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TC02-013

DOCKET NO.

In the Matter of IN THE MATTER OF THE APPLICATION OF BUYERS UNITED, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
2/5	02	Filed and Docketed;
2/7	02	Weekly Filing;
8/7	02	Order Denying COA;
8/7	02	Docket Closed

STATE PUBLISHING CO., PIERRE, SOUTH DAKOTA—SMEAD 104 SP14130

TC02-013

APPLICATION FOR CERTIFICATE OF AUTHORITY FOR INTEREXCHANGE SERVICE

RECEIVED

FEB 05 2002

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

BUYERS UNITED, INC.

The following information is given, pursuant to Chapter 20:10, Article 20:10:24:03 of the *South Dakota Administrative Rules* by Buyers United, Inc. (the **"Company"** or the **"Applicant"**).

1. **The Name , Address and Telephone Number of the Applicant:** Buyers United, Inc.; 14870 Pony Express road, Bluffdale, Utah 84065; 800-363-5029.

2. **The Name Under which the Applicant will Provide these Services if Different than in Subdivision (1) of this Section:** Applicant will provide services under its name described above and may provide service under the names of its two (2) divisions: "BuyersOnline" and "United Carrier Networks."

3. **If the Applicant is Corporation:** The Applicant is a corporation.

   (a) Applicant is incorporated in Delaware. A copy of its Articles of Incorporation is attached hereto as Exhibit "A." Applicant has applied for a new Certificate to Transact Business in the State of South Dakota with its Secretary of State.
   (b) The principal office is located at the address in Subdivision (2), above.
   (c) No corporation, partnership, association, cooperative or individual holds a twenty percent (20%) interest in he Company.

4. **If the Applicant is a Partnership, the Name, title, and Business Address of each partner, both General and Limited:** Not Applicable.

5. **A Brief Description of the Telecommunications services the Applicant intends to Offer:** The Applicant resells intrastate and interstate long distance and provides, in a limited capacity, Internet services.

6. **A Detailed Statement of the Means by which the Applicant will Provide its Services:** Applicant has current contracts with Qwest, World Com MCI, Global crossing, Williams and Broadwing to purchase long distance at wholesale rates and resell the same.

7. **The Geographic Areas in which the Services will be offered or a Map described the Service Area:** The Company will offer its services throughout the entire State of South Dakota.

8. **Current Financial Statements of the Applicant including a Balance Sheet, Income Statement and Cash Flow Statement; a Copy of the Applicant's Latest Annual Report; a Copy of the Applicant's Report to Shareholders; and a copy of Applicant's Tariff with the Terms and Conditions of Service:** A copy of the Applicant's Financial Statement is attached hereto as Exhibit "B." A copy of Applicant's Annual Report to its Shareholders is attached hereto as Exhibit "C." A copy of the Applicant's Tariff is attached hereto as Exhibit "D."

9. **<u>The Names, addresses, telephone number, fax number, E-mail Address and Toll Free Number of the Applicant's representatives to whom all Inquires must be made regarding Complaints and Regulatory Matters and a Description of how the Applicant handles Billings and Customer Service Matters:</u>** Complaints and regulatory matters should be referred to either of the following individuals: (1) William Shupe; 14870 Pony Express Road, Bluffdale, Utah 84065; Fax: 866-800-0007; e-mail address: William.shupe@buyersonline.com; toll free #: 800-363-5029. (2) Kimm Partridge; 14870 Pony Express Road, Bluffdale, Utah 84065; Fax: 866-800-0007; e-mail address: Kimm.partridge@buyersonline.com; toll free #: 800-363-5029.

Billing and Customer Service matters: Bills are sent monthly to customers. Payments terms are net 30 days. A copy of a typical bill is attached hereto as Exhibit "D." Applicant maintains a Customer Service Department 24 hours a day, seven days a week. All customer service representatives are skilled in handling questions and concerns from customers. Technical experts are available to assist on the same basis. Applicant's managers for billing and customer service are as follows: **Billing:** Linda Huffman; 14870 Pony Express Road, Bluffdale, Utah 84065; Fax: 866-800-0007; e-mail address: Linda.Huffman@buyersonline.com; toll free #: 800-363-5029. **Customer Service:** Jessica Stevens; 14870 Pony Express Road, Bluffdale, Utah 84065; Fax: 866-800-0007; e-mail address: Jessica.stevens@buyersonline.com; toll free #: 800-363-5029.

10. **<u>A List of States in which the Applicant is registered or certified to provide Telecommunciations Services, whether the Applicant has ever been denied registration or Certification in any State and the reasons for such Denial; a Statement as to whether or not the Applicant is in Good Standing wit ht Appropriate Regulatory Agency in the States where it is Registered or Certified and a Detailed Explanation of why the Applicant is not in good Standing in a given State, if Applicable:</u>** Applicant is certified in all states except Alaska and Hawaii. Applicant has never been denied registration or certification in any jurisdiction. Applicant is in good standing in all states except the following: Texas, Florida, Illinois, Wisconsin, West Virginia and Kentucky. The issue in all of the above states was Applicant's failure to file annual report and pay the minimum taxes in such states in 1999 and 2000. The reason for this was a change in management, the Company's controller and outside accountant. The regulatory matters were to be handled by Miller / Isar (a private company that oversees regulatory matters). The regulatory matters were not managed properly and the Company has been correcting all of these matters since June of last year. We hope to have all compliance issues resolved within the next sixty 9600 days.

