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CYBERADS INC
Form 10KSB/A
April 22, 2004

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

FORM 10-KSB/A

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2003

333-62690
(Commission File No.)

Commission File Number: 333-62690

CYBERADS, INC.

(Exact name of Small Business Issuer as specified in its Charter)

Florida

65-1000634

(State or other jurisdiction of
incorporation or organization)

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

21073 Powerline Road, Suit 57, Boca Raton, Florida 33433

(Address of principal executive offices)

Phone #(561) 672 2193

(Issuer's telephone number)

(Former Name, former address and former fiscal year,
if changed since last Report.)

Securities Registered Under Section 12 (b) of the Act: None

Securities Registered Under Section 12 (g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 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 ☐

Check if there is no disclosure of delinquent filers in response to
Item 405 of Regulation S-B contained in this form and no disclosure will be
contained, to the best of the 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 ☒.

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Revenues for the year ended December 31, 2003: \$4,197,128.

The aggregate market value of voting stock held by non-affiliates of CyberAds, Inc. ("CYAD") common stock, as of March 31, 2004 was approximately \$14,000,000 (based on the last sale price of such stock as reported by OTC Bulletin Board). The number of shares outstanding of the registrant's common stock, as of March 31, 2004 was 18,325,777.

Documents incorporated by reference: Registration Statement on Form SB-2, File No. 333-62690 and Registration Statement on Form SB-2, File No. 333-82104 information incorporated by reference into Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one): Yes|_|No|X|

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PART I

FORWARD LOOKING INFORMATION

This Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained in this Form 10-KSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate," or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties and actual results may differ materially depending on a variety of factors, many of which are not within CYAD's control. These factors include, but are not limited to, economic conditions generally and in the industries in which CYAD's future customers participate; competition within CYAD's industry, including competition from much larger competitors; technological advances which could render CYAD's products less competitive or obsolete; failure by CYAD to successfully develop new products or to anticipate current or prospective customers' product needs; price increases or supply limitations for components purchased by CYAD for use in its products; and delays, reductions, or cancellation of orders that may be placed with CYAD. There can be no assurance that CYAD will be able to develop its products or markets for its products in the future.

ITEM 1. DESCRIPTION OF BUSINESS

OVERVIEW

CyberAds, Inc., a Florida corporation ("CYAD" or the "Company"), was organized on April 12, 2000, under the laws of the State of Florida. CYAD initially compiled member lists through an Internet-based opt-in e-mail list found on our website "www.sportsforcash.com." "Internet-based opt-in e-mail" creates member lists by requiring website visitors to provide us with certain personal information and consent to receiving e-mails from our company in order to gain access to our website. Our goal was to sell the member lists to direct marketers seeking to target promotional campaigns to large groups of people via electronic mail. We initially had the concept of awarding prizes to attract potential members to our website www.sportsforcash.com. However, we terminated our prize program after determining that our business model was not profitable. This segment of our operations has been recently discontinued.

In December 2000 we began utilizing member lists internally through our wholly-owned subsidiary, IDS Cellular, Inc. to market cellular phone services. When we began generating revenues from our cellular phone marketing services, we decided to focus exclusively on this line of business. We started an affiliate program to expand our potential customer base. Our affiliate program works by paying participating third party websites commissions for referring cellular

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phone customers to our "idscellular.com" website. A third party website will receive a commission if a customer it refers to us purchases a cellular phone or cellular services.

All of our revenues are derived from our cellular phone marketing services. Our business now focuses exclusively on marketing cell phone services to potential consumers we are introduced to through our affiliate program and other third party telemarketing services.

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In December 2003 we acquired a 22% interest in The Vineyards Country Club ("The Vineyards"), a real estate development project located adjacent to Palm Springs, California. The Vineyards is a luxury motor coach facility including a recently completed clubhouse, swimming pool, tennis court, and nine-hole regulation size golf course. Phase One at The Vineyards is substantially complete and consists of 69 luxury coach sites. . Within 3 to 5 years we expect to add an additional 200+ sites, thus expanding The Vineyards to well over 300 sites. The Vineyards project also includes 30 acres of commercial property immediately adjacent to the development with plans for an extended-stay hotel, retail, and an entertainment complex, all within walking distance to the existing Trump Casino.

GOVERNMENT REGULATION

At present, there are no specific regulations or approvals required by or from the Federal Government or state agencies for marketing the cellular services we offer. We are aware of no proposed regulations that may have an effect upon our business as a seller of cellular phone services.

Laws and regulations that apply to Internet communications, commerce and advertising are becoming more prevalent. These regulations could affect the cost of communicating on the Internet and negatively affect the demand for our direct marketing solutions or otherwise harm business. Laws and regulations may be adopted covering issues such as user privacy, pricing, libel, acceptable content, taxation, and quality of products and services. This legislation could hinder growth in the use of the Internet generally and decrease the acceptance of the Internet as a communications, commercial, and direct marketing medium.

The laws governing the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws apply to the Internet and Internet advertising. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad. This may impose additional burdens on companies conducting business over the Internet.

PERSONNEL

As of the date of this report, CYAD has three full time employees as well as a number of part time relationships with contractors for certain services. None of CYAD's personnel are covered by collective bargaining agreements.

ITEM 2. PROPERTIES

On April 6, 2002 we relocated all of our operations to a 2,000 square foot facility located at 21073 Powerline Road, Suite 57, Boca Raton, Florida. This property is leased from 6001, LLC. The term of the lease is through April 1, 2005. We pay approximately \$4,200 per month for the lease.

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ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to the vote of security holders.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal United States market for CYAD's common stock is the OTC Bulletin Board. The following is the high and low closing sale prices for CYAD common stock:

FISCAL 2003	HIGH	LOW
	-----	-----
Fourth Quarter (through December 31, 2003).....	\$ 2.10	\$ 0.85
Third Quarter (through September 30, 2003).....	\$ 1.50	\$ 0.27
Second Quarter (through June 30, 2003).....	\$ 0.51	\$ 0.02
First Quarter (through March 31, 2003).....	\$ 0.13	\$ 0.04
FISCAL 2002		
Fourth Quarter (through December 31, 2002).....	\$ 0.19	\$ 0.02
Third Quarter (through September 30, 2002).....	\$ 0.50	\$ 0.06
Second Quarter (through June 30, 2002).....	\$ 2.60	\$ 0.25
First Quarter (through March 31, 2002).....	\$ 3.60	\$ 1.00

The above prices presented are bid prices that represent prices between broker-dealers and do not include retail mark-ups and markdowns for any commissions paid to the dealer. These prices may not reflect actual transactions.

There are 80 shareholders of record of the Company's Common Stock, not including shareholders who hold common stock in street name. The holders of common stock are entitled to one vote per share of common stock on all matters to be vote on by the stockholders. There are no cumulative voting rights. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared by the board of directors out of funds legally available for dividends. In the event of a liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in the net assets remaining after payment in full of all liabilities, subject to the prior rights of preferred stock, if any, then outstanding. There are no redemption or sinking fund provisions applicable to the common stock.

DIVIDENDS

The Company has never paid cash dividends on its common stock. The declaration and payment of dividends is within the discretion of the Company's board of directors and will depend, among other factors, on earnings and debt service requirements as well as the operating and financial condition of the Company. At the present time, the Company's anticipated working capital requirements are such that it intends to follow a policy of retaining earnings in order to finance the development of its business. Accordingly, the Company does not expect to pay a cash dividend within the foreseeable future.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

CyberAds markets cellular phone services and plans to consumers. Our cellular phone services are marketed through an affiliate program. We attract third party websites to become part of our affiliate program by offering commissions for sales of cell phones and cell phone services in which they initiated the contact with the consumer. A website becomes an affiliate of our company by placing freecellular-phone.com advertising materials and banners on their websites. These advertisements and banners promote our cellular phone services. When a consumer on an affiliate's site clicks on our banner or advertising they are directed to freecellular-phone.com.

