

Edgar Filing: LCS GOLF INC - Form 10QSB/A

LCS GOLF INC
Form 10QSB/A
November 18, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MAY 31, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 0-30420

LCS GOLF, INC.
(Exact Name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-3200338
(I.R.S. Employer
Identification No.)

3 Tennis Court Road
Mahopac, New York 10541
(Address of Principal Executive Offices)

77067
(Zip Code)

845-621-3945
Issuer's telephone number

N/A
(Former name, former address and former fiscal year, if changed since last
report)

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

Yes No
--- ---

Applicable only to corporate issuers:

State the number of shares outstanding of each of the issuer's classes
of common equity, as of the latest practicable date. 43,120,176 shares of Common
Stock, par value \$0.001 as of October 31, 2002

Transition small business disclosure format (check one) Yes _____ No
----- ---

Edgar Filing: LCS GOLF INC - Form 10QSB/A

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

LCS GOLF, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	May 31, 2002

	(Unaudited)
ASSETS	
Current assets:	
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$144,406 at May 31, 2002 and February 28, 2002, respectively	\$ --
Fixed assets, net	38,000
Deferred financing costs, net	8,000
Security deposits and other assets	-----
	\$ 46,000
	=====
LIABILITIES	
Current liabilities:	
Cash overdraft	\$ 21,000
Accounts payable	616,000
Accrued Expenses	2,397,000
Liabilities to be paid with Common Stock	-----
Debt in default	262,000
Debt not in compliance with terms	489,000
Notes payable	100,000
Loans from stockholder/president	905,000
Other current liabilities	54,000

Total current liabilities	4,847,000

Commitments (Notes E, F and J)	
CAPITAL DEFICIT	
Common stock - \$.001 par value, 50,000,000 shares authorized; 35,207,225 and 27,407,225 shares issued and outstanding, respectively; 9,750,000 shares issuable at February 28,2002	35,000
Additional paid-in capital	14,664,000
Accumulated deficit	(19,500,000)

Total capital deficit	(4,800,000)

	\$ 46,000
	=====

Edgar Filing: LCS GOLF INC - Form 10QSB/A

The notes to the condensed consolidated financial statements are made a part hereof.

LCS GOLF, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED MAY 31,	
	2002	2001
	(UNAUDITED)	(UNAUDITED)
NET REVENUES	\$ 20,365	\$ 89,679
COST OF REVENUES	----	40,498
GROSS PROFIT	20,365	49,181
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	147,943	1,676,979
LOSS FROM OPERATIONS	(127,578)	(1,627,798)
Interest expense	(74,250)	(333,477)
NET LOSS	\$ (201,828)	\$ (1,961,275)
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (.01)	\$ (.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	36,380,051	20,507,225

The notes to the condensed consolidated financial statements are made a part hereof.

LCS GOLF, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MAY 31,	
	2002	2001
	(UNAUDITED)	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (201,828)	\$ (1,961,275)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,458	23,703
Common stock issued and to be issued for services	20,000	1,370,750
Financing Charge - non cash	17,453	239,000

Edgar Filing: LCS GOLF INC - Form 10QSB/A

Changes in:		
Accounts receivable	496	24,388
Prepaid and other current assets	----	(1,441)
Security deposits and other assets	----	1,007
Accounts payable and accrued expenses	70,062	191,501
Other current liabilities	2,999	----
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(87,360)	(112,367)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash Overdraft	5,953	----
Proceeds from notes issued	75,000	125,000
Repayment of note	(10,000)	(20,000)
Proceeds from major stockholder/president loans	16,407	100,715
Repayment of major stockholder/president loans	----	(62,300)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	87,360	143,415
	-----	-----
NET INCREASE/DECREASE IN CASH	----	31,048
CASH - MARCH 1	----	1,514
	-----	-----
CASH - MAY 31	\$ ----	\$ 32,562
	=====	=====
NON-CASH TRANSACTIONS		
Issuance of Common Stock for Liabilities	\$390,000	----

The notes to the condensed consolidated financial statements are made a part hereof.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] The Company:

On October 28, 1997, LCS Golf, Inc. (the "Company"), an inactive New York corporation, was merged in a reverse merger transaction into an inactive Delaware corporation with the same name ("LCS Delaware") in exchange for 980,904 shares of LCS Delaware's common stock. The Company paid \$50,000 as a finder's fee in connection with the merger which was charged to expense. In addition, 3,916,360 shares with a value of \$25,000 were issued to certain existing shareholders of the Company for services rendered in connection with the merger. For financial accounting purposes, the merger on October 28, 1997 has been treated as the acquisition of LCS Delaware by the Company in the form of a

Edgar Filing: LCS GOLF INC - Form 10QSB/A

recapitalization. Therefore, no value has been ascribed to the common stock held by the LCS Delaware shareholders.

