IMPROVENET INC
Form 10QSB/A
May 21, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A
(Amendment No. 1)

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003.

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________.

COMMISSION FILE NUMBER 000-29927

IMPROVENET, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	77-0452868
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

8930 E. RAINTREE DRIVE, SUITE 300
SCOTTSDALE, AZ 85260
(Address of principal executive offices)

(480) 346-0000
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

The number of shares outstanding of the registrant's common stock, $.001 par value, was 39,210,315 as of April 30, 2003.

ImproveNet, Inc.

Form 10-QSB

For the Quarter Ended March 31, 2003

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PART I FINANCIAL INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMPROVENET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2003	DECEM
Current Assets:	(unaudited)	
Cash and cash equivalents	$ 196,028	$
Accounts receivable, net	392,767	
Receivable from stock transfer agent	--	
Other receivables	--	
Prepaid expenses	69,938	
Costs and estimated earnings in excess of billings on uncompleted software contracts	39,525	

Total Current Assets	698,258	
Property and equipment, net	145,388	
Total Assets	$ 843,646	$
Current Liabilities:		
Notes payable - current portion	$ --	$
Obligations under capital leases - current portion	14,759	
Line of credit	72,255	
Accounts payable	133,536	
Accrued compensation	73,598	
Accrued customer claims	137,080	
Accrued furniture lease buyout - current portion	45,000	
Accrued merger and tender offer redemption liabilities	--	
Deferred revenue	26,333	
Billings in excess of costs and estimated earnings on uncompleted software contracts	22,500	
Other liabilities and accrued expenses	252,835	
Total Current Liabilities	777,896	
Long-Term Liabilities:		
Notes payable - long-term portion	--	
Obligations under capital leases - long-term portion	24,860	
Accrued furniture lease buyout - long-term portion	67,500	
Total Liabilities	870,256	
Commitments and Contingencies:	--	
Stockholders' Deficit		
Common Stock, $.001 par value, 100,000,000 shares authorized, 53,124,290 shares issued and 39,210,315 and 53,124,290 shares outstanding at March 31, 2003 and December 31, 2002, respectively	53,124	
Additional paid-in capital	482,570	
Accumulated deficit	(562,304)	
	(26,610)	
Less: Treasury stock subscribed, at cost, underliying 13,913,975 shares	--	(
Total Stockholders' Deficit	(26,610)	(
Total Liabilities and Stockholders' Equity	$ 843,646	$

See accompanying notes to the
unaudited condensed consolidated financial statements

IMPROVENET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31,
(UNAUDITED)

	2003	2002
Revenues	$ 807,651	$ 195,318
Cost of Revenues	530,560	30,467
Gross Profit	277,091	164,851
Selling, General and Administrative Expenses	408,142	152,230
Research and Development Expenses	89,089	42,255
Marketing Expenses	40,995	6,046
Loss from Operations	(261,135)	(35,680)
Other Revenues (Expenses)		
Interest income	2,787	36
Interest expense and financing costs	(3,410)	(12,587)
Loss on disposal of property and equipment	--	(64,242)
Miscellaneous income	8,372	220
Loss from Operations before Extraordinary Gain	(253,386)	(112,253)
Benefit for Income Taxes	--	--
LOSS BEFORE EXTRAORDINARY GAIN	(253,386)	(112,253)
Extraordinary Gain - Relief of Debt	103,876	--
Net Loss	$ (149,510)	$ (112,253)
LOSS PER SHARE - BASIC AND DILUTED		
- Loss before extraordinary gain	$ (0.01)	$ (0.01)
- Extraordinary gain	0.00	--
- Net loss per common share	$ (0.00)	$ (0.01)
Weighted average common shares; basic and diluted	40,107,991	20,000,000

See accompanying notes to the
unaudited condensed consolidated financial statements

