FORGE INC
Form 10QSB
May 19, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

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

For the quarterly period ended: March 31, 2003
Commission file number: 000-26047

FORGE, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	65-0609891
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Suite 610 - 375 Water Street
Vancouver, British Columbia V6B 5C6
(Address of Principal Executive Offices)

(604) 801-5566
(Issuer's Telephone Number, Including Area Code)

(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.

X Yes ---- No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: March 31, 2003: 519,751 shares of common stock, $.001 par value per share.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying un-audited financial statements have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that can be expected for the year ending December 31, 2003.

Unaudited Consolidated Financial Statements of
Forge, Inc.
(Formerly emailthatpays.com, Inc.)
Quarter ended March 31, 2003 and 2002

Forge, Inc.
(Formerly emailthatpays.com, Inc.)
Consolidated Balance Sheets (unaudited)
(expressed in United States dollars)

March 31, 2003 and December 31, 2002

	March 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 34,860	$ 50,537
Accounts receivable	196,308	270,880
Prepaid expenses	6,405	523
	237,573	321,940
Property and equipment, less accumulated depreciation	79,380	80,983
	$ 316,953	$ 402,923

Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,031,848	$ 705,993
Accrued salaries	19,246	21,548
Unearned revenue	-	455,633
Loan payable - current portion	85,161	160,327
Lease obligation - current portion	6,518	6,006
	1,142,773	1,349,507
Due to related parties	847,146	628,853
Note payable	30,280	28,016
Lease obligation	2,822	4,231
Total liabilities	2,023,021	2,010,607
Stockholders' deficit:		
Common stock	520	520
Additional paid-in capital	3,645,386	3,645,386
Deficit	(5,238,089)	(5,238,895)
Accumulated other comprehensive income (loss)	(113,885)	(14,695)
Total stockholders' deficit	(1,706,068)	(1,607,684)
	$ 316,953	$ 402,923

Forge, Inc.
(Formerly emailthatpays.com, Inc.)
Consolidated Statements of Operations
(expressed in United States dollars)

Three months ended March 31, 2003 and 2002

	March 31, 2003	March 31, 2002
Revenue	$ 978,600	$ 547,871
Cost of revenue	(721,138)	(394,730)
Gross profit	257,462	153,141
Operating expenses:		
Depreciation	5,548	7,175
Remuneration	162,059	209,470
Legal and accounting	13,748	24,406
Consulting fees and computer services	13,752	43,702
Phones and utilities	4,353	4,108

Rent	23,574	9,652
Advertising and promotion	1,202	23,374
Other selling, general and administrative	20,900	23,643
	245,136	345,530
Income (loss) from operations	12,327	(192,389)
Other expense:		
Interest expense	(11,521)	(21,729)
Net income (loss)	806	(214,118)
Deficit, beginning of period	(5,238,895)	(4,542,324)
Deficit, end of period	$(5,238,089)	$(4,756,442)
Net income (loss) per common share, basic and diluted	$ 0.00	$ (0.41)
Weighted average common shares outstanding, basic and diluted	519,751	519,751

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Forge, Inc.
(Formerly emailthatpays.com, Inc.)
Consolidated Statements of Cash Flows
(expressed in United States dollars)

Three month ended March 31, 2003 and 2002

	March 31, 2003	March 31, 2002
Cash provided by (used in):		
Operations:		
Net income	$ 806	$(214,118)
Items not involving cash:		
Depreciation	5,548	7,175
Changes in operating assets and liabilities:		
Change in accounts receivable	95,938	(63,043)
Change in prepaid expenses	(5,597)	5,054
Change in accounts payable and accrued liabilities	249,121	464,753
Decrease in unearned revenue	(478,212)	(265,957)

Decrease in accrued salaries	(4,149)	14,708
Net cash used in operating activities	(136,545)	(51,428)
Cash flows used in investing activities:		
Purchase of property and equipment	(3,945)	(7,459)
Net cash used in investing activities	(3,945)	(7,459)
Cash flows from financing activities:		
Repayment of lease obligation	(897)	-
Proceeds from (repayment of) loan payable	(75,166)	(1,304)
Proceeds from bank indebtedness	-	9,053
Proceeds from notes payable	2,264	421
Proceeds from advances from related parties	218,293	26,962
Net cash provided by financing activities	144,494	35,132
Effect of exchange rate changes on cash	(19,681)	(632)
Increase in cash and cash equivalents	(15,677)	(24,387)
Cash and cash equivalents, beginning of year	50,537	24,387
Cash and cash equivalents, end of year	$ 34,860	$ -
Supplementary information:		
Interest paid	$ 7,386	$ 12,562
Income taxes paid	-	-

FORGE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

1. The Company and description of business:

Forge, Inc. (the "Company") is incorporated in the state of Delaware and is a "permission-based" e-mail marketing and integrated advertising strategies service. The Company's services include the design, delivery, tracking, and analysis of targeted "one-to-one" e-mail campaigns, customized loyalty programs, comprehensive list management/brokerage packages and the creation, integration and execution of both online and traditional advertising strategies.