When a visitor enters our website, they are asked to provide personal credit information in order to qualify for a cellular phone service. In addition, this information determines whether the visitor is in a coverage area for any of the cell phone carriers that we refer applicants to. Once a coverage area is determined, the applicant will choose a respective calling plan and telephone. If the consumer provides this information, it is delivered to Inphonic where it is processed and a credit check is made. Depending on the consumer's credit history, the application is either approved or denied. An approved application is then further processed and directed to one of the carriers with whom Inphonic is associated.

The cellular providers have distinct standards and qualifications regarding the credit history of individuals in which they will provide services.

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CYBERADS CELLULAR OPERATIONS

DIRECT SUPPLIERS

On March 10th, 2003, CyberAds, Inc entered into an agreement with Inphonic, Inc that allows CyberAds to utilize all of Inphonic's cellular agreements. They include AT&T, Cingular, T-Mobile, Verizon and Alltel. This in effect increased the coverage area and provides our customers greater choices when selecting cellular service.

As a result of this agreement CyberAds, Inc. will no longer continue a direct relationship with the carriers. Instead we will work as a sales agent of Inphonic. Inphonic will be responsible for all order fulfillment including shipping, customer care, sales and verification. They will also provide Marketing and Creative support if required.

CUSTOMER BASE

The majority of our potential customers are identified through our affiliate program. To build our potential consumer base, we started an affiliate based marketing program which allows other Internet based businesses to refer potential consumers to our cellular website, www.freecellular-phone.com. If a customer purchases and receives cellular phone service, the affiliate whom provided the referral will receive a commission from the sale. All visitors and sales are tracked through an administration portion of a site. Each affiliate has their own linking code to track their statistics. We presently have approximately 300 affiliates.

There are no contractual obligations under our affiliate program and we have not entered into written contracts with our affiliates. Third party

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websites elect to join our affiliate program by submitting to us an e-mail information form found on our freecellular-phone.com website. Upon submitting the form via e-mail, the third party website receives a banner to place on its website describing our services and linking our services to its website. The affiliate will receive a commission for each sale initiated through the banner on its website. Commissions are paid to our affiliates on a monthly basis, 20 days after the month's end.

The average commission paid to an affiliate for an approved cellular sale ranges between \$40.00-\$55.00.

Since we derive the majority, if not all of our customers, from our affiliate program, commissions paid will continue to be a material cost for our company. We have historically paid high commissions in order to attract websites to our affiliate program.

CELLULAR PHONE INVENTORY

As a result of the agreement with Inphonic we are no longer required to purchase Phones or maintain inventory. Inphonic assumes that responsibility.

RELATED PARTIES AND RELIANCE ON CERTAIN CELLULAR PROVIDERS

We rely on Inphonic as our provider for equipment for all of the carriers they have an affiliation with.

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RECENT EVENTS

As noted above we entered into a partnership with Inphonic, Inc. on March 10, 2003 to handle all order fulfillment, sales, customer service, verification and marketing. As a result of this agreement, CyberAds was able to reduce staffing levels by 90% and reduce payroll by over 80%. Furthermore, commissions - net of cost of goods sold - were at a comparable level. Our cellular footprint increased due to Inphonic having agreements with more cellular carriers. Cash flow improved significantly because Inphonic pays every 15 days and the carriers an average of every 45 days. During the 4th quarter of 2003 Management determined the cost per application model it was paying to the Affiliates was inconsistent with the sales results for shipped cell phones. Management took steps to reduce the applications by reducing the application fee it paid to Affiliates. Further, we required the applications to include credit card information which reduced the applications submitted. Prior to this change the company was experiencing a less than 2% conversion rate from Applications to Sales. When the change was implemented the conversion rate increased to 5%. Management believes the requirement of credit card information will have a materially negative impact on the number of applications it receives from Affiliates/Consumers going forward. Management is reviewing alternative application acquisition models at this time and will continue with the current requirements of credit card information for the foreseeable future.

In December 2003 we acquired a 22% interest in The Vineyards Country Club ("The Vineyards"), a real estate development project located adjacent to Palm Springs, California. Our investment in The Vineyards was acquired by our wholly owned subsidiary, The Vineyards, LLC. The Vineyards is a luxury motor coach facility including a recently completed clubhouse, swimming pool, tennis court, and nine-hole regulation size golf course. Phase One at The Vineyards is substantially complete and consists of 69 luxury coach sites. . Within 3 to 5 years we expect to add an additional 200+ sites, thus expanding The Vineyards to well over 300 sites. The Vineyards project also includes 30 acres of commercial property immediately adjacent to the development with plans for an extended-stay hotel, retail, and an entertainment complex, all within walking distance to the

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existing Trump Casino. The property value was determined by an "as is" appraisal of the land plus the net cost of the improvements. No allowance was deemed necessary because of the company's minority position in the project.

During the fourth quarter the company's lender entered into an agreement with the company to convert its secured position to an ownership of 836,000 convertible preferred shares. The share will have no voting rights and will, after the first anniversary of the closing have the right to convert at any time into fully paid and nonassessable shares of Common Stock obtained by dividing 115% of the liquidation value of the shares to be converted, by the average bid and ask price of a share of Common Stock during the 30 day period immediately prior to the conversion date.

During the fourth quarter an unsecured creditor of the company agreed to convert its \$400,000 debt to 440,000 common restricted shares.

PATENTS AND PROPRIETARY RIGHTS

We do not hold any trademark, copyright or patent protection.

RESULTS OF OPERATIONS

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YEARS ENDED DECEMBER 31, 2003 AND 2002

We reported revenues of \$4,197,128 and \$8,326,211 for the years ending December 31, 2003 and 2002, respectively, losses of \$457,835 and \$15,873,201 during the years ended December 31, 2003 and 2002, respectively. The reduction in revenue from 2002 to 2003 is attributed to the change in revenue associated to the Inphonic agreement whereby CyberAds receives a net commission instead of the revenue for each phone. The reduction in losses for 2003 was the direct result of reduction in G & A expenses and Salaries attributed to the agreement with Inphonic that allowed CyberAds to rely on the fulfillment processes at Inphonic reducing the requirement of employee related expenses at CyberAds.

LIQUIDITY AND CAPITAL RESOURCES

CYAD has not been profitable and has experienced negative cash flow from operations due to its development stage, substantial on-going investment in research and development efforts. Consequently, CYAD has been dependent on the sales of equity to fund cash requirements.

On January 5, 2002, we issued 50,000 shares of common stock and options to purchase 50,000 shares of our common stock exercisable at \$1.00 to Atlas Pearlman, P.A. as consideration for legal services provided to our company. The securities were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The securities issued contain a legend restricting their transferability absent registration or an available exemption. Atlas Pearlman, P.A. had access to information about our company and had the opportunity to ask questions about our company.

During the three months ended March 31, 2002, we issued an aggregate of 124,000 shares of common stock for an aggregate amount of \$90,400. These shares were issued to two option holders pursuant to the exercise of options with exercise prices ranging from \$.60 to \$1.00. The shares were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The shares issued contain a legend restricting their transferability absent registration or an available exemption. The option holders had access to information about our company and had the opportunity to ask questions about our company.

