BUYERS UNITED INC
Form 10QSB
August 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 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. 0-26917

BUYERS UNITED, INC.
(Exact name of small business issuer as specified in its charter)

Delaware	87-0528557
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14870 Pony Express Road, Bluffdale, Utah 84065
(Address of principal executive offices)

(801) 320-3300
(Issuer's telephone number)

(Former name, address and fiscal year, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Check whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:
State the number of shares outstanding of each of the issuer's classes of common equity: 6,328,208 shares of common stock as of July 31, 2003.

Transitional Small Business Format: Yes [ ] No [X]

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BUYERS UNITED, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS - (Unaudited)

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash	$ 511,010	$ 994,360
Restricted cash	1,047,057	584,002
Accounts receivable, net	8,627,697	5,650,214
Other current assets	220,174	214,869
Total current assets	10,405,938	7,443,445

Property and equipment, net	1,787,048	540,578
Other assets, net		
Customer lists	6,077,046	3,000,000
Technology and patents	571,120	-
Deferred advertising costs	1,338,487	1,776,124
Other	415,573	384,801
Total other assets	8,402,226	5,160,925
Total assets	$ 20,595,212	$ 13,144,948
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Line of credit	$ 893,587	$ 1,276,252
Notes payable	5,303,920	6,099,580
Touch America obligation	1,066,236	-
Accounts payable	9,503,330	5,700,753
Accrued liabilities	1,472,361	772,347
Accrued dividends payable on preferred stock	390,855	377,688
Accrued commissions and rebates	698,808	493,639
Total current liabilities	19,329,097	14,720,259
Notes payable	4,522,622	3,887,803
Total liabilities	23,851,719	18,608,062
Stockholders' deficit:		
Preferred stock	265	242
Common stock	633	599
Additional paid-in capital	17,836,673	16,019,376
Warrants and options outstanding	4,592,514	4,592,514
Deferred consulting fees	(14,757)	(25,174)
Accumulated deficit	(25,671,835)	(26,050,671)
Total stockholders' deficit	(3,256,507)	(5,463,114)
Total liabilities and stockholders' deficit	$ 20,595,212	$ 13,144,948

See accompanying notes

BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - (Unaudited)

	Three Months Ended June 30,	
	2003	2002

Revenues:		
Telecommunications services	$ 16,291,636	$ 6,766,373
Other	-	9,859
Total revenues	16,291,636	6,776,232
Operating expenses:		
Costs of revenues	8,591,879	3,679,263
General and administrative	4,104,409	1,809,707
Selling and promotion	2,691,314	856,276
Total operating expenses	15,387,602	6,345,246
Income from operations	904,034	430,986
Other income (expense):		
Interest income	2,800	5,998
Interest expense	(506,166)	(385,480)
Total other expense, net	(503,366)	(379,482)
Net income	$ 400,668	$ 51,504
8% Preferred dividends on Series A and B preferred stock	(215,193)	(186,019)
Net income (loss) applicable to common stockholders	$ 185,475	$ (134,515)
Net income (loss) per common share:		
Basic	$ 0.03	$ (0.02)
Diluted	0.03	(0.02)
Weighted average common shares outstanding:		
Basic	6,330,142	5,730,161
Diluted	6,354,982	5,730,161

See accompanying notes

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BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - (Unaudited)

	Six Months Ended June 30,	
	2003	2002

Revenues:		
Telecommunications services	$ 31,772,756	$ 11,567,981
Other	-	35,561
Total revenues	31,772,756	11,603,542
Operating expenses:		
Costs of revenues	17,256,646	6,179,829
General and administrative	7,731,109	2,942,940
Selling and promotion	5,022,383	1,721,319
Total operating expenses	30,010,138	10,844,088
Income from operations	1,762,618	759,454
Other income (expense):		
Interest income	5,401	6,802
Interest expense	(992,095)	(688,724)
Total other expense, net	(986,694)	(681,922)
Net income	$ 775,924	$ 77,532
8% Preferred dividends on Series A and B preferred stock	(397,088)	(372,037)
Net income (loss) applicable to common stockholders	$ 378,836	$ (294,505)
Net income (loss) per common share:		
Basic	$ 0.06	$ (0.05)
Diluted	0.06	(0.05)
Weighted average common shares outstanding:		
Basic	6,287,453	5,604,441
Diluted	6,322,395	5,604,441