On May 13, 2002 emailthatpays.com, Inc. ("email"), the Company's parent corporation, was merged into the Company in order to, among other things, change email's domicile from Florida to Delaware and to change its name. On May 13, 2002, the Company declared a one-for-twenty reverse stock split whereby each share of common stock issued and outstanding on May 13, 2002 was reclassified and changed to one-twentieth of one share of common stock, rounded down to the nearest whole share. As email owned 100% of the Company, this transaction has been accounted for on a continuity-of-interests basis. In addition, on May 13, 2002, the Company's 1999 Equity Compensation Plan was effectively cancelled. References to "the Company" refer to email for periods prior to May 13, 2002 and Forge, Inc. thereafter.

2. Liquidity and future operations:

The Company had its first profitable quarter ending March 31, 2003 but has sustained negative cash flows from operations since its inception. At March 31, 2003, the Company has negative working capital of $905,200. The Company's ability to meet its obligations in the ordinary course of business is dependent upon its ability to increase profitable operations or to obtain additional funding through public or private equity financing, collaborative or other arrangements with corporate sources, or other sources. Management is seeking to increase revenues through continued marketing of its services; however additional funding will be required.

Management is working to obtain sufficient working capital from external sources in order to continue operations. There is however no assurance that the aforementioned events, including the receipt of additional funding, will occur and be successful.

FORGE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

3. Basis of Presentation:

The unaudited consolidated financial statements of the Company at March 31, 2003 and for the three month period then ended include the accounts of the Company and its wholly-owned subsidiaries and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in these interim statements under the rules and regulations of the Securities and Exchange Commission ("SEC"). Accounting policies used in fiscal 2003 are consistent with those used in fiscal 2002. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2003. These interim financial statements should be read in conjunction with the financial statements for the fiscal year ended December 31, 2002 and the notes thereto.

4. Foreign currency:

The functional currency of the operations of the Company's wholly-owned Canadian operating subsidiaries is the Canadian dollar. Assets and liabilities measured in Canadian dollars are translated into United States dollars using exchange rates in effect at the balance sheets date with revenue and expense transactions translated using average exchange rates prevailing during the period. Exchange gains and losses arising on this translation are excluded from the determination of income and reported as foreign currency translation adjustment (which is included in the comprehensive income (loss)) in stockholders' equity.

5. Net income (loss) per share:

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings per Share, and SEC Staff Accounting Bulletin ("SAB") No. 98. Under the provisions of SFAS No. 128 and SAB No. 98, basic income (loss) per share is computed using the weighted average number of common stock outstanding during the periods, and gives retroactive effect to the shares issued on the recapitalization described in note 1. Diluted income (loss) per share is computed using the weighted average number of common and potentially dilutive common stock outstanding during the period. Basic and diluted net income (loss) per share are the same as any exercise of options or warrants would be anti-dilutive.

FORGE, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

6. Comprehensive income (loss):

Effective January 1, 1999, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income" SFAS No. 130 which establishes standards for reporting comprehensive income (loss) and its components in financial statements. Other comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive loss for each of the periods presented is as follows:

	2003	2002
Net (income) / loss	$ (806)	$214,118
Other comprehensive (income) / loss:		
Foreign currency translation adjustment	99,190	(4,070)
Comprehensive loss	$98,384	$210,048

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Statements

This Report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about us and about our subsidiary companies, including, among other things:

- development of an e-commerce market;
- our ability to successfully execute our business model;
- our ability to obtain additional funding;
- growth in demand for Internet products and services; and
- adoption of the Internet as an advertising medium.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Report might not occur.

Results of Operations
For the Three Months Ending March 31, 2003 and 2002

Revenue

We earn revenues by delivering online direct marketing, promotional, and informational offers and by developing and implementing integrated marketing and advertising strategies. We charge our advertisers based upon a number of criteria including offers delivered, qualified leads generated, online transactions executed and marketing services performed.

Revenue consists of the gross value of our billings to clients and includes the price of the advertising that we purchase from offline and online suppliers. Under marketing services contracts, we recognize the cost of the advertising we purchase for our clients as an expense and the payments we receive from our clients for this advertising as revenue. Under these arrangements, we are ultimately responsible for payment to suppliers for the cost of the advertising that we purchase.