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On January 6, 2002, we entered into a business consulting agreement with Gene Foland, under which Mr. Foland will provide our company with business consulting services. Mr. Foland received options to purchase 1,300,000 shares of our common stock exercisable at \$1.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Foland had access to information about our company and had the opportunity to ask questions about our company.

On January 6, 2002, we entered into a product and sales development consulting agreement with James L. Ricketts, under which Mr. Ricketts received options to purchase 200,000 shares of our common stock exercisable at \$1.00 per share and options to purchase 1,100,000 shares of our common stock exercisable at \$2.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Ricketts had access to information about our company and had the opportunity to ask questions about our company.

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On January 6, 2002, we entered into a product and sales development consulting agreement with James L. Copley, under which Mr. Copley received options to purchase 300,000 shares of our common stock exercisable at \$2.00 per share in exchange for these services. The options are exercisable for a six-month period commencing on the date of the agreement. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Mr. Copley had access to information about our company and had the opportunity to ask questions about our company.

On January 7, 2002, we issued an option to purchase 50,000 shares exercisable at \$1.00 per share to our controller. Our controller received these options for services performed. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption. Our controller had access to information about our company and had the opportunity to ask questions about our company.

On January 8, 2002, we issued options to purchase an aggregate of 125,000 shares of our common stock exercisable at \$1.00 per share to our current officers and directors. The options were issued under an exemption from registration pursuant to Section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability absent registration or available exemption.

On January 8, 2002, we issued an option to purchase 5,000,000 shares of our common stock exercisable at \$1.00 per share to Lawrence Levinson. This option was issued in consideration for the advances that Mr. Levinson and his affiliates have made to our company and personal guarantees Mr. Levinson has made in favor of our company. The options were issued under an exemption from registration pursuant to section 4(2) of the Securities Act. The options issued contain a legend restricting their transferability.

On January 21, 2002, the Company intended to issue 625,000 shares of series a convertible preferred stock to Lawrence Levinson as consideration for a \$625,000 promissory note made by Mr. Levinson in favor of our company. The

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preferred shares were never issued.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of CYAD are included (with an index listing all such statements) in a separate financial section at the end of the Annual Report on Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Weinberg & Company, P.A., by letter dated August 13, 2003, was dismissed as the independent accountant for the Company. On August 13, 2003, the Company engaged Timothy L. Steers, CPA as its new independent accountant.

In connection with the audits for the two most recent fiscal years and in connection with Weinberg's review of the subsequent; interim period preceding dismissal on August 13, 2003, there have been no disagreements between the Company and Weinberg on any matter of accounting principals or practices, financial statement disclosure, or auditing scope or procedure, which would have caused Weinberg; to make a reference thereto in its report on the Company's financial statements for those periods. During the two most recent fiscal years and prior to August 13, 2003, the Company had no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-B).

ITEM 8A. CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing of this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer (who also effectively serves as the Chief Financial Officer), of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms.

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PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors hold office until the next succeeding annual meeting of shareholders, and until there successors have been elected and qualified.

The directors, executive officers, significant employees and consultants of CYAD, their respective ages and positions with CYAD are as follows:

NAME	AGE	POSITION
----	---	-----
Lawrence Levinson	56	Chairman of the Board and Chief Executive Officer

Director and Executive Officers

Lawrence Levinson has served as our chief executive officer and director since inception. Since June 1999, he has been consultant to International Dialing Services, Inc., an international facilities-based telephone circuit provider, whose major customer is a cable and wireless industry leader. From 1990 until June 1999, Mr. Levinson was a founder and

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executive officer of Communication Concepts & Investments, Inc., Crown Communications Two, Inc. and Global Collections, Inc. (collectively Communications & Collections), communications companies with switches and billing contracts with major local telcos in the United States. From 1982 until 1986, Mr. Levinson was the owner/operator of two restaurants in the Chicago area. From 1976 to 1982, Mr. Levinson owned and operated a temporary help services company in Chicago with over 200 corporate clients.

The Company's Bylaws currently authorize up to seven directors. Each director is elected for one year at the annual meeting of stockholders and serves until the next annual meeting or until a successor is duly elected and qualified. Executive officers serve at the discretion of our board of directors. There are no family relationships among any of the directors and executive officers.

CODE OF ETHICS.

Effective February 24, 2004, the Board of Directors adopted a Code of Ethics for Senior Financial Officers. The Code of Ethics was adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission thereunder. A copy of the Code of Ethics will be made available upon request at no charge. Requests should be directed in writing to the Company at Powerline Road, Suite 57, Boca Raton, Florida 33433

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ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth information relating to salary we paid during the past fiscal year to our chief executive officer; and to each of our executive officers that earned more than \$100,000 during the fiscal year ended December 31, 2003. Other than salary and stock options, we paid no other form of compensation to our executive officers and directors. No stock options were exercised during the fiscal year ended December 31, 2003.

Name	Position	Salary	Stock Options
----	-----	-----	-----
Lawrence Levinson	CEO	\$ 43,000	None
Ronald Trautman	Asst to Pres	\$ 174,993	None
Robert Kline	Pres	\$ 75,600	None
James Baumhart	COO	\$ 78,264	None

INCENTIVE AND NON-QUALIFIED STOCK OPTION PLAN

On November 1, 2001, we implemented a 2001 Incentive and Non-Qualified Stock Option Plan. We have reserved 500,000 shares of our common stock for issuance under this plan. This plan authorizes the granting of awards of up to 500,000 shares of common stock to our key employees, officers, directors and consultants. Awards consist of stock options (both nonqualified options and options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986), restricted stock awards, deferred stock awards, stock appreciation rights and other stock-based awards, as described in the plan. As of the date of this prospectus, no stock options are outstanding under the plan.

The plan is administered by our board of directors which determines the persons to whom awards will be granted, the number of awards to be granted and

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the specific terms of each grant, including their vesting schedule, subject to the provisions of the plan.

In connection with incentive stock options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of grant (or 110% of the fair market value in the case of a grantee holding more than 10% of our outstanding stock). The aggregate fair market value of shares for which incentive stock options are exercisable for the first time by an employee during any calendar year may not exceed \$100,000. Nonqualified stock options granted under the plan may be granted at a price determined by the board of directors, not to be less than the fair market value of the common stock on the date of grant.

OPTION EXERCISES AND HOLDINGS

The following tables set forth information with respect to the exercise of options to purchase shares of common stock during the fiscal year ended December 31, 2002 to our chief executive officer and to each of our executive officers who earned more than \$100,000 during the fiscal year ended December 31, 2001.

Employment Agreements. We have entered into employment agreements with several of our officers, directors and key employees. The initial agreements were entered into in 2000 and expired on various dates between September and November 2001. The agreements have been orally extended. A summary of the material agreements is as follows:

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Larry Levinson. Commencing September 2000, we agreed to pay Mr. Levinson \$120,000 per year, payable monthly. In addition, Mr. Levinson has received options to purchase 50,000 shares of common stock exercisable for a 5 year term at \$1.00 per share. Also, Mr. Levinson will be reimbursed for all travel expenses. Effective January 1, 2002, we have orally agreed to extend Mr. Levinson's employment agreement through December 31, 2002. Under this oral agreement, Mr. Levinson will be paid an annual salary of \$240,000, payable weekly. Effective December 31, 2003, Mr. Levinson, although a director, until new directors are elected, no longer maintained any direct Management responsibilities.

