ENVOY COMMUNICATIONS GROUP INC
Form 6-K
June 05, 2002

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Six months ended March 31, 2002 compared with six months ended March 31, 2001.

Net Revenue

Net revenue for the six months ending March 31, 2002 was $30.7 million compared to $42.2 million for the six months ended March 31, 2001, representing a decrease of $11.5 million or 27%. The decrease in revenue results from a combination of general economic slowdown in the North American and the U.K. marketplace as well as a specific slowdown within the advertising and technology markets, particularly in New York. Our revenue from marketing activities decreased $6.7 million from $14.3 million to $7.6 million. The largest portion of this decrease being a decline in revenue in New York of $5.8 million and a further decrease of approximately $1.0 million in revenue relating to Canadian marketing. Technology revenue decreased $3.2 million from $8.8 million to $5.6 million. Again the reduction in revenue relates largely to the decline in business in our New York operations. Net revenue from design services decreased $1.7 million from $19.2 million to $17.5 million.

In the six months ended March 31, 2002, net revenue from marketing represented approximately 25% of our net revenue, while technology and design represented 18% and 57% respectively. In the six months ended March 31, 2001, marketing represented approximately 34% of net revenue, while technology and design represented 21% and 45% respectively.

The geographical breakdown of our net revenue for the six months ended March 31, 2002 was 38% from the United States, 23% from the United Kingdom and Continental Europe, and 39% from Canada. Net revenue for the six months ended March 31, 2001 was 49% from the United States, 22% from the United Kingdom and Continental Europe and 29% from Canada.

EBITDA before Goodwill write-down, Restructuring costs and Unusual item

For the six months ended March 31, 2002, we had an EBITDA loss, before goodwill write-down, restructuring costs and unusual item of ($2.8) million and for the six months ended March 31, 2001, we earned $7.5 million in EBITDA.

Operating Expenses

Operating expenses for the six months ended March 31, 2002 was $33.5 million compared to $34.7 million for the six months ended March 31, 2001, representing a decrease of $1.3 million.

Salaries and benefits expense remained consistent at $25.3 million for the six months ended March 31, 2002 and 2001. In response to the significant decrease in revenue experienced by the Company during the first six months of the year, management implemented a plan to reduce salary and benefit expense during the second quarter. As a result of this downsizing a saving of approximately $14.5 million in annual salary and benefit expenses will be realized. Management believes that the ongoing salary and benefit expenses will be more in line with expected revenues.

General and administrative expenses for the six months ended March 31, 2002, was $5.7 million compared to $7.2 million for the six months ended March 31, 2001, representing a decrease of $1.5 million. The decrease in general and administrative expenses were largely due to reduced expenditures in the area of marketing and promotion, shareholder relations as well as reduced expenditures associated with reduced level of revenue.

Occupancy costs for the six months ended March 31, 2002 was $2.5 million compared to $2.3 million for the six months ended March 31, 2001. Management has accrued for the anticipated costs of restructuring certain US leases in this quarter and continues to look at ways to reduce its occupancy expenses by subleasing redundant office space.

Interest charges for the six months ended March 31, 2002, was $340,682 compared to in $370,281 in the six months ended March 31, 2001. The slight decrease in interest charges was due to lower interest rates offset by additional interest expense relating to the amortization of deferred financing costs, which are recorded as interest expense.

Restructuring costs for the six months ended March 31, 2002, was $7.3 million. In response to general economic downturn impacting our business, management implemented a restructuring plan during the first half of this fiscal year in order to bring costs more in line with the expected revenues. See Note 1 to the consolidated financial statements.

Unusual item for the six months ended March 31, 2002, was $752,000. The unusual item represents the write off of unamortized financing fees incurred in connection with the credit facility. See Note 2 to the consolidated financial statements.

The above factors resulted in a decrease in our earnings before income taxes and goodwill amortization from $5.6 million in 2001 to a loss of ($4.6) million in 2002.

Goodwill amortization increased from $1.5 million to $1.8 million due to increased amount of goodwill derived from acquisitions and earnout payments. In the second quarter of 2002, a $28.4 million write-down of goodwill was recorded, as discussed in Note 1 to the consolidated financial statements.

Net Earnings (Loss)

As a result of the foregoing factors, we had a net loss of ($37.6) million for the six months ended March 31, 2002, compared to net earnings of $1.6 million for the six months ended March 31, 2001.