See accompanying notes

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BUYERS UNITED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Six Months Ended June 30,	
	2003	2002

Cash flows from operating activities:		
Net income	$ 775,924	$ 77,532
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,784,215	438,208
Amortization included in interest expense resulting from issuing stock with notes	5,312	14,520
Amortization of discount on notes payable	231,010	70,703
Amortization of note financing costs	81,424	94,060
Amortization of deferred consulting fees	10,417	27,225
Expense related to the grant of options to purchase common shares	-	66,396
Changes in operating assets and liabilities:		
Accounts receivable	(2,977,483)	(1,255,012)
Other assets	(660,476)	(1,330,721)
Checks in excess of available cash balances	-	(186,866)
Accounts payable	3,314,524	390,291
Accrued commissions and rebates	205,169	109,590
Accrued liabilities	550,013	87,395
Net cash provided by (used in) operating activities	3,320,049	(1,396,679)
Cash flows from investing activities:		
Increase in other assets	(52,126)	(17,060)
Purchases of property and equipment	(524,402)	(155,836)
Net cash used in investing activities	(576,528)	(172,896)
Cash flows from financing activities:		
Restricted cash	(463,055)	259,380
Net borrowings and payments under line of credit	(382,665)	236,900
Borrowings under notes payable, net of debt issuance costs	2,299,955	2,315,750
Principal payments on notes payable	(4,678,422)	(444,826)
Principal payments on capital lease obligations	-	(110,443)
Repurchase of shares from stockholders with less than 100 shares	(2,684)	-
Net cash provided by (used in) financing activities	(3,226,871)	2,256,761
Net increase (decrease) in cash	(483,350)	687,186
Cash at the beginning of the period	994,360	57,100
Cash at the end of the period	$ 511,010	$ 744,286

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Six Months Ended June 30,	
	2003	2002
Supplemental cash flow information:		
Cash paid for interest	$ 548,914	$ 463,094
Supplemental schedule of noncash investing and financing activities:		
Issuance of common shares in payment of preferred stock dividend	$ 377,688	$ 378,316
Issuance of common shares in payment of deferred financing costs	-	49,548
Issuance of common shares for officer's personal guranty	36,300	-
Issuance of warrants with promissory notes	-	186,886
Accrual of dividend payable on preferred stock	397,088	372,037
Retire and replace note payable	800,000	-
Increase in Touch America obligation with amended agreement	3,098,000	-
Issuance of preferred stock to acquire RTIP Network assets	1,400,738	-

See accompanying notes

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BUYERS UNITED, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Unaudited)

June 30, 2003

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Buyers United, Inc. ("the Company" or "Buyers United") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations.

It is management's opinion, however, that all material adjustments (consisting of normal recurring accruals) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

For further information, refer to the consolidated financial statements and footnotes included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

2. Summary of Significant Accounting Policies

Stock-Based Compensation: Employee compensation expense under stock options is reported using the intrinsic method. No stock-based compensation cost is reflected in net income (loss) applicable to common stockholders, since all options had an exercise price equal to or greater than the market price of the underlying common stock at the date of grant. The following table illustrates the effects on net income (loss) applicable to common stockholders and earnings (loss) per share if expense was measured using the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation:"

	Three months ended June 30, 2003	Three months ended June 30, 2002	Si end 2003
Net income (loss) applicable to common stockholders:			
As reported	$ 185,475	$(134,515)	$ 378,
Pro forma stock-option based compensation	(88,677)	(187,214)	(157,
Pro forma net income (loss) applicable to common stockholders	$ 96,798	$(321,729)	$ 221,
Basic and diluted net income (loss) per common share:			
As reported	$ 0.03	$ (0.02)	$ 0
Pro forma basic and diluted net income (loss) per common share	$ 0.02	$ (0.06)	$ 0

Advertising Costs: The Company advertises its services through traditional venues such as print media to the general public. Costs associated with these advertising efforts are expensed as incurred.