Robert B. Kline. Commencing September 1, 2000, we agreed to pay Mr. Kline \$48,000 per year, payable monthly. In addition, Mr. Kline has received options to purchase 50,000 shares of common stock exercisable for a 5 year term at \$1.00 per share. Mr. Kline will be reimbursed for all traveling expenses. Effective February 1, 2002, we have orally agreed to extend Mr. Kline's employment agreement through February 1, 2003. Under this oral agreement, Mr. Kline will be paid an annual salary of \$104,000, payable weekly. Mr. Kline's active participation ceased during the fourth quarter of 2004.

Michael Magno. Commencing November 1, 2000, we agreed to pay Mr. Magno \$42,000 per year, payable monthly. In addition, Mr. Magno has received options to purchase 50,000 shares of common stock exercisable for a 5 year term at \$1.00 per share. Mr. Magno will be reimbursed for all traveling expenses. Effective January 1, 2002, we have orally agreed to extend Mr. Magno's employment agreement through December 31, 2002. Under this oral agreement, Mr. Magno will be paid an annual salary of \$60,000, payable weekly. Mr. Magno's active participation ceased during the second quarter of 2004.

Director Compensation. On January 8, 2002, our board of directors agreed to issue options to purchase 25,000 shares of common stock exercisable at \$1.00 per share to each member of our board and our corporate secretary. Effective January 8, 2002, we issued options to purchase an aggregate of 125,000

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shares of our common stock exercisable at \$1.00 per share to Messrs. Levinson, Kline, Zimmerman, Modansky and Magno. In addition, effective January 8, 2002, members of our board of directors will be paid \$500 and reimbursed travel expenses for attendance at each meeting of our board of directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information known to us, as of the date of this report, relating to the beneficial ownership of shares of common stock by: each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of common stock; each director; each executive officer; and all executive officers and directors as a group. Unless otherwise indicated, the address of each beneficial owner in the table set forth below is care of CyberAds, Inc., 21073 Powerline Road, Suite 57, Boca Raton, Florida 33433.

We believe that all persons named in the table have sole voting and investment power with respect to all shares of common stock shown as being owned by them.

Under securities laws, a person is considered to be the beneficial owner of securities owned by him, his spouse and others to whom the law attributes ownership, as well as securities that can be acquired by him within 60 days from the date of this prospectus, including upon the exercise of options, warrants or convertible securities. We determine a beneficial owner's percentage ownership by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of the date of this prospectus, have been exercised or converted.

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Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percentage of Class -----
Lawrence Levinson 3350 NW 2nd Avenue, Ste.A-44 Boca Raton Fl. 33431	6,357,000 (1) (2) (3)	34.69%
Inphonic, Inc. 1010 Wisconsin Ave. #250 Washington, D.C. 20007	1,250,000	6.8%
Four Star Financial Services 1000 Marina Blvd. Ste. 600 Brisbane, CA 94005	1,352,000 (4)	7.4%
Maxmin, Inc. 415 E. Hyman Ste 201 Aspen CO 81611	1,183,333 (4)	6.5%
Jordan Levinson 21257 Rock Ridge Drive Boca Raton Fl.33428	1,000,000	5.5%
Executive Officers and Directors (as a group of 1)	6,357,000	34.69%

(1) Includes options to purchase 75,000 shares of common stock exercisable at \$1.00 per share. (2) Includes 4,482,000 shares that are subject to a Stock

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Purchase Agreement between the owner and Novanet Media Inc.

(3) Includes 800,000 shares which have been optioned to a private party.

(4) Includes 200,000 and 33,333 shares respectively which have been issued pursuant to financing and consulting agreements to be exercised at \$.50 per share.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In a stock purchase agreement effective December 31, 2000, we acquired all of the issued and outstanding shares (an aggregate of 1,000,000 shares) of IDS Cellular, Inc. in return for 7,500,000 shares of our common stock. We acquired the IDS Cellular shares directly from each of IDS Cellular's shareholders. These shareholders were Lawrence Levinson, Robert Kline and Barry Garlin, who were serving as our executive officers, directors and principal shareholders at the time of the transaction. We believe the consideration paid for the outstanding shares of IDS Cellular was fair and reasonable at the time of the stock purchases.

As of December 31, 2003, the amount due on various loans from previously related parties approximately \$800,000. This amount is secured by the company's assignment of its agreement with its fulfillment provider.

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On January 8, 2002 we issued a five year option to purchase 5,000,000 shares of our common stock exercisable at \$1.00 per share to Lawrence Levinson. This option was issued in consideration for the advances that Mr. Levinson and his affiliates have made to our company and personal guarantees Mr. Levinson has made in favor of our company. This option agreement was terminated without any shares being exercised.

On June 22, 2001, we entered into a loan and security agreement with Four Star Financial Services, LLC, a California limited liability company. Under this agreement we received a loan in the amount of \$150,000. The term of the loan was for a period commencing on June 22, 2001 and ending on December 17, 2001. Under the terms of the loan and security agreement we paid interest to Four Star Financial Services, LLC on the daily outstanding principal balance of the loan at a rate of 33% per annum. The loan was secured by all of our assets and accounts receivable. In addition, our chairman and his wife personally guaranteed payment of the principal amount of the loan and interest. The personal guarantee included a mortgage on our chairman's principal residence. As a further consideration for entering into the loan and security agreement, we issued Four Star Financial Services, LLC an option to acquire 300,000 shares of our common stock exercisable at \$.50 per share for a term of five years. The option expires on June 22, 2006. The loan has been repaid in accordance with its terms.

On January 6, 2002 we issued options to purchase 1,300,000 shares of our common stock to Gene Foland as consideration for advertising and marketing consulting services provided by Mr. Foland. The options were exercisable at \$1.00 per share for a term of six months. Mr. Foland exercised 625,000 of these options and allowed 675,000 of the options to expire.

On January 6, 2002 we issued options to purchase 1,300,000 shares of our common stock to James Ricketts as consideration for Latin American sales development consulting services provided by Mr. Ricketts. The options are exercisable at either \$1.00 or \$2.00 for a term of six months. Based upon the current number of outstanding shares of our common stock upon exercise of these options, Mr. Ricketts would be a beneficial owner of more than 5% of our outstanding common stock. These options subsequently expired without being exercised.

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On January 8, 2002 we appointed Robert Modansky to serve on our board of directors. Mr. Modansky's accounting firm has provided accounting services to our company and has accrued approximately \$16,000 in fees for services performed during fiscal year 2001. Mr Modansly resigned during the third quarter of 2003.

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ITEM 13. EXHIBITS, LISTS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description of Document
-----	-----
2.2	Stock Purchase Agreement with IDS Cellular and its shareholders(1)
3.1(a)	Articles of Incorporation(1)
3.1(b)	Articles of Amendment(1)
3.1(c)	Designation of Series A Convertible Preferred Stock(2)
3.2	Bylaws(1)
4.0	Form of Stock Certificate(1)
4.1	Loan Agreement with Four Star Financial Services, LLC(1)
4.2	Loan Agreement with Levinson(1)
10.1	Employment/Consulting Agreement with Levinson(1)
10.2	Agreements with American Cellular, Inc. and GT Global Communications, Inc.(1)
10.3	Agreement with Triton PCS(1)
10.4	Agreement with Regal Marketing International(1)
10.6	Agreement with Beck Management, Inc.(1)
10.7	Consulting Agreement with Gene Foland(2)
10.8	Consulting Agreement with James L. Ricketts(2)
10.9	Consulting Agreement with James L. Copley(2)
10.10	Sales Agency Agreement with MCI WorldCom Wireless(2)
21.0	Subsidiaries of Registrant(1)
31	Rule 15d-14(a) certification of Walter Tatum.
32	Section 1350 certification of Walter Tatum.