11. **<u>A Description of how the Applicant intends to Market its Services, its Target Market,, whether Applicant engages in any Multilevel Marketing, and Copies of Compnay Brochures used to assist in the Sale of Services</u>:** Applicant markets its services through six (6) basic methods, described as follows:

- **Strategic Acquisitions:** By this method, the Company acquires customers by entering into contractual agreements with telemarketing call centers and other companies that have significant membership databases/customer bases that market Company's services. These entities receive calls from virtually all states.
- **Direct Response Marketing:** The Company has successfully produced and tested an Infomercial, hosted by national celebrities, Dick Clark, Della Reese, and Marie Osmond, that focuses on the savings opportunities available through the Company. This is targeting at residential customers. In order for the television viewer to take advantage of the attractive savings opportunities and rebate programs described in the Infomercial, they must activate a monthly service such as long distance or Internet access with the Company. No other membership fees are required.
- **Referral Rebate Program:** Members can "zero-out" many of their monthly bills by participating in the Company's "Referral Rebate Program." Members who refer other residential or business consumers to the Company will earn 10% of the monthly service revenue attributable to the referred member. This is a single-level commission structure.
- **Independent Agent Program:** Independent Telecommunication Agents" are commissioned salespeople who represent a client base that is seeking to find the best telecommunications value and service available in the market. Applicant has relationships with approximately 2,400 agents.
- **Affinity Marketing:** Much of the Company's target market is currently associated with at least one "affinity" organization. Examples of these organizations are the United Way, AARP, PTA, GOP, Professional Associations, Churches and Internet Communities. These organizations are continually searching for opportunities to generate revenues. The Company has created a program that enables such organizations to generate revenues while obtaining telecommunications services. The specific organization receives a percentage of the monthly service revenue while the member enjoys discount services and rebate opportunities..
- **Online Marketing:** The Company markets via the Internet by purchasing outright or entering into contracts with companies that control large lists of Internet users that have requested notification of product and savings opportunities similar to those offered by the Company. Once the Company has access to the Internet lists, it offers incentives through its own web site, consisting of free products provided by affiliated retailers, such as cruise programs, to attract and sign up Internet users.

Attached as Exhibit "E" is a "Welcome Kit" that Applicant sends to each new member

12. **Cost Support for Rates shown in the Company's Tariff for all Noncompetitive or Emerging Competitive Services:** As mentioned above, Applicant purchase long distance at a wholesale rate from national carriers. Applicant reserves 30% above the wholesale rate to pay for customer service, bad debt, fraud, billing and other services intended to benefit Applicant's customers.

13. **Federal Tax identification Number:** 87-052 8557.

14. **The Number and Nature of Complaints filed against the Applicant with any State or Federal Regulatory Commission regarding the Unauthorized Switching of a Customer's Telecommunications Provider and the Act of Charging Customers for Services that have not been Ordered:** Since the Company's inception, it has had 4 complaints filed, all of which have been resolved. A brief description of each is as follows:

    - Complaint to New York State Attorney General by customer who wanted to deactivate and requested that all charges be reversed, based upon Applicant's high international rates. Applicant reversed all charges. Matter was resolved.
    - Complaint to State of Texas by a customer who claimed that her services were switched without approval. Applicant never actually switched her services and matter was resolved and dismissed upon showing proof of this fact to the Texas Public Utility Commission.
    - Complaint to the New Your State Public Service Commission by customer claiming that service was switched without authorization. Applicant responded that customer's service was switched due to a service error. All charges were reversed and claim was dismissed.
    - Complaint to he State of North Carolina Department of Justice by a customer claiming that service was switched without authorization. Applicant received documentation from one of its agent "Justpennies.com," directing Applicant to switch service. Applicant did. Upon receiving notice from North Carolina, the billed paid by the customer was refunded and service restored to Qwest. Complaint was dismissed.

15. **A Written Request of those Rules the Applicant believes to be Inapplicable:** None.

16. **Other Information requested by the Commission needed to demonstrate that the Applicant has sufficient technical, financial and managerial capabilities to provide the Interexchange Services it intends to offer consistent with the requirements of this Chapter and other Applicable Rules and Laws:** Applicant has been in business over five (5) years. Its revenues grew 120% in year 2001, when may of its competitors went out of business. Applicant has an excellent IT staff, Customer Service and Provisioning Departments and is committed to providing excellent services a very competitive rates. Applicant will provide other information as required by the Commission.

