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CYBERADS INC
Form 10QSB/A
January 30, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2005

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

Commission File Number: 000-31451

CYBERADS, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

65-1000634

(State or other jurisdiction of incorporation or organization)

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

370 Amapola Ave. # 202, Torrance, California 90501

(Address of principal executive office) (Zip Code)

(561) 672 2193

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes XX

No

As of August 22, 2005, the number of outstanding shares of the issuer's common stock, \$.001 par value, was 43,781,777 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes No

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CYBERADS, INC.

Consolidated Balance Sheets

| | June 30, 2005 | |
|--|------------------|----|
| Assets | | |
| Current asset - | | |
| Cash | \$ 14,467 | \$ |
| Property and equipment, net | 14,171 | |
| Marketing rights | 210,000 | |
| Deposits | 8,585 | |
| | ----- | |
| | \$ 277,223 | \$ |
| | ===== | |
| Liabilities and Net Capital Deficiency | | |
| Current liabilities: | | |
| Note Payable | \$ 294,192 | \$ |
| Accounts payable | 804,220 | |
| Accrued payroll and payroll related liabilities | 614,143 | |
| Accrued liabilities | 39,793 | |
| Payable to related parties | 786,555 | |
| Loans payable - convertible debentures | 60,000 | |
| | ----- | |
| Total current liabilities | 2,598,903 | |
| Deferred net revenue | 136,142 | |
| Payable to stockholder | 185,664 | |
| Net Capital Deficiency: | | |
| Preferred stock; \$.001 par value; authorized 5,000,000 shares, of which 1,000,000 shares has been designated as Series A Convertible, shares issued and outstanding 835,660 | 836 | |
| Common stock; \$.001 par value; shares authorized 50,000,000; shares issued and outstanding 42,456,777 in 2005 (23,225,777 in 2004) | 42,457 | |
| Common stock to be issued | 440,050 | |
| Additional paid in capital | 20,624,133 | |
| Retained deficit | (23,780,962) | |
| | ----- | |
| Net capital deficiency | (2,673,486) | |
| | ----- | |
| | \$ 277,223 | \$ |
| | ===== | |

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See accompanying notes.

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CYBERADS, INC.

Consolidated Statements of Operations

| | Three months ended June 30 | | Six months ended |
|--|----------------------------|--------------|------------------|
| | 2005 | 2004 | 2005 |
| Revenues | \$ - | \$ - | \$ - |
| Cost of revenues | - | - | - |
| Gross profit | - | - | - |
| Operating expenses: | | | |
| Marketing | 31,714 | - | 726,714 |
| General and administrative | 2,406,187 | 419,500 | 3,818,902 |
| Total operating expenses | 2,437,901 | 419,500 | 4,545,616 |
| Net loss from operations | (2,437,901) | (419,500) | (4,545,616) |
| Other income (expenses): | | | |
| Other income | - | - | - |
| Interest expense and financing costs, net | - | (6,000) | - |
| Total other expenses | - | (6,000) | - |
| Net loss before provision for income taxes | (2,437,901) | (425,500) | (4,545,616) |
| Provision for income taxes | 800 | - | 800 |
| Net loss | \$ (2,438,701) | \$ (425,500) | \$ (4,546,416) |
| Net loss per common share | \$ (.065) | \$ (.023) | \$ (.143) |

See accompanying notes.

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CYBERADS, INC.

Consolidated Statements of Cash Flows

| | Three months ended June 30 | | Six months ended |
|--|----------------------------|--------------|------------------|
| | 2005 | 2004 | 2005 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (2,438,701) | \$ (425,500) | \$ (4,546,416) |
| Adjustment to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Deferred net revenue | 126,142 | - | 136,142 |
| Provision for doubtful accounts | 800 | - | 800 |
| Common stock issued in exchange for services | 2,400,279 | 189,500 | 4,473,279 |
| Changes in assets and liabilities: | | | |
| Receivables | - | - | - |
| Outstanding checks in excess of cash in bank | - | - | - |
| Accounts payable | (20,000) | 145,000 | (25,002) |
| Accrued liabilities | - | 6,000 | - |
| | 68,520 | (85,000) | 38,803 |
| Cash flows from investing activities - | | | |
| Purchase of marketing rights | (65,000) | - | (210,000) |
| Cash flows from financing activities: | | | |
| Principal repayments of note payable | - | - | - |
| Advances received from stockholder, net | 20 | 20,000 | 185,664 |
| Proceeds from stock options exercised | - | 65,000 | - |
| | 20 | 85,000 | 185,664 |
| Net change in cash | 3,540 | - | 14,467 |
| Cash at beginning of period | 10,627 | - | - |
| Cash at end of period | \$ 14,467 | \$ - | \$ 14,467 |

See accompanying notes.

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CYBERADS, INC.

Notes to Consolidated Financial Statements
June 30, 2005

1. Summary of significant accounting policies

Business: CyberAds, Inc. ("CyberAds") was incorporated in the state of Florida on April 12, 2000. In 2004, the Company earned commissions from selling approved contracts to subscribers for cellular telephone service. In 2005, management of the Company has devoted their attention toward seeking profitable products.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of CyberAds and it's wholly owned subsidiary IDS. All significant intercompany balances have been eliminated in consolidation. The operations of IDS are currently dormant.