(1) Previously filed in Registration Statement on Form SB-2, File No. 333-62690

(2) Previously filed in Registration Statement on Form SB-2, File No. 333-82104

(b) Reports on Form 8-K:

The following reports on Form 8-K were filed during the period covered by this report.

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August 21, 2003

Item 4. Changes in Registrant's Certifying Accountant

Item 7. Financial Statements, ProForma Financial Information and Exhibits.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Boca Raton, Florida on April 22, 2004.

CYBERADS, INC.

By:/s/ WALTER TATUM

Walter Tatum

Chairman, Chief Executive Officer

In accordance with the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ WALTER TATUM	President	4/22/04

Walter Tatum		

CYBERADS, INC.

Years ended December 31, 2003 and 2002

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REPORT OF INDEPENDENT AUDITORS'

To the Board of Directors
CyberAds, Inc.

We have audited the accompanying consolidated balance sheets of CyberAds, Inc. as of December 31, 2003 and the related consolidated statements of operations, changes in stockholders' equity (deficit) 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 CyberAds, Inc. as of December 31, 2002, were audited by other auditors whose report dated May 13, 2003, expressed an unqualified opinion of those statements.

We conducted our audit in accordance with auditing standards 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 CyberAds, Inc. as of December 31, 2003, and the results of its operations and its 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 2 to the consolidated financial statements, the Company had a loss from continuing operations of \$1,201,111 and a working capital deficiency of \$2,720,748. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TIMOTHY L. STEERS, CPA, LLC

April 6, 2004
Portland, OR

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CYBERADS, INC.

Consolidated Balance Sheet

	December 31, 2003	December 31, 2002
	-----	-----
	2003	2002
	-----	-----
ASSETS		
Current assets:		
Accounts receivable, less allowance for doubtful accounts of \$486,000 in 2002	\$ 20,380	\$ -
Inventories	-	-
Total current assets	20,380	-
Property and equipment, net	14,171	-
Other assets:		
Hold-to-maturity investments	10,700,000	-
Deposits	8,585	-
Intangible asset	-	-
Other assets	-	-
Total other assets	10,708,585	-
	-----	-----
	\$ 10,743,136	\$ -
	=====	=====

Continued on next page.

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CYBERADS, INC.

Consolidated Balance Sheet (continued)

	December 31, 2003	December 31, 2002
	-----	-----
	2003	2002
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Cash overdraft	\$ -	\$ -
Outstanding checks in excess of cash in bank	1,207	
Note payable	120,000	
Accounts payable	697,748	
Accounts payable - related parties	-	
Accrued liabilities	944,658	
Unearned revenue	130,960	
Factor payable, net	-	
Advances from related parties	786,555	
Due to officers	-	
Loans payable - convertible debentures	60,000	
Total current liabilities	2,741,128	
Advances from stockholder	157,634	
Commitments		
Stockholders' equity (deficit):		
Preferred stock, \$.001 par value, authorized 5,000,000 shares, of which 1,000,000 has been designated as Series A Convertible, issued and outstanding 835,660 shares in 2003 (no shares in 2002)	836	
Common stock, \$.001 par value, authorized 50,000,000 shares, issued and outstanding 18,325,777 shares in 2003 (14,774,777 shares in 2002)	18,326	
Common stock to be issued	11,140,000	
Additional paid-in capital	15,399,238	
Accumulated deficit	(18,714,026)	
Deferred financing costs	-	
Total stockholders' equity (deficit)	7,844,374	

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\$ 10,743,136 \$
=====

See accompanying notes.
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CYBERADS, INC.

Consolidated Statement of Operations

	Years ended Dec 2003	
Net revenues	\$ 4,197,128	\$
Cost of revenues	1,177,111	
Gross profit	3,020,017	
Selling expenses	1,845,967	
General and administrative expenses	1,941,578	
Loss from continuing operations	(767,528)	
Other income (expenses):		
Gain on theft of assets	-	
Gain on settlement with former employee	-	
Impairment of property and equipment	(265,961)	
Other income, net	16,176	
Interest expense and financing costs, net	(183,798)	
Loss on acquisition not consummated	-	
Total other expenses	(433,583)	
Net loss from continuing operations	(1,201,111)	
Loss from discontinued operations	-	
Net loss	\$ (1,201,111)	\$
	=====	=====
Basic and diluted loss per common share:		
Loss from continuing operations	\$ (.07)	\$
Loss from discontinued operations	-	
	-----	-----
	\$ (.07)	\$

=====

See accompanying notes.
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CYBERADS, INC.

Consolidated Statement of Changes in Stockholders' Equity (Deficit)
Years ended December 31, 2003 and 2002

	Convertible preferred stock		Common stock		Common stock to be issued	Additional paid-In capital	Accumu defi
	Shares	Amount	Shares	Amount			
Balance at December 31, 2001	-	\$ -	13,384,777	\$ 13,385	\$ -	\$ 1,301,870	\$ (1,63
Shares issued for cash, net of offering costs	-	-	40,000	40	-	39,960	
Shares and options issued for services	-	-	315,000	315	-	12,091,620	
Shares and options issued for accrued liabilities	-	-	50,000	50	-	50,950	
Options exercised	-	-	585,000	585	-	14,415	
Convertible debentures	-	-	-	-	-	20,000	
Share Issued for acquisition not consummated	-	-	400,000	400	-	299,600	
Net loss	-	-	-	-	-	-	(15,87
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 2002	-	\$ -	14,774,777	\$ 14,775	\$ -	\$13,818,415	\$ (17,51
	=====	=====	=====	=====	=====	=====	=====

Continued on next page.
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CYBERADS, INC.

Consolidated Statement of Changes in Stockholders' Equity (Deficit)
Years ended December 31, 2003 and 2002

	Convertible preferred stock		Common stock		Common stock to be issued	Additional paid-In capital	Accumu defi
	Shares	Amount	Shares	Amount			
Balance at December 31, 2002	-	\$ -	14,774,777	\$ 14,775	\$ -	\$ 13,818,415	\$ (17,51
Shares issued for debt	835,660	836	-	-	-	834,824	
Amortization of deferred financing costs	-	-	-	-	-	-	
Shares issued or to be issued for debt	-	-	1,250,000	1,250	440,000	86,250	
Shares issued in exchange for services	-	-	2,275,000	2,275	-	606,475	
Shares issued for interest on convertible debentures	-	-	26,000	26	-	53,274	
Shares to be issued for hold-to-maturity investments	-	-	-	-	10,700,000	-	
Net loss	-	-	-	-	-	-	(1,20
Balance at December 31, 2003	835,660	\$ 836	18,325,777	\$ 18,326	\$11,140,000	\$ 15,399,238	\$ (18,71

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See accompanying notes.

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CYBERADS, INC.