EXHIBIT "A"

CERTIFICATE OF INCORPORATION
OF
BUYERS UNITED INTERNATIONAL, INC.

ARTICLE I
NAME

The name of the Corporation is Buyers United International, Inc.

ARTICLE II
REGISTERED OFFICE AND AGENT FOR SERVICE

The address of the Corporation's registered office in the State of Delaware is in the county of New Castle, at 1013 Centre Road, Wilmington, Delaware 10805. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III
CORPORATE PURPOSES

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV
CAPITAL STOCK

1. Shares, Classes and Series Authorized.

The total number of shares of all classes of capital stock that the Corporation shall have authority to issue is 25,000,000 shares. Stockholders shall not have any preemptive rights, nor shall stockholders have the right to cumulative voting in the election of directors or for any other purpose. The classes and the aggregate number of shares of stock of each class that the Corporation shall have authority to issue are as follows:

(a) 20,000,000 shares of Common Stock, $0.0001 par value ("Common Stock").

(b) 5,000,000 shares of Preferred Stock, $0.0001 par value ("Preferred Stock").

2. Powers and Rights of the Preferred Stock.

The Preferred Stock may be issued from time to time in one or more series, with such distinctive serial designations as may be stated or expressed in the resolution or resolutions providing for the issue of such stock adopted from time to time by the Board of Directors; and in such resolution or resolutions providing for the issuance of shares of each particular series, the Board of Directors is also expressly authorized to fix: the right to vote, if any; the consideration for which the shares of such series are to be issued; the number of shares constituting such series, which number may be increased (except as otherwise fixed by the Board of Directors) or decreased (but not below the number of shares thereof then outstanding) from time to time by action of the Board of Directors; the rate of dividends upon which and the times at which dividends on shares of such series shall be payable and the preference, if any, which such dividends shall have relative to dividends on shares of any other class or classes or any other series of stock of the Corporation; whether such dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which dividends on shares of such series shall be cumulative; the rights, if any, which the holders of shares of such series shall have in the event of any voluntary or involuntary liquidation, merger, consolidation, distribution or sale of assets, dissolution or winding up of the affairs of the Corporation; the rights, if any, which the holders of shares of such series shall have to convert such shares into or exchange such shares for shares of any other class or classes or any other series of stock of the Corporation or for any debt securities of the Corporation and the terms and conditions, including price and rate of exchange, of such conversion or exchange; whether shares of such series shall be subject to redemption, and the redemption price or prices and other terms of redemption, if any, for shares of such series including, without limitation, a redemption price or prices payable in shares of Common Stock; the terms and amounts of any sinking fund for the purchase or redemption of shares of such series; and any and all other designations, preferences, and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof pertaining to shares of such series' permitted by law.

3. Issuance of the Common Stock and the Preferred Stock.

The Board of Directors of the Corporation may from time to time authorize by resolution the issuance of any or all shares of the Common Stock and the Preferred Stock herein authorized in accordance with the terms and conditions set forth in this Certificate of Incorporation for such purposes, in such amounts, to such persons, corporations or entities, for such consideration, and in the case of the Preferred Stock, in one or more series, all as the Board of Directors in its discretion may determine and without any vote or other action by the stockholders, except as otherwise required by law. The capital stock, after the amount of the subscription price, or par value, has been paid in shall not be subject to assessment to pay the debts of the Corporation.

ARTICLE V
BOARD OF DIRECTORS

The governing board of the Corporation shall be known as directors, and the number of directors may from time to time be increased or decreased in such manner as shall be provided by the Bylaws of the Corporation, provided that the number of directors may not be less than one nor more than fifteen.

ARTICLE VI
POWERS OF BOARD OF DIRECTORS

The property and business of the Corporation shall be controlled and managed by or under the direction of its Board of Directors. In furtherance, and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized:

1. To make, alter, amend or repeal the Bylaws of the Corporation; provided, that no adoption, amendment, or repeal of the Bylaws shall invalidate any act of the board of directors that would have been valid prior to such adoption, amendment, or repeal;

2. To determine the rights, powers, duties, rules and procedures that affect the power of the board of directors to manage and direct the property, business, and affairs of the Corporation, including the power to designate and empower committees of the board of directors, to elect, appoint and empower the officers and other agents of the Corporation, and to determine the time and place of, and the notice requirements for board meetings, as well as the manner of taking board action; and

3. To exercise all such powers and do all such acts as may be exercised by the Corporation, subject to the provisions of the laws of the State of Delaware, this Certificate of Incorporation, and the Bylaws of the Corporation.

ARTICLE VII
INDEMNIFICATION

The Corporation shall indemnify and may advance expenses to its officers and directors to the fullest extent permitted by law in existence either now or hereafter.