The Company was formed under the laws of the State of New York on March 8, 1994. On October 26, 1994, the Company commenced business operations with the purchase of substantially all of the assets and the assumption of specific liabilities of Bert Dargie Golf, Inc., a Tennessee corporation engaged in the business of designing, assembling and marketing golf clubs and related accessories.

In August 1996, the Company conveyed, assigned, transferred and delivered substantially all of its business assets to Dargie Golf Co. (the "Purchaser") in exchange for the: i) cancellation of the remaining debt owed to the Purchaser arising from the October 26, 1994 purchase, ii) sale by Herbert A. Dargie III of his 5 percent ownership interest in the Company to the Company and, iii) the assumption of certain liabilities of the Company by the Purchaser.

The Company was engaged in the acquisition and operation of companies which provide products and services to the golf playing public and marketing the database information obtained from its websites. These products and services included discounted green fees and other services, and a golf website (<http://www.golfuniverse.com>) which provides various golf-related hyperlinks to other golf websites and golf course previews. Since March 1, 2001, the Company has very limited operations.

The Company formerly designed and manufactured consumer products, but ceased its manufacturing operations in November of 1999. These products consisted of specialty pillows which LCS Golf planned to sell on its websites. LCS Golf had outsourced its manufacturing operations to produce the Company's line of products utilizing its machinery and equipment. Since March 1, 2001, the manufacturing segment has been idle due to the Company's decision not to allocate funds to this segment and to concentrate all of its resources in its database and Internet marketing business. If the Company is able to raise additional capital, it intends to resume its manufacturing operations.

[2] Principles of consolidation:

The consolidated financial statements include the accounts of LCS Golf, Inc. and its subsidiaries: Play Golf Now, Inc.; Golfpromo, Inc.; Golf Universe, Inc.; Ifusion Corp. and Mr. B III, Inc. (inactive), all of which are wholly owned. All material intercompany accounts and transactions have been eliminated in consolidation.

[3] Basis of presentation:

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

Edgar Filing: LCS GOLF INC - Form 10QSB/A

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Basis of presentation: (continued)

Through May 31, 2002, the Company has not been able to generate significant revenues from its operations to cover its costs and operating expenses, has incurred significant recurring losses and has not been in compliance with its debt terms. In addition, the Company has a significant working capital deficiency and a capital deficit. Although the Company has been able to issue its common stock for a significant portion of its expenses and has had to rely on loans from its major stockholder/president and others, it is not known whether the Company will be able to continue this practice. It is also not known if the Company will be able to meet its operating expense requirements.

These circumstances raise substantial doubt about the Company's ability to continue as a going concern. If the Company is not able to raise sufficient additional capital or debt financing, the Company will be forced to cease operations. In addition, the Company is investigating potential merger candidates that have or may be able to generate additional capital or obtain debt financing. No assurances can be given to the success of these plans. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Certain accounts have been reclassified for comparative purposes.

[4] Interim Financial Data

Those condensed consolidated financial statements have been prepared by the Company, without audit by independent public accountants, pursuant to the rules and regulations of the United States Securities and Exchange Commission. In the opinion of management, the accompanying audited financial statements include all normal recurring adjustments necessary for the information presented not to be misleading. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's fiscal year 2001 Annual Report on Form 10-KSB. Operating results for the three months ended May 31, 2002 and 2001 are not necessarily indicative of the results that may be expected for the full year or any other period.

There have been no significant changes in the accounting policies of the Company. There were no significant changes in the Company's commitments and contingencies as previously described in the fiscal year 2002 Annual Report on Form 10-KSB.

[5] Depreciation of equipment:

Depreciation is provided utilizing the straight-line method over the estimated useful lives of the related assets. For income tax purposes, accelerated depreciation methods are utilized for certain assets.

[6] Deferred income taxes:

Deferred income taxes are reported using the asset and liability

Edgar Filing: LCS GOLF INC - Form 10QSB/A

method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Loss per share:

Loss per share has been computed by dividing the net loss by the weighted average number of common shares outstanding during each period. The effect of outstanding potential common shares, including stock options, warrants and convertible debt is not included in the per share calculations as it would be anti-dilutive.

