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WORLDTEQ GROUP INTERNATIONAL INC  
Form 10KSB  
May 07, 2003

U. S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 FOR FISCAL YEAR ENDED DECEMBER 31, 2002  
 TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
Commission file number 000-27243

WORLDTEQ GROUP INTERNATIONAL, INC.

-----  
(Exact name of registrant as specified in its charter)

Nevada	03-7392107
----- (State or other jurisdiction of incorporation or organization)	----- (I.R.S. Employer Identification No.)
30 West Gude Drive, Rockville, Maryland	20850
----- (Address of principal executive offices)	----- (Zip Code)
Issuer's telephone number, including area code:	(240) 403-2000

-----  
Securities registered under Section 12(b) of the Exchange Act:  
Title of each class Name of each exchange on which registered  
N/A N/A

Securities registered under Section 12(g) of the Exchange Act:  
COMMON STOCK, \$0.001 PAR VALUE  
(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

WorldTeq Group International Inc.'s revenues for its most recent fiscal year ended December 31, 2002 were \$4,221,968.

On December 31, 2002, the aggregate market value of the voting stock of WorldTeq Group International, Inc. (consisting of common stock, \$0.001 par value) held by non-affiliates of the Registrant (approximately 10,616,000 shares) was approximately \$849.280.00 based on the closing price for such common stock (\$0.08) on said date as reported by the OTC Bulletin Board.

As of December 31, 2002, there were 21,630,000 outstanding common shares of WorldTeq Group International, Inc. common stock.

Documents incorporated by reference: Portions of several 8K announcements during

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the year are incorporated by reference in Part III hereof.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE) YES NO X

The Index of Exhibits filed with this Report begins on page .

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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements

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within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by use of terms such as "believes", "anticipates", "intends", or "expects". These forward-looking statements relate to our plans, objectives and expectations for future operations and growth. Other forward-looking statements in this Form 10-K include statements regarding synergies and growth expected as a result of future acquisitions, expected growth in earnings, EBITDA, revenue and gross margin, expected decreases in operating expenses, our expectation regarding our ability to consummate future acquisitions. In light of the risks and uncertainties inherent in all such projected operational matters, the inclusion of forward-looking statements in this Form 10-K should not be regarded as a representation by us or any other person that any of our objectives or plans will be achieved or that any of our operating expectations will be realized. Our revenues and results of operations are difficult to forecast and could differ materially from those projected in the forward-looking statements contained in this Form 10-K as a result of certain risks and uncertainties including, but not limited to, our business reliance on third parties to provide us with technology, infrastructure and content, our ability to integrate and manage acquired technology, assets, companies and personnel, changes in market conditions, the volatile and intensely competitive environment in the telecommunications and Internet industries, the availability of transmission facilities, dependence on call termination agreements, entry into new and developing markets, risks associated with the international telecommunications industry, customer concentration and attrition, dependence on a few significant foreign and domestic customers and suppliers, international economic and political instability, dependence on effective billing and information systems, rapid technological change, the risk of litigation in connection with the contents of our Web based systems, and our dependence on key employees in a competitive market for skilled personnel. These factors should not be considered complete; we undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The discussion in this report contains forward looking statements, including, without limitation, statements relating to WorldTeq Group International, Inc. and its wholly-owned subsidiaries, WorldTeq Corporation, NetWorld of Ohio Inc., or DigitalTeq Corporation ("WTEQ"). Although we believe that the expectations reflected in the forward looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. The forward looking statements involve risks and uncertainties that affect our business, financial condition and results of operations, including without limitation, our possible inability to obtain additional financing, lack of agent growth, the possible loss of key personnel, rate changes, fee policy or application changes, technological changes and increased competition. Many of these risks are beyond our control. We are not entitled to rely on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, or Section 21E of the Securities Exchange Act of 1934, as amended, when making forward looking statements.

### ITEM 1. DESCRIPTION OF BUSINESS

#### CORPORATE HISTORY

WorldTeq Group International, Inc. was incorporated under the laws of Nevada on October 13, 1997, and was originally named Halo Holdings of Nevada, Inc. On October 15, 2001, we amended our articles of incorporation to adopt our current name, which we believe more accurately reflects the business in which we are now engaged.

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From the date of our incorporation in 1997 until early 1999 our company was engaged in skydiving and related business ventures. Between February and April 1999 we sold our skydiving business and acquired three companies which were providers of Internet connectivity and related products and services. Specifically, in February 1999 we acquired Virtual Information Express, Inc. a Maryland corporation which provided outsourced Internet services such as e-commerce applications and collaborative technologies. In March 1999, we acquired Computer Ease LLC, a Maryland limited liability company which provided Web design and development services to corporate clients and associations. Computer Ease was merged into our subsidiary A1 Internet Services, Inc., a Delaware corporation. In April 1999 we acquired Networld Ohio, Inc., an Ohio

corporation, which is an Internet service provider ("ISP") based in Freemont, Ohio. In November of 2000 we formed WorldTeq Corporation, a Delaware Corporation, to focus on adding Long Distance services to our product line. As a result of these transactions, our principal business now is providing Internet access, Long Distance Service and related products and services.