ARTICLE VIII
LIMITATION ON PERSONAL LIABILITY FOR DIRECTORS

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of a fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended hereafter to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE IX
CERTIFICATE SUBJECT TO AMENDMENT

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute or by the Certificate of Incorporation, and except as otherwise provided by this Certificate of Incorporation, all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE X
INCORPORATOR

The sole incorporator of the Corporation is:

Mark E. Lehman 8 E. Broadway, Suite 620
Salt Lake City, UT 84111

IN WITNESS WHEREOF, the undersigned, acting as the sole incorporator of the Corporation, signs this Certificate of Incorporation as his act and deed this ____ day of February, 1999.

____
Mark E. Lehman

ARTICLE VI
POWERS OF BOARD OF DIRECTORS

The property and business of the Corporation shall be controlled and managed by or under the direction of its Board of Directors. In furtherance, and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized:

1. To make, alter, amend or repeal the Bylaws of the Corporation; provided, that no adoption, amendment, or repeal of the Bylaws shall invalidate any act of the board of directors that would have been valid prior to such adoption, amendment, or repeal;

2. To determine the rights, powers, duties, rules and procedures that affect the power of the board of directors to manage and direct the property, business, and affairs of the Corporation, including the power to designate and empower committees of the board of directors, to elect, appoint and empower the officers and other agents of the Corporation, and to determine the time and place of, and the notice requirements for board meetings, as well as the manner of taking board action; and

3. To exercise all such powers and do all such acts as may be exercised by the Corporation, subject to the provisions of the laws of the State of Delaware, this Certificate of Incorporation, and the Bylaws of the Corporation.

ARTICLE VII
INDEMNIFICATION

The Corporation shall indemnify and may advance expenses to its officers and directors to the fullest extent permitted by law in existence either now or hereafter.

ARTICLE VIII
LIMITATION ON PERSONAL LIABILITY FOR DIRECTORS

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of a fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit. If the Delaware General Corporation Law is amended hereafter to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing paragraph by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE IX
CERTIFICATE SUBJECT TO AMENDMENT

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute or by the Certificate of Incorporation, and except as otherwise provided by this Certificate of Incorporation, all rights conferred upon stockholders herein are granted subject to this reservation.

ARTICLE X
INCORPORATOR

The sole incorporator of the Corporation is:

Mark E. Lehman 8 E. Broadway, Suite 620
Salt Lake City, UT 84111

IN WITNESS WHEREOF, the undersigned, acting as the sole incorporator of the Corporation, signs this Certificate of Incorporation as his act and deed this ____ day of February, 1999.

____
Mark E. Lehman

EXHIBIT "B"

BUYERSONLINE, INC. AND SUBSIDIARY

Consolidated Financial Statements

TABLE OF CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To BuyersOnline.com, Inc.:

We have audited the accompanying consolidated balance sheet of BuyersOnline.com, Inc. (a Delaware corporation, formerly BUI, Inc.) and subsidiary as of December 31, 2000 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BuyersOnline.com, Inc. and subsidiary as of December 31, 2000 and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations. During the years ended December 31, 2000 and 1999, the Company's net loss applicable to common stockholders was $11,608,114 and $1,924,885, respectively. As of December 31, 2000, the Company had a working capital deficit of $3,866,430 and an accumulated deficit of $18,803,645. During the years ended December 31, 2000 and 1999, the Company's operations used $3,476,070 and $1,910,397 of cash, respectively. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

ARTHUR ANDERSEN LLP

Salt Lake City, Utah
March 29, 2001

BUYERSONLINE.COM, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

As of December 31, 2000

ASSETS	
Current assets:	
Cash	$ 56,825
Restricted cash	227,770
Accounts receivable, net of allowance for doubtful accounts of $296,000	1,547,282
Other current assets	212,155
Total current assets	2,044,032
Property and equipment:	
Computer and office equipment	966,715
Internal-use software and web-site development costs	1,500,823
Furniture and fixtures	204,975
Less accumulated depreciation and amortization	(521,848)
Property and equipment, net	2,150,665
Other assets	208,210
Total assets	$ 4,402,907
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities:	
Notes payable	$ 1,187,865
Current portion of capital lease obligations	313,498
Accounts payable	3,449,246
Accrued liabilities	660,421
Accrued dividends payable on preferred stock	223,896
Accrued rebates	75,536
Total current liabilities	5,910,462
Capital lease obligations, net of current portion	314,756
Total liabilities	6,225,218
Commitments and contingencies (Notes 1, 4 and 6)	
Stockholders' deficit:	
Preferred stock, $0.0001 par value; 5,000,000 shares authorized;	
Series A 8% cumulative convertible preferred stock; 1,875,000 shares issued and outstanding (liquidation value of $3,750,000)	188
Series B 8% cumulative convertible preferred stock; 453,800 shares issued and outstanding (liquidation value of $4,538,000)	45
Common stock, $0.0001 par value; 100,000,000 shares authorized; 3,988,940 shares issued and outstanding	399
Additional paid-in capital	13,005,703
Warrants and options outstanding	4,073,144
Deferred consulting fees	(98,145)
Accumulated deficit	(18,803,645)
Total stockholders' deficit	(1,822,311)
Total liabilities and stockholders' deficit	$ 4,402,907