In addition to the traditional advertising means noted above, the Company participates in a direct response advertising campaign with LowerMyBills.com, Inc. (LMB), a web-based comparison shopping service. Through this campaign, the Company's name and the services it provides are displayed on LMB's web site. The Company is obligated to pay LMB a fee when a referred customer signs up for services with the Company. These fees are capitalized and then amortized over the period during which the future revenue benefits are expected to be received. The Company estimates this to be 24 months.

3. Acquisitions

I-Link Communications, Inc.
On December 6, 2002, Buyers United entered into the Asset Purchase Agreement and Software License Agreement to purchase assets of I-Link, Inc., and its subsidiary, I-Link Communications, Inc., and license in perpetuity software developed by I-Link for the operation of a real-time Internet protocol communications network (RTIP Network). Customer billings and related expenses incurred pursuant to a related Management Agreement between the parties have been included in Buyers United's results since December 6, 2002. The transaction closed effective May 1, 2003, at which time the Company began to recognize revenue earned and expenses incurred.

The assets acquired include dedicated equipment required for operating the RTIP Network, customers of I-Link serviced through the network, and certain trademarks. In consideration for the assets and software license, Buyers United issued to I-Link 246,430 shares of Series B Convertible Preferred Stock with a fair market value of $1,400,738, assumed certain liabilities, and agreed to issue an additional 53,570 shares of Series B Convertible Preferred Stock in equal monthly installments over a term of 10 months commencing June 1, 2003, subject to satisfaction of certain conditions pertaining to provisioning of one of the former I-Link customers acquired in the transaction. As the shares are issued the increase in purchase price associated with the shares will be allocated to Customer Lists. The first three monthly installments totaling 16,071 shares have been issued and delivered to I-Link. Assuming the remaining 37,499 shares are issued and delivered to I-Link, Buyers United will have 837,800 shares of Series B Convertible Preferred Stock outstanding. If all of the shares of Series B Preferred Stock are issued to I-Link and converted to common stock, I-Link would hold approximately 12.11 percent of the outstanding common stock of Buyers, without giving effect to the exercise of conversion or purchase rights under any other outstanding shares of preferred stock, options, or warrants.

In connection with the closing, the parties together with Counsel Corporation, an Ontario corporation, and Counsel Communications LLC, a Delaware limited liability company, both affiliates of I-Link, entered into a Reimbursement Agreement pursuant to which Counsel Corporation, Counsel Communications, and I-Link agreed to reimburse Buyers United for any loss sustained as a result of any claims asserted against the assets acquired from I-Link by certain creditors of I-Link. Out of the shares it received in the transaction I-Link deposited in escrow 40,000 shares that may be applied to reimburse any such loss. This is in addition to 25,000 shares I-Link received in the transaction that has been deposited in escrow under the Asset Purchase Agreement to satisfy any claims for indemnification under the Asset Purchase Agreement.

The purchase price allocation has been prepared on a preliminary basis, and reasonable changes are expected as additional information becomes available. The following table presents a summary of the estimated fair values of the assets acquired and liabilities assumed as of May 1, 2003, the closing date of the transaction:

Computer and telecommunications switching equipment	$ 980,410
Customer list	456,197
License on technology and patents	595,951
Total assets acquired	2,032,558

Accounts payable and accrued liabilities	481,820
Acquisition costs	150,000
Total liabilities assumed	631,820
Net assets acquired	$1,400,738

The customer list and licensed technology will be amortized over a period of three to four years.

