EMAILTHATPAYS COM INC
Form 10QSB
August 14, 2001

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

FORM 10-QSB

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

For the quarterly period ended: June 30, 2001
Commission file number: 000-26047

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

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

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

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

/ Yes   No
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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: July 10, 2001: 8,635,093 shares of common stock, $.005 par value per share.

EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
emailthatpays.com, Inc.
Consolidated Balance Sheets (unaudited)

	June 30, 2001	December 31 2000
Assets		
Current assets:		
Cash	$ -	$ -
Accounts receivable	219,750	74,932
Prepaid expenses	49,376	55,224
	269,126	130,516
Property and equipment, less accumulated depreciation	131,493	150,951

	$ 400,619	$ 281,107
Liabilities and Stockholders' Deficit		
Current liabilities:		
Bank indebtedness	$ 133,459	$ 8,479
Accounts payable and accrued liabilities	338,503	229,106
Accrued salaries	19,285	19,285
Loans payable - current portion	158,846	139,741
Lease obligation - current portion	5,418	5,242
	655,511	401,853
Loans payable	82,308	102,508
Note payable	50,000	50,000
Lease obligation	13,451	16,373
Due to related parties	397,360	60,020
Total liabilities	1,198,630	630,754
Stockholders' deficit:		
Common stock	44,175	44,615
Additional paid-in capital	3,390,147	3,532,957
Deficit	(3,818,112)	(3,008,038)
Deferred stock-based compensation	(392,650)	(900,200)
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	(21,571)	(18,981)
Total stockholders' deficit	(798,011)	(349,647)
	$ 400,619	$ 281,107

See accompanying notes to unaudited financial statements

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emailthatpays.com, Inc.
Consolidated Statements of Operations and Deficit (unaudited)

	Three Months Ended		Six
	June 30, 2001	June 30, 2000	June 30, 2001
Revenue	$ 412,921	$ 311,282	$ 644,532
Cost of revenue	(360,724)	(248,051)	(549,618
Gross profit	52,197	63,231	94,914

Operating expenses:			
Depreciation	18,696	17,786	35,366
Salaries and fringe benefits	151,971	222,842	336,936
Stock-based compensation	306,475	57,450	363,925
Legal and accounting	21,232	48,667	36,105
Consulting fees and computer services	33,237	16,363	66,663
Phones and utilities	5,243	9,056	10,027
Rent	10,175	21,299	17,363
Advertising and promotion	443	30,383	2,232
Other selling, general and administrative	7,212	46,137	21,983
	554,684	469,983	890,600
Loss from operations	(502,487)	(406,752)	(795,686
Other income (expenses):			
Interest Income	-	3,942	-
Interest expense	(7,252)	(5,861)	(14,388
	(7,252)	(1,919)	(14,388
Net loss	(509,739)	(408,671)	(810,074
Deficit, beginning of period	(3,308,373)	(1,883,024)	(3,008,038
Deficit, end of period	$(3,818,112)	$(2,291,695)	$(3,818,112
Net loss per common share, basic and diluted	(0.06)	(0.05)	(0.09
Weighted average common shares outstanding, basic and diluted	8,704,037	8,717,597	8,713,652

See accompanying notes to the unaudited financial statements

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emailthatpays.com, Inc.
Consolidated Statements of Cash Flows (unaudited)

	Six Mont June 30, 2001
Cash provided by (used in):	

Operations:		
Net loss	$	(810,074)
Items not involving cash:		
Depreciation		35,366
Stock-based compensation		363,925
Foreign exchange on subsidiary operations		(2,590)
Loss on disposal of equipment		-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable		(144,818)
Decrease (increase) in prepaid expenses		5,848
Increase (decrease) in accounts payable and accrued liabilities		109,396
Net cash used in operating activities		(442,947)
Cash flows used in investing activities:		
Purchase of property and equipment		(15,908)
Proceeds from disposal of equipment		-
Net cash used in investing activities		(15,908)
Cash flows from financing activities:		
Increase (decrease) in loans payable		(3,841)
Increase (decrease) in advances from related parties		337,340
Proceeds from bank indebtedness		124,981
Issue of share capital		375
Net cash provided by financing activities		458,855
Increase (decrease) in cash		-
Cash, beginning of period		-
Cash, end of period	$	-
Supplementary information:		
Interest paid		14,388
Income taxes paid		0

See accompanying notes to the unaudited financial statements.

EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001

1. The Company and description of business:

emailthatpays.com, Inc. (the "Company") is incorporated in the state of Florida and is a "permission-based" e-mail marketing and integrated advertising strategies service. The Company's services include the design, delivery, tracking, and analysis of targeted "one-to-one" e-mail campaigns, customized loyalty programs, comprehensive list management/brokerage packages and the creation, integration and execution of both online and traditional advertising strategies.

On October 22, 1999, the Company, then named Realm Production and Entertainment, Inc. ("Realm"), a public company listed on the over-the-counter bulletin board in the United States, issued 6,572,000 shares of its common stock in connection with the merger of a wholly owned subsidiary of Realm with and into emailthatpays.com ("email Nevada"), a company incorporated in the state of Nevada. This transaction was accounted for as a recapitalization of email Nevada, effectively as if email Nevada had issued common shares for consideration equal to the net monetary assets of Realm. On October 27, 1999 Realm changed its name to tvtravel.com, Inc. and subsequently on December 21, 1999 to emailthatpays.com, Inc.

The Company's historical financial statements reflect the financial position, results of operations and cash flows of email Nevada since its inception and include the operations of Realm from the date of the effective recapitalization, being October 22, 1999. Stockholders' equity gives effect to the shares issued to the stockholders of email Nevada prior to October 22, 1999 and of the Company thereafter.

email Nevada (formerly Hotel Media Group Inc.) was incorporated on June 26, 1998. In August 1999, it acquired 100% of Coastal Media Group Ltd ("Coastal"), a full-service advertising agency founded in May 1998. A common group of shareholders controlled both Coastal and email Nevada. For accounting purposes, the transaction was considered to be an acquisition by Coastal for consideration equal to the net assets and liabilities of email Nevada. Accordingly, the assets and liabilities of email Nevada have been recorded at their carrying values in the Company's accounts.

2. Liquidity and future operations:

The Company has sustained net losses and negative cash flows from operations since its inception. At June 30, 2001, the Company has negative working capital of $386,385. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

Management is working to obtain sufficient working capital from external sources in order to continue operations. There is however no assurance that the aforementioned events, including the receipt of additional funding, will occur or be successful.

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EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001

3. Basis of Presentation:

The unaudited consolidated financial statements of the Company at June 30, 2001 and for the three and six month periods then ended include the accounts of the Company and its wholly-owned subsidiaries and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in these interim statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies used in fiscal 2001 are consistent with those used in fiscal 2000. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2001. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2000 and the notes thereto included in the Company's Form 10-KSB filed with the SEC on April 2, 2001.

4. Foreign currency:

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

5. Net loss per share:

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

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EMAILTHATPAYS.COM, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001

6. Comprehensive income (loss):

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

	Three Months Ended June 30		Six Mo J
	2001	2000	2001
Net loss	$509,739	$408,671	$810,074
Other comprehensive (income) / loss: Foreign currency translation adjustment	26,273	2,372	2,590
Comprehensive loss	$536,012	$411,043	$812,664

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

Cautionary Statement Regarding Forward-Looking Statements

This Report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us and about our subsidiary companies, including, among other things:

- o our ability to obtain additional funding;
- o development of an e-commerce market;
- o our ability to successfully execute our business model;
- o growth in demand for Internet products and services; and
- o adoption of the Internet as an advertising medium.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur.

Results of Operations
For the Three and Six Months Ending June 30, 2001 and 2000

Revenue

We earn revenues by delivering online direct marketing, promotional, and informational offers and by developing and implementing integrated marketing and advertising strategies. We charge our advertisers based upon a number of criteria including offers delivered, qualified leads generated, online transactions executed and marketing services performed.

Revenue consists of the gross value of our billings to clients and includes the price of the advertising that we purchase from offline and online suppliers. Under marketing services contracts, we recognize the cost of the advertising we purchase for our clients as an expense and the payments we receive from our clients for this advertising as revenue. Under these arrangements, we are ultimately responsible for payment to suppliers for the cost of the advertising that we purchase.

We believe that our revenues will be subject to seasonal fluctuations as a result of general patterns of retail advertising, which are typically higher during the second and fourth calendar quarters. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and consumer buying patterns.

To date, the vast majority of our revenue has been generated from the provision of integrated marketing and advertising strategies as our email delivery system, relational database program and Canadian email marketing sales offices were not fully operational until February 2000. With increased focus, time and expenditure being directed to these online services, we anticipate proportionate increases in revenue, both in absolute and percentage terms. However, if these services do not continue to achieve market acceptance, we cannot assure you that we will generate business at a sufficient level to support our continued operations.