IMPROVENET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(UNAUDITED)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (149,510)	$ (112,253)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19,000	21,081
Extraordinary gain	(103,876)	--
Treasury stock subscribed	1,961,941	--
Loss on disposal of property and equipment	--	64,242
Changes in:		
Accounts receivable, net	(63,110)	(13,330)
Accounts receivable - other	1,000	--
Receivable from stock transfer agent	594,715	--
Costs and estimated earnings in excess of billings on uncompleted contracts	(35,425)	--
Prepaid expenses	(14,884)	(6,590)
Accounts payable	(87,560)	32,066
Accrued compensation	(120,484)	26,500
Accrued merger and tender offer redemption liabilities	(2,378,029)	--
Other liabilities and accrued expenses	229,382	15,797
Billings and estimated earnings in excess of costs on uncompleted contracts	(66,750)	--
Deferred revenue	(9,625)	(37,500)
Net cash used in continuing operations	(223,215)	(9,987)
CASH FLOWS FROM INVESTING ACTIVITIES		
Note receivable	--	--
Collection of notes receivable	--	--
Purchase of property, plant and equipment	(6,394)	(499)
Net cash provided by (used in) investing activities	(6,394)	(499)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of debt	(13,197)	(9,361)
Repayment of capital leases	(2,499)	(11,783)
Repayment on line of credit	(5,500)	--
Proceeds from sale of common stock, net	--	--
Net cash provided by (used in) financing activities	(21,196)	(21,144)
Net increase (decrease) in cash and cash equivalents	(250,805)	(31,630)
Cash and cash equivalents, beginning of period	446,833	31,630
Cash and cash equivalents, end of period	$ 196,028	$ --
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Interest paid	$ 3,410	$ 12,587

Income taxes paid	$ --	$ --

See accompanying notes to the
unaudited condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2003

NOTE 1 - NATURE OF BUSINESS AND BASIS OF PRESENTATION

ImproveNet, Inc., a Delaware corporation ("ImproveNet" or "Company"), operates in two business segments:

Software - the Company licenses, installs and maintains its proprietary e-commerce software products to companies primarily operating in the Building Materials Industry (BMI). The software segment consists primarily of products developed by eTechLogix.

Information Services - Under the brand ImproveNet this service provides a source for home improvement information services for homeowners, service providers and suppliers nationwide.

A leading brand since 1996, ImproveNet has the breadth of industry knowledge, and the credibility within the homeowner and contractor market, software design expertise and partnerships with industry leaders, to leverage the opportunity within the $1 Trillion annual BMI. ImproveNet's mission is to automate the BMI and connect the entire Value-Chain with innovative software and outstanding services.

The unaudited condensed consolidated balance sheet as of March 31, 2003 and the related unaudited condensed consolidated statements of operations for the three month period ended March 31, 2003 and 2002, and unaudited condensed cash flows for the three months ended March 31, 2003 and 2002 presented herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In our opinion, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of such condensed consolidated financial statements. Such necessary adjustments consisted of normal recurring items and the elimination of all significant intercompany balances, transactions and stock holdings.

These interim condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2002, Annual Report on Form 10-KSB. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

LOSS PER SHARE

Basic loss per share of common stock was computed by dividing net loss by the weighted average number of shares outstanding of common stock.

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options and warrants that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share.

NEW ACCOUNTING PRONOUNCEMENT

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. The statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of FASB Statement No. 123. The transition provisions are effective for fiscal years ending after December 15, 2002. The disclosure provisions are effective for interim periods beginning after December 15, 2002. The Company implemented the required disclosure provisions in the three-month period ending March 31, 2003. The adoption of this statement did not have a material impact on the Company's consolidated financial

position, results of operations or cash flows as the Company is not making the voluntary change to the fair value method of accounting for stock-based compensation.