The following unaudited pro forma financial information presents results as if the acquisition had occurred at the beginning of the respective periods:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net revenue	$16,735,392	$ 8,777,607	$33,812,136	$15,761,
Net income (loss) applicable to common stockholders	139,962	(5,017,450)	266,354	(7,921,
Net income (loss) per share - basic	$0.02	$(0.88)	$0.04	$(1
Net income (loss) per share - fully diluted	$0.02	*	$0.04	

* - The net loss attributable to common shareholders and shares used in computing the net loss per share attributable to common shareholders for the 2002 periods are based on the historical weighted average common shares outstanding. Common stock issuable upon the exercise of stock options, warrants, or the conversion of preferred stock have been excluded from the computation of net loss per share attributable to common shareholders as the effect would be anti-dilutive.

These pro forma results have been prepared for comparative purposes only and include certain adjustments such as additional amortization expense as a result of identifiable tangible and intangible assets arising from the acquisition. The pro forma results are not necessarily indicative either of the results of operations that actually would have resulted had the acquisition been in effect at the beginning of the respective periods, or of results to be achieved in the future.

Touch America

On December 20, 2002, Buyers United entered into an agreement with Touch America, Inc., a subsidiary of Touch America Holdings, Inc., to purchase a substantial number of its long distance customers, including the carrier identification code used to service those customers. Buyers United did not purchase any accounts receivable, equipment, or other assets of Touch America. Buyers United agreed to pay to Touch America account receivable balances that predate the sale as collected by Buyers United, subject to certain fees payable to Buyers United. Buyers United made an initial payment of $3,000,000 to Touch America. The original purchase price was $6,750,000, but the parties subsequently entered into an amendment of the

original purchase agreement on June 6, 2003 that provided for the purchase of additional customers from Touch America by Buyers and reduced the purchase price on the initial customer base to $6,098,000. Under the amendment the original bill of sale for the customers was amended and restated to correct certain inaccuracies in the customers originally sold to Buyers United in December 2002, and to add new customers purchased in June 2003. The new customers purchased include all customers that are actually transferred to Buyers United and use the long distance services of Buyers United during the month of August 2003 (the "New Customers"). The purchase price for this additional customer base will be 2.5 times the aggregate long distance service usage of the New Customers for August 2003. As of June 6, 2003, the Company had paid a total of $5,018,166 in cash towards the purchase price. The balance of the purchase price is payable in monthly installments equal to 7.2 percent of the collection during the preceding month on all customers acquired from Touch America.

4. Long-term Debt

In January and February 2003 the Company received $500,000 from the issuance of promissory notes payable, $400,000 of which came from three Directors of the Company. The unsecured notes bear interest at 12% and are due in 2004 through early 2005.

On February 28, 2003, the Company retired its $1,050,000 note payable by paying $250,000 in cash and issuing a new promissory note for $800,000. In addition, the Company issued 50,000 shares of common stock in connection with the original agreement. The new note is unsecured and bears interest

at 10%, payable monthly. Principal is also payable monthly based on 20% of billings collected during each monthly billing period from designated customers.

In May and June 2003 the Company received $500,000 from the issuance of promissory notes payable. The notes are secured by computer and telecommunications equipment, bear interest at 12%, and are due in May and June 2006.

In June 2003 the Company issued $1,400,000 in promissory notes for cash used primarily for purchasing customers from Touch America, Inc. (see note 3). The notes are unsecured and bear interest at 10%, with principal and interest payable monthly. The principal paid each month equals 10% of billings collected during each monthly billing period from the acquired Touch America customers. After all principal is repaid, note holders will continue to receive 5% of such collected billings. There was a 5% commission paid to the sales agent in connection with the issuance of the notes.

5. Capital Transactions

On January 15, 2003, the Company Issued 15,000 shares of stock to one of its directors for providing a credit guaranty to one of its wholesale telecommunication service providers. The fair market value of the stock was $36,300.

During June 2003, the Company initiated a program to repurchase outstanding common stock from shareholders of record with total holdings of 100 or fewer shares. The offering price per share is $1.75. As of August 12, 2003,

the Company has repurchased 1,534 shares. The program will continue through the remainder of 2003 and is not expected to have a material impact on the financial statements of the Company.

