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EMAILTHATPAYS COM INC  
Form 10QSB  
August 14, 2002

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, 2002  
Commission file number: 000-26047

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

Delaware	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 emailthatpays.com, Inc., Former Address and Former Fiscal Year,  
if Changed Since Last Report)

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

X Yes    No  
---        ---

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: August 12, 2002: 519,751 shares of common stock, \$.001 par value per share.

FORGE, INC. AND SUBSIDIARIES  
FORM 10-QSB  
QUARTERLY PERIOD ENDED JUNE 30, 2002  
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Forge, Inc.

Consolidated Balance Sheets (unaudited)

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June 30,  
2002

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Assets

Current assets:

Cash	\$	-
Accounts receivable		323,970
Prepaid expenses		47,192

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	371,162
Property and equipment, less accumulated depreciation	93,058
	\$ 464,220
-----	
Liabilities and Stockholders' Deficit	
Current liabilities:	
Bank indebtedness	\$ 7,146
Accounts payable and accrued liabilities	1,029,303
Accrued salaries	128,163
Unearned revenue	-
Lease obligation - current portion	5,859
	-----
	1,170,471
Due to related parties	566,650
Note payable	27,536
Lease obligation	7,443
	-----
Total liabilities	1,772,100
Stockholders' deficit:	
Common stock	520
Additional paid-in capital	3,645,386
Deficit	(4,917,393)
Accumulated other comprehensive income (loss):	
Foreign currency translation adjustment	(36,393)
	-----
Total stockholders' deficit	(1,307,880)
	-----
	\$ 464,220
=====	

See accompanying notes to unaudited financial statements

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

	Three Months Ended		Six Month
	June 30, 2002	June 30, 2001	June 30, 2002
-----			
Revenue	\$ 744,853	\$ 412,921	\$ 1,292,724
Cost of revenue	(559,555)	(360,724)	(954,285)
-----			

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Gross profit	185,298	52,197	338,439
Operating expenses:			
Depreciation	8,860	18,696	16,035
Salaries and fringe benefits	214,997	151,971	424,467
Stock-based compensation	-	306,475	-
Legal and accounting	57,691	21,232	82,097
Consulting fees and computer services	21,730	33,237	65,431
Phones and utilities	3,819	5,243	7,927
Rent	8,960	10,175	18,612
Advertising and promotion	10,112	443	33,486
Other selling, general and administrative	13,892	7,212	37,535
	340,061	554,684	685,591
Loss from operations	(154,763)	(502,487)	(347,152)
Other income (expenses):			
Interest expense	(6,188)	(7,252)	(27,917)
	(6,188)	(7,252)	(27,917)
Net loss	(160,951)	(509,739)	(375,069)
Deficit, beginning of period	(4,756,442)	(3,308,373)	(4,542,324)
Deficit, end of period	\$ (4,917,393)	\$ (3,818,112)	\$ (4,917,393)
Net loss per common share, basic and diluted	(0.31)	(1.17)	(0.72)
Weighted average common shares outstanding, basic and diluted	517,588	435,201	518,682

See accompanying notes to the unaudited financial statements

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Forge, Inc.  
Consolidated Statements of Cash Flows (unaudited)

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Six Months En  
June 30,  
2002  
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Cash provided by (used in):

Operations:  
    Net loss \$ (375,069)

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Items not involving cash:	
Depreciation	16,035
Stock-based compensation	-
Foreign exchange on subsidiary operations	(46,156)
Changes in operating assets and liabilities:	
Change in accounts receivable	(236,775)
Change in prepaid expenses	4,952
Change in accounts payable and accrued liabilities	759,313
Change in unearned revenue	(259,369)
Change in accrued salaries	49,122
-----	
Net cash used in operating activities	(87,947)
Cash flows used in investing activities:	
Purchase of property and equipment	(11,758)
-----	
Net cash used in investing activities	(11,758)
Cash flows from financing activities:	
Repayment of loans payable	-
Repayment of lease obligation	(2,114)
Proceeds from bank indebtedness	7,146
Proceeds from notes payable	1,958
Proceeds from (repayment of) advances from related parties	68,328
Issue of share capital	-
-----	
Net cash provided by financing activities	75,318
-----	
Decrease in cash	(24,387)
Cash, beginning of period	24,387
-----	
Cash, end of period	\$ -
=====	
Supplementary information:	
Interest paid	1,983
Income taxes paid	0

See accompanying notes to the unaudited financial statements.

FORGE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2002

1. The Company and description of business:

Forge, Inc. (the "Company") is incorporated in the state of Delaware 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.

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On May 13, 2002 emailthatpays.com, Inc. ("email"), the Company's parent corporation, was merged into the Company in order to, among other things, change email's domicile from Florida to Delaware and to change its name. References to "the Company" refer to email for periods prior to May 13, 2002.

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, 2002, the Company has negative working capital of \$799,309. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to establish profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

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

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FORGE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2002

### 3. Basis of Presentation:

The unaudited consolidated financial statements of the Company at June 30, 2002 and for the three month and six month periods then ended include the accounts of

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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 2002 are consistent with those used in fiscal 2001. The results of operations for the three and six months ended June 30, 2002 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2002. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2001 and the notes thereto included in the Company's Form 10-KSB filed with the SEC on March 29, 2002.

On May 13, 2002, pursuant to the merger of email into the Company, the Company effected a reverse stock split of email's outstanding common stock by exchanging one share of the Company's common stock for 20 shares of email's common stock. All earnings per share calculations have been retroactively restated to give effect to this reverse stock split.

