

Edgar Filing: LCS GOLF INC - Form 10QSB

LCS GOLF INC  
Form 10QSB  
July 22, 2003

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MAY 31, 2003

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-1010-495  
(I.R.S. Employer  
Identification No.)

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

10541  
(Zip Code)

845-621-3945

Issuer's telephone number

LCS, GOLF, INC.  
(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. 49,120,176 shares of Common Stock, par value \$0.001 as of July 22, 2003.

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

PART I - FINANCIAL INFORMATION

# Edgar Filing: LCS GOLF INC - Form 10QSB

## ITEM 1. Financial Statements

### LCS GOLF, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

		May 31, 2003
		----- (Unaudited)
ASSETS	\$	=====
LIABILITIES		
Current liabilities:		
Cash overdraft	\$	23,
Accounts payable		618,
Accrued Expenses		2,941,
Liabilities to be paid with Common Stock		98,
Debt in default		262,
Debt not in compliance with terms		301,
Notes payable		25,
Convertible debt		180,
Loans from stockholder/president		912,
Other current liabilities		52,
		-----
Total current liabilities		5,416,
		-----
Commitments		
CAPITAL DEFICIT		
Common stock - \$.001 par value, 50,000,000 shares authorized; 49,120,176 and shares issued and outstanding, 1,000,000 shares issuable at May 31,2003		49,
Additional paid-in capital		15,311,
Accumulated deficit		(20,777,
		-----
Total capital deficit		(5,416,
		-----
	\$	=====

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,

-----	-----
2003	2002

Edgar Filing: LCS GOLF INC - Form 10QSB

	----- (UNAUDITED)	----- (UNAUDITED)
NET REVENUES	\$ 0	\$ 20,365
COST OF REVENUES	0	----
	-----	-----
GROSS PROFIT	0	20,365
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	205,472	147,943
	-----	-----
LOSS FROM OPERATIONS	(205,472)	(127,578)
Interest expense	(26,776)	(74,250)
	-----	-----
NET LOSS	\$ (232,248)	\$ (201,828)
	=====	=====
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (.00)	\$ (.01)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	49,120,176	36,380,051
	=====	=====

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,	
	----- 2003 ----- (UNAUDITED)	----- 2002 ----- (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (232,248)	\$ (201,828)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		3,458
Common stock issued and to be issued for services		20,000
Financing Charge - non cash		17,453
Changes in:		
Accounts receivable		496
Accounts payable and accrued expenses	145,346	70,062
Other current liabilities	(1,023)	2,999
	-----	-----
NET CASH USED IN OPERATING ACTIVITIES	(87,925)	(87,360)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash Overdraft		5,953
Proceeds from notes issued		75,000
Proceeds from convertible debt	180,925	

## Edgar Filing: LCS GOLF INC - Form 10QSB

Repayment of note	(75,000)	(10,000)
Proceeds from major stockholder/president loans		16,407
Repayment of major stockholder/president loans	(18,000)	----
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	87,925	87,360
	-----	-----
NET INCREASE/DECREASE IN CASH	0	----
CASH - MARCH 1	0	----
	-----	-----
CASH - MAY 31	\$ 0	\$ ----
	=====	=====
		\$ 390,000

### NON-CASH TRANSACTIONS

Issuance of Common Stock for Liabilities

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, 2003

### 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 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

## Edgar Filing: LCS GOLF INC - Form 10QSB

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. As of May 31, 2003, the Company has very limited operations.

The Company formerly designed and manufactured consumer products, but ceased its manufacturing operations in November of 1999. It does not intend to renew these operations.

During the fiscal year ended February 28, 2003, the Company had lost its websites and domain names, and its database had become obsolete. Some of these websites and domain names are being used by a company owned by the Company's Chief Operating Officer. It is unlikely that the Company will be able to recover any of these websites and/or domain names and the Company may not be able to adequately update its database. Accordingly, it is unlikely that the Company will be able to resume its prior operations.