NOTE 2 - STOCK OPTIONS

The company has adopted FAS No. 123, "Accounting for Stock-Based Compensation". Under FAS No. 123, companies can, but are not required to, elect to recognize compensation expense for all stock-based awards using a fair value methodology. The company has adopted the disclosure-only provisions, as permitted by FAS No. 123. The company applies APB Opinion No. 25 and related interpretations in accounting for its stock-based plans. Accordingly, there is no related compensation expense recorded in the Company's financial statements for the periods presented. Had compensation cost for stock-based compensation been determined based on the fair value of the options at the grant dates consistent with the method of SFAS 123, the Company's net loss and loss per share for the three months ended March 31, 2003 and 2002 would have been reduced to the pro forma amounts presented below:

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
Net loss:		
As reported	$ (149,510)	$ (112,235)
Pro forma	$ (224,510)	$ (112,235)

LOSS PER SHARE:		
As reported	$ (0.00)	$ (0.01)
Pro forma	$ (0.01)	$ (0.01)

The fair value of the 750,000 option grants during the quarter ended March 31, 2003 is estimated as of the date of grant utilizing the Black-Scholes option-pricing model with the following weighted average assumptions for all grants, expected life of options of two (2) years, risk-free interest rates of four percent (4%), volatility at 140%, and a zero percent (0%) dividend yield.

NOTE 3 - INDUSTRY SEGMENT DATA

Information concerning operations by industry segment follows (unaudited):

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
Revenue		
Software (eTechLogix)	$ 204,900	$ 195,318
Information Services (ImproveNet)	602,751	--
Total	807,651	195,318
GROSS PROFIT		
Software (eTechLogix)	204,900	164,851
Information Services (ImproveNet)	72,191	--
Total	277,091	164,851
OPERATING EXPENSES	538,226	200,531
OPERATING LOSS	(261,135)	(35,680)
Interest Income	2,787	36
Interest Expense	(3,410)	(12,587)
Loss on disposal of assets	--	(64,242)
Miscellaneous income	8,372	220
OPERATING LOSS BEFORE EXTRAORDINARY GAIN	(253,386)	(112,253)
Extraordinary Gain - Relief of debt	103,876	0
Total	$ (149,510)	$ (112,253)
DEPRECIATION AND AMORTIZATION		
Software (eTechLogix)	$ 19,000	$ 21,081
Information Services (ImproveNet)	--	--
Total	$ 19,000	$ 21,081
IDENTIFIABLE ASSETS		
Software (eTechLogix)	$ 392,268	$ 1,589,353

Information Services (ImproveNet)	451,378	--
Total	$ 843,646	$ 1,589,353

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

The following discussion and analysis of our financial condition and results of operation should be read with our unaudited condensed consolidated financial statements and notes included elsewhere in this Report on Form 10-QSB. The discussion in this Report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements using terminology such as "can," "may," "believe," "designated to," "will," "expect," "plan," "anticipate," "estimate," "potential," or "continue," or the negative thereof or other comparable terminology regarding beliefs, plans, expectations or intentions regarding the future. Forward-looking statements involve risks and uncertainties and actual results could differ materially from those discussed in the forward-looking statements. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date thereof, and the Company assumes no obligation to update any forward-looking statement or risk factors, unless we are required to do so by law. The cautionary statements made in this Report on Form 10-QSB should be read as applying to all related forward-looking statements wherever they appear in this Report on Form 10-QSB. Factors that cause or contribute to such differences include but are not limited to those discussed elsewhere in this Form 10-QSB, as well as those in a discussion of risk factors found in our Annual Report on Form 10-KSB beginning on page 17 in the section titled "Factors Affecting Future Performance, Results of Operation and Financial Condition." Our actual results could differ materially from those discussed here.

OVERVIEW

BASIS OF PRESENTATION

On December 23, 2002, Etech Acquisition, Inc., (the "Merger") an Arizona corporation and wholly owned subsidiary of ImproveNet merged with and into eTech. Through this Merger, the former shareholders of eTech acquired a controlling interest in ImproveNet and accordingly, the Merger is accounted for as a reverse merger, with eTech being the accounting acquirer of ImproveNet. The Company has treated the Merger as being effective December 31, 2002 as ImproveNet had de minimus operations from December 23, 2002 to December 31, 2002. As such, the pre-merger financial statements present the historic financial position, operations and cash flows of eTech with the December 31, 2002 balance sheet adjusted to consolidate and reflect the fair values assigned to the acquisition balance sheet of ImproveNet.

The Company's financial statements are presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has continued to sustain losses for the past two years and has negative working capital and negative net worth.