Our principal offices are located at 30 West Gude Drive, Rockville, MD 20850 (telephone # 240-403-2000).

### OVERVIEW

We are a switch-less and facilities-based provider of Internet protocol and traditional fiber based communications services, including voice, data and Internet access, along with traditional Long Distance Calling Cards and related services. We market our services to groups specializing in specific ethnic demographics, residential communities located in major metropolitan areas, associations, network marketing organizations, and ISPs. Our goal is to become a leading provider of Internet Protocol, ("IP"), and communication services, including voice, data and Internet services to our targeted markets, comprised of affinity communities. We provide our services through a flexible network of owned, contracted facilities and resale arrangements. We have an extensive network available to us of IP gateways, international gateways, domestic switches, and a North American local access network of over 6,500 Points of Presence.

Through our subsidiaries we provide associations and businesses with opportunities to generate revenues by supplying those associations, individuals, and businesses with Internet technology and communications solutions and services that they can re-sell under their own names and brands. Our products and services enable the affinity group to offer their members, customers and others a variety of revenue producing solutions and services without making large investments in technology, infrastructure or staff. The principal products and services which we offer are:

- Long Distance Service
- Toll Free Products
- Specialized Call Center Products
- Billing Services
- Wireless Products
- Web site creation and design;
- Web site hosting;

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- Internet access and VoIP service (Voice over Internet Protocol)
- Complete electronic commerce services;
- E-mail and related services such as conference and bulletin board facilities and mailing list management;

In addition, we own one regional ISP located in Fremont, Ohio which had a total of 2,900 subscribers as of December, 2002 that are owned by the company.

### RECENT DEVELOPMENTS

Beginning in the fourth quarter of 2002, we began to modify our business plan to better focus on our core competencies. In December of 2002 the Board of Directors and Management decided to change the focus of several companies not focused on our core competencies, with specific emphasis on cash flow and profits.

The revised plan called for a restructuring that included 1) a change in our staff with more experience in our industry, 2) accelerated migration of direct customer sales staff to that of a contracted agent network, 3) discontinuation of unprofitable, low-margin business lines and 4) implementation of certain cost

reduction procedures. Implementation of this plan commenced in the first quarter of 2003 and 5) consolidation of selected offices and centralization of our Network Operations Centers and 6) deployment of a new web based enterprise-wide reporting system accessible by all our offices 7) investigation into the sale of one of our subsidiaries 8) launching of our financial services products.

### 2002 KEY ACCOMPLISHMENTS

Our strategy is to facilitate our continued expansion into emerging economies by expanding telecommunications and Internet services for our residential and small business customers and adding financial services products. During 2002, we continued to take advantage of our strong technical abilities to develop and deploy our own billing and provisioning systems. We expanded our strength in affinity communities by enhancing the services we offer. During 2002 some of our key accomplishments included:

1. Expansion of our available networks by contracting additional vendors which incorporated the required infrastructure for the company to offer VoIP products.
2. Increased our success in the small and medium-sized business market through the roll out of several new high demand products such as calling cards, Toll Free services, 1 + dialing plans, and enhanced hosting services.
3. Enhancement of our Billing System, known as WEBBSsm, to take better control over our provisioning and billing activities, thereby allowing us to provide service to a greater number of people without increasing our overhead expense.
4. Creation of strategic agent relationships with several very successful resellers already in the market place.

### INDUSTRY BACKGROUND

The Internet is a global network of multiple private and public networks that use standardized communication protocols to communicate with each other. The Internet has become an important communication and commercial medium and presents a significant opportunity for associations and businesses to interact in new and different ways with a larger number of members, customers, employees,

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suppliers and partners. As use of the Internet grows, associations, individuals and businesses are increasing the breadth and depth of their Internet product and service offerings. Pioneering Internet-based organizations have developed Internet products and services in areas such as finance, insurance, media, tourism, retail and advertising. Other organizations have begun to use the Internet for an expanding variety of applications, ranging from corporate or association publicity and advertising, to sales, distribution, customer service, employee training and communication with partners. Increasingly, Internet operations are becoming mission-critical for many of these enterprises. To ensure the reliability of their Internet operations, enterprises are requiring that these operations have high performance standards, scalability and expert management 24 hours a day, 7 days a week.

Enterprises generally utilize two types of Internet services: connectivity and value-added services. Connectivity services provide access to the Internet, while value-added services consist of products such as Web design and hosting, electronic commerce services, and communication services that improve the internal and external operations of an enterprise. Internet connectivity and value-added services represent two of the fastest growing segments of the telecommunications services market. The availability of Internet access advancements in technologies required to navigating the Internet and the proliferation of content and applications available over the Internet have attracted a growing number of Internet users.

The Internet service provider market is segmented into large national or multinational providers with large high speed networks and regional or local ISPs who enlist subscribers under their own names but typically rely upon the larger providers for Internet access. The largest providers, like AT&T, have what are referred to as "tier one" networks, which exchange Internet traffic cost-free, at multiple public peering points, as well as through private peering arrangements. As the number of ISPs has grown, the requirements to become a tier one network have also increased. It has therefore become more difficult to achieve tier one provider status. Regional and local ISPs typically purchase access to the Internet, and invest in the equipment and personnel necessary to provide products and services, customized hands-on support, and bear the cost of marketing. Since regional and local ISPs often have limited financial resources, the range of products and services they can offer is often limited.