[8] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, which are subject to impairment considerations, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE B - DEBT IN DEFAULT

On February 16, 2000, the Company borrowed from Traffix, Inc. (formerly Quintel Communications, Inc.) ("Traffix"), an internet marketing and development company, \$500,000 in the form of a convertible promissory note ("Note"). The Note was due on demand at any time after August 16, 2000 and is convertible into

Edgar Filing: LCS GOLF INC - Form 10QSB/A

500,000 shares of common stock of the Company at any time prior to repayment. Any shares issued by the Company will have registration and piggyback registration rights and are subject to anti-dilution adjustments in certain cases. If any additional shares are issued under the anti-dilution provisions, the Company will have a one-time repurchase right at a \$1.00 per share during the twelve-month period following the date of conversion of the Note. The Note was without interest until the earlier of August 17, 2000 or an event of default under the Note. Interest is being charged at prime plus 4%, not to exceed 14%. The Note may be prepaid at anytime after giving 15 days prior written notice. The Note is collateralized by the Company's database and all related records, contract rights and intangibles which has been delivered to the lender and must be updated upon request, until the obligation has been paid.

The Company entered into a ten-year licensing agreement with Traffix for the use of its database for a monthly payment of \$5,000 which can be used to offset the remaining balance owed to Traffix. No such payments have been made by Traffix.

On the same date, the Company also entered into a two-year marketing agreement with Traffix to develop programs to market products and services and send promotional e-mails to the visitors and customers of the Company's websites. Traffix is to pay the Company \$.25 for each individual who "opts in" to be registered with Traffix at its site. Revenues generated from these programs (less direct "out-of-pocket" costs, including royalties, cost of producing the marketing materials and other expense directly related to the programs) is to be divided equally and distributed quarterly less any required reserves. There have been no revenues recognized from these programs.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE B - DEBT IN DEFAULT (CONTINUED)

In connection with the marketing agreement, the Company issued two-year options to purchase 100,000 shares of the Company's common stock at \$1.00 a share and 100,000 shares at \$2.00 per share. The value of these options at grant date, utilizing the Black-Scholes option-pricing model, was \$139,000. The assumptions used in determining the value was an expected volatility of 155%, an average interest rate of 6.68% per annum and an expected holding period of two years. The estimated value of these options was expensed in the year ended February 28, 2001. These options are subject to certain anti-dilution provisions and provide registration rights for the underlying shares. The agreement can be terminated in the event of a default under the agreement by either party which is not corrected within 30 days after notice is given.

On August 8, 2000, following certain disagreements concerning Traffix's use of the Company's database, the Company entered into a Forbearance Agreement and amended the security agreement with Traffix. The Company made a \$50,000 payment against the \$500,000 convertible note which was funded personally by its major stockholder/president. The Note was amended to provide for payment on demand. The amended security agreement requires the Company to remit to Traffix, 50% of collections on the outstanding accounts receivable as of August 10, 2000 and 25%

Edgar Filing: LCS GOLF INC - Form 10QSB/A

of all subsequent accounts receivable collected, within five days. Payments are to be credited, first to interest and then to principal. Traffix is also to receive 50% of all other cash receipts, including additional loans, until the Note is paid. The amended security agreement also includes all accounts of the Company and all security, or guarantees held with respect to the accounts and all account proceeds. In addition, the Company's major stockholder/president personally guaranteed up to \$250,000 of the Note of which \$160,000, (including the two payments of \$50,000 each discussed below) has been paid against this guaranty.

Due to the above amendment, Traffix agreed not to demand payment on the Note or commence any action against the Company, as long as it receives payments for interest and principal of at least \$10,000 per month or collection of the Company's accounts receivable or money from the guarantor, the Company's major stockholder/president, and the Company generates gross revenues of at least \$75,000 per month.

On August 8, 2000, the Company received \$300,000 from American Warrant Partners, LLC ("AWP") evidenced by an 8% convertible subordinated promissory note (see below). The Company did not remit 50% of the cash proceeds of this note, as required by the Forbearance Agreement, which put the Company into default under its agreement with Traffix. The Company has not obtained a waiver of the default, however, the major stockholder/president personally made two payments of \$50,000 each towards the principal and interest on the Traffix Note. The Company recorded these payments as a loan from its stockholder/president. In addition, the Company agreed to remit 50% (formerly 25%) of cash received from new accounts receivable.

On May 16, 2001, the Company entered into an agreement Traffix, Inc. which amended the aforementioned Forbearance Agreement dated August 8, 2000. The Company agreed to pay \$10,000 on signing. Upon the closing of the AWP financing (see Note G), Traffix was to be paid an additional \$10,000. Commencing on June 1, 2001, the Company agreed to a payment schedule of a minimum of \$10,000 per month. Since May 16, 2001 the Company has not made all of the required \$10,000 monthly payments to Traffix, as called for by the amended Forebearance Agreement. The Company is in default of its amended Forbearance Agreement with Traffix.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE C - DEBT NOT IN COMPLIANCE WITH TERMS