The Company generated minimal revenues in fiscal 2003 and currently has no revenue generating 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, 2003

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

#### [3] Basis of presentation: (continued)

Through May 31, 2003, 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. In addition, the Company has a significant working capital deficiency and a capital deficit and is in default of certain indebtedness. 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

## Edgar Filing: LCS GOLF INC - Form 10QSB

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.

During the first quarter of fiscal 2004 the Company issued \$180,925 of noninterest bearing convertible promissory notes payable on demand and convertible at \$0.03 per share.

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 2003 Annual Report on Form 10-KSB. Operating results for the three months ended May 31, 2003 and 2002 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 2003 Annual Report on Form 10-KSB.

### [5] Deferred income taxes:

Deferred income taxes are reported using the asset and liability 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)

## Edgar Filing: LCS GOLF INC - Form 10QSB

May 31, 2003

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

#### [6] 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.

#### [7] 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, 2003

### 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 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. As of May 2003, no such payments were made.

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.

## Edgar Filing: LCS GOLF INC - Form 10QSB

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, 2003

#### 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% 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 \$237,500, (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



## Edgar Filing: LCS GOLF INC - Form 10QSB

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 C), 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 Forbearance 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, 2003

#### 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 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

## Edgar Filing: LCS GOLF INC - Form 10QSB

\$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, 2003

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

[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

## Edgar Filing: LCS GOLF INC - Form 10QSB

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.

On June 28, 2002, the Company entered into an Agreement and Release with AWP and PCG, 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.

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. On November 26, 2002, the Company issued the aforementioned 6,000,000 shares of common stock to AWP and PCG.

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.

The 800,000 shares that had been held in escrow as security for the promissory notes were released and returned to the Company's president and chief executive officer.

LCS GOLF, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)  
May 31, 2003

### 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 granted the third party 200,000 shares of the Company's common stock. The Company's president,

## Edgar Filing: LCS GOLF INC - Form 10QSB

chief executive officer and principal stockholder had personally pledged 2,000,000 shares of the Company's common stock as collateral for the loan. The Company defaulted on the aforementioned loan when it was not able to make the required repayment of \$75,000 on June 11, 2002. Pursuant to the loan agreement, the Company was required to issue 10,000 shares of the Company's Common Stock ("Penalty Shares") to the third party for each day the loan is past due.

On May 1, 2003 the Company repaid the \$75,000 loan from the third party. In addition the Company has agreed to issue 1 million shares of its common stock in full settlement of the default provisions under the note. In order to issue these shares the Company must amend its certificate of incorporation to increase the number of shares it is authorized to issue. The Company has also agreed to issue an additional 100,000 shares of common stock to the third party if the certificate of incorporation is not amended within six months. The third party also received piggyback registration rights with respect to the aforementioned shares. Concurrent with the repayment of the loan, the third party has also released 2 million shares of the Company's stock to the Company's major stockholder/president that the third party had been holding as collateral for the loan.

### NOTE E - CONTINGENCIES

On May 1, 2003 a complaint naming the Company and its two officers was filed by a third party in Palm Beach County, Florida. The complaint alleges a breach of contract and contains allegations of losses of \$1,625,000 plus securities and other compensation. The Company served an answer denying the allegations of the complaint and believes that the complaint has no merit.

### NOTE F - SUBSEQUENT EVENTS

On July 16, 2003, pursuant to the terms of Section 251(g) of the Delaware General Corporation Law, LCS Golf, Inc. became the wholly-owned subsidiary of LCS Group, Inc. hereinafter referred to as "Group" or "we." Pursuant to this transaction Group acquired all of the assets of Golf, all former stockholders of Golf became the stockholders of Group, which is the entity that will now be publicly traded on the OTC Bulletin Board.