As is typical in the case of a new and rapidly evolving industry, the Internet is characterized by rapidly changing technology, evolving industry standards and frequent new product and service introductions. Demand for recently introduced products and services are subject to a level of uncertainty. Despite growing interest in the many uses of the Internet some potential users could be deterred from purchasing Internet access services because of a perceived inconsistent quality of service, the need to deal with multiple and frequently incompatible vendors, and perceived inadequate protection of the confidentiality of stored data and information moving across the Internet. In particular, a perceived lack of security of commercial data, such as credit card numbers, could impede commercial exploitation of the Internet. There can be no assurance that encryption or other technologies will satisfactorily address these security concerns. The adoption of the Internet for commerce and communications, particularly by those individuals and enterprises which have historically relied upon alternative means of commerce and communication, generally requires the understanding and acceptance of a new way of conducting business.

### OUR BUSINESS STRATEGY

Our business strategy is to combine the global scale of tier one providers with the local presence of regional and local resellers of Internet products and Long Distance Voice services. We provide affordable connectivity on a global scale by

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contracting with Qwest, UUNET, Broadwing and MegaPop, leading tier one providers, for access to their Internet network at a fixed monthly fee per end-user. We contract with several Long Distance carriers who have excess capacity and we acquire wholesale rates based on the amount of traffic we are purchasing. We enable associations, membership sales organizations and other affinity groups to create revenue and sales programs by offering their members high quality communications products and services without the investment in technology, equipment and personnel that would ordinarily be required to establish this kind of service. We enable existing regional and local ISPs to reduce and control their costs, focus their energies on sales and enhance their marketing by providing a variety of products and services and high quality support services at affordable rates which are resold to their customers. In effect, we enable associations, membership sales organizations and ISPs to become virtual communications resellers who market under their own name products and services which they purchase from us.

We anticipate that a majority of the end-users of our services will be derived from resellers of our products and services. Therefore, to a large extent, our ability to grow depends upon the resources and dedication which resellers are willing to commit to marketing our services. Our current business strategy also depends upon being able to charge for services rendered to realize recurring revenues. We believe that the practice of offering free Internet Access will not become prevalent among the customers we are targeting. If our belief is erroneous, we would be required to develop a different approach to marketing our products and services. Much of our anticipated growth will be derived from the sale of our electronic commerce related products. Our ability to grow also depends upon the increasing acceptance of electronic commerce and the reliability of the inventory, billing and delivery systems utilized by electronic commerce vendors.

### MARKETS

In late 2000 we recognized the cost effective marketing potential of the Internet to assist us in our growth plans. We created an agent marketing operation based exclusively on the Internet to reach the end users and communicate with our authorized agent network. Our initial goal was to expand our marketing reach by increasing the number of independent agents working with us while we remained focused on expanding the number of products and services that these agents could sell to the customer base. To aid in maintaining our goal of controlled growth, we deployed a self replicating web management system. This internally developed proprietary technology dynamically created a personalized web based destination for each new agent immediately upon receipt of their signed contract. We developed and launched our own proprietary billing system known as WEBBS(sm) (Web Enabled Back-office Business Systems) which assists us in achieving total control of all record keeping and reporting. WEBBS(sm) maintains live up-to-date information regarding customer details, their status, frequently asked questions and customer service issues. We embraced a strategy of enabling each agent to sell internet and telecommunications services as independent contractors and to recruit new agents. The original agent receives an override on sales generated by them and the agents they recruit as their down-line. Our commission structure enables our agents to earn recurring revenues without requiring them to develop the necessary infrastructure. Our direct agents are required to commit to significant minimum levels of sales achievement to maintain their direct relationship with our company. Each agent can view their records, sales activity and account status on their accounts and those of their down-line relationships, through WEBBS(sm).

In addition to our agent network and direct sales efforts, we developed and deployed a variety of affiliate programs. Utilizing these programs, large

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affiliate organizations such as religious groups, trade organizations, and a variety of membership businesses can be utilized for commission sharing.

We focus on three market segments: Associations; membership marketing companies with existing customer bases; and, regional and local ISPs.

**ASSOCIATIONS:** There are numerous non-profit Associations and a number of other affinity groups in the United States. These organizations regularly communicate with established membership groups composed of persons with common interests. We offer these organizations a means to communicate with their members and to provide membership services. In addition, our connectivity services generate subscription income and our electronic commerce products provide organizations that are dependent upon membership dues for their revenues with opportunities to realize non-dues revenue without large up-front capital investments.

**MEMBERSHIP MARKETING COMPANIES.** There are many large membership-marketing businesses in the United States with established customer bases. To these businesses we offer sales programs with opportunities for recurring profits, low barriers of entry and opportunities to build brand equity.

**REGIONAL AND LOCAL ISPS:** There are more than 8,100 ISPs in the United States, according to TheList.com. We offer these ISPs the opportunity to control their costs by purchasing connectivity and other products and services under their own name and brand at a fixed price for each end-user. This allows the ISPs to focus on marketing, and provides them with a broader range of products and services they might otherwise not be able to offer.