Per Share Amounts

The per share amounts are as follows: for the six months ended March 31, 2002, the fully diluted EBITDA loss before goodwill write-down, restructuring, and unusual item per share was ($0.13), the fully diluted earnings (loss) before amortization and write-off of goodwill per share was ($0.36) and the fully diluted net earnings (loss) per share was ($1.80). For the six months ended March 31, 2001, the fully diluted EBITDA per share was $0.35, the fully diluted earnings before goodwill amortization per share was $0.15 and the fully diluted net earnings per share was $0.08.

Cash Flows

Net cash provided by (used in) operating activities before any increase/ decrease in non-cash operating working capital was ($7.3) million for the six months ended March 31, 2002, and $4.9 million for the six months ended March 31, 2001. Decrease in net cash provided by operating activities is primarily due to decreased earnings, offset by the write-down of goodwill, as discussed previously.

Net cash used in financing activities was ($263,874) for the six months ended March 31, 2002 and net cash used in financing activities was ($5.4) million for the six months ended March 31, 2001. The decrease is primarily due to the increase in debt in the current period reduced by the redemption of common shares.

Net cash used in investing activities was ($855,571) for the six months ended March 31, 2002 and ($3,456,789) for the six months ended March 31, 2001. The decrease is primarily due to fewer payments related to acquired businesses and a decrease in the purchase of capital assets.

RESULTS OF OPERATIONS

Three months ended March 31, 2002 compared with three months ended March 31, 2001

Net Revenue

Net revenue for the three months ending March 31, 2002 was $14.0 million compared to $20.4 million in the three months ended March 31, 2001, representing a decrease of $6.4 million or 31%. The explanations for the decreases are the same as previously discussed in the six month comparison.

EBITDA before Goodwill write-down, Restructuring costs and Unusual item

For the three months ended March 31, 2002, we had an EBITDA loss before goodwill write-down, restructuring costs and unusual item, of ($2.5) million and for the three months ended March 31, 2001, we earned $3.1 million in EBITDA.

Operating Expenses

Operating expenses for the three months ended March 31, 2002 were $16.6 million, compared to $17.4 million for the three months ended March 31, 2001, representing a decrease of $780,000. As discussed previously above in the six-month comparison, management implemented a restructuring plan primarily enacted during the first half of this fiscal year, see Note 1 to the consolidated financial statements.

Net Earnings (Loss)

As a result of the restructuring charges and goodwill write-downs noted above, we had a net loss of ($35.8) million for the three months ended March 31, 2002, compared to net earnings of $531,972 for the three months ended March 31, 2001.

Per Share Amounts

The per share amounts are as follows: for the three months ended March 31, 2002, the fully diluted EBITDA loss before goodwill write-down, restructuring and unusual item per share was ($0.12), the fully diluted earnings (loss) before goodwill per share was ($0.31) and the fully diluted net earnings (loss) per share was ($1.71). For the three months ended March 31, 2001, the fully diluted EBITDA per share was $0.15, the fully diluted earnings before goodwill per share was $0.06 and the fully diluted net earnings per share was $0.03.

Cash Flows

Net cash used in operating activities before any increase/decrease in non-cash operating working capital was ($6.3) million for the three months ended March 31, 2002 and $2.2 million for the three months ended March 31, 2001. Decrease in net cash provided by operating activities is primarily due to decreased earnings offset by the write down of goodwill.

Net cash provided by (used in) financing activities was ($105,204) for the three months ended March 31, 2002 compared with a use of ($4.0) million for the three months ended March 31, 2001. The use of cash in the current period relates to a repayment of long-term debt.

Cash used from investing activities for the three months ended March 31, 2002 was $544,000, compared with $2.8 million for the three months ended March 31, 2001. The use of cash relates to the purchase of capital assets and the payment of contingent consideration relating to prior acquisitions.

Financial Condition and Liquidity

As at March 31, 2002 compared to September 30, 2001

As at March 31, 2002 the Company had a working capital deficit of ($7.3) million compared with a working capital deficit of ($429,933) at September 30, 2001. This working capital deficiency arises due to the fact that the borrowings under the bank credit facility must be classified as a current liability as a result of the Company not being in compliance with one of its covenants. The decrease in working capital in this period is primarily the result of the operating loss during this period.