[1] On August 8, 2000, AWP loaned the Company \$300,000 evidenced by 8% convertible subordinated promissory note with a maturity date of August 8, 2002. The note is convertible, at the option of AWP, into common stock at \$.25 per share (market price of \$.4375 per share), subject to adjustment which resulted in a discount of the note of approximately \$201,000. This discount was immediately recognized as interest expense due to the ability of AWP to convert the note at any time. Interest is payable quarterly commencing on September 30, 2000. The Company also issued a five-year warrant expiring on August 8, 2005 to purchase 600,000 shares of common stock, exercisable at \$.40 per share, subject

Edgar Filing: LCS GOLF INC - Form 10QSB/A

to adjustment, to be exercised in whole or in part. The value of this warrant at grant date, utilizing the Black-Scholes option-pricing model, was approximately \$260,000. The assumptions used in determining the value was an expected volatility of 227%, an average interest rate of 6.06% per annum and an expected holding period of five years. The allocated value of the warrant is \$99,000. This amount is to be amortized over the life of the two-year note, or shorter if exercised earlier. Based upon the values ascribed to the convertibility feature of the note and the warrant, the Company has recorded additional interest expense of approximately \$228,000 during the year ended February 28, 2001. The Company also entered into a registration rights agreement whereby a Registration Statement for the shares is to be filed as soon as reasonably practicable but not later than September 15, 2000. The Company did not file the Registration Statement by September 15, 2000 and since a Registration Statement was not declared effective by November 15, 2000, the terms of the agreement are that for each 30-day period that the Registration Statement is not declared effective, the conversion price of \$0.25 of the convertible note and the warrant exercise price of \$0.40 will each be reduced by 2% per 30-day period, until the exercise price reaches \$0.05. Pursuant to this provision, at February 28, 2002, the reduced conversion price and the exercise prices were each \$0.04 respectively. In addition, the interest rate on the convertible note will increase 2% for each 30-day period, not to exceed 15%. Pursuant to this provision, the Company has recorded interest expense of \$6,000 for the quarter ended May 31, 2002 and \$6,000 for the quarter ended May 31, 2001. As of February 28, 2001, the interest rate was 15%. Certain officers and directors agreed to a lock-up agreement restricting their right to sell, transfer, pledge or hypothecate or otherwise encumber their shares until the earlier of 1) the one year anniversary of the agreement, 2) the effective date of the Registration Statement or 3) until the Company raises \$1,000,000 in equity or debt financing. The Company agreed to recommend and use its best efforts to elect a representative of AWP to the Board of Directors until one year from the date of the agreement or until the Company raises \$1,000,000 in equity or debt financing.

On May 16, 2001, the Company entered into an amendment, waiver and consent relating to the 8% convertible subordinated promissory note, warrant, and registration rights agreement revising the conversion price of the promissory note and the exercise price of the warrant to the lower of \$0.12 or 80% of the current market price on the date immediately preceding the date of the exercise or conversion. The Company is required to register the underlying common stock in a registration statement to be filed in connection with a proposed new investment no later than 60 days from June 15, 2001, in consideration for which, AWP has agreed to waive any penalty provisions with respect to the filing of the registration statement and consent to the issuance of common stock below the then applicable conversion or exercise price of the promissory note and warrant relating to the financing received on May 24, 2001.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE C - DEBT NOT IN COMPLIANCE WITH TERMS (CONTINUED)

Edgar Filing: LCS GOLF INC - Form 10QSB/A

[1] (continued)

Pursuant to this amendment of the Conversion and Exercise price, the Company recorded a charge of approximately \$239,000 during the quarter ended May 31, 2001, which represents the beneficial conversion feature resulting from the difference between the fair market value of the shares at the effective date of the amendment and the effective conversion rate of the note.

[2] On May 24, 2001, the Company entered into an agreement with Private Capital Group, LLC ("PCG") (an entity related to AWP) for the sale of \$200,000 of 8% convertible debentures with Private Capital Group, LLC ("PCG") (an entity related to American Warrant Partners) which can be converted at any time by the holder or will automatically convert into common stock in five years, at the lower of \$0.12 per share or 80% of the market price as defined. The \$200,000 Note has been personally guaranteed by the Company's major stockholder/president with 750,000 of his shares of the Company's stock being held in escrow. The Company also agreed to file a registration statement for the shares but no later than sixty calendar days from June 15, 2001. The Company did not file the registration statement within the sixty-day period. The lenders waived this noncompliance. At February 28, 2002, the Company had received \$175,000 of proceeds from this note. The Company has recorded a charge of \$175,000 for the year ended February 28, 2002. The charge represents the beneficial conversion feature resulting from the differences between the fair market value of the shares at the date of issuance of the debt and the effective conversion rate for the convertible debentures.

On January 31, 2002, the Company was notified that it was in default of its convertible debentures agreements with Private Capital Group, LLC ("PCG") and its 8% convertible subordinated promissory note to American Warrant.