### SALES

Our direct sales force consists of two staff members dedicated to Association and membership sales and additional employees dedicated to the sale of Web site design, Web site hosting, electronic mail services and other value added products. In addition, we utilize indirect sales channels, principally through our vendor's network sales force, Trade Associations and other affinity groups to supplement our direct sales force.

### PRODUCTS AND SERVICES

We offer a variety of Internet services including connectivity, electronic mail services, electronic commerce services, Web hosting and Web site design. We intend to develop a broader range of value added solutions and services independently, through acquisitions, and through strategic relationships with providers. Following is a description of the products and services we currently offer to our customers.

### CONNECTIVITY

We offer a variety of Internet access solutions; providing basic connectivity to the Internet, as well as value-added products and services, such as e-mail, that enable our customers to expand their basic Internet connectivity capability. We currently offer both analog and integrated services digital network dial-up (ISDN) access at speeds up to 128 Kbps. We provide this access at local telephone rates via a combined network utilizing services from UUNET, MegaPop, Broadwing and Qwest which provides approximately 6,500 points of presence throughout the United States and parts of Canada. We also offer frame relay, dedicated connectivity, and Point-To-Point service. Our Flex T-1(TM) Frame Relay Account offers access to T-1 lines on an as needed basis with bandwidths ranging from 256 Kbps to capacities in excess of 1024 Kbps. We offer a Digital Subscriber Line (DSL) service that permits access to the Internet at up to 1.5 Mbps. These services accommodate connectivity requirements of Internet users ranging from the single user with a computer in his or her home, to work groups and businesses with multiple users.



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Although the available services are identical, pricing for our connectivity service is dependent on whether the customer is retail or wholesale based. Retail customers are end-users that purchase and utilize our dial up connectivity services directly. Wholesale customers are businesses and associations that resell our services to end-users. We currently charge each retail customer a monthly fee ranging between \$17.95, for our basic analog service, and \$39.95, for our premium ISDN access. As of December 31, 2001, we had approximately 2,900 retail customers which accounted for 65% of our overall connectivity customers.

Our wholesale customers are charged a monthly fee on a sliding scale based on the number of users utilizing our connectivity services through a unique wholesale customer. At current usage levels, wholesale customers with fewer than 50,000 users are charged \$11 per user, per month. As the number of subscribers brought to us by unique wholesale resellers increases beyond 50,000, the monthly charge per user will decrease until it reaches the minimum of \$5.95 per customer, per month for 250,000 or more users. At December 31, 2002, we had 9 wholesale customers that resell our services to approximately 4,000 end-users who represent 35% of our connectivity customers.

### CUSTOM SITE DESIGN

Web site design is the development of the content that will be displayed on the Web site when it is being viewed on the Internet. We design Web sites that convey our customers' marketing messages. Our services range from the development of a basic Web page to the development of a sophisticated e-commerce Web site. In addition, we provide domain name registration, place Web site information in search engines, issue electronic press releases and track the detailed use of each site. We also offer co-linking of non-competing Web sites, banner advertisements on Web sites and links to cyber malls, associations and groups. Our pricing for Web site design is based upon the time required and the materials used to design the site. Currently, this is a value added service to our customers and not a division promoted as a stand alone service.

### WEB SITE HOSTING

We offer our customers several options for hosting their Web sites. A customer can share space on a server which also hosts the Web sites of other customers. If a customer chooses, we can provide a separate server dedicated to that customer's Web site. A Web site provides a company with a tangible identity and interactive presence on the Internet. The site allows a company to post information about itself that is easily accessible to all Internet users. Web sites are also the basis for providing electronic commerce, where a company can advertise and sell its products and services. We offer a comprehensive range of basic Web site hosting products, as well as a growing suite of enhanced Web site hosting products including electronic commerce solutions. Generally, our customers elect to rely upon us to provide the hardware and software that is necessary to host a Web site. We provide these services from a reliable data center environment. We offer 9 Web site hosting plans, the largest of which provides up to 5,000 megabytes of data transfer per month and up to 50 megabytes of disk storage on servers located at dedicated space in the Exodus network operations center and our own network operations center (NOC) in Fremont Ohio. The Exodus center is maintained and serviced by on-site technical personnel 24 hours a day, 7 days a week. Our monthly fees for our plans range from \$9.95 to \$99.95 per site.

We also offer co-location services to customers who have the resources to manage their own servers and Web sites and who prefer not to share a server with others. Co-location customers receive the benefits of having their servers

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housed in the (NOC), uninterrupted power supply, daily tape back-up and the availability of a catastrophic recovery process. We charge each co-location customer an initial set up fee of \$150. Thereafter, our monthly rates range between \$495 (for our basic monthly service plan) and \$645 (for our premium monthly service plan).