On April 29, 2002, as disclosed in Note 4 of the consolidated financial statements, the Company issued $1.8 million in convertible debentures.
The net proceeds from the sale of the debentures were used for general working capital purposes to support the Company's restructuring activities. During fiscal 2001, the Company established an extendable revolving line of credit under which it can borrow funds in either Canadian dollars, U.S. dollars or U.K. Pounds Sterling, provided the aggregate borrowings do not exceed $40.0 million Canadian. Advances under the line of credit can be used for general

purposes (to a maximum of $2.0 million), and financing acquisitions which have been approved by the lenders. As at March 31, 2002 approximately $9.8 million has been borrowed under the facility, none of which is for general corporate purposes.

As at March 31, 2002 and September 30, 2001, the Company was not in compliance with its covenant calculations involving trailing 12 month earnings before interest, taxes, depreciation and amortization. As the lenders have the right to demand repayment of the outstanding borrowings if the covenants are not met, the entire amount of the debt is classified as a current liability. The Company is continuing to have discussions with its lenders regarding the amendments to the terms of the facility. The lenders have indicated additional borrowings under the facility will not be permitted without their prior approval, other than the $2.0 million available for general corporate purposes.

Historically the Company has funded its liquidity needs through funds provided from operating activities, equity offerings and long term borrowings. Management believes that is has a number of options available to finance the repayment of the non-interest bearing promissory notes due on June 30, 2002, amounts owing under the restructuring plans and expected cashflow shortfalls (or other operating obligations). These options include, additional debt or equity financing under private placements, renegotiating its bank credit facilities, renegotiating the payment terms of its promissory note, and the sale of some of its businesses. In addition, management has made every effort to negotiate the restructuring charges in such a way as to minimize the short term cash requirements.

ENVOY COMMUNICATIONS GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In Canadian dollars)
(Unaudited - Prepared by Management)

As at	March 31 2002	September 30 2001
Assets		
Current assets:		
Cash	$ 2,844,716	$21,781,809
Restricted cash	618,666	158,500
Accounts receivable	26,120,211	26,940,137
Income taxes recoverable	3,434,479	230,389
Future income taxes	2,105,000	712,000
Prepaid expenses	1,479,500	1,315,009
	36,602,572	51,137,844
Capital assets	9,997,999	11,533,736
Goodwill	20,571,003	49,675,115
Other assets	-	681,387
Future income taxes	1,677,869	822,156
	$ 68,849,444	$ 113,850,238

Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 26,183,553	$ 38,728,210
Deferred revenue	1,020,443	300,071
Amounts collected in excess of pass-through costs incurred	5,200,634	1,574,407
Bank credit facility and current portion of long-term debt (Note 2a)	11,458,548	10,965,089
	43,863,179	51,567,777
Long-term debt (Note 2a)	833,826	963,076
Long-term portion of restructuring costs (Note 1)	1,101,231	-
	1,935,057	963,076
Shareholders' equity:		
Share Capital	54,468,380	54,883,305
Retained earnings (Deficit)	(32,033,109)	5,603,200
Cumulative translation adjustment	615,937	832,880
	23,051,208	61,319,385
	$ 68,849,444	$ 113,850,238

ENVOY COMMUNICATIONS GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT / RETAINED EARNINGS
(In Canadian dollars)
(Unaudited - Prepared by Management)

For the six months ended	March 31 2002	March 31 2001
Net revenue	$ 30,655,912	$ 42,206,388
Operating expenses:		
Salaries and benefits	25,296,931	25,271,455
General and administrative	5,665,989	7,168,230
Occupancy costs	2,487,111	2,258,223
	33,450,031	34,697,908
Earnings (loss) before interest expense, income taxes, depreciation, goodwill,		

amortization and write-down, restructuring costs and unusual item	(2,794,119)	7,508,480
Depreciation	1,506,752	1,504,762
Interest expense	340,682	370,281
Earnings (loss) before income taxes and goodwill amortization and write-down	(4,641,553)	5,633,437
Restructuring costs and unsual item (Note 1)	8,024,442	-
Income tax expense (recovery)	(5,207,003)	2,536,201
Earnings (loss) before goodwill amortization and write-down	(7,458,993)	3,097,236
Goodwill amortization, net of income taxes of $12,000 (2001-$12,000)	1,751,050	1,481,016
Write-down of Goodwill (Note 1)	28,426,266	-
Net earnings (loss)	$ (37,636,309)	$ 1,616,220
Retained earnings, beginning of period	5,603,200	8,403,367
Retained earnings (deficit), end of period	$ 32,033,109)	$ 10,019,587
Net earnings (loss) per share - basic	$ (1.80)	$ 0.08
Net earnings (loss) per share - fully diluted	(1.80)	0.08
Earnings (loss) per share before goodwill amortization and write-down - basic	(0.36)	0.15
Earnings (loss) per share before goodwill amortization and write-down- fully diluted	(0.36)	0.15
Weighted average number of common shares outstanding	20,910,136	21,190,401

See accompanying notes to consolidated financial statements.

