

Edgar Filing: DSTAGE COM INC - Form 10QSB

DSTAGE COM INC  
Form 10QSB  
August 16, 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 JUNE 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: 000-00000

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.)

1600 BROADWAY, SUITE 2400  
DENVER, COLORADO

80202  
(Zip Code)

(Address of principal executive offices)

(303) 542-1802

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 July 30, 2002, the Registrant had outstanding 15,171,601 shares of Common Stock, \$0.001 par value, including 2,400,000 shares of treasury stock.

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QUARTERLY PERIOD ENDED JUNE 30, 2002

DSTAGE.COM, INC.

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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

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"FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.

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### PART I - FINANCIAL INFORMATION

#### ITEM 1. - FINANCIAL STATEMENTS

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

|   | JUNE 30,<br>2002<br>(Unaudited) | DECEMBER 31,<br>2001<br>(Audited) |
|---|---------------------------------|-----------------------------------|
| <b>ASSETS</b>                               |                                 |                                   |
| Current assets:                             |                                 |                                   |
| Cash  | \$ 965                          | \$ 10,624                         |
| Prepaid services (Note 3)                   | 67,399                          | 67,616                            |
| Prepaid and deposits                        | 198                             | 18,011                            |
| Total current assets                        | 68,562                          | 96,251                            |
|   |                                 |                                   |
| Prepaid services (Note3)                    | 87,968                          | 238,901                           |
| of \$709,908 for 2002 and 2001              | 200                             | 200                               |
| Licensed Technology                         | 1,186,500                       | 38,000                            |
| Total assets                                | \$ 1,349,525                    | \$ 380,528                        |
| =====                                       |                                 |                                   |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b> |                                 |                                   |
| Current liabilities:                        |                                 |                                   |
| Accounts payable and accrued liabilities    | \$ 278,407                      | \$ 78,281                         |
| Due to stockholders (Note 7)                | 27,076                          | 15,363                            |
| Notes payable                               | 4,477                           | 9,676                             |
| Total current liabilities                   | 309,960                         | 103,320                           |
| Stockholders' equity:                       |                                 |                                   |
| 12,064,101 at December 31, 2001             | 15,147                          | 12,064                            |
| Additional paid-in capital                  | 5,170,103                       | 4,211,961                         |
|   | (2,400)                         | 0                                 |
| Deferred Compensation                       | (3,902,985)                     | (2,896,808)                       |
|   | (240,300)                       | (1,050,009)                       |
| Total stockholders' equity                  | 1,039,565                       | 277,208                           |
| Total liabilities and stockholders' equity  | \$ 1,349,525                    | \$ 380,528                        |
| =====                                       |                                 |                                   |

See accompanying notes to financial statements

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

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|  | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | Three Months<br>Ended June 30, |             | Six Mo<br>Ended Ju<br>2002 |
|--|--|--------------------------------|-------------|----------------------------|
|  |  | 2002                           | 2001        |                            |
| Revenue:   |  |                                |             |                            |
| Professional services . . . . .  | \$ 57,808                                    | \$ 4,200                       | \$ 45,000   | \$ 4,200                   |
| Operating expenses:  |  |                                |             |                            |
| Cost of services . . . . .   | 57,700                                       | 4,200                          | -           | 4,200                      |
| Sales and marketing . . . . .  | 46,219                                       | 4,283                          | 17,861      | 6,659                      |
| Research and development . . . . .                                       | 252,142                                      | 284                            | 19,317      | 522                        |
| General and administrative . . . . .                                     | 1,676,019                                    | 769,789                        | 77,264      | 998,481                    |
| Impairment of assets . . . . .   | 1,215,838                                    | -                              | -           | -                          |
| Impairment of investments in other<br>companies . . . . .                | 709,908                                      | -                              | -           | -                          |
| Total operating expenses . . . . .                                       | 3,957,827                                    | 778,555                        | 114,442     | 1,009,862                  |
| Income (loss) from operations . . . . .                                  | (3,900,019)                                  | (774,355)                      | (69,442)    | (1,005,662)                |
| Other income (expense), net . . . . .                                    | (2,966)                                      | (257)                          | (587)       | (522)                      |
| Net income (loss) . . . . .  | \$ (3,902,985)                               | \$ (774,613)                   | \$ (70,029) | \$ (1,006,184)             |
| Net income (loss) per share:   |  |                                |             |                            |
| Basic and diluted . . . . .  | \$ (0.47)                                    | \$ (0.06)                      | \$ (0.01)   | \$ (0.08)                  |
| Weighted average shares used in<br>computing net income (loss) per share |  |                                |             |                            |
| Basic and diluted . . . . .  | 8,337,311                                    | 12,476,271                     | 7,847,824   | 12,301,793                 |