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

### Overview

On July 16, 2003, pursuant to the terms of Section 251(g) of the Delaware General Corporation Law, LCS Golf, Inc. hereafter referred to as "Golf," became the wholly-owned subsidiary of LCS Group, Inc., hereinafter referred to as "Group" or "we." Pursuant to this transaction, Group acquired all of the assets of Golf, all former stockholders of Golf became the stockholders of Group, which is the entity that will now be publicly traded on the OTC Bulletin Board, and the officers and sole director of Golf became the officers and sole director of Group. The historical and financial information that we have set forth in this Item relate to Golf except where the context indicates that it refers to Group.

We were a holding company that until December 31, 2001 operated as a provider of out sourcing 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 all of our revenue generating operations and

## Edgar Filing: LCS GOLF INC - Form 10QSB

released all but two of our employees, our two executive officers. We continue to accrue the salary for one of these officers under his employment agreement. As of May 31, 2003, we had lost most of our websites and domain names, and our database had become obsolete. Some of these websites and domain names are being used by a company owned by our Chief Operating Officer. It is unlikely that we will be able to recover any of these websites and/or domain names and we may not be able to adequately update our database. Accordingly, it is most unlikely that we will be able to resume our prior operations.

We are investigating the possibility of acquiring or otherwise affiliating with a revenue generating business but, although we have had discussions, we have reached no agreement with any such business and cannot assure you that we will. 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 affiliate with a revenue generating business partner and secure the financing required to support these activities by September 2003, we will most likely cease all activities.

### Results of Operations

Three Months Ended May 31, 2003, Compared to Three Months Ended May 31, 2002

#### Revenues

We had no revenues for the three months ended May 31, 2003 as compared to \$20,365 for the three months ended May 31, 2002. This decrease resulted from our suspension of operations.

#### Cost of Revenue

We had no cost of revenues for the three months ended May 31, 2003 or the three months ended May 31, 2002.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$205,472 for the three months ended May 31 2003 compared to \$147,953 for the three months ended May 31, 2002.

#### Interest Expense

Interest expense consists of interest on debt obligations and common stock issued or issuable in connection with debt obligations. Interest expense was \$26,776 for the three months ending May 31, 2003 compared to \$74,250 for the three months ending May 31, 2002.

#### Income Taxes

No provision for federal or state income taxes was recorded as we have incurred net operating losses since inception through May 31, 2003. The tax benefit of the net operating losses has been reduced by a 100% valuation allowance.

#### Loss

Our net loss for the three-month period ended May 31, 2003 was (\$232,248), compared with a net loss of (\$201,822) for the three-month period ended May 31, 2002. For the three-month period ended May 31, 2003, net loss per common share, basic and diluted, was (\$0.00) per share. For the three-month period ended May 31, 2002, net loss per common share, basic and diluted, was

## Edgar Filing: LCS GOLF INC - Form 10QSB

(\$0.01) per share.

### Liquidity and Capital Resources

#### Cash Balance, Working Capital and Cash Flows from Operating Activities

We had negative cash flow from operations of \$(87,925) during the three month period ended May 31, 2003 because we had no revenue generating operations 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. Since that date we have suspended all of our revenue generating operations. We are investigating the possibility of acquiring or otherwise affiliating with a revenue generating business but, as noted above, although we have had discussions, we have reached no agreement with any such business and cannot assure you that we will. 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. Furthermore, our weak financial condition could restrict our ability to acquire or affiliate with a revenue generating business partner as well as prevent us from establishing a source of financing. If, as noted above, we are unable to obtain a revenue generating business partner and secure the financing required to support these activities by September 2003, we will most likely cease all activities.

During the past four months independent parties have advanced funds on our behalf that, as of the date of this filing, approximate \$250,000. These advances bear no interest and are repayable on demand. They will be convertible into our common stock at the rate of \$0.03 per share after we have amended our certificate of incorporation to increase the number of shares of common stock we are authorized to issue. We have used these funds to repay certain indebtedness and for professional fees.