ENVOY COMMUNICATIONS GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT / RETAINED EARNINGS
(In Canadian dollars)
(Unaudited - Prepared by Management)

For the three months ended	March 31 2002	March 31 2001
Net revenue	$ 14,035,676	$ 20,430,030
Operating expenses:		

Salaries and benefits	12,127,253	13,061,386
General and administrative	3,294,088	3,123,478
Occupancy costs	1,156,600	1,170,912
	16,577,941	17,355,776
Earnings (loss) before interest expense, income taxes, depreciation, goodwill amortization and write-down, restructuring costs and unusual item	(2,542,265)	3,074,254
Depreciation	759,810	794,272
Interest expense	150,119	137,038
Earnings (loss) before income taxes and goodwill amortization	(3,452,195)	2,142,944
Restructuring costs and unsual item (Note 1)	7,638,442	-
Income tax expense (recovery)	(4,666,213)	860,823
Earnings (loss) before goodwill amortization and write-down	(6,424,425)	1,282,121
Goodwill amortization, net of income taxes of $6,000 (2001-$6,000)	955,637	750,149
Write-down of Goodwill (Note 1)	28,426,266	-
Net earnings (loss)	$ (35,806,327)	$ 531,972
Net earnings (loss) per share - basic	$(1.71)	$0.03
Net earnings (loss) per share - fully diluted	(1.71)	0.03
Earnings (loss) per share before goodwill amortization and write-down - basic	(0.31)	0.06
Earnings (loss) per share before goodwill amortization and write-down- fully diluted	(0.31)	0.06
Weighted average number of common shares outstanding	20,892,584	21,192,462

See accompanying notes to consolidated financial statements.

ENVOY COMMUNICATIONS GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(In Canadian dollars)
(Unaudited-Prepared by Management)

For the six months ended	March 31 2002	March 31 2001

Cash flows from operating activities:		
Net earnings (loss)	($ 37,636,309)	$ 1,616,220
Items not involving cash:		
Future income tax expense (recovery)	(2,248,713)	287,514
Depreciation	1,506,752	1,504,762
Goodwill amortization	1,763,050	1,493,016
Amortization of deferred financing charges	91,347	-
Write-down of capital assets	843,219	-
Write-down of goodwill	28,426,266	-
Net changes in non-cash working capital balances:		
Restricted cash	(460,166)	-
Accounts receivable	1,166,808	1,347,116
Prepaid expenses	(144,491)	(1,704,099)
Accounts payable and accrued liabilities	(12,802,612)	12,915,584
Income taxes (recoverable) payable	(3,243,219)	283,708
Deferred revenue	720,372	(374,719)
Amounts collected in excess of pass-through costs incurred	2,920,598	364,174
Long-term restructuring costs	1,101,231	-
Other	590,040	144,904
Net cash provided by (used in) operating activities	(17,405,825)	17,878,180
Cash flows from financing activities:		
Long-term debt borrowings	1,987,641	-
Long-term debt repayments	(1,623,432)	(4,953,578)
Issuance of common shares for cash	-	397,893
Redemption of common shares	(628,083)	-
Reduction in restricted cash	-	(254,399)
Other	-	(613,165)
Net cash (used in) financing activities	(263,874)	(5,423,249)
Cash flows from investing activities:		
Acquisition of subsidiaries	(52,497)	(2,015,346)
Purchase of capital assets	(847,123)	(1,441,423)
Net proceeds on disposal of capital assets	44,049	-
Net cash (used in) investing activities	(855,571)	(3,456,769)
Change in cash balance due to foreign exchange	(411,822)	352,371
(Decrease)/Increase in cash	(18,937,093)	9,350,533
Cash, beginning of period	21,781,809	7,105,418

Cash, end of period	$ 2,844,716	$ 16,455,951

Cash flow from operations per share:		
Basic	$ (0.35)	$ 0.23
Fully diluted	(0.35)	0.23

Supplemental cash flow information:		
Interest paid	$ 202,247	$ 217,101
Income taxes paid	434,504	1,289,821

