

Edgar Filing: DSTAGE COM INC - Form 10QSB

DSTAGE COM INC  
Form 10QSB  
December 20, 2002

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 000-30785?

DSTAGE.COM, INC.

(EXACT NAME OF SMALL BUSINESS REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)

52-2195605  
(I.R.S. Employer  
Identification No.)

294 VALLEY ROAD

02842

MIDDLETOWN, RI

(Zip Code)

(Address of principal executive offices)

(401)841-5812

Registrant's telephone number, including area code

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:

NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE EXCHANGE ACT:

(TITLE OF CLASS)

COMMON STOCK, PAR VALUE \$0.001

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such  
shorter period that the registrant was required to file such reports), and (2)  
has been subject to such filing requirements for the past 90 days. Yes X No

As of October 5, 2002, the Registrant had outstanding 15,171,601 shares of  
Common Stock, \$0.001 par value, including 2,400,000 shares of treasury stock.

# Edgar Filing: DSTAGE COM INC - Form 10QSB

TABLE OF CONTENTS  
FORM 10-QSB QUARTERLY REPORT  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

DSTAGE.COM, INC.

| ITEM   | PAGE |
|--|------|
| PART I: FINANCIAL INFORMATION  |      |
| 1. Financial Statements (Unaudited)  | 3    |
| Balance Sheets at September 30, 2002 and December 31, 2001   | 3    |
| Statements of Operations for the three and nine months ended September 30, 2002 and 2001 and Cumulative During Development Stage | 4    |
| Statements of Cash Flows for the for the nine months ended September 30, 2002 and 2001 and Cumulative During Development Stage   | 5    |
| Notes to Financial Statements  | 6    |
| 2. Management's Discussion and Analysis of Financial Condition and Results of Operations   | 13   |
| PART II: OTHER INFORMATION   |      |
| 1. Legal Proceedings   | 21   |
| 2. Changes in Securities   | 21   |
| 3. Defaults Upon Senior Securities   | 22   |
| 4. Submission of Matters to a Vote of Securities Holders   | 22   |
| 5. Other Information   | 22   |
| 6. Exhibits and Reports on Form 8-K  | 22   |
| 7. Table of Contents Certification Signature CEO   | 22   |
| 8. Table of Contents Certification Signature CFO   | 23   |
| 9. Section 906 of the SARBANES-OXLEY ACT OF 2002 CEO   | 24   |
| 10. Section 906 of the SARBANES-OXLEY ACT OF 2002 CFO  | 25   |

THIS REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INCLUDE BUT ARE NOT LIMITED TO STATEMENTS CONCERNING OUR BUSINESS OUTLOOK OR FUTURE ECONOMIC PERFORMANCE; ANTICIPATED PROFITABILITY, REVENUES, EXPENSES OR OTHER FINANCIAL ITEMS; AND STATEMENTS CONCERNING ASSUMPTIONS MADE OR EXCEPTIONS AS TO ANY FUTURE EVENTS, CONDITIONS, PERFORMANCE OR OTHER MATTERS WHICH ARE "FORWARD-LOOKING STATEMENTS" AS THAT TERM IS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN HISTORICAL FINANCIAL INFORMATION, MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. THE WORDS "BELIEVES", "PLANS", "ANTICIPATES", "EXPECTS", AND SIMILAR EXPRESSIONS HEREIN ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES, AND OTHER FACTORS, WHICH WOULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.

Edgar Filing: DSTAGE COM INC - Form 10QSB

PART I - FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS

DSTAGE.COM, INC.  
(A DEVELOPMENT STAGE COMPANY)  
BALANCE SHEETS

|   | September 30,<br>2002 | December 31,<br>2001 |
|---|-----------------------|----------------------|
| -----   |                       |                      |
| Cash  | \$516                 | \$10,624             |
| Prepaid services (Note 3) . . . . .   | 64,986                | 67,616               |
| Prepaid and deposits . . . . .  | 0                     | 18,011               |
|   | -----                 |                      |
| Total current assets. . . . .   | 65,502                | 96,251               |
|   | -----                 |                      |
| Computer equipment and software, net of depreciation. . . . .   | 3,171                 | 3,716                |
| Office furniture and equipment, net of depreciation . . .   | 2,683                 | 3,460                |
| Prepaid services (Note3) . . . . .  | 36,303                | 238,901              |
| Investments in other companies, less impairment<br>of \$720,600 and \$709,908 for 2002 and 2001 . . . . .   | 960                   | 200                  |
| Licensed Technology . . . . .   | 0                     | 38,000               |
|   | -----                 |                      |
| Total assets. . . . .   | \$ 108,618            | \$ 380,528           |
|   | =====                 |                      |
| LIABILITIES AND STOCKHOLDER'S (DEFICIT) EQUITY  |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable and accrued liabilities. . . . .   | \$ 294,363            | \$ 78,281            |
| Due to stockholders (Note 7). . . . .   | 252,409               | 15,363               |
| Notes payable . . . . .   | 4,477                 | 9,676                |
|   | -----                 |                      |
| Total current liabilities . . . . .   | 551,249               | 103,320              |
|   | -----                 |                      |
| Stockholders' (deficit) equity:   |                       |                      |
| Common stock, \$.001 par value, Authorized 50,000,000 shares at<br>September 30, 2002 and December 31, 2001<br>:issued and outstanding 15,171,601 at<br>September 30, 2002 and<br>12,064,101 at December 31, 2001 . . . . . |                       |                      |
|   | 15,172                | 12,064               |
| Additional paid-in capital. . . . .   | 5,176,328             | 4,211,961            |
| Treasury stock, 2,400,000 shares  | (2,400)               | 0                    |
| (Deficit) accumulated during development stage  | (5,452,097)           | (2,896,808)          |
| Deferred Compensation   | (179,633)             | (1,050,009)          |
|   | -----                 |                      |
| Total stockholders' (deficit) equity  | (442,631)             | 277,208              |
|   | -----                 |                      |
| Total liabilities and stockholders' (deficit) equity  | \$ 108,618            | \$ 380,528           |
|   | =====                 |                      |

DSTAGE.COM, INC.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

Edgar Filing: DSTAGE COM INC - Form 10QSB

|   | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE |             | THREE MONTHS ENDED<br>SEPTEMBER 30, |             |
|---|--|-------------|-------------------------------------|-------------|
|   |  |             | 2002                                | 2001        |
| -----   |  |             |                                     |             |
| Revenue:  |  |             |                                     |             |
| Professional services   | \$   | 58,568      | \$                                  | 760         |
|   |  |             |                                     | \$ 8,500    |
| Operating expenses:   |  |             |                                     |             |
| Cost of services  |  | 95,700      |                                     | 38,000      |
| Sales and marketing   |  | 53,266      |                                     | 7,046       |
| Research and development  |  | 252,550     |                                     | 407         |
| General and administrative  |  | 1,993,938   |                                     | 317,919     |
| Impairment of assets  |  | 2,402,338   |                                     | 1,186,500   |
| Impairment of investments in other<br>Companies                   |  | 709,908     |                                     | -           |
| Total operating expenses  |  | 5,507,700   |                                     | 1,549,872   |
| Income (loss) from operations                                     |  | (5,449,132) |                                     | (1,549,112) |
| Interest income (expense), net                                    |  | (2,965)     |                                     | (250)       |
| Net income  | \$   | (5,452,097) | \$                                  | (1,549,363) |
|   |  |             |                                     | \$ (97,183) |
| =====   |  |             |                                     |             |
| Net (loss) per share:   |  |             |                                     |             |
| Basic and diluted   | \$   | (0.57)      | \$                                  | (0.12)      |
|   |  |             |                                     | \$ (0.01)   |
| =====   |  |             |                                     |             |
| Weighted average shares used in<br>computing net (loss) per share |  |             |                                     |             |
| Basic and diluted   |  | 9,515,851   |                                     | 12,767,525  |
|   |  |             |                                     | 9,126,639   |
| =====   |  |             |                                     |             |