Consolidated Statement of Cash Flows

	Years ended Decem 2003	
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,201,111)	\$
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts	382,217	
Impairment of long-lived assets	265,961	
Impairment of inventories	120,879	
Depreciation	19,494	
Amortization of deferred financing costs	7,015	
Common stock issued for services	608,750	
Common stock issued for interest	53,300	
Loss on acquisition not consummated	-	
Beneficial conversion of convertible debentures	-	
Gain on settlement with former employee	-	
Gain on theft of assets	-	
Changes in assets and liabilities:		
Accounts receivable	671,163	
Inventories	35,355	
Deposits	68,666	
Other assets	24,785	
Outstanding checks in excess of cash in bank	1,207	
Accounts payable	(1,390,089)	
Accrued liabilities	289,046	
Unearned revenue	130,960	
	-----	-----
	87,598	
Cash flows from investing activities:		
Purchase of intangible asset	-	
Cash received for stolen equipment	-	
Purchases of property and equipment	(13,967)	
	-----	-----
	(13,967)	
Cash flows from financing activities:		
Cash overdraft	(112,649)	
Net proceeds from factored accounts receivable	342,237	
Advances from related parties	-	
Repayments to related parties	(314,603)	
Proceeds from officers	-	
Repayments to officers	(146,250)	
Repayments to third parties	-	
Proceeds from convertible debentures	-	
Net advances from stockholder	157,634	
Proceeds from sale of common stock	-	
	-----	-----
	(73,631)	
	-----	-----

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Net decrease in cash	\$	-	\$
	=====		==

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CYBERADS, INC.

Consolidated Statement of Cash Flows (continued)

Cash at beginning of year	\$	-	\$
Net decrease in cash		-	
		-----	--
Cash at end of year	\$	-	\$
	=====		==

Supplemental disclosure of cash flow information - cash paid during the year for interest and financing costs	\$	206,697	\$
	=====		==

Supplemental disclosure of non-cash investing and financing activities:			
Common stock to be issued in exchange for hold-to-maturity investments	\$	10,700,000	\$
	=====		==
Factor payable renegotiated into notes payable	\$	120,000	\$
	=====		==
Preferred stock issued in exchange for factor payable	\$	835,660	\$
	=====		==
Common stock issued or to be issued in exchange for debt	\$	527,500	\$
	=====		==
Common stock and common stock options issued in exchange for accrued liabilities	\$	-	\$
	=====		==

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See accompanying notes.

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

1. Business and summary of significant accounting policies

Business: CyberAds, Inc. ("CyberAds") was incorporated in the state of Florida on April 12, 2000. The Company earns commissions from selling approved contracts to subscribers for cellular telephone service. Commissions are received either from master dealers or cellular phone service providers, not the subscriber. Applications for cellular telephone services are obtained from advertising banners placed at various websites. The Company does business with cellular phone service providers as well as master dealers that have contracted with various other carriers and with several website hosts, who receive a commission for each completed contract for cellular phone service.

In December 2000, the Company acquired IDS Cellular, Inc. ("IDS") in a business combination accounted for as entities under common control because both entities had common ownership interests. All of the operations of IDS was moved to CyberAds and IDS is currently dormant.

In January 2002, the Company acquired 80% of Cyad Cellular Distributors, Inc. ("Cyad") a newly formed entity. Cyad began developing the business of wholesaling cellular phones. In August 2002, Cyad's operations were discontinued.

Principles of consolidation: The accompanying consolidated financial statements for 2003 include the accounts of CyberAds and its wholly owned subsidiary IDS. The accompanying consolidated financial statements for 2002 include the accounts of CyberAds, its wholly owned subsidiary IDS, and its 80% owned subsidiary Cyad. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and cash equivalents: For purposes of the cash flow statement, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Inventories: Inventories consist primarily of cellular telephones and are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. Provision for potentially obsolete or slow moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

In March 2003, cellular phone service providers, or a fulfillment company, began shipping cellular telephones directly to the Company's subscribers. As a result, the Company recognized an impairment loss of approximately \$120,900 during 2003 for inventories deemed to have no value (no impairment loss was recognized during 2002).

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

1. Business and summary of significant accounting policies (continued)

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.

Investments: Investments are accounted for under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS 115 requires that all applicable investments be classified as trading securities, available-for-sale securities, or hold-to-maturity securities. The statement further requires that: (1) trading securities be reported at fair market value, with unrealized gains or losses recognized as a component of operating results, (2) available-for-sale securities be reported at fair market value, with unrealized gains and losses excluded from earnings but reported in a separate component of shareholders' equity (net of the effects of income taxes) until they are disposed of or sold; at the time of disposal or sale, any gains or losses, calculated by the specific identification method, are recognized as a component of operating results, and (3) hold-to-maturity securities be reported at amortized cost.

The Company's hold-to-maturity investments as of December 31, 2003 consisted of a 22% interest in a limited liability company that owns real estate.

Fair value of financial instruments: The Company discloses certain information about the fair value of financial instruments as required by SFAS 107, "Disclosure About Fair Value of Financial Instruments". Accounts receivable, accounts payable, accrued expenses, factor payable and loans and advances payable to related and non-related parties are reflected in the financial statements at fair value because of the short-term maturity of the instruments.

Impairment of long-lived assets: The Company assess the recoverability of long-lived assets under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" by determining whether the depreciation and amortization of the asset's balance over its remaining life can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on fair value and charged to operations in the period in which the impairment is determined by management. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

The Company recorded an impairment loss of approximately \$266,000 during 2003 (\$77,600 during 2002) for assets that became idle as a result of staff reductions.

Revenue recognition: The Company records revenue on a "net" basis when contracts are submitted to master dealers. The phones are shipped from the dealers to the subscriber and the Company does not bear the risk of

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loss on the cellular

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

1. Business and summary of significant accounting policies (continued)

Revenue recognition (continued): phone. Revenue is recognized when the master dealer ships the phones to the subscriber.

The Company records revenue on a "gross" basis when contracts are submitted directly to cellular phone service providers. The phones are shipped from the Company to the subscriber and the Company bears the risk of loss on the cellular phone. Under the gross method commission and related cost of goods sold for the cellular phone is recognized when the Company ships the phones.

Advertising costs: The Company expenses the cost of advertising as incurred as selling expenses. Advertising expenses were approximately \$9,500 for 2003 (\$313,700 for 2002).

Stock options and warrants: The Company accounts for stock based compensation to employees under SFAS No. 123, "Accounting for Stock Based Compensation". SFAS 123 defines a fair value based method of accounting for stock based compensation. However, SFAS 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Entities electing to remain with the accounting method of APB 25 must make pro forma disclosures of net income and earnings per share, as if the fair value method of accounting defined in SFAS 123 had been applied. The Company has elected to account for its stock based compensation to employees under APB 25.

During 2003, the Company adopted SFAS 148 that amended SFAS 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amended the disclosure provisions of SFAS 123 requiring prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS 148 also amended APB 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. The adoption of SFAS 148 had no effect on the Company's financial position or results of operations.

The Company accounts for stock options and warrants issued to non-employees for services under the fair value method of SFAS 118.

Website development costs: The Company accounts for website development costs under Emerging Issues Task Force ("EITF") Issue No. 00-2, "Accounting for Web Site Development Costs". Under EITF 00-2, costs that involve design of the web page that do not change the content are capitalized and amortized over there

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CYBERADS, INC.

Notes to Consolidated Financial Statements December 31, 2003

1. Business and summary of significant accounting policies (continued)

Website development costs (continued): estimated useful life. Costs incurred in operating a web site that has no future benefits are expensed in the current period. The Company accounts for costs incurred in operating their website under the American Institute of Certified Public Accountants Statement of Position ("SOP") No. 98-1. Under SOP 98-1, costs that have a future benefit are capitalized and amortized over the estimated future periods that are expected to benefit from website changes.