Supplemental disclosure of non-cash transactions:		
Shares issued for non-cash consideration	213,000	4,123,821

ENVOY COMMUNICATIONS GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(In Canadian dollars)
(Unaudited-Prepared by Management)

For the three months ended	March 31 2002	March 31 2001
Cash flows from operating activities:		
Net earnings (loss)	($ 35,806,327)	$ 531,972
Items not involving cash:		
Future income tax expense (recovery)	(1,565,024)	92,471
Depreciation	759,810	794,272
Goodwill amortization	961,637	756,149
Amortization of deferred financing charges	46,109	-
Write-down of capital assets	843,219	-
Write-down of goodwill	28,426,266	-
Net changes in non-cash working capital balances:		
Restricted cash	69,678	-
Accounts receivable	(5,139,767)	8,720,073
Prepaid expenses	(15,320)	(1,128,140)
Accounts payable and accrued liabilities	3,083,898	1,452,310
Income taxes (recoverable) payable	(3,160,345)	(23,733)
Deferred revenue	357,131	(369,419)
Amounts collected in excess of pass-through costs incurred	3,924,116	21,580
Long-term restructuring costs	1,101,231	-
Other	771,735	217,923

Net cash provided by (used in) operating activities	(5,341,953)	11,065,458
Cash flows from financing activities:		
Long-term debt borrowings	-	-
Long-term debt repayments	(105,204)	(3,493,582)
Issuance of common shares for cash	-	130,320
Redemption of common shares	-	-
Reduction in restricted cash	-	(8,641)
Other	-	(632,362)
Net cash (used in) financing activities	(105,204)	(4,004,265)
Cash flows from investing activities:		
Acquisition of subsidiaries	(287,119)	(2,015,346)
Purchase of capital assets	(300,795)	(829,225)
Net proceeds on disposal of capital assets	44,049	-
Net cash (used in) investing activities	(543,865)	(2,844,571)
Change in cash balance due to foreign exchange	(488,383)	395,530
(Decrease)/Increase in cash	(6,479,405)	4,612,152
Cash, beginning of period	9,324,121	11,843,799
Cash, end of period	$2,844,716	$16,455,951
Cash flow from operations per share:		
Basic	$(0.30)	$0.10
Fully diluted	(0.30)	0.10
Supplemental cash flow information:		
Interest paid	$61,503	$217,101
Income taxes paid	167,529	263,615
Supplemental disclosure of non-cash transactions:		
Shares issued for non-cash consideration	213,000	499,997

1. Restructuring Costs and Unusual Item

For the six month period ending March 31, 2002, the Company recorded charges for restructuring activities and the write-down of goodwill and other assets totaling $36,450,709, as summarized below.

	Cash	Non Cash	Total Provision	Paid By March 31
Severance	$ 2,799,166	$ -	$ 2,799,166	$ 902,154
Write down of fixed assets	-	843,219	843,219	843,219
Lease exit costs	3,380,079	250,011	3,630,090	418,611
Restructuring charge	6,179,245	1,093,230	7,272,475	2,163,984
Unusual Item (Note 2)	-	751,968	751,968	-
	6,179,245	1,845,198	8,024,443	2,163,984
Write-down of goodwill	-	28,426,266	28,426,266	-
Total charges	$ 6,179,245	$ 30,271,463	$ 36,450,709	$ 2,163,984

(a) Restructuring charge

In response to a general economic downturn impacting our business, management implemented a restructuring plan during the first half of this fiscal year in order to bring costs more in line with expected revenues. The restructuring involved downsizing its workforce, exiting excess office space and write-off of redundant fixed assets. Accordingly, the Company has recorded a restructuring expense of $7,272,475 (of which $386,000 was expensed in the first quarter). The restructuring includes a reduction of 125 people as well as the abandonment of 18,000 square feet of leased office space in New York city. The annual expense savings in salaries, benefits, and occupancy costs associated with this restructuring is approximately $15,750,000.

(b) Write-down of Goodwill

The Company performed an assessment of the carrying values of goodwill recorded in connection with our various businesses. The assessment was performed because a number of factors indicated that an impairment had arisen in the period ending March 31, 2002. The main indicators of impairment were significant changes in valuations of companies in the techology and marketing/advertising sectors, and significant negative industry and economic trends impacting both current operations and expected future growth rates. Based on these factors, the Company concluded that a significant permanent impairment existed with respect to the Company's goodwill and other assets, which primarily related to the goodwill associated with the businesses of Sage, Promanad and Hampel.

