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ENVOY COMMUNICATIONS GROUP INC

Form 10-Q

March 09, 2001

Consolidated Balance Sheets

(In Canadian dollars)

(Unaudited - Prepared by Management)

As at	December 31 2000	September 30 2000
<b>Assets</b>		
Current assets:		
Cash	\$11,843,799	\$7,105,418
Accounts receivable	41,638,478	34,234,974
Prepaid expenses	2,310,253	1,732,212
	55,792,530	43,072,604
Restricted cash	1,077,095	832,337
Capital assets	10,376,318	10,448,625
Goodwill and other assets	46,753,626	46,987,707
Deferred income taxes	771,024	966,715
	\$114,770,593	\$102,307,988

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$35,513,548	\$24,247,075
Income taxes payable	1,540,035	1,190,313
Deferred revenue	1,038,848	1,044,873
Amounts collected in excess of pass-through costs incurred	2,647,225	2,307,047
Current portion of long-term debt	3,146,116	2,848,430
	43,885,772	31,637,738
Long-term debt	6,848,351	7,983,449

Shareholders' equity:

Share capital	54,865,335	54,597,762
Retained earnings	9,487,615	8,403,367
Cummulative translation adjustment	(316,480)	(314,328)
	64,036,470	62,686,801
	\$114,770,593	\$102,307,988

Consolidated Statements of Operations and Retained Earnings

(In Canadian dollars)

(Unaudited - Prepared by Management)

For the three months ended	December 31 2000	December 31 1999
Net revenue	\$21,776,358	\$12,704,336

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Operating expenses:

Salaries and benefits	12,210,069	7,804,946
General and administrative	4,044,752	2,373,245
Occupancy costs	1,087,311	457,934
	17,342,132	10,636,125
Earnings before interest expense, income taxes, depreciation and goodwill amortization	4,434,226	2,068,211
Depreciation	710,490	379,085
Interest expense	233,243	76,446
Earnings before income taxes and goodwill amortization	3,490,493	1,612,680
Income tax expense, excluding the undernoted	1,575,378	703,181
Impact of tax rate changes (Note 1)	100,000	-
Earnings before goodwill amortization	1,815,115	909,499
Goodwill amortization, net of income taxes of \$6,000 (1999-\$6,000)	730,867	262,568
Net earnings	\$1,084,248	\$646,931
Retained earnings, beginning of period	8,403,367	5,492,940
Retained earnings, end of period	\$9,487,615	\$6,139,871
Net earnings per share - basic	\$0.05	\$0.04
Net earnings per share - fully diluted	0.05	0.04
Earnings per share before goodwill amortization - basic	0.09	0.05
Earnings per share before goodwill amortization - fully diluted	0.08	0.05

Please see accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows  
(In Canadian dollars)  
(Unaudited-Prepared by Management)

	December 31 2000	December 31 1999
For the three months ended		
Cash flows from operating activities:		
Net earnings	\$1,084,248	\$646,931

Items not involving cash:

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Deferred income taxes	195,043	(44,304)
Depreciation	710,490	379,085
Goodwill amortization	736,867	268,568

Net changes in non-cash working capital balances:

Accounts receivable	(7,372,957)	(2,433,945)
Prepaid expenses	(575,959)	103,856
Accounts payable and accrued liabilities	11,463,274	(863,735)
Income taxes payable	307,441	(2,217,824)
Deferred revenue	(5,300)	-
Amounts collected in excess of pass-through costs incurred	342,594	872,929
Other	(73,019)	-
Net cash provided by (used in) operating activities	6,812,722	(3,288,439)

Cash flows from financing activities:

Long-term debt	-	400,000
Long-term debt repayments	(1,459,996)	(441,766)
Issuance of common shares for cash	267,573	269,500
Reduction (Increase) in restricted cash	(245,758)	(225,014)
Other	19,197	-
Net cash provided by financing activities	(1,418,984)	2,720

Cash flows from investing activities:

Acquisition of subsidiaries (net of cash acquired of nil; 1999 - nil)	-	(2,070,653)
Purchase of capital assets	(612,198)	(612,651)
Net cash used in investing activities	(612,198)	(2,683,304)

Change in cash balance due to foreign exchange	(43,159)	(96,768)
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(Decrease)/Increase in cash	4,738,381	(6,065,791)
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Cash, beginning of period	7,105,418	15,300,454
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Cash, end of period	\$11,843,799	\$9,234,663
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Cash flow from operations per share:

Basic	\$0.13	\$0.07
Fully diluted	\$0.12	\$0.07

Supplemental cash flow information:

Interest paid	\$40,419	\$71,127
Income taxes paid	1,026,206	1,628,067
Shares issued for non-cash consideration	3,623,824	2,430,200

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### Notes to Consolidated Financial Statements

#### 1. Income taxes:

Effective October 1, 2000, the Company was required to adopt on a retroactive basis the new accounting standards of The Canadian Institute of Chartered Accountants ("CICA") for income taxes. Under this accounting standard, the Company is not required to restate its comparative figures for prior years.

Under these new standards, future tax assets and liabilities attributable to all temporary differences are measured using the future tax rates expected to be in effect when the items are recovered or settled. The effect of a change in tax rates must be recognized in income at the enactment date.

Previously, future tax assets and liabilities were recorded at the tax rate in effect in the period the temporary difference arose and were not adjusted for subsequent tax rate changes. The Company's temporary differences are principally in respect of deductible share issue costs which were recorded directly in capital stock rather than as a credit to income tax expense. There is no cumulative effect as of October 1, 2000 of this change in accounting policy. As a result of the December 2000 announcement by the government to introduce legislation to reduce income tax rates over the next four years, the Company was required to revalue its future tax assets as at December 31, 2000 to reflect the reduction in future expected tax rates. The impact of this was to increase the Company's tax provision for the three months ended December 31, 2000 by \$100,000. Under the CICA's new accounting standard the Company is required to record this item as an adjustment to income tax expense, notwithstanding the fact that such amounts were not previously reflected in income tax expense when recorded.

#### 2. Segmented information:

The Company provides integrated marketing communication services to its clients. While the Company has subsidiaries in Canada, the United States, the United Kingdom and Continental Europe, it operates as a global business and has no distinct operating segments

The tables below set out the following information:

	By Customer Location	By Geographic Area	
	Net Revenue	Capital Assets	Goodwill
December 31, 2000			
Canada	\$6,186,066	\$7,552,382	\$21,970,618
United States	10,317,488	697,288	16,449,966
United Kingdom and Continental Europe	5,272,804	2,126,648	7,986,240
	\$21,776,358	\$10,376,318	\$46,406,824
December 31, 1999			
Canada	\$3,845,186	\$7,079,134	\$10,245,724
United States	8,859,150	1,007,865	11,289,567
United Kingdom and Continental Europe	-	-	-
	\$12,704,336	\$8,086,999	\$21,535,291

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The Company's external net revenue by type of service is as follows:

December 31	2000	1999
Net Revenue:		
Marketing	\$7,668,623	\$7,826,468
Design	9,389,802	4,538,385
Technology	4,717,933	339,483
	\$21,776,358	\$12,704,336