See accompanying notes to financial statements

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

|   | CUMULATIVE<br>DURING<br>Development<br>STAGE | The Si<br>Ended<br>2002 |
|---|--|-------------------------|
| Cash flows from operating activities:   |  |                         |
| Net (loss)  | \$ (3,902,985)                               | \$ (1,006,177)          |
| Adjustments to reconcile net (loss)<br>to cash provided (used) by operating activities: |  |                         |
| Depreciation . . . . .  | 3,556  | 881                     |
| Issuance of common stock for services . . . . .   | 174,000                                      | -                       |
| Issuance of common stock for expense reimbursement . . . . .                            | 22,051                                       | -                       |
| Issuance of common stock for technology . . . . .                                       | 19,167                                       | -                       |
| Impairment of investments in other companies . . . . .                                  | 709,908                                      | -                       |
| Impairment of assets . . . . .  | 1,215,838                                    | -                       |

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|   |           |          |
|---|-----------|----------|
| Revenue paid in common stock . . . . .                        | (108)     | -        |
| Prepaid services expensed . . . . .                           | 374,537   | 151,149  |
| Amortization of deferred compensation . . . . .               | 1,207,377 | 870,034  |
| Expenses paid through notes payable proceeds . . . . .        | 66,490    | -        |
| Change in assets and liabilities:                             |           |          |
| Increase in other current assets. . . . .                     | 1,527     | 17,813   |
| Increase in accounts payable and accrued liabilities. . . . . | 55,483    | (38,161) |
| Increase in notes payable . . . . .                           | 4,477     | (5,199)  |
| Net cash provided (used) by operating activities. . . . .     | (48,681)  | (9,659)  |
| 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    | -        |
| Net cash provided by financing activities . . . . .           | 56,335    | -        |
| Net increase (decrease) in cash . . . . .                     | 965       | (9,659)  |
| Cash, beginning of period . . . . .                           | -         | 10,624   |
| Cash, end of period . . . . .                                 | \$ 965    | \$ 965   |

|   |              |            |
|---|--------------|------------|
| 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   | \$ 900,000 |
| =====   |              |            |
| Purchase of treasury stock in exchange for property and technology. | \$ 2,400     | \$ 2,400   |
| =====   |              |            |
| Purchase of licensed technology by incurring debt to seller . . . . | \$ 250,000   | \$ 250,000 |
| =====   |              |            |
| Payment of prepaid and other assets by issuance of common stock . . | \$ 1,726     | \$ -       |
| =====   |              |            |
| Prepayment of services for common stock . . . . .                   | \$ 1,954,420 | \$ 60,325  |
| =====   |              |            |
| Investments in other companies. . . . .                             | \$ 710,000   | \$ -       |
| =====   |              |            |
| Conversion of debt to common stock . . . . .                        | \$ 35,000    | \$ -       |
| =====   |              |            |
| Forgiveness of debt by stockholder. . . . .                         | \$ 31,489    | \$ -       |
| =====   |              |            |

See accompanying notes to financial statements

DSTAGE.COM, INC.  
(A DEVELOPMENT STAGE COMPANY)  
NOTES TO FINANCIAL STATEMENTS

(1) NATURE OF BUSINESS AND ORGANIZATION

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 June 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.