As of January 31, 2002 the Company had not filed its quarterly report on Form 10-QSB for the period ending November 30, 2001 within the time required pursuant to Rule 13a-13 of the Securities Exchange Act of 1934. PCG considered this to be an event of default as defined in the debenture agreement and demanded that the Company cure this default within thirty business days in accordance with the debenture agreement. The Company believed that it cured this default with the filing of this Form 10-QSB for the period ending November 30, 2001 on February 11, 2002.

The Company has not paid the interest due on the promissory note, which American Warrant considers this to be an event of default under the note. This default was not cured within twenty calendar days therefore, the principal and accrued interest are payable immediately.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE D - Bridge Note

On May 28, 2002, the Company entered into a loan agreement with a third party for \$75,000. In conjunction with this loan the Company also

Edgar Filing: LCS GOLF INC - Form 10QSB/A

granted the third party 200,000 shares of the Company's common stock. The Company's president, chief executive officer and principal stockholder has personally pledge 2,000,000 shares of the Company's common stock as collateral for the loan. The loan is due and payable on June 11, 2002. If the loan is not repaid on the due date, the Company is required to issue 10,000 shares of the Company's common stock to the third party for each day the loan is past due. The loan has not been repaid.

As of November 10, 2002, the Company is obligated to issue an additional 1,520,000 shares of its common stock.

NOTE E - SUBSEQUENT EVENTS

On June 28, 2002, the Company entered into an Agreement and Release with AWP and PCG (see Note C), the holders of the Company's 8% convertible promissory notes. The Agreement and Release addresses the Company's noncompliance with the terms of the 8% convertible promissory notes.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)
May 31, 2002

NOTE E - SUBSEQUENT EVENTS (CONTINUED)

Pursuant to the Agreement and Release, AWP and PCG in the aggregate converted \$200,000 of the 8% convertible promissory notes at a price of \$0.04 per share, as adjusted, for an aggregate of 5,000,000 shares of the Company's common stock. Should the price of the Company's stock not reach and remain at \$0.50 per share for a minimum period of thirty trading days within 120 days of a merger with an operating company, at an average volume of 150,000 shares per day, then the Company will issue a total of an additional 6,000,000 shares of its common stock to AWP and PCG. Since a merger with an operating company did not occur within thirty days of the aforementioned agreement and release, AWP and PCG have the option to receive immediate repayment of their notes or to receive the additional 6,000,000 shares of common stock. At July 28, 2002, we recorded an accrual for \$420,000 related to these shares.

Also pursuant to the Agreement and Release described above, AWP exercised the warrants that were issued in conjunction with the 8% convertible promissory notes. These warrants were exercised on a cashless basis into 512,951 shares of the Company's common stock.

Upon the issuance of the 5,000,000 shares common stock in conjunction with the conversion of the \$200,000 of 8% convertible promissory notes and the issuance of the 512,951 shares in conjunction with the exercise of the AWP warrant, the 800,000 shares that have been held in escrow as security for the promissory notes were released and returned to the Company's president and chief executive officer.

Edgar Filing: LCS GOLF INC - Form 10QSB/A

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a holding company that until December 31, 2001 operated as a provider of outsourcing of permission e-mail marketing technologies and services. We provided permission email direct marketing services through Golfpromo.net and Targetmails.com., Internet and direct marketing services through Ifusionco.com. and PlayGolfNow.com, Golf ecommerce news and information through a vertical golf portal and discounts on golf services.

We have terminated almost all of our operations and released all but two of our employees, our two executive officers, neither of whom is drawing a salary. We currently operate our email marketing business at very limited levels, which generates no material revenues. We are investigating the possibility of acquiring or otherwise affiliating with a business that could benefit from the use of our databases and technology but currently have not identified any such business. Any such acquisition or affiliation will also most likely require significant financing. We currently have no commitments for any financing and may be unable to raise needed cash on terms acceptable to us if at all. If we are unable to resume our operations and/or obtain a revenue generating business partner and the financing required to support these activities by December 2002, we will most likely cease all operations.

Results of Operations

Three Months Ended May 31, 2002, Compared to Three Months Ended May 31, 2001

Revenues

Our revenues for the three months ended May 31, 2002 were \$20,365 as compared to \$89,679 for the three months ended May 31, 2001. This decrease resulted primarily from our substantial reduction in operations.

Cost of Revenue

Cost of revenues was \$0 for the three months ended May 31, 2002 as compared to \$40,498 for the prior three months ended May 31, 2001. This decrease resulted primarily from our substantial reduction in operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$147,953 for the three months ended May 31, 2002 as compared to \$1,676,979 for the three months ended May 31, 2001. This decrease resulted primarily from our substantial reduction in operations.