The financial statements do not include any adjustments to reflect the possible future effects of the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the uncertainty of the Company's ability to continue as a going concern.

ACQUISITION

On December 23, 2002, eTech Acquisition, Inc., an Arizona corporation and wholly-owned subsidiary of ImproveNet, merged with and into eTech. This Merger occurred pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated July 30, 2002. Under the terms of the Merger Agreement, eTech paid $500,000 to ImproveNet and incurred $19,000 in costs directly related to the Merger. At the time of the Merger, each outstanding share of eTech Common Stock, no par value per share, was converted into the right to receive and became exchangeable for 5,555.555556 shares of ImproveNet Common Stock, par value $.001 per share. A total of 35,417,750 shares of ImproveNet common stock were issued in the Merger to eleven (11) different shareholders of eTech. Through the Merger, the former directors of eTech, who were also shareholders, collectively received 30,310,740 shares of ImproveNet Common Stock and as a result, acquired control of the Company.

Un-expired outstanding options to purchase eTech Common Stock were converted, on the same vesting schedule, into an option to purchase a number of shares of ImproveNet Common Stock equal to the number of shares of eTech Common Stock that could have been purchased under such option multiplied by 5,555.555556, at a price per share of ImproveNet Common Stock equal to the per share exercise price of $.05 per share. Options to acquire 788,889 shares of ImproveNet Common Stock were issued in the Merger as a result of these outstanding options, of which, 222,222 had vested as of the date of the Merger.

Warrants to purchase 1,500,000 shares of ImproveNet were issued as a result of the Merger. These warrants were issued in conjunction with subordinated convertible notes payable, as discussed below.

TENDER OFFER

Under the terms of the Merger Agreement, the Company agreed to present a cash tender offer ("Tender Offer") to pre-merger shareholders of ImproveNet. The price per share was based in part on ImproveNet's available cash balance at the closing of the Merger. The Tender Offer was available from the time of the Merger through January 2, 2003.

Prior to the closing of the Merger, ImproveNet deposited approximately $2,557,000 with its stock transfer agent for payments to be made under the Tender Offer. In conjunction with the Tender Offer, the Company disbursed a total of approximately $1,962,000 to various pre-merger ImproveNet shareholders in January 2003 resulting in the acquisition of 13,913,975 treasury shares in January 2003. Funds in excess of disbursements of approximately $595,000 were returned to the Company from stock transfer agent in January 2003.

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ACCOUNTING FOR THE MERGER

The Company accounted for this Merger in accordance with SFAS No. 141, "Business Combinations." As discussed above, the former shareholders of eTech acquired a controlling interest in the Company, and accordingly, the transaction has been accounted for as a reverse merger and the total consideration given by eTech of $519,000 has been allocated to the fair values of the pre-merger assets and liabilities of ImproveNet. At the time of the acquisition, the fair value of the net assets of ImproveNet was $361,351 in excess of the consideration given by eTech after all applicable reductions of amounts that otherwise would have been assigned to the acquired assets were considered. This excess is reported in the statement of operations as an extraordinary gain.

eTechLogix, Inc. ("eTech"), a wholly-owned subsidiary of ImproveNet, licenses, installs and maintains its proprietary e-commerce software products to companies primarily operating in the building material industry. eTech was formerly known as First Systech International, Inc. and was originally incorporated in March 1989 in the State of Texas. In July of 1994, eTech relocated to the State of Arizona and incorporated itself under the laws of the State of Arizona.

ImproveNet, Inc. ("ImproveNet" or the "Company") was incorporated in California in January 1996, was reincorporated in Deleware in September 1998 and is headquartered in Scottsdale, Arizona. The Company is a source for home improvement information services for homeowners, service providers and suppliers nationwide.

The following discussion should be read in conjunction with the consolidated financial statements provided under Part I, Item 1 of this Form 10-QSB. Certain statements contained herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially.