### ELECTRONIC COMMERCE

Electronic commerce is the execution of commercial transactions over the Internet. Our electronic commerce services provide businesses the ability to sell products and services on the Internet. We create links to our customers' Web sites bringing purchasers into our customers' on-line stores. Our e-commerce service displays products, takes purchase orders for specified quantities of each product ordered, collects billing addresses, credit card information and shipping information, chooses a shipping method, forwards this data to the seller for completion of each order, and prepares a confirmation of each order for the purchaser. Our servers deploy the latest encryption software and digital signature solutions in order to protect the security of our customers' electronic commerce transactions. Each secure Web Site has its own VeriSign Digital ID or equivalent and dedicated payment system. We work directly with each customer's bank to ensure secure, complete technology transfer while maintaining secure data protection schemes. All customer information is housed on dedicated machines and protected from unauthorized access by our internal firewall. Our system is flexible and permits sellers to add, delete or modify products, add pricing variations, change product descriptions, update prices, and offer different pricing levels or volume discounts. Our platform also enables clients to conduct electronic auctions and to merchandise products in various other ways. Our prices for providing electronic commerce services range from \$99 to \$249 per month, depending on the complexity of the services desired by our customers.

We have also begun to utilize our electronic commerce platform to sell products ourselves. We are currently offering a series of educational courses delivered over the Internet and are developing a range of Long Distance and Calling Card products. We are negotiating arrangements to obtain other products for sale.

### OTHER SERVICES

We offer a variety of other services, which enable communication over the Internet. These include virtual hosting of electronic mail. This allows users to maintain their own domains while housing their e-mail on our servers. We offer the filtering of unsolicited e-mail. Our List Serve Management product enables the broadcast of e-mail to an established user group. Our E-Share product provides centralized controlled communication among a specified group of people. It is used to conduct training sessions electronically, thereby eliminating the travel and related costs associated with live sessions. Our Web board product is used to post messages to members of a closed group and allows recipients of messages to respond. We offer our customers various combinations of these services which we call packages. We charge our customers a monthly fee per user per package, which varies from \$0.10 to \$0.50 depending on the complexity of the package.

### CUSTOMERS

We provide value added services to Associations. Our association customers include the, Fusion Productions, International Right of Way Association, The Rutherford B. Hayes Presidential Center, and the National Association of Enrolled Agents.

At December 31, 2002 we had approximately 11,000 users of our services.

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Approximately 3,800 of these were retail customers, and approximately 7,100 were users who came to us through wholesale customers. Retail customers are end-users that purchase and utilize our services directly, while wholesale customers are businesses and associations that resell our services to end-users. At present 65% of our revenues are derived from retail customers and 35% from users who came to us through our wholesale customers.

### CAPACITY

We define "capacity" to be the number of customers and the amount of usage which our equipment and systems can service efficiently. As our business grows, we attempt to assure that our servers and other equipment are adequate for a larger customer base and for increased usage by each of those customers. Web site hosting is the principal activity for which we must monitor the capacity of our equipment. Our ability to provide hosting services is directly impacted by the capacity and the number of servers available to us. At present, we have 20 servers, and estimate that at peak usage our facilities are 25% utilized. Based on our customers' historical average usage, our current capacity is sufficient to provide hosting services to more than 100,000 subscribers. Based on our arrangements with Exodus and UUNET, both major providers of bandwidth, we have access to sufficient bandwidth to meet our foreseeable needs.

In the future, our ability to service increasing numbers of customers depends in part upon our ability to issue bills to, and collect payments from, large numbers of customers. To that end, the company has standardized its Internet billing systems on Rodopi software and has purchased enough licenses to address our current and expected near future requirements. The license requires no minimum annual payments of any kind. The software is database driven on our own infrastructure and enables us to automatically bill end-users for Internet related services that we provide. We expect Rodopi to significantly enhance our efficiency as we build our customer base by reducing the amount of time and manpower required to manage our customer billings. Our Long Distance end users are billed through our proprietary package WEBBS(sm).

### COMPETITION

Though there are no substantial barriers to entry, the business of providing Internet connectivity and Long Distance services and solutions is a highly competitive one. We believe that competition will intensify in the future, and our ability to successfully compete depends on a number of factors, including the:

- Capacity, reliability and security of the networks with which we interconnect;
- pricing structures of our services;
- Expansion of the variety of products and services we offer;
- Ability to adapt our products and services to new technological developments;
- Ability to build and maintain a larger, knowledgeable and effective sales force;
- Our ability to implement broad and effective distribution channels; and
- Principal market and economic trends.

Current and prospective competitors include:

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- National, regional and local ISPs;
- Long distance and local telecommunications providers;
- Cable television companies; and
- Web site hosting providers.

Major long distance companies currently offer Internet access services and major cable companies. Companies using wireless terrestrial and satellite-based technologies are expected to offer Internet connectivity and related services in the near future. Such competitors have the ability to bundle Internet connectivity with other services such as local and long distance telecommunications. This bundling could adversely affect our ability to compete and could result in a downward pressure on our prices that could adversely affect our business, financial condition and results of operations.