Interest Expense

Interest expense consists of interest on debt obligations and common stock issued or issuable in connection with debt obligations. Interest expense was \$74,250 for the three months ending May 31, 2002 compared to \$333,477 for the three months ending May 31, 2001.

Income Taxes

No provision for federal or state income taxes was recorded as we have incurred net operating losses since inception through February 28, 2002. The tax benefit of the net operating losses has been reduced by a 100% valuation

Edgar Filing: LCS GOLF INC - Form 10QSB/A

allowance.

Liquidity and Capital Resources

Cash Balance, Working Capital and Cash Flows from Operating Activities

We had a negative cash flow from operations of \$(87,300) during the three month period ended May 31, 2002 and we continue to be in a cash overdraft position.

Over the 24 month period ending March 31, 2002, we continuously reduced our operations so that as of that date we had suspended almost all of our revenue generating operations because the income generated by our business was not sufficient to sustain these operations. In order to resume and maintain operations for at least one year thereafter, we estimate that, exclusive of currently outstanding debt, we will require financing approximating \$100,000, although we cannot assure that we will not require more financing for this purpose. We are investigating the possibility of acquiring or otherwise affiliating with a business that could benefit from the use of our databases and technology but currently have not identified any such business. Any such acquisition or affiliation will also most likely require significant financing. We currently have no commitments for any financing and may be unable to raise needed cash on terms acceptable to us if at all. Financings may be on terms that are dilutive or potentially dilutive to our stockholders. Further, our weak financial condition could restrict our ability to acquire or affiliate with a business partner as well as prevent us from establishing a source of financing. If we are unable to resume our operations and/or obtain a revenue generating business partner and the financing required to support these activities by December 2002, we will most likely cease all operations.

On May 28, 2002 we entered into a loan agreement with an unaffiliated party pursuant to which we borrowed \$75,000. The loan bears no interest and was repayable by June 11, 2002. We issued 200,000 shares of our common stock to the lender. The loan remains outstanding as of the date of this filing. We are obligated to issue 10,000 shares of our common stock to the lender for each day that the loan remains unpaid. As of November 10, 2002, we are obligated to issue an additional 1,520,000 shares of our common stock.

On June 28, 2002, we entered into an Agreement and Release with certain debtholders. In connection with the Agreement and Release, at July 28, 2002, since we did not complete a merger with an operating company within thirty days, we became obligated to issue 6,000,000 shares of our common stock.

We continue to have a significant working capital deficiency and to generate substantial operating losses.

Issues and Uncertainties

Forward Looking Statements

Certain statements in this Report, and any documents incorporated by reference herein, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Litigation Reform Act of 1995. These forward-looking statements include, among others, words such as "expects,"

Edgar Filing: LCS GOLF INC - Form 10QSB/A

"anticipates," "intends," "believes" and other similar language. Our actual results could differ materially from those discussed herein. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Report. Factors that could cause or contribute to such differences include, but are not limited to, the risks discussed in the risk factors set forth below, which are not meant to be all inclusive.

Risks Associated with our Company

We currently have significantly limited operations and generate no material revenue. When we were operational we operated in a rapidly changing environment that involved a number of risks, some of which are beyond our control. The following discussion highlights the most material of the risks we currently face and those we will be subject to if we resume our operations.

WE ARE IN DEFAULT OF A SENIOR SECURED LOAN, WHICH MAY PREVENT US FROM RESUMING OPERATIONS.

Our failure to remit 50% of the cash proceeds from the AWP transaction to Traffix resulted in one of a number of defaults under the forbearance agreement with Traffix. If Traffix elects to pursue its remedies under the forbearance agreement and we are unable to reach a resolution with Traffix acceptable to us, we may be unable to resume operations because Traffix's actions may prevent us from obtaining needed financing. Even if we do reach an amicable resolution with Traffix, which we have no reason to believe such resolution is possible, and resume operations, our efforts to satisfy continuing obligations under the Traffix agreements will significantly adversely impact any cash flow we may generate in the future because we must remit 50% from new accounts receivable until Traffix is paid in full.

OUR FINANCIAL CONDITION IS EXTREMELY WEAK AND WE MAY BE UNABLE TO CONTINUE AS A GOING CONCERN.

Our operations have been dependent upon short-term borrowing and other funding resources. From March 1, 1999 through May 31, 2002, our president made net advances of approximately \$905,960. Our independent auditors report on our consolidated financial statements for the year ended February 28, 2002 and the notes to our unaudited financial statements for the three months ended May 31, 2002, include language reflecting that substantial doubt exists as to our ability to continue as a going concern. Our May 31, 2002 unaudited financial statements show an accumulated deficit of approximately (\$19,501,000.) We expect to continue to incur net losses and negative cash flow for the foreseeable future and, unless we are able to resume operations and/or acquire or affiliate with a business that generates revenue and obtain financing necessary to support these activities by December 2002, we will most likely be forced to cease all operations. In addition, any cash flow which we may generate will be significantly reduced because we must remit 50% of all accounts receivable we may collect to Traffix. Accordingly, any purchaser of our securities should be prepared to lose his entire investment. See Notes B through E to our unaudited consolidated financial statements for the three month period ending May 31, 2002, for information relating to additional defaults by us on our outstanding indebtedness.