Income taxes: The Company files a consolidated tax return that includes CyberAds and IDS. The consolidated tax liability, determined without taking credits into account, is allocated based on each company's contribution to consolidated taxable income. Tax credits are allocated on a pro rata basis equal to each company's contribution to the consolidated tax credits determined to be available each year.

Income taxes are determined using the liability method whereby deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases and reported amounts of assets and liabilities. Deferred tax assets and liabilities are computed using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides a valuation allowance for certain deferred tax assets, if it is more likely than not that the Company will not realize tax assets through future operations.

Reporting consolidated comprehensive income (loss): The Company reports and displays consolidated comprehensive income (loss) and its components as separate amounts in the consolidated financial statements with the same prominence as other financial statements. Consolidated comprehensive income (loss) includes all changes in equity during the year that results from recognized transactions and other economic events other than transactions with owners. There were no components of consolidated comprehensive income to report for the years ended December 31, 2003 and 2002.

Segment Reporting: The Company and its subsidiary reports information about operating segments and related disclosures about products and services, geographic areas and major customers under SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in principally one segment, obtaining cellular phone applications.

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CYBERADS, INC.

Notes to Consolidated Financial Statements December 31, 2003

1. Business and summary of significant accounting policies (continued)

Net loss per common share: Net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period as defined by SFAS 128, "Earnings Per Share". The weighted average number of common stock shares outstanding was 16,074,986 for 2003 (14,333,944 for 2002). 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.

Reclassifications: Certain 2002 balances have been reclassified in the accompanying consolidated financial statements to conform to the 2003 presentation.

2. Going concern

The Company has experienced recurring losses from operations and as of December 31, 2003 had a working capital deficit of \$2,720,748. The Company was also in default with respect to certain debt agreements and has unpaid payroll related taxes due to the Internal Revenue Service as of December 31, 2003.

Effective September 9, 2003, a major shareholder and officer of the Company sold a substantial portion of his shares to Novanet Media, Inc., a California corporation, under a Stock Purchase Agreement ("Novanet Agreement"). Under the terms of the Novanet Agreement, all then-existing officers of the Company resigned and were replaced with new management. Under new management, approximately \$1,483,200 of debt has been renegotiated into notes payable or converted to capital stock of the Company. New management has also eliminated unprofitable products and reduced overhead.

New management of the Company plans to continue to restructure debt, seek profitable products, reduce operating expenses, and seek 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 until the Company can recover assets and satisfy debt through normal operations. Until then, the Company is dependent upon its ability to restructure operations and obtain additional financing.

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Notes to Consolidated Financial Statements December 31, 2003

2. Going concern (continued)

The consolidated financial statements 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. Property and equipment

Property and equipment consisted of the following at December 31:

	2003	2002
	-----	-----
Furniture and fixtures	\$ 2,598	\$ 51,318
Machinery and equipment	-	72,227
Leasehold improvements	20,085	8,076
Computer equipment	19,551	53,951
Property and equipment - idle	-	58,931
	-----	-----
	42,234	244,503
Less accumulated depreciation	(28,063)	(33,844)
	-----	-----
	\$ 14,171	\$ 210,659
	=====	=====

4. Note payable

Effective November 12, 2003, the Company entered into a Debt Paydown and Equity Conversion Agreement ("Debt Paydown Agreement") for the purpose of renegotiating their factor payable. Under the Debt Paydown Agreement, the Company paid an aggregate of \$45,000 to reduce the debt; converted \$835,660 of debt into 835,660 shares of the Company's Series A preferred stock; and converted \$120,000 of the debt into an installment note.

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

5. Accrued expenses

Accrued expenses consisted of the following at December 31:

	2003	2002
	-----	-----
Payroll and payroll related liabilities	\$ 548,195	\$ 579,535
Interest	-	76,077
Commission charge-backs	361,463	942,294
Professional fees	35,000	-

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-----	-----
\$ 944,658	\$ 1,597,906
=====	=====

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

5. Accrued expenses (continued)

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

6. Advances from related parties

Advances from related parties consisted of the following at December 31:

	2003

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
Advance due to a former officer of the Company.	-

	\$ 786,555
	=====

In January 2002, the Company issued options to the former officer of the Company in consideration for unpaid interest. Accordingly, under APB 25, no expense was recognized. Interest expense on the above advances was approximately \$59,500 for 2002, of which approximately \$26,600 was recorded as leased car payments under an arrangement with the former officer to pay those payments in lieu of interest.

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 were originally convertible on or after May 13, 2003 at a conversion rate of 75% of the closing bid price of the Company's common stock one trading day prior to conversion. The beneficial conversion feature of the convertible debentures was valued at \$20,000 on the date of issuance and was amortized over the original one-year life of the debentures.

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The due date of the convertible debentures was extended to February 13, 2004. In consideration for the extension, the repayment of one of the notes was increased by \$5,000 representing additional interest and the Company issued the holders an aggregate of 26,000 shares of its common stock for unpaid interest.

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CYBERADS, INC.

Notes to Consolidated Financial Statements December 31, 2003

7. Loans payable - convertible debentures (continued)

The notes 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 agreement.

Interest expense was \$3,300 for the year ended December 31, 2003 (\$12,985 for 2002 and \$7,015 was reflected as a deferred interest expense component of equity).

8. Advances from stockholder

Notes 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 May 2005 and unless cash is available from a merger, capital stock exchange, asset acquisition, or other business combination, or from operations.

9. Commitments

The Company leases its office facilities under a non-cancelable lease agreement that expires in March 2005. Management of the Company renegotiated the lease and moved to small facilities where the payments are \$4,200 per month.

Future minimum lease payments under the non-cancelable operating lease are as follows:

Years ending December 31:

2004	\$ 50,400
2005	12,600

	\$ 63,000
	=====

Rent expense was approximately \$181,000 for the year ended December 31, 2003 (\$234,000 for 2002).

10. Capital stock transactions

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In October 2003 and in connection with the Debt Paydown Agreement, the Company designated 1,000,000 shares of its preferred stock as Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock is non-voting and dividends accrue at a rate of 10% per annum payable quarterly. Unpaid accrued dividends are cumulative. The Series A Convertible Preferred Stock is convertible all or in part into the number of shares of the Company's common stock equal to 115% of the value of the preferred stock plus any cumulative dividends.

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

10. Capital stock transactions (continued)

On March 7, 2003, the Company issued 1,250,000 shares of its common stock in exchange for debt of \$87,500 owed to the provider of its cellular phone service.

On April 4, 2003, the Company issued 25,000 shares of its common stock upon signing an investment banking agreement for services. The weighted average issuance price of the shares was \$.05 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$1,250 during 2003 as a result of the issuance.

On September 30, 2003, the Company issued 1,000,000 shares of its common stock to a major shareholder of Novanet Media, Inc. in exchange for management services. The weighted average issuance price of the shares was \$.30 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$300,000 during 2003 as a result of the issuance.

On December 31, 2003, the Company issued 250,000 shares of its common stock to an investment-banking firm for services. The weighted average issuance price of the shares was \$1.15 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$287,500 for 2003 as a result of the issuance.

In December 2003, the Company agreed to issue 440,000 shares of its common stock in exchange for debt of \$440,000.

In December 2003, the Company agreed it issued 8,000,000 shares of its common stock in exchange for a 22% interest in a limited liability company that owns real estate. The weighted average issuance price of the shares was \$1.34 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded \$10,700,000 of hold-to-maturity investments as a

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result of the agreement.

During 2002, the Company issued 84,000 shares of common stock in exchange for consulting services. The weighted average issuance price of the shares was \$.60

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

10. Capital stock transactions (continued)

per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$50,400 for 2002 as a result of the issuance.