See note 3 above for discussion of preferred stock transaction related to the I-Link acquisition.

6. Major suppliers

Approximately 97% and 84% of the Company's cost of revenue during 2002 and 2001, respectively, was generated from three telecommunication providers. As of June 30, 2003, the Company owed $4,909,974 to these providers. The Company has entered into contractual agreements with these vendors. During 2002 two of these providers filed for bankruptcy protection under Chapter 11, and the other provider is currently being scrutinized by the Securities and Exchange Commission over certain accounting matters. Although the Company has not experienced a disruption of service and feels it could replace any one of these sources with other wholesale telecommunication service providers, the effect on the Company's operations of potentially losing any one or all three of these service providers is unknown.

7. Subsequent events

On July 5, 2003, the Company issued two 12% promissory notes to Theodore Stern, Chairman of the Board, aggregating $435,388. This amount represented unpaid interest accrued up to that date on virtually all of Mr. Stern's other promissory notes. These two new notes mature on July 5, 2005, and interest is payable monthly.

During August of 2003, Buyers United agreed to purchase approximately 12,000 long distance customers or $300,000 in monthly revenue from Glyphics Communications (Glyphics). Buyers United agreed to pay Glyphics 2.25 times the current monthly revenue of purchased customers in monthly payments equal to a fixed percentage of the actual purchased customers cash receipts over an estimated nine month period. Buyers United will manage the purchased customers on behalf of Glyphics under a Transition Agreement until the transaction closes.

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

Overview

Buyers United is a domestic telecommunications company that offers and sells a wide range of long distance and related communication service options to business and residential customers. In the past, Buyers United functioned as an aggregator and reseller of telecommunications services provided by others, and intends to pursue and develop this type of business. On December 6, 2002, Buyers United entered into the Asset Purchase Agreement and Software License Agreement to purchase assets of I-Link, Inc., and its subsidiary, I-Link Communications, Inc., and license in perpetuity software developed by I-Link for the operation of a real-time Internet protocol communications network (RTIP Network). The transaction was closed effective May 1, 2003. This transaction will enable Buyers United to develop and offer enhanced services, such as fax to email, and transmit data and other communication services for a portion of the journey over

the RTIP Network rather than entirely through third party providers.

On December 20, 2002, Buyers United entered into an agreement with Touch America, Inc., a subsidiary of Touch America Holdings, Inc., to purchase a substantial number of its long distance customers, including the carrier identification code used to service those customers. Buyers United did not purchase any accounts receivable, equipment, or other assets of Touch America. Buyers United agreed to pay to Touch America account receivable balances that predate the sale as collected by Buyers United, subject to certain fees payable to Buyers United. Buyers United made an initial payment of $3,000,000 to Touch America. The original purchase price was $6,750,000, but the parties subsequently entered into an amendment of the original purchase agreement on June 6, 2003 that provided for the purchase of additional customers from Touch America by Buyers and adjusted the purchase price. Under the amendment the original bill of sale for the customers was amended and restated to correct certain inaccuracies in the customers originally sold to Buyers United in December 2002 and to add new customers purchased in June 2003. The new customers purchased include all customers that are actually transferred to Buyers United and use the long distance services of Buyers United in the month of August 2003 (the "New Customers"). The total purchase price for all customers acquired from Touch America is $6,098,000 plus 2.5 times the aggregate long distance service usage of the New Customers for the month of August 2003. At June 6, 2003, Buyers United paid a total of $5,018,166 in cash towards the purchase price. The balance of the purchase price is payable in monthly installments equal to 7.2 percent of the collection during the preceding month on the customers acquired from Touch America.

Buyers United generates internal growth by pursuing multiple marketing avenues, including using independent agents, implementing promotional and rebate programs to attract customers, marketing through the Internet, and obtaining customers from unrelated marketing companies. Buyers United recently purchased a substantial number of long distance customers of Touch America, which resulted in a significant increase in Buyers United's customer base in 2003. Buyers United believes financial difficulties and uncertainty in the telecommunications industry that arose over the past two years may result in opportunities to acquire customers from unrelated companies, and intends to remain open to these opportunities.