More particularly as providers of connectivity, we compete with MSN, MegaPop, UUNet, Earthlink, and AOL. We are also dependent upon Qwest, UUNET, Broadwing and MegaPop for access to the Internet. Thus we are both a source of end-users and a competitor for customers of these networks. Our current relationships with these networks have allowed us to negotiate relationships that give us access at a cost allowing us to price our products competitively. If these relationships were to be terminated or substantially amended our ability to provide and maintain competitive prices to our customers could be materially and adversely affected. Please refer to Risk Factors - We are Dependent on Qwest, UUNET, Broadwing, and MegaPop for Access to the Internet Network. In the area of Web site design we compete with USWeb. Big Planet is a direct competitor in the business of providing packaged Internet services to Associations. Each of these competitors has significantly greater market presence, established brand recognition, financial, technical and personnel resources than we have.

We do not have available information which would permit us to accurately measure our market share. However, several major ISPs have reported that they have millions of end-users each; compared to the approximately 11,000 end-users we have at present. In the area of Web site design, and the business of providing packaged Internet services to Associations, a number of our competitors report significantly greater revenues, and we believe that we represent substantially less than 1% of these market sectors. We strive to differentiate ourselves from our competitors by:

- offering lower prices made possible by our lower overhead;
- focus on superior customer service;
- our ability to quickly adapt to new developments in our industry resulting from the small size of our organization; and
- offering the high quality Qwest, UUNET, Broadwing, Global Crossing, Touch America and MegaPop network backbones which many of our other competitors do not offer.

### EMPLOYEES

As of December 31, 2002 we had 13 full time employees categorized as follows:

- 3 full time employees in sales and marketing;
- 4 full time technical personnel;

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- 2 full time employees in product development; and
- 4 full time in administration staff.

There are no collective bargaining agreements in effect. We believe the relations with our employees are good.

### INTELLECTUAL PROPERTY

We have no patented technology that would preclude or inhibit competitors from entering our market. We have entered into confidentiality and invention assignment agreements with our employees to limit access to and disclosure of our proprietary information. We intend to apply for copyrights as we develop new products and solutions. There can be no assurance that these measures will prove sufficient to prevent misappropriation of our intellectual property or to deter independent third-party development of similar products.

### REGULATION

Our operations are not currently subject to direct regulation by governmental agencies other than regulations applicable to businesses generally. As use of the Internet continues to grow, jurisdictions in which we operate may adopt regulations relating to prices charged users, content, privacy, intellectual property protection, libel or other matters. If adopted, such regulations could significantly affect our results of operations

### INVESTMENTS

Gravity Pilot Air, Inc., one of our wholly-owned subsidiaries whose operations were discontinued and all assets liquidated at the end of 2000, originally owned two airplanes that it leased to a skydiving company. In December 1999, the aircraft's lessee was 5 months in arrears on its lease payments. We engaged counsel to pursue all available remedies against the lessee, including retaking possession of the aircraft. On March 18, 2000, a shareholder of the lessee agreed to participate in a settlement agreement whereby he would pay \$300,000 to bring current the past due lease payments and to settle various other matters. In addition, the lessee relinquished possession of the airplanes. Following the execution of the settlement agreement we sold one of the airplanes for approximately \$710,000. Unfortunately, the shareholder breached the agreement. We perfected a confessed judgment in the local jurisdiction in the amount of \$263,000 against any and all of his personal assets. A preliminary investigation was conducted and assets sufficient to satisfy this judgment could not be located. We are continuing to pursue every legal option available to recover the debt owed.

### RISK FACTORS

You should consider carefully the risks described below and other information in this Form 10-KSB. If any of the events identified in the following risk factors actually occur, they could materially adversely affect our business, financial condition and results of operations.

#### We Have a History of Losses and Cannot Be Certain We will Achieve Positive Cash Flow

Since inception, we have incurred significant operating losses and negative cash flow from operations. We are likely to continue to incur significant additional losses in the intermediate term.

Even thereafter, we cannot be certain that we will achieve or sustain positive cash flow or profitability from our operations. Our net losses and negative cash flow from operating activities are likely to continue even longer than we

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currently anticipate if:

- We can not establish and maintain a customer base that generates sufficient revenue;
- Prices for our products or services decline faster than we have anticipated;
- We can not remain competitive in the innovation and quality of our products;
- We can not attract and retain qualified personnel;

Our ability to achieve our objectives is subject to financial, competitive, regulatory, legal, technical and other factors, many of which are beyond our control.

### PURCHASES AND SALES OF OUR STOCK ARE SUBJECT TO PENNY STOCK REGULATIONS

Our stock has had a market price of less than \$5.00 per share. The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price less than \$5.00 per share, subject to certain exceptions. During periods when our common stock does not qualify for inclusion on the NASDAQ Small Cap Market or is removed there from, the common stock may become subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule prepared by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of investors to sell our common stock in the public market. Our Limited Operating History makes it Difficult to Assess Our Past Performance and Future Prospects

You have limited historical operating and financial information on which to base your evaluation of our performance and our prospects. We have acquired five companies since the beginning of 1999 and disposed of substantially, all of the businesses in which we were engaged in prior years. This limits the comparability of our operating and financial information from period to period.