See accompanying notes to financial statements

4

DSTAGE.COM, INC.  
(A DEVELOPMENT STAGE COMPANY)  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|   | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE |             | THE NI<br>SE<br>200 |
|---|--|-------------|---------------------|
| -----   |  |             |                     |
| Cash flows from operating activities:   |  |             |                     |
| Net (loss)  | \$   | (5,452,097) | \$ (2,555,          |
| Adjustments to reconcile net (loss)<br>to cash provided (used) by operating activities: |  |             |                     |
| Depreciation  |  | 3,997       | 1,                  |
| Issuance of common stock for services   |  | 174,000     |                     |
| Issuance of common stock for expense reimbursement                                      |  | 22,051      |                     |

Edgar Filing: DSTAGE COM INC - Form 10QSB

|   |              |          |
|---|--------------|----------|
| Issuance of common stock for technology                                     | 19,167       |          |
| Impairment of investments in other companies                                | 709,908      |          |
| Impairment of assets  | 2,402,338    | 1,186,   |
| Revenue paid in common stock  | (868)        | (        |
| Prepaid services expensed   | 428,616      | 205,     |
| Amortization of deferred compensation                                       | 1,274,294    | 936,     |
| Expenses paid through notes payable proceeds                                | 66,490       |          |
| Change in assets and liabilities:   |              |          |
| Increase in other current assets  | 1,725        | 18,      |
| Increase in accounts payable, accrued liabilities<br>and due to stockholder | 296,772      | 203,     |
| Net cash provided (used) by operating activities                            | (53,607)     | (4,      |
| Cash flows from investing activities:                                       |              |          |
| Acquisition of fixed assets   | (6,689)      |          |
| Net cash (used) by investing activities                                     | (6,689)      |          |
| Cash flows from financing activities:                                       |              |          |
| Contributed capital   | 25,500       |          |
| Proceeds from issuance of common stock                                      | 30,835       |          |
| Increase (decrease) in notes payable  | 4,477        | (5,      |
| Net cash provided by financing activities                                   | 60,812       | (5,      |
| Net increase in cash  | 516          | (10,     |
| Cash, beginning of period   | -            | 10,      |
| Cash, end of period   | \$ 516       | \$       |
| Non-cash transactions   |              |          |
| Purchase of property and equipment by issuance of common stock              | \$ 1,153,162 | \$       |
| Purchase of licensed technology by issuance of common stock                 | \$ 938,000   | \$ 900,  |
| Purchase of Treasury stock in exchange for property and technology          | \$ 2,400     | \$ 2,    |
| Purchase of licensed technology by incurring debt to seller                 | \$ 250,000   | \$ 250,  |
| Payment of prepaid and other assets by issuance of common stock             | \$ 1,726     | \$       |
| Prepayment of services for common stock                                     | \$ 1,827,520 | \$ (66,5 |
| Investments in other companies  | \$ 710,760   | \$ 7     |
| Conversion of debt to common stock  | \$ 35,000    | \$       |
| Forgiveness of debt by stockholder  | \$ 31,489    | \$       |

See accompanying notes to financial statements

## Edgar Filing: DSTAGE COM INC - Form 10QSB

Dstage.com, Inc., a Delaware corporation (the "Company") was incorporated on October 12, 1999 to provide support, organization and restructuring services to development stage companies.

For the period October 12, 1999 (Inception) to September 30, 2002, the Company has been in the development stage. The Company's activities since inception have consisted of developing the business plan, raising capital, business plan implementation, recruiting a management team and entering into new ventures and alliances with affiliates.

From inception to September 30, 2002, the Company has had minimal revenues, of \$58,568, and has expensed operating costs in the amount of \$4,321,199. The Company has nominal cash resources and has been largely dependent on the direct financial support from its founding stockholder and revenue to pay for cash expenditures. In addition, the Company has been dependent on contributed time from its officers and directors and contributed services from certain key vendors. As a result of an investment banking contract entered into between the Company and the Camelot Group, the Company will no longer receive continuing cash investment from its founding stockholder. This loss of financial support, along with the failure of the Camelot Group to provide funding as called for in the investment banking agreement has had a detrimental effect on the Company. There can be no assurance that the Company will recover from these events.

The Company has earned revenue in 2001, and nominal revenue in 2002, and hopes to increase revenues from existing and proposed contractual relationships in addition to obtaining external financing. There can be no assurance that such revenues and or financing will be successfully obtained.

### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis Of Presentation

The accompanying financial statements have been prepared by management in accordance with basic rules established by the Securities and Exchange Commission for Form 10-QSB, except that the Company's accountants have not completed their review of the financial statement (see Note 10). Accordingly, not all financial disclosures required to present the financial position and results of operations in accordance with generally accepted accounting principles are included herein. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2001 audited financial statements on Form 10-KSB as filed with the Securities and Exchange Commission on April 3, 2001. In the opinion of management, all accruals and adjustments (each of which is of a normal recurring nature) necessary for a fair presentation of the financial position as of September 30, 2002 and the results of operations for the three and nine month periods then ended have been made. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. Significant accounting policies have been consistently applied in the interim unaudited financial statements and the audited financial statements.

6

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and

## Edgar Filing: DSTAGE COM INC - Form 10QSB

the disclosure of contingent assets and liabilities at the date of the financial statements. Substantial estimates have been used regarding lives of assets, impairment of investments in other companies and impairment of long-lived assets and prepaid expenses, which may not be realized. Actual results could differ materially from those estimates.

### Prepaid Expenses and Deferred Compensation

The Company has negotiated contracts to grant common stock in exchange for future (prepaid) services with various other companies and individuals in which fully vested, non-forfeitable common shares were issued. Each contract contains a provision in which the value of unperformed services must be repaid to the Company in cash, therefore providing for substantial performance penalties. Where the other companies are independent or have minimal common stock ownership in the Company, those prepaid expenses have been presented in the accompanying balance sheet as an asset. Where the other companies or individuals have significant stock ownership or are functioning as, or similar to, employees, officers or directors, such prepaid services have been presented on the balance sheet as deferred compensation and a reduction to total equity.

It is Company policy to expense those items which have been unused after the contractual period or after one year, if not used. Other prepaid expenses where services are being used are amortized over the life of the contract.

### Research and Development

The Company expenses costs of research and development until the product or service under development reaches technological feasibility, after which the development costs are capitalized. Once the product is placed into service, the capitalized costs are amortized over the estimated useful life of the product.

### Impairment of Long-Lived Assets

The Company adheres to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The Company reviews the carrying value of its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through undiscounted net cash flows. Impairment is calculated based on fair value of the asset, generally using net discounted cash flows. Any long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell. The impairment policy followed is a critical and significant accounting policy to which the Company adheres.

### Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations. The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing. Dstage has relied on BulletProof Business Plans, Inc. to provide cash infusions when necessary through September of 2002. However, as a result of the Camelot Investment banking agreement, Dstage will no longer be able to rely on BulletProof as a meaningful source of cash infusions in the future.