Results of Operations

Total revenues increased 140% to $16.3 million for the three months ended June 30, 2003 as compared to $6.8 million for the same period in 2002. For the six months ended June 30, 2003 revenues increased 174% to $32 million as compared to $11.6 million for the same period in 2002. While the increase in revenue is primarily due to the Touch America transaction, we also generated growth

internally during this period from ongoing promotional efforts, primarily involving independent agents and referrals from an online shopping comparison service.

Costs of revenues for the three-month period ended June 30, 2003 were $8.6 million, a 134% increase as compared to $3.7 million incurred during the comparable three-month period for the prior year. For the six-month period ended June 30, 2003 costs of revenues increased to $17.3 million, a 179% increase as compared to $6.2 million incurred during the six-month period for the prior year. Such costs as a percentage of revenue for the three-month period ended June 30, 2003 were 53%, as compared to 54% during 2002 and 54% for the six months ended June 30, 2003 compared to 53% for same period in 2002. The increase

in gross margin for the three month period ended June 30, 2003 as compared to the previous year is the result of a decrease in rates for long-distance minutes, along with a one-time credit from one of our long-distance service providers realized during the second quarter of 2003 for services provided during the first quarter of 2003. These savings were offset by costs related to an increase in customers using dedicated circuit services. This type of service typically has lower profit margins, but higher volumes than other types of long distance services. Lower gross margins during the six month period also resulted from a combination of integration efforts involved in the I-Link acquisition, along with slightly higher costs of Touch America customers. Buyers United agreed with Touch America on certain wholesale prices during a phase-in period after acquiring the customers. However, Buyers United immediately began switching new customers over to other lower-cost wholesale providers. Most of the customers were moved to new providers during the second quarter ended June 30, 2003, resulting in higher margins for these customers for the quarter.

Total operating expenses other than costs of revenues increased 155% during the quarter ended June 30, 2003 and 173% for the six months ended June 30, 2003 as compared to the same periods in 2002. These changes are a result of the following factors:

1 General and administrative costs in 2003's second quarter increased 127% to $4.1 million compared to $1.8 million in 2002's second quarter and costs increased 163% to $7.7 million for the six months ended June 30, 2003 compared to $2.9 million for the six months ended June 30, 2002. Increases are primarily due to expenses required to support Buyers United's significant revenue growth, and from expenses associated with the I-Link and Touch America transactions. The increased revenue levels, generated both during 2002 and subsequent to the transactions, necessitated the hiring of additional customer service and collection personnel. In addition, several former employees of I-Link were retained by Buyers United in order to continue operating and maintaining the RTIP Network, as well as to provide customer support and billing services. Buyers United also assumed certain office lease obligations of I-Link, which resulted in additional occupancy expenses.

2 Selling and promotion expenses increased 214% to $2.7 million during the second quarter of 2003 from $856,276 in 2002 and costs increased 192% to $5.0 million for the six months ended June 30, 2003 compared to $1.7 million for the six months ended June 30, 2002.. Such expenses as a percentage of revenue were 16.5% for 2003's second quarter as compared to 13% in 2002 and 15.8% for the six months ended June 30, 2003 compared with 14.8% for the same period in 2002. The increases resulted partly from the proportionate higher commission amounts paid on higher revenue. Selling and promotion expenses during 2003 also included higher amortization expenses associated with the deferred advertising costs and the customers acquired from Touch America.

Interest expense for the three-month period ended June 30, 2003 was $506,166, compared to $385,480 in 2002 and was $992,095 for the six months ended June 30,

2003 compared to $688,724 for the comparative period in 2002. The higher amount was the result of higher debt balances outstanding during 2003 as compared to the previous year.

Liquidity and Capital Resources

Buyers United's current ratio as of June 30, 2003 increased slightly to 0.54:1

from 0.51:1 at the end of 2002. The components of current assets and current liabilities that changed significantly since the end of 2002 were accounts receivable, other current assets, the current portion of long-term debt, and accrued liabilities.