The forward-looking information set forth in this Form 10-QSB is as of May 20, 2003, and ImproveNet, Inc. undertakes no duty to update this information. Should events occur subsequent to May 20, 2003 that make it necessary to update the forward-looking information contained in this Form 10-QSB, the updated forward-looking information will be filed with the SEC in a Quarterly Report on Form 10-QSB or as an earnings release included as an exhibit to a Form 8-K, each of which will be available at the SEC's website at www.sec.gov.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

ImproveNet, Inc.'s discussion and analysis of its financial condition and results of operations are based upon ImproveNet, Inc. consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires ImproveNet to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, ImproveNet evaluates its estimates, including those related to customer programs, bad debts, income taxes, contingencies and litigation. ImproveNet bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

ImproveNet believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

SOFTWARE SEGMENT - ETECHLOGIX

The Company recognizes revenue in accordance with SOP 97-2, "Software Revenue Recognition." This SOP provides guidance on revenue recognition of software transactions. The Company recognizes revenue principally from the development and licensing of its software and from consulting and maintenance services rendered in connection with such development and licensing activities. Maintenance contract revenue is recognized on a straight-line basis over the life of the respective contract. The Company also derives revenue from the sale of third party hardware and software which is recognized based on the terms of each contract. Consulting revenue is recognized when the services are rendered. No revenue is recognized prior to obtaining a binding commitment from the customer.

Revenue from fixed price software development contracts, which require significant modification to meet the customer's specifications, is recognized on the percentage-of-completion method using the units-of-work-performed method to measure progress towards completion. Revisions in cost estimates and recognition of losses on these contracts are reflected in the accounting period in which the facts become known. Revenue from software package license agreements without

significant vendor obligations is recognized upon delivery of the software. Contract terms may provide for billing schedules that differ from revenue recognition and give rise to costs and estimated earnings in excess of billings on uncompleted software contracts, and billings in excess of costs and estimated earnings on uncompleted software contracts.

Deferred revenue represents revenue billed and collected but not yet earned.

The cost of maintenance and research and development related revenues, which consist principally of staff payroll and applicable overhead, are expensed as incurred.

INFORMATION SERVICES SEGMENT - IMPROVENET

Revenues in the home improvement services segment are derived from two sources: Service revenues and marketing revenues.

SERVICE REVENUES:

Service revenues include lead fees and win fees from ImproveNet's contractor matching service and enrollment fees from new contractors joining the ImproveNet network. Lead fees are recognized at the time a homeowner and contractor are matched by the Company and the service provider becomes obligated to pay such fee. Win fees are recognized at the time the service provider or the homeowner notifies the Company that a job has been sold and the service provider becomes obligated to pay such fee. Enrollment fees from service providers are recognized as revenue ratably over the expected period they participate in our contractor matching service, which is initially estimated to be between one and two years. Payments of enrollment fees received in advance of providing services are deferred until the period the services are provided. The Company establishes a refund reserve at the time of revenue recognition based on the Company's historical experience.

MARKETING REVENUES:

Marketing revenues include the sale of banner, SmartLeads and other Web site advertisements. Currently marketing revenues are comprised of cash advertising.

CASH ADVERTISING

Cash advertising revenues generally are derived from short-term advertising contracts in which the Company typically guarantees that a minimum number of impressions will be delivered to its Web site visitors over a specified period of time for a fixed fee. Cash marketing revenues from banner, button and other Web site advertisements are recognized at the lesser of the amount recorded ratably over the period in which the advertising is delivered or the percentage of guaranteed impressions delivered. SmartLeads revenues are also paid for in cash and are recognized when the SmartLeads have been delivered to the customer. Cash marketing is recognized when the Company has delivered the advertising, evidence of an agreement is in place and fees are fixed, determinable and collectible.

The Company follows the allowance method of recognizing uncollectible accounts receivable. The allowance method recognizes bad debt expense as a percentage of accounts receivable based on a review of the individual accounts outstanding and the Company's prior history of uncollectible accounts receivable. If the financial condition of ImproveNet's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Deferred income taxes are provided for on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards 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 basis.

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.