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2000	1999
Revenues:		
Telecommunications services	$ 7,311,520	$ 4,728,343
Other	44,039	27,344
Total revenues	7,355,559	4,755,687
Operating expenses:		
Costs of revenues	4,773,707	3,096,490
General and administrative	5,224,290	2,217,165
Selling and promotion	3,855,241	1,132,616
Total operating expenses	13,853,238	6,446,271
Loss from operations	(6,497,679)	(1,690,584)
Other income (expense):		
Interest income	21,943	49,454
Interest expense	(1,626,212)	(123,628)
Total other expense	(1,604,269)	(74,174)
Loss before extraordinary item	(8,101,948)	(1,764,758)
Extraordinary item - loss on early extinguishment of debt	(1,024,574)	-
Net loss	$(9,126,522)	$ (1,764,758)
Preferred stock dividends:		
8% dividends on Series A and B preferred stock	(383,458)	(160,127)
Beneficial conversion feature related to Series B preferred stock	(2,098,134)	-
Total preferred stock dividends	(2,481,592)	(160,127)
Net loss applicable to common stockholders	$(11,608,114)	$ (1,924,885)
Basic and diluted net loss per common share:		
Net loss applicable to common stockholders before extraordinary item	$ (2.84)	$ (0.60)
Extraordinary item – loss on early extinguishment of debt	(0.28)	-
Net loss applicable to common stockholders	$ (3.12)	$ (0.60)
Weighted average common shares outstanding:		
Basic and diluted	3,724,671	3,223,090

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock		Additional Paid-in
	Shares	Amount	Shares	Amount	Capital
Balance at December 31, 1998	-	$ -	2,949,549	$295	$3,610,152
Retirement of treasury shares	-	-	(74,162)	(7)	(141,793)
Issuance of common shares for cash	-	-	47,000	5	150,653
Issuance of common shares upon exercise of options	-	-	19,468	2	52,409
Issuance of common shares for services	-	-	4,480	-	8,951
Issuance of common shares upon conversion of note payable	-	-	62,500	6	124,994
Issuance of options for consulting services	-	-	-	-	126,971
Issuance of Series A preferred stock, net of offering costs	2,000,000	200	500,000	50	3,213,838
Preferred stock dividends	-	-	-	-	-
Net loss	-	-	-	-	-
Balance at December 31, 1999	2,000,000	200	3,508,835	351	7,146,175
Issuance of common shares and warrants for cash	-	-	150,000	15	187,184
Issuance of common shares for services	-	-	28,650	3	62,316
Conversion of preferred shares to common	(125,000)	(12)	125,000	12	-
Issuance of warrants for services and in connection with consulting agreements	-	-	-	-	-
Amortization of deferred consulting fees	-	-	-	-	-
Issuance of warrants with notes payable	-	-	-	-	-
Issuance of options for debt guarantee	-	-	-	-	-
Beneficial conversion feature in connection with debt extension	-	-	-	-	722,050
Imputed interest on notes payable	-	-	-	-	37,742
Issuance of Series B preferred stock and warrants, net of offering costs	199,300	20	-	-	909,285
Issuance of Series B preferred stock and warrants upon conversion of notes payable	254,500	25	-	-	1,523,146
Beneficial conversion dividend on Series B preferred stock	-	-	-	-	2,098,134
Preferred stock dividends	-	-	-	-	-
Issuance of common shares as payment of accrued preferred stock dividends	-	-	176,455	18	319,671
Net loss	-	-	-	-	-
Balance at December 31, 2000	2,328,800	$ 233	3,988,940	$ 399	$13,005,703

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Treasury Stock		Warrants/ Options	Deferred Consulting
	Shares	Amount	Outstanding	Fees
Balance at December 31, 1998	(74,162)	$(141,800)	$ 52,411	$ -
Retirement of treasury shares	74,162	141,800	-	-
Issuance of common shares for cash	-	-	-	-
Issuance of common shares upon exercise of options	-	-	(52,411)	-
Issuance of common shares for services	-	-	-	-
Issuance of common shares upon conversion of note payable	-	-	-	-
Issuance of options for consulting services	-	-	-	-
Issuance of Series A preferred stock, net of offering costs	-	-	179,500	-
Preferred stock dividends	-	-	-	-
Net loss	-	-	-	-
Balance at December 31, 1999	-	-	179,500	-
Issuance of common shares and warrants for cash	-	-	112,801	-
Issuance of common shares for services	-	-	-	-
Conversion of preferred shares to common	-	-	-	-
Issuance of warrants for services and in connection with consulting agreements	-	-	473,703	(429,069)
Amortization of deferred consulting fees	-	-	-	330,924
Issuance of warrants with notes payable	-	-	1,427,654	-
Issuance of options for debt guarantee	-	-	103,200	-
Beneficial conversion feature in connection with debt extension	-	-	-	-
Imputed interest on notes payable	-	-	-	-
Issuance of Series B preferred stock and warrants, net of offering costs	-	-	754,457	-
Issuance of Series B preferred stock and warrants upon conversion of notes payable	-	-	1,021,829	-
Beneficial conversion dividend on Series B preferred stock	-	-	-	-
Preferred stock dividends	-	-	-	-
Issuance of common shares as payment of accrued preferred stock dividends	-	-	-	-
Net loss	-	-	-	-
Balance at December 31, 2000	-	$ -	$4,073,144	$ (98,145)