Accounts receivable, accrued commission and rebates, accrued liabilities, and accounts payable all increased as a result of the higher revenue levels during the six months ended June 30, 2003 as compared to the same period in 2002. Accrued dividends increased as a result of the additional shares of preferred stock issued to I-Link, Inc. on May 1 and June 1, 2003, in connection with completing the acquisition of the RTIP Network.

The current portion of long-term debt declined 13%, due to ongoing payments on investor notes and the partial payoff and replacement of a $1,050,000 promissory note, previously due February 28, 2003. Buyers United retired its $1,050,000 note payable by paying $250,000 in cash and issuing a new promissory note for $800,000. In addition, Buyers United issued 50,000 shares of common stock in connection with the original agreement. The new note is unsecured and bears interest at 10%, payable monthly. Principal is also payable monthly based on 20% of billings during each monthly billing period from designated customers.

In January and February 2003, Buyers United received $500,000 from the issuance of promissory notes payable, $400,000 of which came from three Directors of Buyers United. The unsecured notes bear interest at 12% and are due in 2004 through early 2005.

In May and June 2003, Buyers United received $500,000 from the issuance of promissory notes payable. The notes are secured by computer and telecommunications equipment, bear interest at 12%, and are due in May and June 2006.

In June 2003, Buyers United initiated a program to repurchase outstanding common stock from shareholders of record with total holdings of 100 or fewer shares. The offering price per share is $1.75. The program will continue through the remainder of 2003 and is not expected to have a material impact on the financial statements of Buyers United.

In June 2003 Buyers United issued $1,400,000 in promissory notes for cash used primarily for purchasing customers from Touch America. The notes are unsecured and bear interest at 10%, with principal and interest payable monthly. The principal paid each month equals 10% of billings collected during each monthly billing period from the acquired Touch America customers. After all principal is repaid, note holders will continue to receive 5% of such collected billings. There was a 5% commission paid to the sales agent in connection with the issuance of the notes.

Buyers United has a line of credit agreement with RFC Capital Corporation. The facility allows the Company to obtain financing on its eligible accounts receivable, including unbilled receivables and regular monthly billings. The facility is collateralized by the underlying receivables. Interest during 2002 was at prime plus 6%. At June 30, 2003, Buyers United had financed the maximum amount available based on eligible accounts receivable at that time. This amount, less draws by RFC applied against the outstanding amount, aggregated $893,587. The facility requires Buyers United to maintain a restricted cash account for the collection of the receivables. As of June 30, 2003 Buyers United

had $949,137 of restricted cash associated with the RFC arrangement. On January 21, 2003, Buyers United and RFC Capital amended the facility to increase the

available borrowing limit to $5 million, and decrease the interest rate to prime plus 3%. The amendment also extended the facility to January 21, 2006.

As of June 30, 2003, Buyers United had a working capital deficit of $8.9 million and an accumulated deficit of $25.7 million. Although these factors could raise doubt about Buyers United's ability to continue as a going concern, Buyers United did achieve profitability in 2002 and during the first six months of 2003. Management believes Buyers United will continue to be profitable throughout the remainder of 2003. In addition, all long and short-term notes payable are unsecured, of which, one-third are due to Company directors and officers. The majority of remaining notes have no stated maturity dates, and principal payments are variable dependent upon receivables collected from designated customers. Accordingly, management believes that cash flow associated with the payments on these notes, while significant, have manageable terms directly related to cash receipts which is expected to increase over the next few years.

As a result of the I-Link and Touch America acquisitions, Buyers United is currently experiencing significant revenue growth. While there can be no assurance that such will be the case, management believes that this increased level of revenue will continue throughout 2003.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by Buyers United, except where such statements are made in connection with an initial public offering. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of our operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect our operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of services and products offered to members, legal and regulatory initiatives affecting member marketing and rebate programs or long distance service, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we operate as of the date of this report. Because of the factors listed above, as well as other factors beyond its control, actual results may differ from those in the forward-looking statements.