We believe that our revenues will be subject to seasonal fluctuations as a result of general patterns of retail advertising, which are typically higher during the second and fourth calendar quarters. In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and consumer buying patterns.

To date, the vast majority of our revenue has been generated from the provision of integrated marketing and advertising strategies as our email delivery system, relational database program and Canadian email marketing sales offices were not fully operational until February 2000. With increased focus, time and expenditure being directed to these online services, we anticipate proportionate increases in revenue, both in absolute and percentage terms. However, if these services do not continue to achieve market acceptance, we cannot assure you that we will generate business at a sufficient level to support our continued operations.

Total revenue for the three months ending March 31, 2003 was $978,600, an increase of 78% over the quarter ending March 31, 2002. The increase over last year reflects increased spending by existing clients, the addition of three new clients and an expansion into creative services and production.

Cost of revenue

Cost of revenue represents the cost of advertising purchased for clients. The increase over last year corresponds to our increased revenue. As well, our expansion into creative services and production involved less direct costs and resulted in an increase in our overall margin.

Operating Expenses

Our operating expenses for the three months ending March 31, 2003 were $245,136, compared to operating expenses of $345,530 in the same three month period of the previous year. Over the last two years we have substantially reduced our operating costs through consolidation of our two western Canada offices into one location, closure of our eastern Canada sales office, controlled use of professional services and reduction of our internal technological staff, outsource the maintenance and storage of our technological facilities and utilize IT professionals on a project-by-project contract basis. On an on-going basis we do not anticipate reducing our operating expenses any further.

The decrease in salary costs from $209,470 for the three months ending March 31, 2002 to $162,059 for the three months ending March 31, 2003 reflects fewer employees, no new staff additions and a reduction in employee benefits. Other operating expenses also reflect a decrease in advertising and promotions due to a one time cost associated with the re-branding of the operating entities, a decrease in legal and accounting associated with the company merger and domicile change, and an increase in rent resulting from our office move.

Liquidity and Capital Resources

We have sustained negative cash flows from operations since our inception; however, a net income was generated for the first time this quarter. At March 31, 2003, we have negative working capital of $905,200. Advances from a company controlled by a principal stockholder are funding our current operations. Our ability to meet our current obligations is dependent upon these advances, the overall increase in revenues and continued profitability.

We need to raise funds in order to continue operations and implement our strategies of client realization and servicing, expansion and maintenance of products, brand awareness, technological advancement and infrastructure development. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, our ability to continue operations, implement our strategies, take advantage of unanticipated opportunities, or otherwise respond to competitive pressures will be significantly limited.

Net cash used in operating activities was $136,545 and $51,428 for the three months ending March 31, 2003 and 2002, respectively. Cash used in operations was primarily the result of decrease in unearned revenue of $478,212 for the three months ending March 31, 2003 and net losses of $214,118 for the three months ending March 31, 2002.

Net cash used in investing activities was $3,945 and $7,459 for the three months ending March 31, 2003 and 2002, respectively and relates to purchases of property and equipment.

Net cash provided by financing activities was $144,494 and $35,132 for the three months ending March 31, 2003 and 2002, respectively. Cash provided by financing activities for the period ending March 31, 2003 consists of an increase in advances from related parties of $218,293. Cash provided by financing activities for the three months ending March 31, 2002 consists of an increase in bank indebtedness of $9,053 and $26,962 in increased advances from related parties.

ITEM 3. CONTROLS AND PROCEDURES.

As required by Rule 13a-14 under the Securities Exchange Act of 1934 (the "Exchange Act"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures within the 90 days prior to the filing date of this report. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Mr. Daniel Hunter. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting management to material information relating to us which is required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

EXHIBITS REQUIRED BY ITEM 601 OF REGULATION SB

Exhibit Number	Description of Exhibit
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

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(1) Filed as an Exhibit to this Quarterly Report on Form 10-QSB

REPORTS ON FORM 8-K

We did not file any Current Reports on Form 8-K during the fiscal quarter ended March 31, 2003.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FORGE, INC.

Dated: May 16, 2003 By:

/s/ Daniel Hunter
Daniel Hunter
Chief Executive Officer
Principal Accounting and
Financial Officer, Director

CERTIFICATIONS

I, Daniel Hunter, CEO of Forge, Inc., hereby certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Forge, Inc.;

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

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

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

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

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

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

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

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

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

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

Dated: May 16, 2003 By: /s/ Daniel Hunter
Daniel Hunter
Chief Executive Officer,
Principal Accounting and
Financial Officer and Director