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From inception to June 30, 2002, the Company has had minimal revenues, of \$57,808, and has expensed operating costs in the amount of \$3,957,827. 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. A loss of continuing cash investment from its founding stockholder, contributed time from stockholders and directors and contributed services from key vendors in the near term would have a detrimental effect on the Company. Management plans to continue to operate in the near term relying on contributed cash, time and services and without expending significant amounts of cash or incurring significant debt. The Company has earned revenue in 2001, and nominal revenue in 2002, and plans 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. 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 June 30, 2002 and the results of operations for the three and six month periods then ended have been made. Operating results for the three and six months ended June 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.

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#### 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 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. 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,

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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 relies on BulletProof Business Plans, Inc. to provide cash infusion when necessary and this reliance will continue in the near future.

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In view of these matters, the Company is currently in negotiations to obtain additional equity financing to enable it to achieve its strategic objectives. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 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 June 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.

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### (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, \$104,252 of these services were expensed in the quarter ended June 30, 2002. For the six months ended June 30, 2002, a total of \$151,148 of these services were expensed, leaving a total balance of prepaid services of \$155,368 as of June 30, 2002. No additions to prepaid services under these arrangements were made in the quarter ended June 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 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.

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

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net asset value of \$100. Ameribank Card Services continues to pursue its business model in 2002, having grown its portfolio of merchant accounts from 327 merchants at the beginning of 2001 to 412 as merchants as of December 31, 2001.

### (5) - LICENSED TECHNOLOGY

In May of 2002, the Company reached a definitive agreement with VedaLabs to acquire their Media Player and Peer-to-Peer technology. Under the agreement the Company 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



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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", the Company is having an independent valuation conducted to assist in valuing the VedaLabs technology. Should the book value of the VedaLabs technology be less than its fair value in any future period, the Company will record an impairment expense equal to the difference in book value and fair value. The impact or amount of any such impairment, if any are required, is unknown at this time.

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 Dstage 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.

### (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

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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 the Company's shares to Weylock Trading Company, Inc., a Philippine

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Company, in exchange for a loan. The Company was also informed at that time of Weylock's interest in selling Dstage back the shares in exchange for Dstage's 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 Dstage 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 six months ended June 30, 2002, the Company secured a total of \$20,575 in new borrowings under this arrangement. Of these new borrowings, the Company has repaid a total \$3,000 as of June 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 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 and June 30, 2002.

In July of 2002, Jane Olmstead extended her term as interim CFO until a new CFO has been retained. 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

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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

In July of 2002, Jane Olmstead extended her term as interim CFO until a new CFO has been retained. 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.

During the six month ended June 30, 2002, the Company's founding shareholder, BulletProof Business Plans, provided a total of \$20,575 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

In July of 2002, the Company entered into an agreement with Standard and Poor's Corporate Valuation Consulting. Under the terms of the agreement; Dstage is to pay \$35,000 for valuation services in connection with the VedaLabs technology, \$200,000 to \$300,000 to develop a valuation methodology in connection with the Company's planned VC-IP auction concept, and between \$150,000 and \$275,000 to use the customized methodology to evaluate up to 50 intellectual property assets.

In July of 2002, the Company entered into an agreement with The Camelot Group, Inc., whereby the Camelot group would provide investment banking services and provide the Company with \$150,000 in August of 2002. The agreement also called for The Camelot Group to raise between \$500,000 and \$1,000,000 on a best efforts basis. Certain Dstage shareholders compensated The Camelot Group for their services and the \$150,000 cash to be paid to Dstage. This transaction will result in a liability due to these shareholders of not less than \$350,000.

In July of 2002, Jane Olmstead extended her term as interim CFO until a new CFO has been retained. 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.

## 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

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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.

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. 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.

### 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

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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.

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### 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 JUNE 30, 2002 COMPARED TO QUARTER ENDED JUNE 30, 2001

#### REVENUE

|             | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED JUNE 30,<br>2002 | JUNE 30,<br>2001 | % CHANGE | SIX MONTHS E<br>2002 |
|-------------|--|-------------------------------------|------------------|----------|----------------------|
| Net Revenue | \$ 57,808                                    | \$ 4,200                            | \$ 45,000        | (90.67%) | \$ 4,200             |

We generated minimal revenue of \$4,200 for the quarter ended June 30, 2002. These revenues were the result of cash payments for small consulting projects. The percentage decrease in revenue, from the three and six months ended June 30, 2001 compared to the three and six months ended June 30, 2002, is substantial. This is largely due to a single consulting engagement in the second quarter

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2001. The total dollar amount of revenue in both periods is comparably low.