During 2002, the Company issued 15,000 shares of its common stock and options to purchase 50,000 shares of common stock, having an exercise price of \$1.25 per share, in exchange for advisory, investor relations and public relations services. The weighted average issuance price of the shares was \$.25 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded professional fees aggregating \$23,535 for 2002 as a result of the issuance.

During 2002, the Company issued 50,000 shares of its common stock and options to purchase 50,000 shares of common stock, having an exercise price of \$1.00 per share for an aggregate value of \$51,000 in exchange for debt owed for legal services.

During 2002, the Company issued an aggregate of 400,000 shares of its common stock in connection with an acquisition later rescinded by the Company. The weighted average issuance price of the shares was \$.75 per share. Management of the Company estimated the value the shares issued based on the closing bid price of the Company's common stock at the date of issuance, the historical trend of the trading prices for its common stock and the volume of shares traded. The Company recorded a loss of \$300,000 for 2002 for the issuances.

During 2002, the Company granted options to non-employees to purchase 3,450,000 shares of its common stock at exercise prices of \$.25 and \$1.00. The Company recorded professional fees aggregating \$295,000 for 2002 as a result of these share grants. The fair value of the options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for the year ended December 31, 2002:

Expected life of the option	1 year to 4 years
Risk-free interest rate	1.54% to 4.57%
Expected volatility	0% to 285%
Expected dividend yield	0%

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

11. Stock based compensation

During 2003, the Company issued 1,000,000 shares of its common stock to a former officer as compensation for services through September 14, 2003. The weighted average issuance price of the shares was \$.02 per share. Compensation expense of \$20,000 was recorded for 2003 for the intrinsic value of the services rendered.

During 2002, the Company issued an aggregate of 16,000 shares of its common stock to an employee and a member of the Board of Directors as compensation for services. Compensation expense of \$23,000 was recorded for 2002 for the intrinsic value of the services rendered.

During 2002, the Company granted options to purchase 6,350,000 of its common stock to certain employees. The Company applies APB No. 25 and related interpretations in accounting for stock options issued to employees. Accordingly, compensation cost has been recognized for options issued to employees only for the intrinsic value of those options in the amount of \$11,500,000 for 2002.

Had compensation cost been determined based on the fair market value at the grant date, consistent with SFAS 148, the Company's net loss would have changed to the following pro-forma amount for the years ended December 31:

	2003	
	-----	-----
Net loss as reported	\$ (1,201,111)	\$
Pro-forma effect	(280,000)	
	-----	-----
Pro-forma net loss	\$ (1,481,111)	\$
	=====	=====
Basic and diluted net loss per share as reported	\$ (.07)	\$
Pro-forma effect	(.02)	
	-----	-----
Pro-forma basic and diluted net loss per share	\$ (.09)	\$
	=====	=====

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

12. Stock options

The Company's stock option activity for options granted to employees and non-employees is summarized as follows for the years ended December 31:

	Shares	Weighted average exercise price	Shares exercisable
	-----	-----	-----
Outstanding at January 1, 2002	1,300,000	\$.70	1,300,000
			=====
Granted	9,800,000	1.03	
Expired	(2,325,000)	1.87	
Exercised	(625,000)	1.00	

Outstanding at December 31, 2002	8,150,000	.82	8,150,000
			=====
Cancelled	(5,000,000)	-	
Expired	(225,000)	.70	

Outstanding at December 31, 2003	2,925,000	\$.48	2,925,000
	=====	=====	=====

The Company's stock option outstanding and exercisable at December 31, 2003 is summarized as follows:

Options outstanding				Options exercisable	
Weighted average					
Range of prices	Shares	remaining life	exercise price	Shares	Weighted average exercise price
-----	-----	-----	-----	-----	-----
\$.04 - \$.99	1,625,000	1 year	\$.23	1,625,000	\$.
=====		=====	=====		=====
\$.99 - \$1.25	1,300,000	2 years	\$.91	1,300,000	\$.

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=====	-----	=====	=====	-----	=====
\$.04 - \$1.25	2,925,000	2 years	\$.48	2,925,000	\$.
=====	=====	=====	=====	=====	=====

13. Income taxes -----

Deferred income taxes consisted of the following at December 31:

	2003	
	-----	-----
Deferred tax asset - net operating loss carryovers	\$ 6,362,600	\$
Valuation allowance for deferred tax asset	(6,362,600)	
	-----	-----
Net deferred income taxes	\$ -	\$
	=====	=====

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

13. Income taxes -----

As a result of the Company's continued losses and uncertainties surrounding the utilization of the net operating loss carryovers, management has determined that the realization of deferred tax assets is uncertain. Accordingly, a valuation allowance equal to the net deferred tax asset amount has been recorded as of December 31, 2003 and 2002.

Reconciliation of income taxes computed at the Federal statutory rate of 34% to the provision for income taxes is as follows for the years ended December 31:

	2003	2002
	-----	-----
Tax at statutory rates	\$ (408,378)	\$ (5,396,888)
Differences resulting from:		
Non-deductible and other items	178	(12)
Change in deferred tax valuation allowance	408,200	5,396,900
	-----	-----
Provision for income taxes	\$ -	\$ -
	=====	=====

At December 31, 2003, the Company had net operating loss carryovers of approximately \$18,713,500 available to offset future Federal taxable income, if any, expiring through 2023. The utilization of the net operating loss carryovers could be limited due to restrictions imposed under Federal tax laws upon a change in ownership. The amount of the

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limitation, if any, has not been determined at this time.

14. Concentrations of credit risk

The Company sold approximately 80% of its products to five customers for 2002. As December 31, 2002, accounts receivable from those customers aggregated approximately \$2,326,400.

15. Settlements

The Company entered into a consulting agreement in September 2002 for advisory, investor relations and public relations services. The consulting firm and the Company have taken the position that the other is in default of the agreement. The Company and the consulting firm reached a settlement in April 2004 whereby the Company will issue 100,000 shares of its common stock granted to the consulting firm under the original consulting agreement; however, the consulting firm is restricted from reselling the shares. Under the terms of the settlement agreement the consulting firm may resell no more than 3,000 share of the Company's common stock per week and no more than an aggregate of 50,000 shares over a period of 120 days from the date of the settlement. They are further restricted from reselling the Company's common stock until September 13, 2004 at which time they may

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CYBERADS, INC.

Notes to Consolidated Financial Statements
December 31, 2003

15. Settlements (continued)

resell no more than 3,000 shares of the Company's common stock per week and no more than an aggregate of 50,000 shares over a period of 120 days. The settlement had no effect on the accompanying financial statements as the stock options granted under the original consulting agreement where previously reflected.

In April 2004, the Company agreed to indemnify a former officer of the Company for any loss he sustained in a settlement reached with a cellular phone service provider against IDS and him personally. Under the indemnification, the Company is obligated to pay an aggregate of \$72,261 in installments of \$5,000 each on or before August 1, 2004 and September 1, 2004 with the balance due October 1, 2004. The indemnification had no effect on the accompanying financial statements as the amount owed to the cellular phone service provider was previously recorded as accounts payable in the records of IDS.

In April 2004, the Company reached a settlement with a cellular phone service provider whereby the Company has agreed to issue the provider 250,000 shares of common stock previously granted. However, the Company and the cellular phone service provider are currently negotiating mutually acceptable share resale terms. The settlement had no effect on the accompanying financial statements as the stock options granted to the cellular phone service provider where previously reflected.

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