In view of these matters, the Company has undergone a series of negotiations to

## Edgar Filing: DSTAGE COM INC - Form 10QSB

obtain additional equity financing to enable it to achieve its strategic objectives. However, based on results achieved to date, it appears unlikely that such funding will materialize by the end of 2002. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

7

### Goodwill and Other Intangible Assets

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), establishes accounting and reporting standards for recording valuing and impairing and other intangible assets. The adoption of SFAS 142 did not have an impact on the Company's financial condition or results of operations for the quarter ended September 30, 2002. However, as our business model is heavily dependent on acquiring intangible assets, we expect this pronouncement to have a material impact on our financial condition and results of operations in future quarters.

### Reclassifications

Certain reclassifications have been made to prior period amounts in order to conform to the current period's presentation.

#### (3) - PREPAID SERVICES

Since inception, the Company entered into various contracts with "Concept Affiliates" in which vendors agreed to provide future professional services in exchange for common stock of the Company. Services contracted in 2000 and 2001 included multimedia design, securities filings preparation, promotion, interactive database technology, training course design and development, project screening, tax incentive consulting, strategic planning and direct marketing. Since the second quarter of 2001, all transactions entered into under these arrangements were recorded using the bid price of the Company's common stock on the date of issuance as reported by the Over The Counter Bulletin Board (OTCBB).

The total balance of prepaid services as of December 31, 2001 was \$306,517, consisting of \$67,616 in current assets and \$238,901 in non-current assets. Based on management estimates and accounting policies, \$53,972 of these services were expensed in the quarter ended September 30, 2002. For the nine months ended September 30, 2002, a total of \$205,228 of these services were expensed, leaving a total balance of prepaid services of \$101,289 as of September 30, 2002. No additions to prepaid services under these arrangements were made in the quarter ended September 30, 2002.

The shares issued by the Company in connection with these transactions are not registered under the Securities Act of 1933 and are subject to restrictions on transferability for a period of at least one year from the date of issuance.

#### (4) - INVESTMENT IN OTHER COMPANIES

In September of 2002, the Company exchanged 152 hours of professional services priced at \$500 per hour for 7,600 shares of U.S. Telemetry's ("U.S.T.") outstanding common shares valued at \$10 per share, the same price used on U.S.T.'s most recent round of financing. As U.S. Telemetry was in the development stage, the Company recorded the investment in U.S. Telemetry at a nominal value of \$706.



## Edgar Filing: DSTAGE COM INC - Form 10QSB

In 2000, the Company exchanged 650,000 shares of its common stock at \$1.00 per share for 1,111,111 shares of GOTO-MD, Inc.'s ("GOTO-MD") outstanding common shares valued at \$0.63 per share. As GOTO-MD was in the development stage, an adjustment was made to recognize the impairment of the investment to its estimated fair value. The Company has recorded the investment in GOTO-MD at \$720,800 and has impaired substantially all of that amount to recognize the fair value of the investment in 2000 and 2001. During 2001, GOTO-MD had no significant operations. GOTO-MD's primary asset during that period consisted of the 650,000 shares of the Company's common stock exchanged in the transaction.

8

In 2000, the Company acquired 1% of Ameribank Card Services, Inc. in exchange for 10,000 common shares of the Company. The Company recorded the investment in Ameribank Card Services at \$10,000 less an impairment of \$9,900, resulting in a net asset value of \$100.

### (5) - LICENSED TECHNOLOGY

In May of 2002, we reached a definitive agreement with VedaLabs to acquire their Media Player and Peer-to-Peer technology. Under the agreement we issued 3,000,000 shares of our common stock along with a commitment to pay \$250,000 in cash within 6 months, pending transfer or sale of the technology. If transfer or sale of the technology does not occur, the Company will be obligated to pay VedaLabs in cash or stock. The number of shares will be determined based on the closing price of the Company's shares and the Company will be obligated to register such with the SEC. The Company's negotiated price for this transaction was \$2.00 per share; however, the licensed technology was recorded at \$0.30 per share, the bid price for shares issued on the date of the transaction. In accordance with SFAS 142, "Goodwill and Other Intangible Assets" and SFAS 144, the Company engaged an independent valuation firm to assist in valuing the VedaLabs technology. The Company intended to rely on this valuation as an objective means of comparing book value to fair value and, if necessary, recording an impairment expense equal to the difference between book value and fair value. As stated in the Company's quarterly report for the period ending June 30, 2002, the impact or amount of any such impairment, if any was to be required, was unknown at that time.

When the VedaLabs Technology was recorded on the Company's books and records, the Company anticipated that funds from the Camelot Group investment banking contract would enable the Company to execute on critical elements of its plan for sale, including obtaining a third party valuation of the technology, engaging certain parties outside of our network of affiliates for cash compensation and developing a new model to support marketing some of the technology as a children's media player.

The investment banking contract called for \$150,000 to be provided within 3 to 6 weeks of the agreement's execution date. However, the first funds from this agreement were transferred on September 5, 2002. The transfer on September 5, 2002 totaled only \$5,000. As a result, the Company had to rely on loans from shareholders to cover \$10,000 of the \$35,000 fee due to the third party valuation firm. The Company did not receive another cash transfer from the investment banking agreement until September 18, 2002. This transfer totaled only \$2,500. As a result of receiving only \$7,500 of the \$150,000 called for in the agreement, more than 12 weeks after the latest date committed to, management has determined that the failure to receive the funds represents an impairment event.

As part of the investment banking contract with the Camelot Group, certain

## Edgar Filing: DSTAGE COM INC - Form 10QSB

Dstage shareholders transferred shares to the Camelot Group to cover their investment banking fee and as consideration for funding to be provided to the Company. In the months following these transfers, quoted prices for the Company's common stock on the over-the-counter bulletin board (OTCBB) reached all-time lows, eventually reaching a level of \$0.07 per share. This decrease represented a drop of more than \$0.38 per share, or 84%, from the quoted closing price of the Company's common stock on the date the Company entered into the agreement with Camelot. Since inception, the Company has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology. The substantial and rapid decrease in the Company's stock price following execution of the investment banking agreement will make it very difficult to find parties willing to accept restricted shares of common stock in exchange for services required to execute on its plan of sale for the technology.

In addition to potentially eliminating the Company's ability to execute on its plan of sale for the VedaLabs technology, failure to receive the funding called for by the investment banking agreement has impacted the Company's ability to execute on its plans to sell other technology acquired or licensed by the Company. Similarly, although FAS144, FAS 142 and related accounting pronouncements do not require a third party valuation expert to be engaged to assist in determining fair values, management felt that in addition to helping marketing efforts for the technology, such a valuation would provide an objective means with which to conduct an ongoing analysis of impairments in current and future accounting periods. The inability to pay for such an analysis, in the absence of the funds called for in the investment banking agreement, leaves management without an economically feasible means to compare the carrying value of its technology to fair value. In light of these facts and circumstances, the Company has elected to fully impair all licensed and purchased technology as of September 30, 2002.

9

On November 5, 2001, the Company entered into a technology license agreement with SunnComm, Inc. ("SunnComm"), to license its Proprietary Copy Management Technology. Under the terms of the agreement, the Company was to pay SunnComm a one-time license fee of \$4,000,000 payable in the Company's common stock, with the amount of shares issued not to exceed 2,000,000. Initially, the Company hoped to combine the SunnComm technology licensed with what was believed to be a complementary technology the Company was negotiating to acquire.

Following execution of the license agreement, both parties, the Company and SunnComm, agreed that it would be beneficial to expand the scope of the agreement to potentially address market realities more effectively. As a result, the boards of both parties deferred closing the transaction pending completion and execution of the expanded agreement. On December 31, 2001, an expanded agreement was executed and the Company's board approved the issuance of 2,000,000 restricted shares, or approximately 16.69% of the outstanding common shares of the Company, to SunnComm, Inc. The Company's negotiated price was \$2.00 per share; however, the licensed technology was recorded at a nominal value of \$2,000, since the ownership percentage by SunnComm following consummation of the transaction made SunnComm a related party. In May of 2002, this agreement was amended, providing for the return of certain rights to SunnComm in exchange for 1,500,000 shares of our common stock repurchased as consideration.