In quantifying the impairment charge, the Company compared the expected future cashflows of each acquisition, to the respective carrying value of the assets of the business, including assigned goodwill. The cashflow periods used ranged between 5 and 20 years, consistent with the remaining goodwill amortization period.

As a result of the review, the Company determined that the carrying values of the acquired businesses were not fully recoverable. Accordingly, the Company recorded, in the second quarter of 2002, a $28,426,266 write-down of goodwill based on the amount by which the carrying amount of the goowill exceeded the expected future cash flows calculated as described in the preceding paragraph.

Note 2. Bank Credit Facility and Long-term Debt

	2002	2001
Revolving credit facility	$ 9,835,789	$ 7,841,239
Non-interest-bearing promissory note, repayable in semi-annual installments due June 30, 2002	1,309,169	2,689,781
Current portion of loans payable to landlords and capital leases	313,590	434,069
	$ 11,458,548	$ 10,965,089
Long term portion of loans payable to landlords and capital leases	$ 833,826	$ 963,076

During fiscal 2001, the Company established an extendable revolving line of credit under which it can borrow funds in either Canadian dollars, U.S. dollars or U.K. Pounds Sterling, provided the aggregate borrowings do not exceed $40,000,000 Canadian. Advances under the line of credit can be used for general purposes (to a maximum of $2,000,000), and financing acquisitions which have been approved by the lenders. As at March 31, 2002 approximately $9,800,000 has been borrowed under the facility, none of which is for general corporate purposes.

As at March 31, 2002 and September 30, 2001, the Company was not in compliance with its covenant calculations involving 12 month earnings before interest, taxes, depreciation and amortization. As the lenders have the right to demand repayment of the outstanding borrowings if the covenants are not met, the entire amount of the debt is classified as a current liability. The Company is continuing to have discussions with its lenders regarding the amendments to the terms of the facility. The lenders have indicated additional borrowings under the facility will not be permitted, other than the $2,000,0000 available for general corporate purposes.

The Company is considering all of the options available to it to finance the repayment of the non-interest bearing promissory notes due on June 30, 2002, the amounts owing under the restructuring plans, and expected cashflow shortfalls in the next six months (or other operating obligations). These options include, additional debt or equity financing under private placements, renegotiating its bank credit facilities, renegotiating the payment terms of its promissory note, and the sale of some of its businesses.

As a result of the ongoing discussions with the lenders regarding the terms of the credit facility, and the limitations on the amounts which can be borrowed, as at March 31, 2002 the Company has written off the $751,968 remaining unamortized financing fees incurred in connection with this facility.

3. Segmented Information:

The Company provides integrated marketing communication services to its clients. While the Company has subsidiaries in Canada, the United States, the United Kingdom and Continental Europe, it operates as a global business and has no distinct operating segments

The tables below set out the following information:

	By Customer Location		By Geographic Area
March 31, 2002	Net Revenue	Capital Assets	Goodwill
Canada	$ 11,961,610	$ 7,880,744	$ 3,251,824
United States	11,605,190	376,544	9,697,039
United Kingdom and Continental Europe	7,089,112	1,740,711	7,622,140
	$ 30,655,912	$ 9,997,999	$ 20,571,003
March 31, 2001			
Canada	$ 12,105,212	$ 7,948,932	$ 22,104,621
United States	20,843,118	691,310	16,844,740
United Kingdom and Continental Europe	9,258,058	1,903,402	7,856,344
	$ 42,206,388	$ 10,543,644	$ 46,805,705

The Company's external net revenue by type of service is as follows:

March 31	2002	2001
Net Revenue:		
Marketing	$ 7,610,699	$ 14,260,778
Design	17,473,700	19,154,239
Technology	5,571,513	8,791,371
	$ 30,655,912	$ 42,206,388

4. Subsequent Events:

On April 29, 2002 the Company issued $1,800,000 in 10% convertible debentures which mature on April 27, 2007 (the "Maturity Date"). The debentures are convertible until Maturity Date into 2.5 million units of the Company ("Units") at a Conversion Price of $.72 per Unit. Each Unit consists of one common share in the capital of the Company and one purchase warrant of the Company ("Warrant"). Each Warrant entitles the holder to purchase one common share (2.5 million commons shares in aggregate) within the earlier of (1) twelve months of the date of conversion of the debenture, and (2) the Maturity Date at a price of $.90 per common share. The net proceeds from the sale of the debenture were used for general corporate purposes.