Revenues for the quarter ending June 30, 2001 were $413,000, an increase of 79% over the first quarter of 2001 and 33% over the quarter ending June 30, 2000. The increases reflect the return of a previous client, an expansion of our services into the production and marketing of Event brochures, and seasonal fluctuations in retail advertising, which typically are higher in the second and fourth quarters. For the six months ending June 30, 2001, total revenues of $644,000 exceed last year by 18%. This increase results from the return of a previous client and an expansion of our services into the production and marketing of Event brochures.

Cost of revenue

Cost of revenue represents the cost of advertising purchased for clients. The increases over last year correspond to our increased revenue. As well, our expansion into the production and marketing of Event brochures involved additional costs and resulted in a decrease in our overall margins. Excluding these costs, our gross profit margins have remained relatively constant.

Operating Expenses

Since the end of the first quarter of fiscal 2000, we have taken substantive steps to reduce our ongoing operating costs. These steps include the completion of the initial development of our relational database and email delivery system programs, consolidation of our two western Canada offices into one location, closure of our eastern Canada sales office, controlled use of professional services, cutbacks in administrative and marketing positions and the reduction of our internal technological staff through the outsourcing of the maintenance and storage of our technological facilities and the utilization of IT professionals on a project-by-project contract basis.

Lower staffing levels generated from the steps noted above have resulted in salary costs for the three and six months ending June 30, 2001 being $71,000 and $147,000 lower than for the same respective periods last year. Other operating expenses also reflect cost reduction strategies with non-compensation costs for the quarter and half year decreasing by 49% and 54% respectively from the comparable three and six month periods ending June 30, 2000.

During the three months ending June 30, 2001 we recognized, in addition to our anticipated amortization of $57,000, $249,000 in additional non-cash compensation expense and a reduction in aggregate deferred stock-based compensation of $143,000. These amounts reflect the earlier than estimated exercising and the cancellation of options previously issued to a former marketing executive. The remaining deferred compensation will continue to be amortized over the estimated service life of the employee holding the options. We expect this amount to be $29,000 per quarter for the remainder of the fiscal year.

Liquidity and Capital Resources

We have sustained net losses and negative cash flows from operations since our inception. At June 30, 2001, we have negative working capital of $386,385. Since January 31, 2001, our existing credit facilities have been fully utilized. Advances from a company controlled by a principal stockholder are funding our current operations. Our ability to meet our current obligations is dependent upon these advances.

We need to raise funds in order to continue operations and implement our strategies of client realization and servicing, expansion and maintenance of products, brand awareness, technological advancement and infrastructure development. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, our ability to continue operations, implement our strategies, take advantage of unanticipated opportunities, or otherwise respond to competitive pressures will be significantly limited.

Net cash used in operating activities was $443,000 and $891,000 for the six months ending June 30, 2001 and 2000, respectively. Net cash used in investing activities was $16,000 and $26,000 for the six months ending June 30, 2001 and 2000, respectively and relates to purchases of property and equipment.

Net cash provided by financing activities was $459,000 and $1,054,000 for the six months ending June 30, 2001 and 2000, respectively. Cash provided by financing activities for the period ending June 30, 2001 consists of an increase in bank indebtedness of $125,000 and $337,000 in advances from related parties. Cash provided by financing activities for the six months ending June 30, 2000 consists of $1,310,000 from the issuance of capital stock; less repayments of loans totaling $109,000 and a reduction in advances from related parties of $147,000.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

On June 15, 2001, a recently departed employee exercised options to purchase 75,000 shares of common stock at a price of $.005 per share which had been granted to him under the terms of the 1999 Equity Compensation Plan. The issuance of the shares of common stock was made pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

None.

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

The Company held its Annual Meeting of Stockholders on June 28, 2001. At the meeting two matters were voted on.

1. Election of two directors to serve a one-year term ending at the 2002 Annual Meeting.
Daniel Hunter...Votes For: 5,782,755 Against: 0 Abstentions: 200,175
James MacKenzie...Votes For: 5,782,755 Against: 0 Abstentions: 200,175

2. Ratification of the selection of KPMG as independent auditors for the fiscal year ending December 31, 2002.
............Votes For: 5,782,380 Against: 50 Abstentions: 200,500

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

None.

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SIGNATURES

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

EMAILTHATPAYS.COM, INC.

Dated: August 10, 2001

By: /s/ Daniel Hunter
Daniel Hunter
Chief Executive Officer
Principal Accounting and Financial
Officer, Director