On May 28, 2002, we entered into a loan agreement with an unaffiliated party pursuant to which we borrowed \$75,000. The loan bore no interest and was repayable by July 23, 2002. We issued 200,000 shares of our common stock to the lender. The loan agreement provided that if the loan was not repaid by the due date, we would be obligated to issue 10,000 shares of our common stock to the lender for each day that the loan remained unpaid.

On May 1, 2003, we repaid the \$75,000 loan to the lender and agreed to issue him one million shares of our common stock as soon as we amend our certificate of incorporation to increase the number of shares we are authorized to issue, which will then permit us to issue these shares. We also agreed to issue him an additional 100,000 shares in the event that we fail to commence the procedure to effect this amendment prior to six months after the repayment of the loan, and granted him certain "piggy-back" registration rights with respect to his shares. The lender released to Dr. Mitchell 2 million shares of our common stock owned by Dr. Mitchell that he was holding as collateral for the repayment of the loan. In addition, the lender, Dr. Mitchell and Golf exchanged general releases.

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

### Issues and Uncertainties

## Edgar Filing: LCS GOLF INC - Form 10QSB

### 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," "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 no revenue generating operations. The following discussion highlights certain material risks we currently face.

GOLF IS IN DEFAULT OF A SENIOR SECURED LOAN, WHICH COULD PREVENT US FROM AFFILIATING WITH A REVENUE GENERATING BUSINESS.

Golf's failure to remit 50% of the cash proceeds from a financing transaction with American Warrant Partners to Traffix, Inc. resulted in one of a number of defaults under Golf's forbearance agreement with Traffix. Although we believe that we are not bound by Golf's agreement with Traffix, we cannot assure you that if Traffix elects to pursue its remedies under the forbearance agreement against us we will be successful in maintaining our position. In the event that we are not successful or are otherwise unable to reach a resolution with Traffix acceptable to us, we may be unable to affiliate with a revenue generating business because, among other things, Traffix's actions could prevent us from obtaining needed financing. In addition, in the event that we are obligated to satisfy Golf's continuing obligations under the Traffix agreements, any cash flow we may generate in the future would be significantly adversely impacted if we are required to remit 50% from new accounts receivable until Traffix is paid in full. See also Notes B through D to Golf's unaudited consolidated financial statements for the three months ended May 31, 2003 for information relating to additional defaults by Golf on Golf's outstanding indebtedness for which we could be liable.

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 borrowings and other funding resources. From March 1, 1999 through May 31, 2003, our president made net advances of approximately \$912,709, of which \$41,144 was advanced during our fiscal year ended February 28, 2003, \$260,024 was advanced during our fiscal year ended February 28, 2002 and \$359,566 was advanced during our fiscal year ended February 28, 2001. Our independent auditors' report on our consolidated financial statements for the year ended February 28, 2003 and the notes to our unaudited financial statements for the three months ended May 31, 2003 include language reflecting that substantial doubt exists as to our ability to continue as a going concern. Our financial statements show an accumulated deficit of approximately \$20,777,830. 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 secure financing necessary to support these activities by September 2003, we will most likely be forced to cease all activities. Accordingly, any purchaser of our securities should be prepared to lose his entire investment.

THE LOSS OF OUR CHIEF EXECUTIVE OFFICER WITHOUT AN ADEQUATE REPLACEMENT

## Edgar Filing: LCS GOLF INC - Form 10QSB

WOULD REQUIRE US TO TERMINATE ALL ACTIVITIES.

Dr. Michael Mitchell, our president and chief executive officer, is one of only two remaining employees and the only one who devotes any material time to our matters. If Dr. Mitchell leaves the Company or is otherwise unable to act as our Chief Executive Officer, we will be required to terminate all activities unless we are able to find an adequate replacement, which we believe is most unlikely.