#### 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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FORGE, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2002

#### 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:

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	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002
Net loss	\$ 160,951	\$ 509,739	\$ 375,069
Other comprehensive (income) / loss:	42,086	(21,093)	46,156
Foreign currency translation adjustment			
Comprehensive loss	\$ 203,037	\$ 530,832	\$ 421,221

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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 development of an e-commerce market;
- o our ability to successfully execute our business model;
- o our ability to obtain additional funding;
- 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, 2002 and 2001

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



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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.

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Revenues for the quarter ending June 30, 2002 was \$744,853, an increase of 42% over the first quarter of 2002 and a 55% increase over the quarter ending June 30, 2001. These increases reflect the return of two clients, an expansion of our services into creative services and production, and seasonal fluctuations in retail advertising, which typically are higher in the second and fourth quarters. For the six months ending June 30, 2002, total revenues of \$1,292,724 exceeded last year by 200%. This increase results from the return of previous clients and an expansion of our services into creative services and production.

### Cost of revenue

Cost of revenue represents the cost of advertising purchased for clients. The increase over last year corresponds to our increased revenue. As well, our expansion into creative services and production involved less direct costs and resulted in an increase in our overall margin. Excluding these costs, our gross profit margins have remained relatively constant.

### Operating Expenses

Over the last two years we have substantially reduced our operating costs through consolidation of our two western Canada offices into one location, closure of our eastern Canada sales office, controlled use of professional services and reduction of our internal technological staff, outsource the maintenance and storage of our technological facilities and utilize IT professionals on a project-by-project contract basis. On an on-going basis we do not anticipate reducing our operating expenses any further.

The increase in salary costs from \$336,936 for the six months ending June 30, 2001 to \$424,467 for the six months ending June 30, 2002 reflects new staff additions and an increase in employee benefits. Other operating expenses also reflect an increase in advertising and promotions due to a one time cost associated with the re-branding of the operating entities and an increase in legal and accounting fees due to the restructuring of the Company.

The decrease in stock-based compensation is due to the vested options being fully amortized and recognized as at December 31, 2001.

### Liquidity and Capital Resources

We have sustained net losses and negative cash flows from operations since our inception. At June 30, 2002, we have negative working capital of \$799,309.

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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 \$87,947 and \$442,947 for the six months ending June 30, 2002 and 2001, respectively. Cash used in operations are primarily the result of the net losses of \$375,069 and \$810,074, for the six months ending June 30, 2002 and 2001, respectively.

Net cash used in investing activities was \$11,758 and \$15,908 for the six months ending June 30, 2002 and June 30, 2001, respectively and relates to purchases property and equipment.

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Net cash provided by financing activities was \$75,318 and \$458,855 for the six months ending June 30, 2002 and 2001, respectively. Cash provided by financing activities for the period ending June 30, 2002 consists of an increase in bank indebtedness of \$7,146 and increased advances from related parties of \$68,328. Cash provided by financing activities for the six months ending June 30, 2001 consists of an increase in bank indebtedness of \$124,981 and \$337,340 in advances from related parties.

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### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

None.

#### Item 2. Changes in Securities and Use of Proceeds.

On May 13, 2002 email merged into the Company, the effect of which was was to:

- (1) change the name from emailthatpays.com, Inc. to Forge, inc.;
- (2) change the Company's state of incorporation from Florida to Delaware; and
- (3) effect a reverse stock split of email's outstanding common stock by exchanging one share of the Company's common stock for 20 shares of email's common stock.

The principal reasons for the change of the Company's state of incorporation and a summary of the differences of the rights of a shareholder under Florida law and Delaware law is contained in the Definitive Proxy Statement, filed by email with the Securities and Exchange Commission on April 9, 2002.

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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 May 2, 2002. At the meeting three matters were voted on.

1. Election of three directors to serve a one-year term ending at the 2003 Annual Meeting. Daniel Hunter...Votes For: 6,432,853 Against: 0 Abstentions: 300 James MacKenzie...Votes For: 6,432,853 Against: 0 Abstentions: 300 Brian Cobbe...Votes For: 6,432,853 Against: 0 Abstentions: 300

2. Ratification of the selection of KPMG as independent auditors for the fiscal year ending December 31, 2002.

Votes For: 6,432,853 Against: 0 Abstentions: 300

3. To approve the merger of email into the Company, the effect of which was to:

- o change the Company's name from emailthatpays.com, Inc. to Forge, Inc.;
o change the Company's state of incorporation from Florida to Delaware; and
o effect a reverse stock split of email's outstanding common stock by setting an exchange ratio, as determined by email's Board of Directors, in the merger of up to 20 shares of email's common stock for one share of the Company's common stock.

Votes For: 5,674,423 Against: 425 Abstentions: 200
Broker non-votes: 785,305

Item 5. Other Information.

None.

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

Table with 2 columns: Exhibit Number, Description. Rows include 3.3 Certificate of Incorporation of Forge, Inc. \*, 3.4 Bylaws of Forge, Inc. \*, 3.5 Certificate of Meger for the State of Florida \*, 3.6 Certificate of Merger for the State of Delaware \*

\* Previously filed on Form 8-K12g3, filed on May 13, 2002.

SIGNATURES

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In accordance with the requirements of the Exchange Act, the registrant caused

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this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMAILTHATPAYS.COM, INC.

Dated: August 13, 2002

By: /s/ Daniel Hunter

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Daniel Hunter  
Chief Executive Officer,  
Principal Accounting and Financial  
Officer and Director