	(45,000)	,000	(259,000)	(3,42
LOSS PER SHARE	(0.48)							

#### PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1998 (UNAUDITED)

Edgar Filing: CYPOST CORP - Form 10KSB/A

(US DOLLARS)	CYPOST	HERMES	NTOUCH	NETROVER	INTERNET ARENA	CONNECT NORTHWEST	PLAYA	PRO F ADJUST
REVENUE	0	196,000	404,000	1,775,000	342,000	536,000	306,000	
NET INCOME (LOSS)	(540,000)	0	(16,000)	(23,000)	(221,000)	(29,000)	(182,000)	(3,4
LOSS PER SHARE								

11. NON-CASH INVESTING AND FINANCING ACTIVITIES

Loans of \$4 million were converted into shares of common stock of the Company.

12. SUBSEQUENT EVENT

ACQUISITION OF PLAYA CORPORATION

F-35

On February 23, 2000, the Company completed the acquisition of Playa Corporation (a Japan company), developer of Yabumi instant messaging and e-greeting card services. The acquisition totals \$3 million, comprised of \$300,000 in cash and \$2.7 million in the Company's shares of common stock.

LETTER OF FINANCE

On April 27, 2000 the lender Blue Heron Venture Fund renegotiated with the Company two of the commitment letters that were available as of that date. (see Note 6) With the renegotiation, the March 17, 1999 and July 12, 1999 debt financing commitment letters were amended to reflect a conversion price of \$0.75. Below the table indicates the discount to market on the amended commitment letters. The change in these conversion terms were made subsequent to December 31, 1999; hence no changes have been made to interest expense in these financial statements in respect of the loans with Blue Heron Venture Fund.

The loans balance of \$875,000 at December 31, 1999 was issued under the \$2,000,000 commitment above. The beneficial conversion terms was \$122,500. The beneficial conversion feature on the loans calculated under the amended conversion terms is \$875,000. The Company will record an additional beneficial conversion feature of \$752,500 as interest expense in the first quarter of 2000.

The \$625,000 loans borrowed by the Company subsequent to year-end will result in a beneficial conversion feature of \$625,000 which the Company will record as interest expense in the first quarter of 2000.

F-36

COMMITMENT DATE	AMOUNT OF COMMITMENT	SHARE CONVERSION	CLOSING SHARE PRICE	CONVERSION PRICE
April 27, 2000	\$ 2,000,000	2,666,666	\$ 1.50	\$ 0.75
April 27, 2000	\$ 10,000,000	13,333,333	\$ 1.50	\$ 0.75

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment to Annual Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: November 15, 2001

CYPOST CORPORATION

By: /s/ Sandra Warren

-----  
 Sandra Warren  
 President  
 Secretary and Treasurer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of registrant and in the capacities indicated and on the dates indicated.

Name -----	Title -----	Date -----
/s/ J. Thomas W. Johnston ----- J. Thomas W. Johnston	Chairman of the Board and Director	November 15, 2001
/s/ Sandra Warren ----- Sandra Warren	President, Secretary, Treasurer, Director Principal Executive, Financial and Accounting Officer	November 15, 2001
/s/ Robert Sendoh ----- Robert Sendoh	Director	November 15, 2001