IF WE RESUME OUR BUSINESS, OUR SUCCESS WILL DEPEND, IN PART, UPON BROAD MARKET ACCEPTANCE OF PERMISSION EMAIL MARKETING SERVICES.

The marketing of our products and services, even when active, has never generated significant revenue and has resulted in our incurring substantial losses and negative cash flow. Accordingly, in the event that we resume business operations and use the Internet to market our services, we cannot assure you that our business will ever be commercially viable. In any event, the growth of

Edgar Filing: LCS GOLF INC - Form 10QSB/A

the Internet is fairly recent and advertising on the Internet even more so. The Internet may not be accepted as a viable long-term commercial marketplace and medium of commerce for a number of reasons, including potentially inadequate development of necessary Internet infrastructure, government regulation or delayed development of enabling technologies and performance improvements. The market for permission email marketing services is in its infancy, and we are not certain whether our target customers will widely adopt and deploy this technology. Permission email is email in response to an inquiry from a proposed customer who has requested information relating to products or services. Even if our target customers do so, they may not choose our services for technical, cost, support or other reasons. Adoption of permission email marketing services, particularly by those entities that have historically relied upon traditional means of direct marketing, such as telemarketing and direct mail, requires the broad acceptance of a new and substantially different approach to direct marketing. We believe that the promotion of the concept of permission email marketing will require us to engage in an intensive marketing and sales effort to educate prospective customers regarding the uses and benefits of our products and services. Enterprises that have already invested substantial resources in other advertising methods may be reluctant or slow to adopt our approach.

Any future growth we may have will also depend on the commercial success of our Golf Promo 1 Network, Targetmails and Ifusionc that comprise our network. If our customers do not adopt and utilize our services at a rate significantly greater than they have in the past, our business will not succeed. Furthermore, the Internet advertising and permission email services market is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. If we resume our operations and we are unable to develop and introduce products or enhancements to our service offering in a timely manner, if at all, we may not be able to successfully compete.

COMPETITION IN THE MARKET FOR INTERNET ADVERTISING AND DIRECT MARKETING IS INTENSE AND, IF WE RESUME OPERATIONS, COULD ADVERSELY AFFECT OUR BUSINESS.

If we resume our business, many of our current and potential competitors, such as 24/7 Media, Inc., Postmaster Direct, Inc., Exactis, Inc., DoubleClick, Inc. and YesMail, Inc., have greater name recognition, longer operating histories, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we will. Some of our potential competitors are large and well-capitalized companies. In addition, some of our competitors may include website owners who own permission email lists. If we resume our operations, we expect that we will face competition from these and other competitors, including Internet portals, traditional list brokers, banner advertising managers, independent list managers, incentive-based subscriber lists and customer management and retention service companies.

IF WE RESUME OPERATIONS, OUR FAILURE TO DEVELOP AND MAINTAIN OUR SALES, MARKETING AND SUPPORT ORGANIZATION AND RELATIONSHIPS WITH OUR PRIOR NETWORK PARTNERS AND THIRD PARTY LIST MANAGERS WOULD LIMIT OUR BUSINESS.

If we resume our business and we fail to substantially develop our direct and indirect sales and marketing operations and our relations with our prior network of independent product and service providers, our growth, if any, will be limited. The products and services we would offer will require a sales effort targeted to our prospective customers. We may be unable to hire, train or retain the kind and number of sales and marketing personnel we will need for this effort because competition for qualified sales and marketing personnel is intense. In addition, if we resume operations we plan to rely increasingly on advertising agencies and direct marketers to utilize the services we may offer. If we do not effectively establish and manage our sales and marketing personnel, our business could suffer.

Edgar Filing: LCS GOLF INC - Form 10QSB/A

We must renew and maintain relationships with our prior network of independent product and service providers, such as Click Here to Find.Com, Golf Illustrated, Inc. and Telemundo, who provided us with access to permission email lists when we were operational. We entered into agreements with these independent providers that were generally for an initial term of one to three years, with an automatic annual renewal. Pursuant to these contracts, we provided these providers with resale and tracking services by selling direct marketers access to their lists, and they received a percentage of our revenue. None of these agreements are currently in effect and we cannot assure you that these agreements, if renewed, will generate revenues adequate to support our operations. In addition to these independent providers, we had reseller arrangements with third party list managers under which we paid a fixed fee for the nonexclusive use of their lists for specific campaigns. These third party list managers were not contractually obligated to provide us with access to their lists. A majority of the email addresses that we had access to through our proprietary list, our network of independent product and service providers and our list managers was comprised of addresses from list managers. If we fail to renew, maintain and thereafter increase our relationships with these independent providers and third party list managers, our ability to successfully reestablish our business could fail.