Item 3. CONTROLS AND PROCEDURES

With the participation of management, Buyers United's chief executive officer and chief financial officer evaluated its disclosure controls and procedures on August 6, 2003. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective in connection with Buyers United's filing of its interim report on Form 10-QSB for the quarterly period ended June 30, 2003.

Subsequent to August 6, 2003, through the date of this filing of Form 10-QSB for the quarterly period ended June 30, 2003, there have been no significant changes in Buyers United's internal controls or in other factors that could significantly affect these controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action

PART II. OTHER INFORMATION

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In May and June 2003, Buyers United received $500,000 from the issuance of promissory notes payable. The notes are secured by computer and telecommunications equipment, bear interest at 12%, and are due in May and June 2006.

In June 2003 Buyers United issued $1,400,000 in promissory notes for cash used primarily for purchasing customers from Touch America. The notes are unsecured and bear interest at 10%, with principal and interest payable monthly. The principal paid each month equals 10% of billings collected during each monthly billing period from the acquired Touch America customers. After all principal is repaid, note holders will continue to receive 5% of such collected billings. There was a 5% commission paid to the sales agent in connection with the issuance of the notes.

In consideration for assets and a software license, Buyers United issued to I-Link, Inc. 246,430 shares of Series B Convertible Preferred Stock with a fair market value of $1,400,738, assumed certain liabilities, and agreed to issue an additional 53,570 shares of Series B Convertible Preferred Stock in equal monthly installments over a term of 10 months commencing June 1, 2003, subject to satisfaction of certain conditions pertaining to provisioning of one of the former I-Link customers acquired in the transaction. The first three monthly installments totaling 16,071 shares have been issued and delivered to I-Link. Assuming the remaining 37,499 shares are issued and delivered to I-Link, Buyers United will have 837,800 shares of Series B Convertible Preferred Stock outstanding. Assuming all of the shares of Series B Preferred Stock are issued to I-Link and converted to common stock, I-Link would hold approximately 12.11 percent of the outstanding common stock of Buyers, without giving effect to the exercise of conversion or purchase rights under any other outstanding shares of preferred stock, options, or warrants.

All of the aforementioned securities were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 or Regulation D promulgated there under. Based on information provided by the investors, we believe each investor was an accredited investor within the meaning of Rule 501 of Regulation D.

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

At the Annual Meeting of Stockholders held on June 17, 2003, the stockholders voted on the following matters:

(1) Election of Theodore Stern, Gary Smith, Edward Dallin Bagley, and Steve Barnett as directors of Buyers United to serve for a term of one year and until their successors are duly elected and qualified;

(2) Ratify of the appointment of Crowe, Chizek and Company LLP as independent public accountants of Buyers United for 2003; and

(3) Approve the Director Stock Option Plan.

Each of the foregoing matters was approved or ratified by the stockholders. The number of votes cast on the foregoing matters is as follows:

	For	Against	Abstain
Election of Directors:			
Theodore Stern	4,778,097	163,949	-
Gary Smith	4,771,171	164,875	-
Edward Dallin Bagley	4,778,098	163,948	-
Steve Barnett	4,778,094	163,952	-
Appointment of Crowe, Chizek and Company LLP	4,923,476	15,541	3,029
Director Stock Option Plan	2,647,533	541,618	61,496

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Reports on Form 8-K:

None.

Exhibits: Copies of the following documents are included or furnished as exhibits to this report pursuant to Item 601 of Regulation S-B.

Exhibit No.	SEC Ref. No.	Title of Document
10.1	10	Amendment No. 1 to the Asset Purchase Agreement dated December 20, 2002 that was made June 6, 2003 by Buyers United and Touch America
31.1	31	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	31	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	32	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

BUYERS UNITED, INC.

Date: August 14, 2003 By: /s/ Theodore Stern, Chief Executive Officer

Date: August 14, 2003 By: /s/ Paul Jarman, Chief Financial Officer