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

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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 can plan 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<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED JUNE 30, |      | %      | SIX MONTHS E |
|------------------|--|-----------------------------|------|--------|--------------|
|                  |  | 2002                        | 2001 | CHANGE | 2002         |
| Cost of Services | \$ 57,700                                    | 4,200                       | -    | NM     | 4,200        |

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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 three and six months ended June 30, 2002, and had costs of services totaling \$4,200. 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.

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### SALES AND MARKETING

|                     | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED JUNE 30, |        | % CHANGE | SIX MONTHS E<br>2002 |
|---------------------|--|-----------------------------|--------|----------|----------------------|
|                     |  | 2002                        | 2001   |          |                      |
| Sales and Marketing | 46,219                                       | 4,283                       | 17,861 | (76.02%) | 6,659                |

Since inception, sales and marketing expenses have consisted of advertising, promotional materials and public relations expenses. Although the percentage decrease in sales and marketing expenses, from the three and six months ended June 30, 2001 compared to the three and six months ended June 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 six months ended June 30, 2002, 100%, or \$4,283, required payment in cash. Of our total sales and marketing expenses incurred in the six months ended June 30, 2001, 52%, or \$12,000, was initially prepaid for using our common stock, requiring no payment in cash.

In the remaining quarters 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

|  | CUMULATIVE<br>DURING<br>DEVELOPMENT | THREE MONTHS ENDED JUNE 30, |  |  | SIX MONTHS E |
|--|-------------------------------------|-----------------------------|--|--|--------------|
|  |                                     |                             |  |  |              |

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|                          | STAGE | 2002    | 2001 | % CHANGE | 2002     |     |
|--------------------------|-------|---------|------|----------|----------|-----|
| Research and Development | \$    | 252,142 | 284  | 19,317   | (98.53%) | 522 |

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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 six months ended June 30, 2001 compared to the three and six months ended June 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 June 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 June 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.

### GENERAL AND ADMINISTRATIVE

|                            | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED JUNE 30, |         | % CHANGE | SIX MONTHS E<br>2002 |         |
|----------------------------|--|-----------------------------|---------|----------|----------------------|---------|
|                            |  | 2002                        | 2001    |          |                      |         |
| General and Administrative | \$   | 1,676,019                   | 769,789 | 77,264   | 896.31%              | 998,481 |

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 six months ended June 30, 2002, compared to the three and six months ended June 30, 2001, is primarily due to expensing deferred compensation for Concept Affiliate agreements secured in 2001. For the six months ended June 30, 2002, expensing deferred compensation accrued under these agreements accounted for approximately 71%, or \$712,892, of our general and administrative expenses for the period. Similarly, prepaid Concept Affiliate services expensed during the six months ended June 30, 2002 accounted for approximately 25%, or \$249,091, of our general and administrative expenses for the six months ended June 30, 2002. The remaining 4% is composed primarily of compliance related expenses, approximately 2%, or \$14,575, insurance expense of approximately \$12,685, or approximately 1%, and all other general and administrative expenses totaling. Compliance related expenses include legal, accounting and other charges related to filing our reports with the Securities and Exchange Commission. Of the \$998,481 we expensed under the general and administrative caption for the six months ended



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June 30, 2002, 97% or \$961,983 were prepaid for using our common stock, \$34,843 or 3% require settlement in cash. We plan to utilize more professional services from our officers, directors and Concept Affiliates in the remaining quarters of 2002.

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

|  | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED<br>2002 | JUNE 30,<br>2001 | % CHANGE | SIX MONTHS ENDED<br>2002 |
|--|--|----------------------------|------------------|----------|--------------------------|
| Impairment of . . . Assets                   | \$ 1,215,838                                 | -                          | -                | 0%       | -                        |
| 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 31% of our \$3,960,793 net loss, whereas impairment of long-lived assets has accounted for approximately 18% of our net loss since inception. Together, these two expense categories account for 49% of our net loss from inception and through the six months ended June 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 impairment in a future period.