You should consider our prospects in light of the substantial risks, expenses, uncertainties and difficulties frequently encountered by companies in the new and rapidly evolving markets for Internet products and services. Such risks include the possibility that:

- We may be unable to increase and sustain levels of interest in our products and services by Associations, membership marketing companies and ISPs;
- We may fail to sell our products successfully through our direct sales force;

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- Our competitors may develop services or products similar or superior to our own;
- Market prices for our products and services may fall as a result of competition or other factors;
- We may be unable to identify, attract, motivate and retain qualified personnel; and
- We may fail to fully integrate our existing operations the technology and operations with any of the businesses that we might acquire.

We cannot be sure that we will be successful in addressing such risks, and the failure to do so could have a material adverse impact on our business, financial condition and results of operation.

WE ARE DEPENDENT ON QWEST, UUNET AND MEGAPOP FOR ACCESS TO THE INTERNET NETWORK

Our ability to offer end-user access to a tier one Voice and Internet network on an affordable basis is dependent upon our relationship with Qwest, UUNET, Broadwing, Global Crossing and MegaPop. This enables us to offer connectivity to multiple tier one networks for which we pay only when end-users subscribe for our services. If these relationships were to be terminated, or if the terms were to be substantially amended, we might be required to enter into arrangements for bandwidth with other providers on less favorable terms. There is no assurance that we would be able to purchase connectivity on comparable terms and there is no assurance that we would be able to pass on additional costs to our customers. Our inability to obtain bandwidth on comparable terms could materially and adversely affect our business, financial condition and results of operations.

WE RELY ON OTHERS TO MARKET OUR PRODUCTS AND SERVICES TO END-USERS

We believe that we will derive the majority of our recurring revenues from subscription fees and fees for value added services paid by end-users of our products and services. The amount of these revenues is dependent upon the level of success achieved by Associations, membership marketing companies and ISPs in marketing our products and services to their members and customers. Most of our contractual relationships with Associations were formed recently and have not yet generated substantial sales to end-users. Thus, we are not yet in a position to assess whether our products and services will gain acceptance among the members of these Associations or whether these Associations will invest the resources necessary to market our products and services successfully. If sales to end-users do not meet our expectations, our business would be adversely affected and we would be required to develop alternate marketing and sales strategies. We Are Subject to Risks As We Make Acquisitions and Engage in Strategic Alliances

As part of our business strategy, we may acquire, make investments in, or enter into strategic alliances with companies in complementary businesses, so as to optimize our market presence in the regions we presently serve and expand into other regions. In particular, we intend to acquire local and regional ISPs and E-commerce companies. Any such future acquisitions, investments or strategic alliances would involve risks, such as

- Incorrect assessment of the value, strengths and weaknesses of acquisition and investment opportunities;
- Underestimating the difficulty of integrating the operations and personnel of newly acquired companies;

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- Potential disruption of our ongoing business, including possible diversions of resources and management time;
- Potential inability to maintain uniform standards, control, procedures and policies;
- And the threat of impairing relationships with employees and customers as a result of changes in management or ownership.

We cannot assure that we will be successful in overcoming these risks. Moreover, we cannot be certain that any desired acquisition, investment or strategic alliance could be made in a timely manner or on terms and conditions acceptable to us. Neither can we assure that we will be successful in identifying attractive acquisition candidates. We expect that competition for such acquisitions may be significant. Competition for Internet companies is based on a number of factors including price, terms and conditions, size, access to capital, and ability to offer cash, stock or other forms of consideration. We may compete with others who have similar acquisition strategies, many of whom may be larger and have access to greater financial and other resources than those available to us at any given time.

An additional risk associated with acquisitions is that many attractive acquisition candidates do not have audited financial statements and have varying degrees of internal controls. Although we may believe that the available financial information for a particular business is reliable, we cannot guarantee that a subsequent audit would not reveal matters of significance, including but not limited to those in connection with liabilities, contingent or otherwise. We expect that, from time to time in the future, we will enter into acquisition agreements, the pro forma effect of which are not known and cannot be predicted.

### WE MAY HAVE DIFFICULTY MANAGING OUR RAPID GROWTH

Our growth strategy has placed, and will continue to place, a significant strain on our customer support, sales and marketing, administrative resources, network and operations, and management and billing systems. Such a strain on our administrative and operational capabilities could adversely affect the quality of our services and our ability to collect revenues. To manage our growth effectively, we will have to enhance the efficiency of our operational support, all back office processes and financial systems and controls. We cannot assure that we will be able to maintain adequate internal operating, administrative and financial systems, and procedures and controls.

Managing our growth will become even more challenging as we expand our target markets and our product and service offerings. Promotion and enhancement of our products and services will depend largely on our success in continuing to provide high quality Internet communications services, solution and product support. We cannot guarantee that we will be able to maintain those levels of quality. If we are unable to do so or otherwise fail to promote and maintain our products or services, or if we incur excessive expenses in an attempt to improve our services or promote and maintain our products, then our business, results of operations and financial condition could be materially and adversely affected.

In addition, as we continue to grow we will have to expand and train our employee base to handle the increased volume and complexities of our business. We cannot assure that we will be able to attract, train and manage sufficient personnel to keep pace with our growth.

### SALES OF SHARES BY OUR SHAREHOLDERS COULD DEPRESS OUR STOCK PRICE

The market price of our common stock could drop as a result of sales of a large



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number of our shares in the public market. The perception that such sales may occur could have the same effect. As of January 31, 2003, our executive officers and directors affiliates owned, directly or indirectly, approximately 34.6 % of our common stock.