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Accumulated Deficit	Total
Balance at December 31, 1998	$ (5,270,646)	$(1,749,588)
Retirement of treasury shares	-	-
Issuance of common shares for cash	-	150,658
Issuance of common shares upon exercise of options	-	-
Issuance of common shares for services	-	8,951
Issuance of common shares upon conversion of note payable	-	125,000
Issuance of options for consulting services	-	126,971
Issuance of Series A preferred stock, net of offering costs	-	3,393,588
Preferred stock dividends	(160,127)	(160,127)
Net loss	(1,764,758)	(1,764,758)
Balance at December 31, 1999	(7,195,531)	130,695
Issuance of common shares and warrants for cash	-	300,000
Issuance of common shares for services	-	62,319
Conversion of preferred shares to common	-	-
Issuance of warrants for services and in connection with consulting agreements	-	44,634
Amortization of deferred consulting fees	-	330,924
Issuance of warrants with notes payable	-	1,427,654
Issuance of options for debt guarantee	-	103,200
Beneficial conversion feature in connection with debt extension	-	722,050
Imputed interest on notes payable	-	37,742
Issuance of Series B preferred stock and warrants, net of offering costs	-	1,663,762
Issuance of Series B preferred stock and warrants upon conversion of notes payable	-	2,545,000
Beneficial conversion dividend on Series B preferred stock	(2,098,134)	-
Preferred stock dividends	(383,458)	(383,458)
Issuance of common shares as payment of accrued preferred stock dividends	-	319,689
Net loss	(9,126,522)	(9,126,522)
Balance at December 31, 2000	$(18,803,645)	$(1,822,311)

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2000	1999
Cash flows from operating activities:		
Net loss	$ (9,126,522)	$ (1,764,758)
Adjustments to reconcile net loss to net cash used in operating activities:		
Extraordinary item – loss on early extinguishment of debt	1,024,574	-
Interest expense associated with beneficial conversion feature in connection with debt extension	722,050	-
Amortization of discount on notes payable	614,119	-
Depreciation and amortization	331,027	103,024
Issuance of warrants for services and amortization of deferred consulting fees	375,558	126,971
Issuance of common shares for services	62,319	8,951
Amortization of interest imputed on notes payable	36,356	-
Changes in operating assets and liabilities:		
Restricted cash	(57,083)	(128,424)
Accounts receivable	(657,385)	(258,573)
Other current assets	67,011	(11,919)
Accounts payable	2,727,418	41,221
Accrued liabilities	434,362	(58,402)
Accrued rebates	(29,874)	31,512
Net cash used in operating activities	(3,476,070)	(1,910,397)
Cash flows from investing activities:		
Purchases of property and equipment	(1,409,157)	(178,093)
Purchase of other assets	(208,210)	-
Net cash used in investing activities	(1,617,367)	(178,093)
Cash flows from financing activities:		
Proceeds from borrowings under notes payable	2,795,000	49,000
Principal payments on notes payable	(169,148)	(396,285)
Principal payments on capital lease obligations	(372,059)	(42,454)
Issuance of common shares for cash	300,000	165,000
Issuance of preferred shares for cash	1,993,000	4,000,000
Payment of offering costs related to stock and note issuances	(485,238)	(620,754)
Net cash provided by financing activities	4,061,555	3,154,507
Net increase (decrease) in cash	(1,031,882)	1,066,017
Cash at the beginning of the year	1,088,707	22,690
Cash at the end of the year	$ 56,825	$ 1,088,707

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS – (CONTINUED)

	Year Ended December 31,	
	2000	**1999**
Supplemental cash flow information:		
Cash paid for interest	$ 250,186	$ 163,336
Supplemental schedule of noncash investing and financing activities:		
Conversion of notes payable to common shares	$ 2,545,000	$ 125,000
Exercise of stock options in connection with settlement of founders' agreements	-	52,411
Issuance of warrants with notes payable	1,427,654	-
Issuance of warrants with preferred shares	1,776,286	179,500
Declaration of preferred stock dividends	383,458	160,127
Issuance of common shares as payment of preferred stock dividends	319,689	-
Beneficial conversion dividend on Series B preferred shares	2,098,134	-
Retirement of 74,162 shares of treasury stock	-	141,800
Equipment acquired under capital lease arrangements	719,954	197,650

See accompanying notes to consolidated financial statements.