BUSINESS SEGMENTS

The Company follows SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 requires publicly held companies to report financial and other information about key revenue segments of an entity for which this information is available and is utilized by the chief operating decision maker. The Company operates in two segments:

Software - the Company licenses, installs and maintains its proprietary e-commerce software products to companies primarily operating in the building material industry. The software segment is consists primarily of products developed by eTechLogix.

Information Services - Under the brand ImproveNet this service provides a source for home improvement information services for homeowners, service providers and suppliers nationwide.

The Company's pre-merger consolidated statements of operations and cash flows do not reflect operations for ImproveNet (information services segment) as ImproveNet, for accounting purposes, was acquired effective December 31, 2002 in the Merger.

RESULTS OF OPERATIONS

REVENUES

Our revenues increased to approximately $808,000 for the three months ended March 31, 2003 from approximately $195,000 for the three months ended March 31, 2002, an increase of approximately $613,000 or 314%. The increase is primarily due to revenues from the ImproveNet business.

The following table and discussion highlights our revenues for the three months ended March 31, 2003 and 2002:

	THREE MONTHS ENDED MARCH 31,		
	2003	2002	CHANGE
REVENUES			
Software (eTechLogix)	$ 205,000	$195,000	$ 10,000

Information Services (ImproveNet)	603,000	--	603,000
Total	$ 808,000	$195,000	$ 613,000

SOFTWARE (ETECHLOGIX) REVENUES

eTechLogix revenue increased to approximately $205,000 for the three months ended March 31, 2003, from approximately $195,000 for the three months ended March 31, 2002, an increase of approximately $10,000 or 5%. The increase in eTechLogix revenue is primarily a result of increased sales of the company's Smart FusionSM software product and associated installation and integration services.

INFORMATION SERVICES (IMPROVENET) REVENUES

ImproveNet revenue was approximately $603,000 for the three months ended March 31, 2003. No ImproveNet revenue was included in the three months ended March 31, 2002 as the Merger occurred effective December 31, 2002. ImproveNet revenue consists almost entirely of service revenues from its contractor matching service.

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OPERATING EXPENSES

COST OF REVENUES

Cost of revenues increased to approximately $531,000 for the three months ended March 31, 2003 from approximately $30,000 for the three months ended March 31, 2002, an increase of approximately $501,000. The increase is primarily due to cost of revenues from the newly acquired ImproveNet business.

The following table and discussion highlights our cost of revenues for the three months ended March 31, 2003 and 2002:

	THREE MONTHS ENDED MARCH 31,		
	2003	2002	CHANGE
COST OF REVENUES			
Software (eTechLogix)	$ --	$ 30,000	$ (30,000)
Information Services (ImproveNet)	531,000	--	531,000
Total	$ 531,000	$ 30,000	$ 501,000

SOFTWARE (ETECHLOGIX) COST OF REVENUE

eTechLogix cost of revenues decreased to zero for the three months ended March 31, 2003, from approximately $30,000 for the three months ended March 31, 2002. The decline eTechLogix cost of revenue is primarily a result of the cost of revenue related to sales of third party software in the prior year quarter. There were no sales of third party software in the current year quarter.

INFORMATION SERVICES (IMPROVENET) COST OF REVENUE

ImproveNet cost of revenue was approximately $531,000 for the three months ended March 31, 2003. No ImproveNet cost of revenue was included in the three months ended March 31, 2002 as the Merger occurred effective December 31, 2002. ImproveNet cost of revenue consists primarily of the cost of home improvement leads and the cost for the outsourced project service group, which is responsible for all phases of our proprietary matching services and includes our project advisors.

SELLING, GENERAL AND ADMINISTRATIVE

Our selling, general and administrative expenses increased to approximately $408,000 for the three months ended March 31, 2003 from approximately $152,000 for the three months ended March 31 2002, an increase of approximately $256,000 or 168%

Our selling, general and administrative expenses include payroll and related costs and travel, recruiting, professional and advisory services and other general expenses for our executive, sales, finance, legal, and human resource departments. The increase in our general and administrative expenses was a result of the Merger effective December 31, 2002. The Merger resulted in increased headcount and increased costs for insurance, legal and accounting.