### INCOME TAXES

There is no current or deferred tax expense for the period from October 12, 1999 (inception) to June 31, 2002 due to net losses from operations by the Company. As of June 30, 2002 we had operating loss carryforwards of \$3,902,985 compared to operating loss carryforwards of \$2,896,808 as of December 31, 2001. The operating loss carryforwards expire beginning in 2019.

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NET LOSS

|                                  | CUMULATIVE<br>DURING<br>DEVELOPMENT<br>STAGE | THREE MONTHS ENDED JUNE 30, |             | % CHANGE  | SIX MONTHS<br>2002 |
|----------------------------------|--|-----------------------------|-------------|-----------|--------------------|
|                                  |  | 2002                        | 2001        |           |                    |
| Net income (loss)                | \$ (3,902,985)                               | \$ (774,613)                | \$ (70,029) | 1,006.13% | \$ (1,006,1        |
| Net income (loss)..<br>Per Share | \$(0.47)                                     | \$(0.06)                    | \$(0.01)    | 595.78%   | \$(0.              |
| Weighted . . .<br>Average Shares | 8,337,311                                    | 12,476,271                  | 7,847,824   | 58.98%    | 12,301,7           |

We have incurred net losses from operations in each fiscal year, and each quarter, since our inception. The overall increase in our loss from operations, from the six months ended June 30, 2001 compared to the six months ended June 30, 2002, was approximately 900%, or \$905,564. The overall increase in our quarterly net loss is primarily attributable to a 1,017%, or \$909,076 increase in our general and administrative expenses in the first quarter of 2002, along with a 91%, or \$40,800 decrease in revenues.

We anticipate that impairments will play a major role in our operating results in the remaining quarters 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.

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LIQUIDITY AND CAPITAL RESOURCES

We must successfully secure external cash financing to satisfy expenses we cannot satisfy using our common stock in the remaining quarters of 2002. In addition, we must successfully generate sufficient cash revenue to meet our operating cash requirements in the remaining quarters of 2002. Our working capital continued to decrease from the December 31, 2001 to June 30, 2002. As of June 30, 2002 we had negative working capital of (\$241,398), 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 \$309,960 as of June 30, 2002, combined with a decrease in current assets, from \$96,251 as of December 31, 2001 to \$68,562 as of June 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.

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

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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", the Company is having an independent valuation conducted to assist in valuing the VedaLabs technology. Should the book value of the VedaLabs technology be less than its fair value in any future period, the Company will record an impairment expense equal to the difference in book value and fair value. The impact or amount of any such impairment, if any are required, is unknown at this time.

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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 \$198 at June 30, 2002, accounting for \$17,813, or 64% of the decrease in current assets. In addition, a decrease in cash, from \$10,624 at December 31, 2001 to \$965 as of June 30, 2002, accounts for \$9,659, or 35% 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 six months ended June 30, 2002, we repaid \$8,863 of short-term advances and borrowed an additional \$20,575 from BulletProof. In addition to this source 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 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.

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 six months ended June 30, 2002, our common stock bid price was quoted at a low of \$0.25 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 may 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

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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.

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### 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 June 30, 2002 had an accumulated deficit of \$3,902,985.

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 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 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

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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

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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, 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.

### 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  
NONE

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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits - NONE

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

(1) Pursuant to Item 1., "Change In Control" and Item 2., "Acquisition or Disposition of Assets", we filed a Current Report on Form 8-K dated May 29, 2002.

(2) Pursuant to Item 1., "Change In Control", we filed a Current Report on Form 8-K dated July 22, 2002.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has dully caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dstage.com, Inc.

Dated: August 16, 2002

By:

/s/ Frank R. Maresca, Jr.

Frank R. Maresca, Jr., Chief Executive Officer, Director

/s/Jane Olmstead

Jane Olmstead, Director, Interim Chief Financial Officer, Audit Committee Member