BUYERSONLINE.COM, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Company and Nature of Operations

The Company was originally incorporated in Utah on January 16, 1996 as WealthNet Incorporated ("WealthNet"). On November 13, 1997, WealthNet was merged into Linguistix Acquisition Inc. ("LAI"), a Utah corporation and wholly-owned subsidiary of Linguistix, Inc. ("Linguistix") (the "Linguistix Merger"). LAI was the surviving corporation and changed its name to Buyers United, Inc. ("Buyers United") in connection with the Linguistix Merger . In connection with the Linguistix Merger, Linguistix changed its name to Buyers United International, Inc. ("BUII").

BUI, Inc. was incorporated in the state of Delaware on March 15, 1999 for the purpose of reincorporating BUII as a Delaware corporation. Effective April 9, 1999, BUII was merged into BUI, Inc. (the "BUI Merger"). In the BUI Merger, every four shares of BUII common stock and every four options to purchase shares of BUII's common stock were converted into one share of common stock of BUI, Inc. or options to purchase one share of BUI Inc.'s common stock. The accompanying consolidated financial statements have been retroactively restated to reflect the effect of the BUI Merger.

On April 20, 2000, BUI, Inc. changed its name to BuyersOnline.com, Inc. in connection with the Company's plan to advertise and promote its products and services through the Internet.

BuyersOnline.com, Inc., BUI, Inc., BUII, Buyers United and WealthNet are collectively referred to herein as the "Company."

The Company is a consumer buying organization with the objective of providing high quality consumer products and services at favorable prices to its members. The Company forms strategic alliances with various consumer service providers in an effort to combine the purchasing power of its members to negotiate favorable prices from these providers. The Company markets its products and services principally by offering incentives to its members to refer additional members to the Company's products and services. During the years ended December 31, 2000 and 1999, the Company primarily provided discounted long distance telecommunication services to its members.

The Company has suffered recurring losses from operations. During the years ended December 31, 2000 and 1999, the Company's net loss applicable to common stockholders was $11,608,114 and $1,924,885, respectively. As of December 31, 2000, the Company had a working capital deficit of $3,866,430 and an accumulated deficit of $18,803,645. Additionally, as of December 31, 2000 the Company had past due accounts payable of $1,161,050. During the years ended December 31, 2000 and 1999, the Company's operations used $3,476,070 and $1,910,397 of cash, respectively. These matters raise substantial doubt about the Company's ability to continue as a going concern. As discussed in Note 9, subsequent to December 31, 2000 the Company has obtained $1,100,000 of additional funding through the sale of convertible preferred stock and warrants and $390,000 of additional short-term debt financing. However, the Company needs additional capital to finance future operations until its business objectives are implemented and generate sufficient revenue to sustain the business. Management is attempting to raise additional equity capital to fund operations and provide working capital; however, there can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms or in required amounts. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

The Company is subject to certain risk factors frequently encountered by companies lacking adequate capital and which are in the early stages of developing a business line that may impact its ability to become a profitable enterprise. These risk factors include:

a) The consumer buying organization industry is characterized by intense competition, and many of the Company's competitors are substantially larger than the Company with greater financial and other resources. In addition, the Company is currently marketing telecommunications services, including long distance services, to its members. The U.S. long distance telecommunications industry is highly competitive and significantly influenced by the marketing and pricing strategies of the major industry participants, which are significantly larger than the Company and have substantially greater resources.

b) The Company's relationship marketing system is or may be subject to or affected by extensive government regulation, including without limitations, state regulation of marketing practices and federal and state regulation of the offer and sale of business franchises, business opportunities, and securities. Long distance telecommunications carriers currently are subject to extensive federal and state government regulation.

c) Additional funds will be required to finance the Company's operations until profitability can be achieved and to fund the repayment of debt obligations and other liabilities. There can be no assurance that the additional funding will be available or, if available, that it will be available on acceptable terms or in required amounts.

2. Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of BuyersOnline.com, Inc. and its wholly-owned subsidiary, Buyers United. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition

The Company's revenue recognition policy with respect to reseller agreements is to record gross revenues and receivables from customers when the Company acts as principal in the transaction, takes title to the products or services, and the Company has risks and rewards of ownership, such as risk of loss for collection, delivery, or returns. With respect to commission or other agent or broker arrangements, the Company recognizes net commission revenues. Revenues from sales of products are recognized upon shipment of the products to the customers and revenues from commissioned services are recognized as the services are provided.

Property and equipment

Property and equipment are stated at cost. Major additions and improvements are capitalized, while minor repairs and maintenance costs are expensed when incurred. In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes certain costs incurred for the development of internal use software. These costs include the costs associated with coding, software configuration, upgrades and enhancements. In March 2000, the Emerging Issues Task Force issued its consensus on Issue No. 00-2, "Accounting for Web Site Development Costs." Pursuant to this pronouncement, the Company has capitalized the direct costs of major development related to its web site.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Computer and office equipment	2 to 3 years
Internal-use software and web site development costs	2 years
Furniture and fixtures	3 to 7 years

Upon retirement or other disposition of property and equipment, the book value is removed from the asset and related accumulated depreciation accounts, and the net gain or loss is included in the determination of net income (loss).