In November of 2001, the Company entered into an agreement with DataStand Technologies, Inc. ("DataStand") to secure three premium licenses to DataStand's OTCBB interactive databases for terms of three years in exchange for 270,000 shares of the Company's common stock. The licensed technology was recorded at a value of \$36,000 in 2001, and fully impaired in September of 2002 due to lack of

## Edgar Filing: DSTAGE COM INC - Form 10QSB

funding to execute on the Company's plan of sale.

### (6) - PROPERTY & EQUIPMENT LEASE

In June 2001, the Company entered into a 49-year lease agreement with Bentley House Furniture Company, Inc., a Philippine company, for an idle manufacturing facility built in 1998 and located in Davao City, Philippines. The Company granted a one-time payment of 1,000,000 common shares in lieu of \$6,000,000 in cash for the full lease payment on the property. The Company has the option to purchase the facility during the lease term for \$100,000 should Philippine law permit a transfer of title to a U.S. Corporation. The lessor agreed to bear all legal, tax and similar costs related to the transaction. The lease agreement was negotiated at a value of \$6.00 per share; however, for accounting purposes the Company recorded the transaction at \$1.15 per share. The Company has fully impaired the value of the asset by \$1,150,000 for 2001, in accordance with SFAS 144 because expected sublease opportunities did not materialize. The Company believes that there are substantial risks involved with this investment in the property and equipment lease.

In April of 2002, the Company was informed that Bentley House Furniture Company had pledged our shares to Weylock Trading Company, Inc., a Philippine Company, in exchange for a loan. The Company was also informed at that time of Weylock's interest in selling us back the shares in exchange for our interest in the property lease. In May of 2002, the Company reached an agreement with Weylock Trading Company, Inc. providing for a transfer of its interest in the property lease in exchange for \$500,000, along with 900,000 shares of our common repurchased as consideration. The Company is not recording any gain or revenue from the \$500,000 because its realization is not assured.

### (7) - DUE TO STOCKHOLDERS

In 2001, the Company's founding shareholder, BulletProof Business Plans, provided a total of \$39,333 in cash advances and expenses paid on the Company's behalf. The advances were all short-term obligations, due on demand and are non-interest bearing. As of December 31, 2001, the Company had repaid a total of \$33,470 to BulletProof under these obligations, leaving a balance of \$5,863, which was paid in January of 2002. For the nine months ended September 30, 2002, the Company secured a total of \$42,597 in new borrowings under this arrangement. Of these new borrowings, the Company has repaid a total \$5,000 as of September 30, 2002.

10

In July of 2002, the Company entered into an investment banking agreement with The Camelot Group. Under the agreement, Camelot was to receive a payment of \$200,000 in the form of 400,000 shares of Dstage common stock from Dstage shareholders. The Company has recorded a liability of \$200,000 due to shareholder as a result of this agreement.

During the quarter ended September 2002, the Company's CEO paid Company liabilities totaling \$5,311. This amount is reflected as due to shareholders for the period ended September 30, 2002.

In the fourth quarter ended December 31, 2001, the Company entered into an agreement with its largest shareholder, BulletProof Business Plans, Inc. and a company owned by its CEO, Frank Maresca, Frank Maresca & Associates, to provide consulting services for a biopharmaceutical company engaged in the development of generic paclitaxel. The balance of \$9,500 in services due under the agreement

## Edgar Filing: DSTAGE COM INC - Form 10QSB

is reflected as due to stockholders.

### (8) - STOCKHOLDERS' EQUITY

In May of 2002, the Company entered into an agreement with Weylock Trading Company, Inc. providing for a transfer of our interest in the Philippines property lease in exchange for \$500,000, along with 900,000 shares of our common repurchased as consideration. These shares were recorded as treasury stock using the par value method.

In May of 2002, amended its technology license agreement with SunnComm, providing for the return of certain rights to SunnComm in exchange for 1,500,000 shares of our common stock repurchased as consideration. These shares were recorded as treasury stock using the par value method.

In the quarter ended March 31, 2002, the Company issued a total of 82,500 shares of its common stock. Jane Olmstead was appointed as interim CFO until a new CFO has been retained. In exchange for her services as CFO, the Company issued 50,000 shares of common stock to Jane Olmstead on January 15, 2002. A new Concept Affiliate, an individual providing marketing services to the Company, was issued 32,500 shares of our common stock in lieu of cash for services to be rendered to the Company. Equity or capital transactions transacted for non-cash consideration are complex and require substantial estimates by management. See Note 2 "Use of Estimates." The Company received no cash for any of the shares it issued in the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002.

In July of 2002, Jane Olmstead extended her term as interim CFO. In exchange for her services as CFO, the Company issued 25,000 shares of common stock to Jane Olmstead on July 15, 2002. The shares issued by the Company in connection with the above transactions are not registered under the Securities Act of 1933 and are subject to restrictions on transferability for a period of one year from the date of issuance.

### (9) - RELATED PARTY TRANSACTIONS

On December 13, 2002 the Board of Directors appointed Rounseville W. Schaum as Interim CFO.

On December 13, 2002 The Board of Directors approved the issuance of 250,000 to Shirlee Gordon in exchange for serving as Secretary/Treasurer for a term of 1 year beginning December 13, 2002. Shirlee Gordon is the wife of Rounseville Schaum.

On December 13, 2002 the Board of Directors approved the issuance of 50,000 to Tiffany Gordon in exchange for serving as controller for a term of 1 year beginning December 13, 2002. Tiffany Gordon is the daughter of Shirlee Gordon.

On December 13, 2002 the Board of Directors approved the relocation of our corporate offices to 294 Valley Road Middletown RI, 02842. The board also approved the issuance of 300,000 shares to Rounseville W. Schaum for prepayment for (1) year of office space and services to be rendered to the company.

On November 4, 2002 the Board of Directors approved the issuance of 500,000 to Rounseville W. Schaum in exchange for serving as President and Director for a term of 2 years beginning September 23, 2002.

## Edgar Filing: DSTAGE COM INC - Form 10QSB

In July of 2002, Jane Olmstead extended her term as interim CFO. In exchange for her services as CFO, the Company issued 25,000 shares of common stock to Jane Olmstead on July 15, 2002. Jane Olmstead has served as a Director and member of the Company's Audit Committee since the fourth quarter of 2000. These shares were recorded as deferred compensation on the date of issuances, using the bid price of \$0.25 on the date of issuance, and expensed over the period benefited, the third quarter of 2002.

During the nine month ended September 30, 2002, the Company's founding shareholder, BulletProof Business Plans, provided a total of \$42,597 in cash advances and expenses paid on the Company's behalf. The advances were all short-term obligations, due on demand and non-interest bearing.

In the fourth quarter ended December 31, 2001, the Company entered into an agreement with its largest shareholder, BulletProof Business Plans, Inc. and a company owned by its CEO, Frank Maresca, Frank Maresca & Associates, to provide consulting services for a biopharmaceutical company engaged in the development of generic paclitaxel. The balance of \$9,500 in services due under the agreement is reflected as due to stockholders.

### (10) - SUBSEQUENT EVENTS

On December 13, 2002 the Board of Directors appointed Rounseville W. Schaum as Interim CFO.