### WE ARE SUBJECT TO SECURITY AND FRAUD RISKS

Despite our efforts to implement network security measures, such as limiting physical and network access to our computers, our Internet infrastructure is vulnerable to computer viruses, break-ins and similar disruptive problems caused by customers, employees or other Internet users. Computer viruses, break-ins or other disruptive or security problems could lead to interruptions, delays or cessation in service to our Internet customers. Further, such inappropriate or unauthorized use of the Internet could also potentially jeopardize the security of confidential information stored in the computer systems of our customers and other parties connected to the Internet, which may deter potential customers and give rise to liability to users whose security or privacy has been violated. The security and privacy concerns of existing and potential customers may inhibit the growth of the Internet service industry in general and our customer base and revenues in particular. A significant security breach could result in a loss of customers, damage to our reputation, direct damages, costs of repair and detection and other expenses. In addition, our revenues for any given period may be adversely affected by fraud or debt collection problems that we experience. The occurrence of any of these events could have a material adverse effect our business, results of operations and financial condition.

### WE MAY BE HURT BY SYSTEM FAILURES

Our success is largely dependent upon our ability to deliver high speed, uninterrupted access to the Internet. Any system failure that causes interruptions in our operations could have a material adverse effect on us. We currently rely upon our vendor's Internet Network. Failures in this or any other telecommunications network on which we rely would result in customers' receiving no or diminished access to the Internet.

### WE COULD BE HELD LIABLE FOR INFORMATION DISSEMINATED OVER OUR NETWORK

The law relating to the liability of ISPs for information and materials carried on or disseminated through their networks has not been completely clarified. The possibility that courts could impose liability for information or material carried on or disseminated through our network could require us to take measures to reduce our exposure to such liability. Such measures may require us to spend substantial resources or to discontinue certain product or service offerings. Any of these actions could have a material adverse effect on our business, operating results and financial condition.

Due to the increasing use of the Internet, it is possible that additional laws and regulations may be adopted with respect to the Internet covering issues such as user privacy, pricing, taxes, defamation, obscenity, intellectual property protection, consumer protection, technology export and other controls. Changes in the regulatory environment relating to the Internet services industry could have a material adverse effect on our business, results of operation and financial condition.

### WE ARE SUBJECT TO INTELLECTUAL PROPERTY RISKS

Legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving and we cannot be certain as to the future viability or value of any of our intellectual property rights or those of other companies within the

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IT industry. We cannot assure that the steps we have taken to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate our proprietary rights. Any such infringement or misappropriation, should it occur, could have a material adverse effect on our business, results of operations and financial condition. Furthermore, we cannot be certain that our business activities will not infringe the proprietary rights of others or that such other parties will not assert infringement claims against us. We anticipate that we may be subject to claims in the ordinary course of our business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties due to the dissemination of our content or the provision of access by our online services to content made available by third parties. Such claims and any resultant litigation, should it occur, could subject us to significant liability for damages and could result in invalidation of our property rights and, even if not meritorious, could be time-consuming and expensive to defend, and could result in the diversion of management time and attention, any of which could have a material adverse effect on our business, results of operations and financial condition.

We regard substantial elements of our products and services as proprietary and we attempt to protect them by relying on trademark, service mark, trade dress, copyright and trade secret laws and restrictions on disclosure and transfer of title. We also enter into confidentiality agreements with our employees, suppliers, distributors, consultants, vendors and customer and license agreements with third parties and generally seek to control access to and distribution of our technology, documentation and other proprietary information. We are pursuing the registration of our service marks, but we currently have no patents or applications for patents pending for our products or services. Effective service mark, copyright and trade secret protection may not be available.

### WE ARE SUBJECT TO THE RISKS ASSOCIATED WITH RAPID INDUSTRY CHANGES

The Internet services industry in which we operate is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent new service, software and other product innovations. We cannot guarantee that we will be able to identify new service opportunities successfully and develop and bring new products and services to market in a timely and cost-effective manner, or that product, software and services or technologies developed by others will not render our products and services non-competitive or obsolete. In addition, we cannot provide any assurance that our product or service developments or enhancements will achieve or sustain market acceptance or be able to address effectively the compatibility and interoperability issues raised by technological changes or new industry standards.

### WE DO NOT EXPECT TO PAY DIVIDENDS

The Company does not anticipate paying cash dividends in the foreseeable future.

### ITEM 2. DESCRIPTION OF PROPERTY

Our headquarters is located at 30 West Gude Drive, Suite 470, Rockville, Maryland 20850, where we share approximately 13,000 square feet of office space. The month-to-month term of the lease commenced on August 1, 2002 and the monthly rent is \$3000.00.

We leased 450 square feet of office space in Sandusky, Ohio at an annual rental of \$3,750, and approximately 2,800 square feet in Fremont, Ohio at an annual rental of \$16,800. The properties were subject to one-year leases that expired on July 31, 2002 however they continued on a month to month basis until December 31, 2003 and are no longer being utilized.