### ITEM 3 - Controls and Procedures

Our management, which is comprised of our Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion since they are our only employees and we are inactive. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date our Chief Executive Officer and Chief Financial Officer completed their evaluation.

## PART II - OTHER INFORMATION

### ITEM 1. Legal Proceedings

On November 26, 2002, Robert J. Carye, Jr. instituted a legal action against us and other defendants in the District Court, Second Judicial District, County of Ramsey, State of Minnesota. The title of the action is Robert J. Carye, Jr. vs. LCS Golf, Inc., et al, Case NO. 62-C5-02-012634. The plaintiff alleged that we sent an unsolicited facsimile transmission to him in violation of the federal Telephone Consumer Protection Act of 1991 47 U.S.C.ss.s 227(b)(1)(C) and 227(d)(1)(B) and ss.325E.395 of the Minnesota Statutes. The plaintiff sought an injunction, statutory damages, out-of-pocket loses, attorney's fees, costs and disbursements. He terminated this action and issued us a general release in consideration for our paying him \$3,500.00.

### ITEM 2. Change in Securities

None.

### ITEM 3. Defaults Upon Senior Securities

See Notes B through D to our unaudited consolidated financial statements for the three-month period ending May 31, 2003.

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

None.

### ITEM 5. Other Information

On July 17, 2003, pursuant to the terms of Section 251(g) of the Delaware General Corporation Law, Golf became our a wholly-owned subsidiary. Pursuant to this transaction we acquired all of Golf's assets, all former stockholders of Golf became our stockholders, we are now the entity that will be publicly traded on the OTC Bulletin Board, and the officers and sole director of Golf became our officers and sole director.



## Edgar Filing: LCS GOLF INC - Form 10QSB

As a successor entity to Golf, our shares are deemed to be registered under Section 12(g) of the Securities Exchange Act of 1934 and Rule 12g-3 promulgated thereunder. The shares have been issued without registration in reliance upon exemptions provided in Section 3(a)(9) of the Securities Act of 1933 and Rule 145 promulgated thereunder. Golf has been subject to the reporting requirements of the Exchange Act since 1997. The last report filed by Golf was its Annual Report on Form 10-KSB for the year ended February 28, 2003.

Reference is made to the (i) Agreement and Plan of Merger among LCS Group, Inc., LCS General Acquisition, Inc. and LCS Golf, Inc, (ii) Certificate of Incorporation of LCS Group, Inc., and (iii) Amended and Restated By-laws of LCS Group, Inc, copies of which are being filed as Exhibits to this Form 10-QSB. All statements made with respect to the aforesaid transactions discussed in this Item 5 are qualified by such reference.

### ITEM 6. Exhibits and Reports on Form 8-K

#### Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger among LCS Group, Inc., LCS General Acquisition, Inc. (a wholly-owned subsidiary of LCS Group, Inc.) and LCS Golf, Inc., dated as of July 16, 2003.
3.1	Certificate of Incorporation of LCS Group, Inc.
3.2	By-Laws of LCS Group, Inc.
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.

### 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.

LCS GROUP, INC.

By: /s/ MICHAEL MITCHELL  
-----  
Michael Mitchell Sole Director and  
Principal Executive Officer

Edgar Filing: LCS GOLF INC - Form 10QSB

By: /s/ ALEX BRUNI

-----  
Alex Bruni  
Principal Accounting and  
Financial Officer

Date: July 22, 2003

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 three month period ending May 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Mitchell, sole of Director, 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 Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we 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 us 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 our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and 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

## Edgar Filing: LCS GOLF INC - Form 10QSB

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. The Registrant's other certifying officer and 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 our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 22, 2003

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 three month period ending May 31, 2003 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;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we 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 us 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 our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

## Edgar Filing: LCS GOLF INC - Form 10QSB

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. The Registrant's other certifying officer and 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 our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

July 22, 2003

Alex Bruni, Chief Financial Officer