On December 13, 2002 The Board of Directors approved the issuance of 250,000 to Shirlee Gordon in exchange for serving as Secretary/Treasurer for a term of 1 year beginning December 13, 2002

On December 13, 2002 the Board of Directors approved the issuance of 50,000 to Tiffany Gordon in exchange for serving as controller for a term of 1 year beginning December 13, 2002.

On December 13, 2002 the Board of Directors approved the relocation of our corporate offices to 294 Valley Road Middletown RI, 02842 Our new telephone number is (401)-841-5812 The board also approved the issuance of 300,000 shares to Rounseville W. Schaum for prepayment for (1) year of office space and services to be rendered to the company.

On November 4, 2002 the Board of Directors approved the issuance of 500,000 to Rounseville W. Schaum in exchange for serving as President and Director for a term of 2 years beginning September 23, 2002.

12

### ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS

The matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to statements concerning our business outlook or future economic performance; anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or exceptions as to any future events, conditions, performance or other matters which are "forward-looking statements" as that term is defined under the Federal Securities Laws. All statements, other than historical financial information, may be deemed to be forward-looking statements. The words

## Edgar Filing: DSTAGE COM INC - Form 10QSB

"believes", "plans", "anticipates", "expects", and similar expressions herein are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors, which would cause actual results to differ materially from those stated in such statements. Forward-looking statements include, but are not limited to, those discussed in "Factors That May Affect Future Results," and elsewhere in this report, and the risks discussed in the Company's other SEC filings.

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes.

The Company believes that the following critical accounting policies affect its more significant judgements and estimates used in the preparation of financial statements:

Non-Monetary Transactions - The Company's business model depends on its ability to successfully enter into non-monetary transactions, where the Company's common stock is used to acquire a technology or service, or where a technology or service the Company previously acquired is used to acquire the common stock of another entity. As a result, the Company must continually address issues of valuation regarding its common stock, the technology and services acquired, the value of common stock in other companies received and the value of services and technologies sold, if any. If value estimates are too high upon entering into a transaction, earnings in future periods may suffer from large impairment charges. Similarly, if value estimates are too low upon entering into a transaction, operating results in future periods may not reflect a proper matching of income, if any, and expenses.

Prepaid Expenses and Deferred Compensation - The Company has negotiated contracts to grant common stock in exchange for future (prepaid) services with various other companies and individuals in which fully vested, non-forfeitable common shares were issued. Each contract contains a provision in which the value of unperformed services must be repaid to the Company in cash, therefore providing for substantial performance penalties. Where the other companies are independent or have minimal common stock ownership in the Company, those prepaid expenses have been presented in the accompanying balance sheet as an asset. Where the other companies or individuals have significant stock ownership or are functioning as, or similar to, employees, officers or directors, such prepaid services have been presented on the balance sheet as deferred compensation and a reduction to total equity.

It is Company policy to expense those items that have been unused after the contractual period or after one year, if not used. Other prepaid expenses where services are being used are amortized over the life of the contract.

13

### Impairment of Long-Lived Assets

The Company adheres to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The Company reviews the carrying value of its

## Edgar Filing: DSTAGE COM INC - Form 10QSB

long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through undiscounted net cash flows. Impairment is calculated based on fair value of the asset, generally using net discounted cash flows. Any long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell.

### OVERVIEW

Dstage.com, Inc., a Delaware corporation (the "Company") was incorporated on October 12, 1999 to provide support, organization and restructuring services to other development stage companies. In the summer of 1999, our founders agreed that culminating trends in venture development, venture funding and intellectual capital creation would result in a precipitous drop in valuations for thousands of technology driven companies worldwide. This shared perspective caused our team to devise a new model for venture creation and growth. Our model attempts to substantially remove cash requirements from the earliest stages of venture formation and replace it with knowledge, expertise, technology and time contributed by various parties, applied directly to prospective startups. By building a universe of service and technology providers across as many disciplines and domains as achievable, using Dstage.com common stock as payment, we plan to offer advice and resources to entrepreneurs looking to launch novel products and ventures worldwide.

Using our common stock as payment, we have attempted to license a critical mass of intellectual property, knowledge, expertise, software, applications, patents, content and a host of other resources needed by development stage enterprises since our inception. We intend to allow certain startup ventures (Concept Sponsors) screened by our network to request access to appropriate resources we hold in exchange for interests in their nascent ventures. To the best of our knowledge, our model is new, risky and unproven. However, we believe it stands to potentially deliver benefits to entrepreneurs, technology providers, professional service providers, early stage investors, and later stage investors in many countries to the degree that the model effectively reduces barriers to developing new ventures and launching new products. We hope that by pursuing this model, Dstage.com will become the leading source for expert support, creation, and restructuring of development stage companies across the globe.

### RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 2002 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2001

#### REVENUE

|             | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>SEPTEMBER 30, |          |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |           |          |
|-------------|--|-------------------------------------|----------|----------|------------------------------------|-----------|----------|
|             |  | 2002                                | 2001     | % CHANGE | 2002                               | 2001      | % CHANGE |
| Net Revenue | \$ 58,568                                    | \$ 760                              | \$ 8,500 | (91.06%) | \$4,960                            | \$ 53,500 | (90.73%) |

We generated minimal revenue of \$760 for the quarter ended September 30, 2002. These revenues were the result of our consulting agreement with U.S. Telemetry. The percentage decrease in revenue, from the three and nine months ended

## Edgar Filing: DSTAGE COM INC - Form 10QSB

September 30, 2001 compared to the three and nine months ended September 30, 2002, is substantial. This is largely due to a single consulting engagement in the second quarter 2001. The total dollar amount of revenue in both periods is comparably low.

14

During the quarter we also continued to provide services in connection with projects under the US Consults Strategic alliance executed in January of 2002. These services are provided on a contingency basis, meaning that no revenue or cash will be realized until certain predetermined outcomes have materialized for US Consults clients. If such outcomes do materialize, we anticipate substantial lags between the contingent events occurring and our receipt of cash payments. Accordingly, there can be no assurances that these services will produce revenue for us.

The business model we are pursuing anticipates most of our services being paid for with stock and certain services being paid for with cash. The ultimate balance we realize between sales settled with cash and sales settled with stock, if any future sales are realized, will have a material impact on our results of operations, operating cash flow, and the degree to which our earnings, revenues and costs fluctuate from period to period. This is due in part to the complexities of transactions settled in equity. This complexity is increased by our focus on early stage companies, whose securities are privately held, thinly traded, or quoted on mediums that make valuation highly subjective.

To address these complexities, our accounting policies may require us to record services issued in exchange for stock in early stage companies at a nominal value, or no value at all, since the stock issued generally has no readily determinable value. As a result, the extent to which we accept stock in exchange for services and technology we render to privately held, early stage clients will directly impact our future results. In the remaining quarters of 2002, we intend to pursue opportunities to deliver services to such clients in exchange for cash, stock and a combination of stock and cash. It is anticipated that these agreements will typically involve a variety of contracting methodologies, including, but not limited to, performance based compensation for services rendered, fixed sum, guaranteed maximum price, and time and materials. Similarly, it is expected that an hourly rate will be used to track contract progress. Professional services under all types of agreements except those involving contingent consideration are recognized as the services are performed.

Another important consideration regarding the balance between services paid for in cash and services settled in the client's stock is our ability to cover operating expenses we are required to settle in cash. Our primary business focus is not on generating immediate revenue. Instead, our focus is on acquiring equity interests in promising companies we believe will create capital appreciation for our shareholders. Despite this focus, operating activities that result in cash revenue play an important role in our ability to meet cash requirements. This is especially true to the degree that we do not successfully secure external cash financing to satisfy expenses we cannot satisfy using our common stock.