Interim reporting: The Company's year-end for accounting and tax purposes is December 31. In the opinion of Management, the accompanying consolidated financial statements as of June 30, 2005 and 2004 and for the three and six months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three and six months ended June 30, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year.

Property and equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for over the estimated useful life of the assets of five to seven years. Leasehold improvements are amortized over the lesser of the original term of the related lease or their estimated useful life.

Marketing rights: Marketing rights are stated at cost and will be amortized over 10 years, the term of the rights.

Revenue recognition: In 2004, the Company recorded revenue on a "net" basis when contracts were submitted to master dealers. The phones were shipped from the dealers to the subscriber and the Company did not bear the risk of loss on the cellular phone.

Share based payments: The Company uses a fair value based method of accounting for stock based compensation to employees. The Company also accounts for stock options and warrants issued to non-employees for services under the fair value method of accounting.

Net income (loss) per common share: Net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. The weighted average number of common stock shares outstanding was 37,297,277 for the three months ended June 30, 2005 (18,799,403 for the three months ended June 30, 2004) and 31,754,365 for the six months ended June 30, 2005 (18,562,590 for the six months ended June 30, 2004).

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CYBERADS, INC.

Notes to Consolidated Financial Statements
June 30, 2005

1. Summary of significant accounting policies (continued)

Net income (loss) per common share (continued): Convertible debentures, convertible preferred stock, common stock options, and common stock to be issued are considered common stock equivalents. Common stock equivalents have not been included in the computation of diluted loss per share as the effect on net loss per common share would be anti-dilutive.

Use of Estimates: The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Operations

During the six months ended June 30, 2005, management of the Company negotiated to purchase rights to market the Xboard(TM), a jet-powered personal watercraft. The Company, in turn, has been reselling those rights to distributors of water sports products. During the six months ended June 30, 2005, the Company collected \$153,450 from the resale of those rights.

Management also plans to continue restructuring debt, seeking profitable products, reducing operating expenses, and seeking additional capital and debt financing until operations achieve profitability. Management of the Company believes the above actions, along with other plans, will allow them to continue operations and ultimately achieve profitability. Until then, the Company is dependent upon its ability to obtain additional capital and debt financing. The consolidated financial statements as of June 30, 2005 do not reflect adjustments relating to the recorded asset amounts, or the amounts of liabilities that would be necessary should the Company not be able to continue in existence.

3. Marketing rights

In March 2005, the Company committed to purchase rights to market the Xboard(TM), a jet-powered personal watercraft, from Aqua Xtremes, Inc. aggregating \$5,000,000. The term of the rights are for 10 years from the time the Xboard(TM) is available for market. During the six months ended June 30, 2005, the Company paid \$210,000 toward the purchase agreement.

4. Note payable

The note payable was due in installments of \$5,000 on January 15, 2004 and February 15, 2004, plus interest at the rate of 10% per annum.

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Final payment was due March 15, 2004. The note is secured by all of the Company's accounts receivable, inventories, and computer hardware and software and is guaranteed by two former officers of the Company. The Company is currently in default with respect to the agreement.

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CYBERADS, INC.

Notes to Consolidated Financial Statements
June 30, 2005

5. Accrued liabilities

Accrued expenses consisted of the following at:

| | June 30, 2005 |
|----------------------------|------------------|
| | ----- |
| Interest | \$ 3,993 |
| California franchise taxes | 800 |
| Professional fees | 35,000 |
| | ----- |
| | \$ 39,793 |
| | ===== |

6. Payable to related parties

Payable to related parties consisted of the following at:

| | June 30, 2005 |
|---|------------------|
| | ----- |
| Advance due to a corporation owned by a former officer of the Company, bearing interest at 10% per annum, due on demand and unsecured | \$ 54,000 |
| Advance due to a former officer of the Company, bearing interest at 10% per annum, due on demand and unsecured | 732,555 |
| | ----- |
| | \$ 786,555 |
| | ===== |

7. Loans payable - convertible debentures

Loans payable - convertible debentures consists of unsecured loans from two individuals whereby the principal of the note is convertible into the Company's common stock at the option of the holder. Interest on borrowings is payable quarterly at a rate of 20% per annum. The notes

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were due in installments of \$15,000 on November 13, 2003, \$13,750 on December 13, 2003 and January 13, 2004, with final payment due February 13, 2004. The Company is currently in default with respect to the agreements. The notes are convertible into the Company's common stock at a conversion rate of 75% of the closing bid price of the Company's common stock one trading day prior to conversion.

8. Payable to stockholder

The payable to stockholder consists of advances from Novanet Media, Inc. for working capital purposes. The advances are unsecured, non-interest bearing and due on demand; however, Novanet Media, Inc. has agreed not to demand repayment of the advances before September 2006 and unless cash is available from a merger, capital stock exchange, asset acquisition, or other business combination, or from operations.

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CYBERADS, INC.