RESEARCH AND DEVELOPMENT

Our research and development expenses increased to approximately $89,000 for the three months ended March 31, 2003 from approximately $42,000 for the three months ended March 31, 2002, an increase of approximately $47,000 or 111%.

Our research and development costs include the payroll and related costs of our technology staff, other costs of Web site design and new technologies required to enhance the performance of our Web sites.

The increase in research and development expenses in 2002 was primarily attributable to increased payroll and related costs and an increase in the usage of offshore development contractors.

MARKETING

Our marketing expense increased to approximately $41,000 for the three months ended March 31, 2003 from approximately $6,000 for the three months ended September 30, 2001, an increase of approximately $35,000.

Our marketing expense includes online and offline direct marketing and advertising, public relations and trade show expenses. Marketing expenses also include payroll and related costs, support staff expenses, travel costs and other general expenses of our marketing, professional services and partnership services departments.

The increase in marketing expenses was primarily attributable to the ImproveNet business.

OTHER REVENUES (EXPENSES)

Other revenue (expenses) increased to revenue of approximately $8,000 for the three months ended March 31, 2003 from an expense of approximately $77,000 for the three months ended March 31, 2002, an increase of approximately $85,000.

The following table and discussion highlights other revenues (expenses) for the three months ended March 31, 2003 and 2002:

	THREE MONTHS ENDED MARCH 31,		
	2003	2002	CHANGE
Other Revenues (Expenses)			

Interest income	$ 3,000	$ --	$ 3,000
Interest expense and financing costs	(3,000)	(13,000)	10,000
Loss on disposal of property and equipment	--	(64,000)	64,000
Miscellaneous income	8,000	--	8,000
	$ 8,000	$(77,000)	$85,000

The improvement in other revenues (expenses) from the prior year quarter is due to a $64,000 loss on disposal of property and equipment in the prior year quarter and improved interest income and lower interest expense.

EXTRAORDINARY GAIN - RELIEF OF DEBT

The extraordinary gain in the quarter of approximately $104,000 is attributable to a favorable settlement of a liability under a furniture lease agreement.

INCOME TAXES

We have recorded a 100% valuation allowance against our net deferred tax assets, which arose primarily as a result of our aggregate operating losses. The valuation allowance will remain at this level until such time as we believe that the realization of the net deferred tax assets is more likely than not. Accordingly, our results of operations do not reflect any tax benefits for our reported losses.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled approximately $196,000 at March 31, 2003, a decrease of approximately $251,000 or 56% from approximately $447,000 at December 31, 2002. The decrease was primarily due to the $223,000 of cash used in operating activities.

Cash used in operating activities for the three months ended March 31, 2003 was approximately $223,000, compared to cash used of approximately $10,000 for the three months ended March 31, 2002. Cash used in operating activities in the current year quarter reflected the impact of the Merger and tender offer obligations as well as our net loss before depreciation, offset by changes in operating assets and liabilities.

Cash used in investing activities was approximately $6,000 for the three months ended March 31, 2003, and decreased approximately $5,500 from cash used of approximately $500 for the three months ended March 31, 2002. In first three months of 2003 and 2002 the cash was used to purchase equipment.

Cash used in financing activities was approximately $21,000 in the three months ended March 31, 2003 and 2002 to repay debt.

The Company anticipates increased year-over-year sales volume of their primary software products throughout 2003 and thereafter. The Company also anticipates increased revenues from the addition of the home improvement information services segment as revenues from this segment are not included in the prior year's results of operations. The Company also intends to raise additional capital either through a public or private offering of securities.

The additional funds from continued software sales and capital financing will be used to finance continued operations and increase the Company's sales and marketing functions.

Our operating losses have limited our ability to obtain vendor credit or extended payment terms and bank financing on favorable terms; accordingly, we depend on our cash and cash equivalent balances to fund our operations.

As a result of the Merger with ImproveNet, both revenue and operating expenses will increase significantly in 2003. Prior to the Merger, the ImproveNet business operated at a significant loss. The ImproveNet business has been moved from California to Arizona and has been integrated into the infrastructure of eTechLogix, leveraging existing technical, marketing and administrative personnel.