### COST OF SERVICES

CUMULATIVE  
DURING  
DEVELOPMENT

THREE MONTHS ENDED  
SEPTEMBER 30,

NINE MONTHS END  
SEPTEMBER 30,



Edgar Filing: DSTAGE COM INC - Form 10QSB

|                  | STAGE     | 2002      | 2001     | % CHANGE | 2002      | 2001      |
|------------------|-----------|-----------|----------|----------|-----------|-----------|
| Cost of Services | \$ 95,700 | \$ 38,000 | \$ 8,500 | 347.06%  | \$ 42,200 | \$ 13,705 |

Our cost of services are comprised principally of consulting services provided by contract individuals to our customers. We provided minimal services that generated revenue in the nine months ended September 30, 2002, and had costs of services totaling \$42,200. To the degree that we generate revenue in future periods, consulting services provided by Concept Affiliates and officers during such periods will be matched to revenue associated with such services and recorded as costs of services. In future periods, we expect the complexity of our model, which relies heavily on exchanges of our equity and exchanges of our clients' equities, to result in a lack of predictability and a great deal of volatility with regard to our Cost of Services and, therefore, our gross margin percentage.

15

SALES AND MARKETING

|                     | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>SEPTEMBER 30,<br>2002 | 2001     | % CHANGE | NINE MONTHS ENDED<br>SEPTEMBER 30,<br>2002 | 2001      |
|---------------------|--|---|----------|----------|--|-----------|
| Sales and Marketing | \$ 53,266                                    | \$ 7,046                                    | \$ 1,028 | 585.46%  | \$ 13,705                                  | \$ 23,000 |

Since inception, sales and marketing expenses have consisted of advertising, promotional materials and public relations expenses. Although the percentage increase (decrease) in sales and marketing expenses, from the three and nine months ended September 30, 2001 compared to the three and nine months ended September 30, 2002, is a substantial percentage, the total dollar amount of sales and marketing expenses is comparably low in both periods. However, there is a material difference between the payment terms of sales and marketing expenses of both periods. Of our total sales and marketing expenses incurred in the nine months ended September 30, 2002, 100%, or \$13,705, required payment in cash. Of our total sales and marketing expenses incurred in the nine months ended September 30, 2001, 50%, or \$12,000, was initially prepaid for using our common stock, requiring no payment in cash.

In the remaining quarter of 2002, we hope to substantially increase our sales and marketing efforts and, therefore expect our sales and marketing expenses to increase. Whereas our sales and marketing activities in 2001 were directed primarily at developing our corporate image and communicating key events, we plan to promote certain professional services we offer in 2002, in addition to expanding the scope of our image development efforts. While some of our anticipated sales and marketing requirements can be satisfied using prepaid services we contracted in exchange for common stock, many will require payment in cash.

RESEARCH AND DEVELOPMENT

Edgar Filing: DSTAGE COM INC - Form 10QSB

|                          | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>SEPTEMBER 30, |        |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|--------------------------|--|-------------------------------------|--------|----------|------------------------------------|---------|
|                          |  | 2002                                | 2001   | % CHANGE | 2002                               | 2001    |
| Research and Development | \$ 252,549                                   | \$ 407                              | \$ 150 | 171.11%  | \$ 929                             | \$ 32,7 |

Since inception, research and development expenses have consisted primarily of costs related to the acquisition, testing, design, development and enhancement of certain technologies we hold rights to and which we intend to use in the future to meet our internal needs or the needs of ventures we may invest these technologies with. The change in research and development expenses, from the three and nine months ended September 30, 2001 compared to the three and nine months ended September 30, 2002, is largely explained by two items. In the first quarter of 2001 we expended resources in connection with an electronic government publishing operation in London England. In the second quarter of 2001, we expensed \$19,167 in connection with an exclusive license to an e-commerce system acquired for stock. In both the first quarter of 2002 and the first quarter of 2001, 100% of our research and development expenses required settlement in cash. For the three months ended September 30, 2001, approximately 1% of our research and development expenses required payment in cash, compared to 100% of our research and development expenses in the three months ended September 30, 2002 requiring payment in cash. Since inception, the majority, \$226,167 or 90% of our research and development expenses since inception, has related to rights to technologies we acquired in exchange for our common stock. In future quarters, we anticipate entering into similar agreements which may cause our research and development costs to increase substantially.

16

GENERAL AND ADMINISTRATIVE

|                            | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>SEPTEMBER 30, |           |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |      |
|----------------------------|--|-------------------------------------|-----------|----------|------------------------------------|------|
|                            |  | 2002                                | 2001      | % CHANGE | 2002                               | 2001 |
| General and Administrative | \$ 1,993,938                                 | \$ 317,919                          | \$ 70,004 | 354.14%  | \$ 1,316,400                       |      |

General and administrative expenses consist primarily of professional services, insurance, telephone, occupancy, travel and compliance related expenses. The large increase in general and administrative expenses for three and nine months ended September 30, 2002, compared to the three and nine months ended September 30, 2001, is primarily due to expensing deferred compensation for Concept Affiliate agreements secured in 2001. For the nine months ended September 30, 2002, expensing deferred compensation accrued under these agreements accounted for approximately 62%, or \$822,608, of our general and administrative expenses for the period. Similarly, prepaid Concept Affiliate services expensed during the nine months ended September 30, 2002 accounted for approximately 16%, or \$205,120 of our general and administrative expenses for the nine months ended September 30, 2002. Approximately 15%, or \$200,000 of our general and

## Edgar Filing: DSTAGE COM INC - Form 10QSB

administrative expenses for the nine months ended September 30, 2002 consisted of an investment banking fee. While this fee was intended to cover a period of 12 months, the Company elected to expense the entire amount, as no significant financing had materialized from the agreement as of September 30, 2002. The remaining 7% is composed primarily of compliance related expenses. Compliance related expenses include legal, accounting and other charges related to filing our reports with the Securities and Exchange Commission. Of the \$1,316,400 we expensed under the general and administrative caption for the nine months ended September 30, 2002, 78% or \$1,027,728 were prepaid for using our common stock, \$200,000 or 15%, require payment to our shareholders in common stock, and \$88,672 or 6.7% require settlement in cash. We plan to utilize more professional services from our officers, directors and Concept Affiliates in the remaining quarter of 2002.

### IMPAIRMENT OF LONG-LIVED ASSETS AND IMPAIRMENT OF INVESTMENTS IN OTHER COMPANIES

|  | CUMULATIVE               |              | THREE MONTHS ENDED |                    | NINE MONTHS ENDED |                    |                    |
|--|--------------------------|--------------|--------------------|--------------------|-------------------|--------------------|--------------------|
|  | DURING DEVELOPMENT STAGE |              | SEPTEMBER 30, 2002 | SEPTEMBER 30, 2001 | % CHANGE          | SEPTEMBER 30, 2002 | SEPTEMBER 30, 2001 |
| Impairment of Assets                         | \$2,402,338              | \$ 1,186,500 | \$ 25,000          |                    | 4646%             | \$ 1,186,500       | \$ 25,000          |
| Impairment of Investments in Other Companies | \$ 709,908               | -            | -                  |                    | 0%                | -                  | -                  |

Our impairment policy requires management to review assets and investments for impairment on an ongoing basis. In the case of investments in other companies, this analysis combined with our other accounting policies is expected to have a material impact on our results of operations in future periods. Our accounting policies generally may require us to record services performed in exchange for stock in early stage companies at a nominal value, since the stock issued generally has no readily determinable value. However, when we use our stock to effect investments in other companies, the bid price for our stock on the date of issuance is used to value the transaction initially. Subsequently, an impairment of this value may be required to reduce the carrying amount on our books to reflect a fair value.