THE LOSS OF OUR CHIEF EXECUTIVE OFFICER WITHOUT AN ADEQUATE REPLACEMENT WOULD REQUIRE US TO TERMINATE ALL OPERATIONS.

Dr. Michael Mitchell, our president and chief executive officer, is one of only two remaining employees. If Dr. Mitchell leaves the Company or is otherwise unable to act as our Chief Executive Officer, we will be required to terminate all operations unless we are able to find an adequate replacement.

IF WE RESUME OUR BUSINESS, THERE ARE PRIVACY CONCERNS AND POTENTIAL RESTRICTIONS WITH RESPECT TO OUR SERVICES THAT COULD NEGATIVELY AFFECT OUR BUSINESS.

If we resume our business, our technology will collect and utilize data derived from user activity in the Golf Promo Network. Our network will enable the use of personal profiles, in addition to other mechanisms, to deliver targeted marketing materials, to help compile demographic information and to limit the frequency with which an advertisement is shown to a user. The effectiveness of our technology and the success of our business could be limited by any reduction or limitation in the use of personal profiles. These personal profiles contain bits of information keyed to a specific server, file pathway or directory location that is stored in the user's hard drive. Personal profiles, commonly referred to as cookies, are placed on the user's hard drive without the user's knowledge or consent, but can be removed by the user at any time through the modification of his browser settings. In addition, a user can configure currently available applications to prevent personal profiles from being stored on his hard drive. Some privacy advocates and governmental bodies have suggested limiting or eliminating the use of personal profiles. In the event this were to occur, our business, if resumed, would likely suffer.

IF WE RESUME OPERATIONS, GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES OF DOING BUSINESS ON THE INTERNET COULD NEGATIVELY IMPACT OUR BUSINESS.

The laws governing the Internet remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws, including those governing intellectual property, privacy, libel and taxation, apply to the Internet and Internet advertising. In addition, the growth and development of the market for Internet commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business over the Internet. Our business, if resumed, could suffer with the

Edgar Filing: LCS GOLF INC - Form 10QSB/A

adoption or modification of laws or regulations relating to the Internet, or the application of existing laws to the Internet.

IF WE RESUME OPERATIONS, WE MAY FACE CLAIMS FOR ACTIVITIES OF OUR CUSTOMERS WHICH COULD HARM OUR BUSINESS.

If we resume our business, our customers' promotion of their products and services may not comply with federal, state and local laws. A wide variety of laws and regulations govern the content of advertisements and regulate the sale of products and services. There is also uncertainty as to the application of these laws to the emerging business of advertising on the Internet. We cannot predict whether our role in facilitating these marketing activities would expose us to liability under these laws. Accordingly, if we resume our operations, we may face civil or criminal liability for unlawful advertising or other activities of our customers. If we are exposed to this kind of liability, we could be required to pay substantial fines or penalties, redesign our business methods, discontinue some of our services or otherwise expend resources to avoid liability. Any costs incurred as a result of this kind of liability or asserted liability could harm our business.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 2. Change in Securities

None.

ITEM 3. Defaults Upon Senior Securities

See Notes B through E to our unaudited consolidated financial statements for the three month period ending May 31, 2002.

ITEM 4. Submission of Matters to a Vote of Securities Holders

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

Exhibits

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

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

Reports of Form 8-K

None.

Edgar Filing: LCS GOLF INC - Form 10QSB/A

SIGNATURES

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

LSC GOLF, INC.

By: /s/ MICHAEL MITCHELL

Michael Mitchell
Chairman and Principal Executive
Officer

By: /s/ ALEX BRUNI

Alex Bruni
Principal Accounting and
Financial Officer

Date: November 15, 2002

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LCS Golf, Inc. (the "Registrant") on Form 10-QSB for the quarterly period ending May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Mitchell, Chairman of the Board of Directors, President, and Chief Executive Officer of the Registrant, certify, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of the Registrant;
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

Edgar Filing: LCS GOLF INC - Form 10QSB/A

Registrant as of, and for, the periods presented in this quarterly report;

November 15, 2002

Michael Mitchell, Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LCS Golf, Inc. (the "Registrant") on Form 10-QSB for the quarterly period ending May 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alex Bruni, Chief Financial Officer of the Registrant, certify, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this quarterly report on Form 10-QSB of the Registrant;
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;

November 15, 2002

Alex Bruni, Chief Financial Officer