Due to the significant level of current liabilities and the history of operating losses, there is no assurance that our available cash resources will be sufficient to meet our anticipated needs for operations and capital expenditures during the next 12 months. We will strive to make ongoing realignments, if required, to achieve positive cash flow with our existing cash resources. We are additionally decreasing our marketing and other operating expenditures to assist us in maintaining our available cash resources. We may need to raise additional funds, however, if results of operations for 2003 do not meet our expectations, or in order to develop new or enhance existing services, to respond to competitive pressures or to acquire complementary businesses, services or technologies. If we raise additional funds by selling equity securities, the percentage ownership of our stockholders will be reduced. We cannot be sure that additional financing will be available on terms favorable to us, or at all. If adequate funds were not available on acceptable terms, our ability to fund expansion, react to competitive pressures, or take advantage of unanticipated opportunities would be substantially limited. If this occurred, our business would be significantly harmed. We will continue to evaluate our needs for funds based on our assessment of access to public or private capital markets and the timing of our need for funds. Although we have no present intention to conduct additional public equity offerings, we may seek to raise these additional funds through private or public debt or equity financings.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we have, as of a date within 90 days before the filing date of this quarterly report (the "Evaluation Date") evaluated the effectiveness of our "disclosure controls and procedures." Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be disclosed by us in our periodic reports to the Securities and Exchange Commission. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. They include, without limitation, controls and procedures designed to ensure that information required to be disclosed in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS. There were no significant changes in our internal controls or to our knowledge, in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses, subsequent to the date of their last evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations, and currently we are a party to several routine litigation matters that are incidental to our business. As of the date of this filing, we are not engaged in any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
99.2	Certification of Jeffrey I. Rassas, Chief Executive Officer pursuant to section 906 of the Sarbanes Oxley Act of 2002
99.3	Certification of Kenneth S. Cragun, Chief Financial Officer pursuant to section 906 of the Sarbanes Oxley Act of 2002

(b) Reports on Form 8-K

- Report on Form 8-K filed January 7, 2003 regarding the Merger and change in control.
- Report on Form 8-K filed January 21, 2003 regarding resignation of PricewaterhouseCoopers LLP and appointment of Semple & Cooper, LLP as the Company's principal independent accountant.
- Report on Form 8-K/A filed February 12, 2003 amending the Report on Form 8-K filed January 7, 2003 to include pro forma financial information.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed, May 20, 2003 on its behalf by the undersigned duly authorized.

IMPROVENET, INC.
(Registrant)

By: /s/ Jeffrey I. Rassas

Jeffrey I. Rassas
Co-Chairman and CEO

By: /s/ Kenneth S. Cragun

Kenneth S. Cragun
Chief Financial Officer

Date: May 20, 2003

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CERTIFICATION PURSUANT TO SECURITIES AND EXCHANGE ACT OF 1934
RULES 13a-15 AND 15d-15. (5)

I, Jeffrey I. Rassas, the Co-Chairman and CEO of ImproveNet, Inc. ("the Company"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of ImproveNet, 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 respect the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15) for the registrant and 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 for 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 ("Evaluation Date"); and

   c. Presented in this quarterly report our conclusions about he effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers an I have disclosed, abased on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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 officers and I have indicated in the quarterly report whether 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.

Dated: May 20, 2003

/s/ Jeffrey I. Rassas

Jeffrey I. Rassas
Co-Chairman and CEO

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CERTIFICATION PURSUANT TO SECURITIES AND EXCHANGE ACT OF 1934
RULES 13a-15 AND 15d-15. (5)

I, Kenneth S. Cragun, the Chief Financial Officer of ImproveNet, Inc. ("the Company"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of ImproveNet, 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 respect the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15) for the registrant and 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 for 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 ("Evaluation Date"); and

c. Presented in this quarterly report our conclusions about he effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers an I have disclosed, abased on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   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 officers and I have indicated in the quarterly report whether 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.

Dated: May 20, 2003

/s/ Kenneth S. Cragun

Kenneth S. Cragun
Chief Financial Officer

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