Our financial results since inception are indicative of the extent to which impairment of investments and assets can impact our operating results. Since inception, impairment of investments in other companies accounts for approximately 13% of our \$5,452,097 net loss, whereas impairment of long-lived assets has accounted for approximately 44% of our net loss since inception. Together, these two expense categories account for 57% of our net loss from inception and through the nine months ended September 30, 2002.

An impairment loss is recorded in the period in which we determine that the carrying amount is not recoverable. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. These forecasts may require assumptions about demand for the Company's products and services, future market conditions and technological developments in order to support fair value and avoid impairment. Significant and unanticipated changes to these assumptions could require a provision for

## Edgar Filing: DSTAGE COM INC - Form 10QSB

impairment in a future period.

### INCOME TAXES

There is no current or deferred tax expense for the period from October 12, 1999 (inception) to September 31, 2002 due to net losses from operations by the Company. As of September 30, 2002 we had operating loss carryforwards of \$4,265,597 compared to operating loss carryforwards of \$2,896,808 as of December 31, 2001. The operating loss carryforwards expire beginning in 2019.

### NET LOSS

|                              | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>SEPTEMBER 30, |             | %        | NINE MONTHS<br>SEPTEMBER |
|------------------------------|--|-------------------------------------|-------------|----------|--------------------------|
|                              |  | 2002                                | 2001        | CHANGE   | 2002                     |
| Net income (loss)            | \$ (5,452,097)                               | \$ (1,549,363)                      | \$ (97,183) | 1494.27% | \$ (2,555,289)           |
| Net income (loss) per share. | \$ (0.57)                                    | \$ (0.12)                           | \$ (0.01)   | 1039.64% | \$ (0.21)                |
| Weighted average shares      | 9,515,851                                    | 12,767,525                          | 9,126,639   | 39.89%   | 12,457,037               |

We have incurred net losses from operations in each fiscal year, and each quarter, since our inception. The overall increase in our quarterly loss from operations, from the nine months ended September 30, 2001 compared to the nine months ended September 30, 2002, was approximately 1,191.84%, or \$2,357,487. The overall increase in our net loss is primarily attributable to a 752%, or \$1,123,715 increase in our general and administrative expenses in the nine months ended September 30, 2002, a 4,646%, or \$1,161,500 increase in impairment expense, and a 91%, or \$48,540 decrease in revenues.

17

We anticipate that impairments will play a major role in our operating results in the remaining quarter of 2002 as well as in future periods. Although none of our impairment losses have consumed cash flow since inception, our ability to convert the assets, resources and technology we acquire into gains, and ultimately positive cash flow, will largely determine the viability of our business model. Similarly, to the degree that we have to issue more shares to acquire assets and resources that are later impaired and not readily recovered, such events will be dilutive to our existing shareholders.

18

### LIQUIDITY AND CAPITAL RESOURCES

We must successfully secure external cash financing to satisfy expenses we cannot satisfy using our common stock in the remaining quarter of 2002. In addition, we must successfully generate sufficient cash revenue to meet our operating cash requirements in the remaining quarter of 2002. Based on the failure to receive funding from our investment banking contract with the Camelot Group, it is likely that we will have insufficient cash to satisfy our cash

## Edgar Filing: DSTAGE COM INC - Form 10QSB

requirements in the remaining quarter of 2002. Our working capital continued to decrease from the December 31, 2001 to September 30, 2002. As of September 30, 2002 we had negative working capital of (\$485,747), compared to negative working capital of (\$7,069) as of December 31, 2001. The change in working capital reflects growth in current liabilities from \$103,320 as of December 31, 2001 to \$551,249 as of September 30, 2002, combined with a decrease in current assets, from \$96,251 as of December 31, 2001 to \$65,502 as of September 30, 2002. The increase in current liabilities in the period is primarily attributable to a \$250,000 liability we incurred to the seller in connection with our purchase of the VedaLabs technology along with a \$200,000 liability we incurred in connection with an investment banking agreement.

In May of 2002, we reached a definitive agreement with VedaLabs to acquire their Media Player and Peer-to-Peer technology. Under the agreement we issued 3,000,000 shares of our common stock along with a commitment to pay \$250,000 in cash within 6 months, pending transfer or sale of the technology. If transfer or sale of the technology did not occur, the Company was to pay VedaLabs in cash or stock. The number of shares is was to be determined based on the closing price of the Company's shares and the Company is obligated to register such shares with the SEC. The Company's negotiated price for this transaction was \$2.00 per share; however, the licensed technology was recorded at \$0.30 per share, the bid price for shares issued on the date of the transaction. In accordance with SFAS 142 and SFAS 144, the Company engaged an independent valuation firm to assist in valuing the VedaLabs technology. However, in the absence of funding from the investment banking contract, the Company was unable to pay for completion of the valuation engagement. In light of these events, and those explained in Note 5 of our financial statements, we have fully impaired the VedaLabs technology. In addition, we are currently in negotiations with VedaLabs to settle our liability of \$250,000. Failure to successfully negotiate an extension for settlement, or other remedy, our shareholders will incur substantial dilution should we have to settle the liability based on our current share price.

The decrease in current assets in the first quarter is primarily attributable to a decrease in our prepaid expenses and deposits, from \$18,011 at December 31, 2001 to \$0 at September 30, 2002, accounting for \$18,011, or 56% of the decrease in current assets. In addition, a decrease in cash, from \$10,624 at December 31, 2001 to \$516 as of September 30, 2002, accounts for \$10,108, or 32% of the decrease in current assets. Both of these changes resulted in an increase in cash outflow.

Our primary source of capital since inception has been; the sale of stock to our majority shareholder, BulletProof Business Plans, Inc. ("BulletProof"), for \$30,000 in cash, the sale of stock to BulletProof in exchange for expenses paid on our behalf in the amount of \$16,691, the conversion of \$25,000 in notes payable into common stock by BulletProof, and the forgiveness of \$30,000 in notes payable by BulletProof. In addition, BulletProof provided a total of \$39,333 in short-term demand advances and expenses paid on our behalf in 2001, of which we repaid \$33,470 under these obligations, leaving balance due of \$5,863 as of December 31, 2001. In the nine months ended September 30, 2002, we repaid \$11,863 of short-term advances and borrowed an additional \$42,575 from BulletProof. During the quarter ended September 30, 2002, our CEO, Frank Maresca, loaned the Company \$5,311 in the form of short-term demand advances and expenses paid on our behalf. These loans were made in anticipation of financing to be secured in August through our investment banking agreement. Our investment banking agreement failed to produced significant cash and as a result, we did not repay the amounts borrowed from Frank Maresca.

In addition to these sources of cash flow, our revenue in 2001, while insignificant as a total dollar amount, was a source of cash given the limited cash requirements of our operations. In total, we received \$53,500 in cash from sales in 2001, along with \$9,500 in cash from prepayments for services, and \$25,500 in additional paid-in-capital. In the second quarter of 2002 we

## Edgar Filing: DSTAGE COM INC - Form 10QSB

received \$4,200 in cash from sales. To realize the growth in our network of professional service providers and licensed technology our business model calls for, we will require far more cash than that which is required to meet our minimum needs.

19

In order to preserve cash, we have prepaid the services of our officers, directors and Concept Affiliates using our stock. Our ability to continue this model in the future is critical to our success and our ability to continue as an ongoing concern. During the nine months ended September 30, 2002, our common stock bid price was quoted at a low of \$0.12 to a high of \$1.30. However, our board had approved the issuance of shares to new Concept Affiliates at a negotiated value of \$6.00 per share, although the low bid price would be used to record any such transactions. As a result of the historical difference between negotiated and bid prices per share, our ability to negotiate new Concept Affiliate agreements in future periods will likely be adversely impacted. To the degree that our stock price does not increase, we may have difficulty securing new agreements with service providers, acquiring new technology and executing on our business model.