Notes to Consolidated Financial Statements
June 30, 2005

9. Contingencies

The Company is non-compliant with respect to certain federal and state payroll related taxes. Included in accrued payroll and payroll related liabilities for 2005 and 2004 is approximately \$540,800 of unpaid payroll taxes.

10. Common stock transactions

During the six months ended June 30, 2005, the Company issued an aggregate of 19,231,000 shares of its common stock in exchange for marketing, management, and consulting services. The share based payments were valued at the fair value of the services received. Management estimated the fair value based on the closing bid price of the Company's common stock on the date of issuance, the historical trend of the trading prices for its common stock, and the volume of shares traded. The Company recorded expenses aggregating \$2,313,027 as a result of the share based payments.

11. Stock options

The Company's stock option activity for options granted to employees and non-employees is summarized as follows for the three months ended June 30, 2005:

| | Fixed Plan |
|--------|---------------------------------|
| | Weighted average exercise price |
| Shares | Shares exercisable |
| ----- | ----- |

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| | | | |
|--------------------------------|-----------|---------|-----------|
| Outstanding at January 1, 2005 | 1,900,000 | \$.513 | 1,900,000 |
| | | ===== | ===== |
| Expired | (200,000) | \$ 1.00 | |
| | ----- | ===== | |
| Outstanding at June 30, 2005 | 1,700,000 | \$.50 | 1,700,000 |
| | ===== | ===== | ===== |

The Company's stock option outstanding and exercisable at June 30, 2005 is summarized as follows:

| Range of prices | Options outstanding | | Fixed Plan | | Options exercisable |
|-----------------|---------------------|---------------------------------|----------------|-----------|---------------------|
| | Shares | Weighted average remaining life | exercise price | Shares | |
| \$.04 - \$.50 | 1,200,000 | 9 mo. | \$.21 | 1,200,000 | |
| ===== | ----- | ----- | ===== | ----- | |
| \$1.00 - \$1.15 | 500,000 | 9 mo. | \$ 1.00 | 500,000 | |
| ===== | ----- | ===== | ===== | ----- | |
| \$.04 - \$1.15 | 1,700,000 | 9 mo. | \$.442 | 1,700,000 | |
| ===== | ===== | ===== | ===== | ===== | |

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

OF OPERATIONS:

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

RESULTS OF OPERATIONS

Three and six months ended June 30, 2005 compared to the three and six months ended June 30, 2004:

During the three and six months ended June 30, 2005, the Company was actively seeking companies in which to merge or invest as well as reselling rights to market the Xboard(TM), a jet-powered personal watercraft.

There were no revenues for the three and six months ended June 30, 2005 compared to revenues of \$303,120 for the six months ended June 30, 2004. Revenues for 2004 consisted of commissions earned from selling contracts to subscribers for cellular telephone service, however, due to the Company's limited sales resources limited effort was devoted toward that business. During the three and six months ended June 30, 2005, the Company resold rights to market the Xboard(TM) and collected \$153,450, however, the equipment is not yet available. Accordingly, the Company has reported those sales as deferred

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revenue.

Marketing expenses for the six months ended June 30, 2005 aggregated \$726,714 compared to no marketing expenses for the six months ended June 30, 2004. Marketing expenses for 2005 consisted of \$695,000 of share based payments relating to the resale of rights to market the Xboard(TM) and \$31,714 of other marketing costs. General & administrative expense for the six months ended June 30, 2005 aggregated \$3,818,902 compared to \$524,342 for the six months ended June 30, 2004. The difference of \$3,294,560 consisted of share based payments of \$3,778,279 in 2005 for consulting and management expenses incurred in connection with the Company seeking other companies in which to merge or invest. Share based payments aggregated \$189,500 in 2004 for consulting and management expenses incurred in connection with the Company seeking other companies in which to merge or invest.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2005 compared to December 31, 2004:

The Company's total assets as of June 30, 2005 were \$277,223 compared to \$22,756 as of December 31, 2004. The increase of \$254,467 consisted of the acquisition of \$210,000 of rights to market the Xboard(TM) and net cash flow for the six months ended June 30, 2005.

The Company's current liabilities as of June 30, 2005 were \$2,598,903 compared to \$2,623,105 as of December 31, 2004. However, total liabilities aggregated \$2,735,045 compared to \$2,623,105 as of December 31, 2004. The increase of \$111,904 was due entirely to advances received from a shareholder for cash flow purposes and to acquire the rights to market the Xboard(TM) totaling \$136,142 and the repayment of accounts payable of \$25,002. The shareholder who provided the advances has agreed not to demand repayment before September 2006 and unless cash is available from a merger, capital stock exchange, asset acquisition, or other business combination, or from operations.

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ITEM 3. CONTROLS AND PROCEDURES

As of June 30, 2005 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, these principal executive officers and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in the Company's periodic SEC filings. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Information Statement pursuant to Regulation 14C is incorporated herein by reference.

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PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

| Exhibit Number | Description of Document |
|-------------------|--|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification |
| 32.1 | Section 1350 Certification |
| 32.2 | Section 1350 Certification |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 30, 2006

CYBERADS, INC.

By: /s/ JEFF CRISWELL

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Jeff Criswell, President