### ACCOUNTING FOR AFFILIATE COMPANY OWNERSHIP

The various interests that we acquire in our affiliate companies are accounted for under the following: equity method and cost method. The applicable accounting method is generally determined based on our voting interest and control in an affiliate company.

**Equity Method.** The equity method of accounting is used to account for our investment in affiliate companies and other investees in which we have a significant voting interest (at least 20%). Under the equity method of accounting, the Company records its equity ownership share of the affiliate's earnings, losses, and dividends paid.

**Cost Method.** The cost method of accounting is used to account for our investment in affiliate companies and other investees in which we do not have significant voting interest (less than 20% of the voting stock). Under the cost method of accounting, our share of the earnings or losses of these companies is not recorded. The investments are recorded at historical cost. The Company reviews the carrying value of its affiliate companies for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through undiscounted net cash flows. Impairment is calculated based on fair value of the asset, generally using net discounted cash flows.

### FACTORS THAT MAY AFFECT FUTURE RESULTS

We operate in a rapidly changing business environment that involves several risks, many of which are beyond our control. Factors that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to the following.

Dstage.com was incorporated in October of 1999 and has a limited operating history from which to base an evaluation of its business and prospects. Since inception, we have incurred losses and as of September 30, 2002 had an accumulated deficit of \$5,452,097.

Our revenues, operating income or net income in the future are unpredictable. As a result of our limited operating history and the nature of the industries in which we compete, we are unable to accurately forecast revenues, operating income or net income. We anticipate continuing to incur significant operating

## Edgar Filing: DSTAGE COM INC - Form 10QSB

expenses in the future. Our business strategy is designed to utilize professional services paid in our common stock in lieu of cash, which will permit us to operate under lower cash levels than traditional operations. Our current expense levels are based largely on the Company's efforts to develop its business model and pursue initial sales; therefore, current expense levels are not indicative of future expense levels. We can give no assurance that it will achieve profitability or be capable of sustaining profitable operations.

Our quarterly results of operations may fluctuate widely. It is anticipated that future quarterly operating results could fluctuate significantly and that period-to-period comparisons of our results may not necessarily be meaningful or indicative of future results. There are many factors that may contribute to these quarterly fluctuations, some of which are beyond our control. Factors include, but are not limited to: (i) Charges for impairment of long-lived assets

20

in future periods; (ii) Market acceptance of our ventures, services, and products; (iii) Economic conditions specific to the industry in which we operate; and (iv) General economic conditions. In the event that we are unable to continue our business model due to a major shift in the economy or some other unforeseen reason, we may have to adjust our business model to a more traditional reliance on cash consideration. This event could have an impact on net operating results by requiring us to obtain various loans to meet obligations. This could result in interest payments and other debt expenses.

A substantial risk facing us is the issue of valuation of common stock in negotiating common stock for service. We anticipate having to negotiate the value of our stock in almost every transaction that we engage in; stock in Dstage.com, private venture equity, interests in licensed technology, and other assets, for which market prices are highly subjective. We will be dependent on the vagaries of negotiation in many transactions. Negotiations may include subjective assessments of an asset or investment's value; therefore, an initial over-payment could result in an adverse consequence to our value when impairment is determined.

We depend on key contractors and the loss of those contractors may harm us. Our performance is dependent on the continued service and performance of our executive officers. Our success is dependent on its ability to attract and retain high quality personnel.

There may be conflicts of interest within our network. Our network of "Concept Sponsors", "Concept Affiliates", officers and directors may face potential conflicts of interest with each other and with Dstage.com shareholders. Some of the our executive officers and directors also serve as officers or directors of other companies.

We face competition from other investors, which may prevent us from realizing strategic opportunities. We intend to develop an extensive network of resources that will position us to acquire or invest in other companies. We expect to face competition from Internet-related companies, venture capital firms, and large corporations. Some of our competitors may have greater financial resources than we do, which may limit our opportunity to acquire interests that could compliment our business strategy.

We may experience adverse consequences in our efforts to avoid the investment company status. The Investment Company Act of 1940 provides a set of regulations for companies engaged in the business of investing, reinvesting, owning, holding or trading securities. Under the Investment Company Act, a company may be deemed an investment company if it owns investment securities with a value exceeding,

## Edgar Filing: DSTAGE COM INC - Form 10QSB

40% of its total assets, subject to certain exclusions and safe harbor provisions.

We could become subject to regulation under the Investment Company Act if enough of our future interests in our affiliates are considered investment securities. Unless an exclusion or safe harbor provision was available to us, we would have to reduce our investment securities as a percentage of total assets. In order to avoid these regulations, we may have to take actions that we would not otherwise choose to take. Regulations applicable to investment companies are inconsistent with our fundamental business strategy of promoting collaboration among our affiliates.

### ITEM 3. CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our management concluded that our disclosure controls and procedures are effective and timely alerting them to material information relating to the Company required to be included in our periodic SEC filings. There were no significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies or material weaknesses.

21

## PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS  
NONE

ITEM 2. CHANGE IN SECURITIES  
NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES  
NONE

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS  
NONE

### ITEM 5. OTHER INFORMATION

In December 2002, the Company began investigating options to resolve damages caused as a result of its investment banking agreement with the Camelot Group. The investment banking agreement executed on July 1, 2002 indicated \$150,000 in funding would be provided to Dstage by the Camelot Group within three (3) to six (6) weeks of execution. The only payments received in accordance with this agreement were \$5,000 on September 5, 2002 and \$2,500 on September 18, 2002, for a total of only \$7,500. Certain shareholders that relied on Camelot's commitment transferred a total of 825,000 shares to Camelot and as of the date of this filing have not had their shares returned to them by Camelot.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits -



## Edgar Filing: DSTAGE COM INC - Form 10QSB

99.1 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

99.2 Certification Pursuant to the 18 U.S.C. section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

b. Reports filed during the last quarter covered by this report.

(1) Pursuant to Item 4., " Changes in Registrant's Certifying Accountant " and Item 5., "Other Events", we filed a Current Report on Form 8-K dated October 1, 2002.

Items 2, 3, 4, 5 are not applicable and have been omitted

22

### Certifications

I, Frank R. Maresca Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q Dstage.com Inc

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

## Edgar Filing: DSTAGE COM INC - Form 10QSB

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 20, 2002

/s/ FRANK R. MARESCA JR.  
Frank R. Maresca Jr.  
Chief Executive Officer

23

I, RounsevelleW Schaum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dstage.com Inc.:
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

Edgar Filing: DSTAGE COM INC - Form 10QSB

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 20, 2002

/s/ ROUNSEVELLE W. SCHAUM  
Rounsevelle W. Schaum  
Chief Financial Officer

24

EXHIBIT 99.1

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Dstage.com Inc , a Delaware corporation (the "Company"), on Form 10-Q for the quarter ending September 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, Frank R. Maresca Jr., Chief Executive Officer of the Company, certify, pursuant to 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ FRANK R. MARESCA JR.  
Frank R. Maresca Jr.  
Chief Executive Officer  
December 20, 2002

25

EXHIBIT 99.2

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Dstage.com Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ending September 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, Rounsevelle W. Schaum , Chief Financial Officer of the Company, certify, pursuant to 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Edgar Filing: DSTAGE COM INC - Form 10QSB

/s/ ROUNSEVELLE W. SCHAUM  
Rounsevelle W. Schaum  
Chief Financial Officer  
December 20, 2002