Fair value of financial instruments

The carrying amounts reported in the accompanying consolidated balance sheet for cash, receivables, and accounts payable approximate fair values because of the immediate or short-term maturities of these financial instruments. The fair value of the Company's notes payable and preferred stock also approximate fair value based on current rates for similar debt and fixed-rate instruments.

Member incentive payments

Each month the Company rebates ten percent of collected usage revenue to its members under an incentive program. Collected usage revenue is defined as the usage portion of a bill that is paid in full within 45 days of the statement date. This rebate pool is disbursed every month to qualifying members according to the amount of usage generated by their referrals.

The Company accounts for rebates by recording an accrual for the estimated rebates to be paid applicable to each month's revenues. The rebates are included in selling and promotion expense in the accompanying statements of operations. The rebates amounted to $467,596 and $380,375 during the years ended December 31, 2000 and 1999, respectively. As of December 31, 2000, accrued rebates amounted to $75,536.

Income taxes

The Company recognizes a liability or asset for the deferred income tax consequences of all temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years when the reported amounts of the assets and liabilities are recovered or settled. These deferred income tax assets or liabilities are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more likely than not of realization in future periods.

Net loss per common share

Basic net loss per common share ("Basic EPS") excludes dilution and is computed by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted net loss per common share ("Diluted EPS") reflects the potential dilution that could occur if stock options or other common stock equivalents were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an antidilutive effect on net loss per common share.

Outstanding options to purchase 3,053,019 and 1,494,838 shares of common stock as of December 31, 2000 and 1999, respectively; 4,144,000 and 2,000,000 shares of common stock issuable upon the conversion of preferred stock as of December 31, 2000 and 1999, respectively; and 4,601,382 and 125,000 shares of common stock issuable upon exercise of warrants to purchase common stock as of December 31, 2000 and 1999, respectively, were not included in the computation of Diluted EPS because they would be antidilutive.

Recent Accounting Pronouncements

In June 1998, Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. SFAS 133 establishes new accounting and reporting standards for companies to report information about derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. This statement, as amended, will be adopted by the Company effective January 1, 2001. The adoption of this statement is not expected to have a material impact on the Company's results of operations, financial position or liquidity.

3. Notes Payable

As of December 31, 2000, the Company had a $1,050,000 note payable to an individual bearing interest at 18 percent, payable monthly and was due April 15, 2001. The note was originally due April 15, 2000. On March 16, 2000, the Company amended the terms of the note to extend the maturity. The amended note provided a conversion feature whereby the holder may convert the note into common stock at $3.00 per share. On the date of the amendment the quoted market value of the Company's common stock exceeded the conversion price of $3.00 per share; therefore, the Company recorded a non-cash charge to interest expense of $722,050 representing the intrinsic value of the beneficial conversion feature. The note is secured by certain assets of, and guaranteed by a director of the Company. In connection with the extension of the note term, the guarantor was issued options to purchase 50,000 common shares at $2.95 per share to extend his guarantee. The estimated value of the options of $103,200, as determined by the Black-Scholes option pricing model, was recorded as debt financing costs and is being amortized to interest expense over the term of the note. Subsequent to December 31, 2000, the noteholder has agreed to extend the due date to June 1, 2001 under the same terms and conditions.

During 2000, the Company entered into an arrangement with a financing company to pay certain insurance premiums. As of December 31, 2000, there was $39,252 still owing and due in monthly payments of $6,668 through March 2001. The amount owed under the arrangement bears interest at 6.6 percent. The amount owed under this arrangement has been included in notes payable.

Also during 2000, various investors, including three members of the Company's Board of Directors, loaned the Company $2,795,000 under promissory note agreements. Certain of the notes were non-interest bearing for an initial term and if not repaid bore interest at rates ranging from 12 to 18 percent. The Company imputed interest of $37,742 for the non-interest periods which was recorded as a discount on the notes. The other agreements bore interest at rates ranging from 12 to 18 percent. One note for $150,000 was repaid, an 18 percent $100,000 note remained outstanding at December 31, 2000 with a carrying amount of $98,613, net of discount, and a due date of January 31, 2001. The remaining $2,545,000 of notes were exchanged for shares of Series B 8% cumulative convertible preferred stock and warrants in October 2000 (see Notes 7 and 8).

In connection with the loans described above, the Company issued 1,432,500 warrants to the note holders and 32,500 warrants to the Placement Agent. The warrants entitle the holders to purchase shares of common stock at prices ranging between $2.00 and $2.50 per share until June 30, 2005. The estimated fair value of the warrants of $1,427,654, based on using the Black-Scholes pricing model, was allocated to the warrants and recorded as a discount to the carrying value of the notes. The discount was being amortized to interest expense over the term of the notes. When the notes were subsequently exchanged for Series B preferred stock and warrants to purchase common stock, the difference between the estimated fair value of the Series B preferred stock and warrants and the carrying amount of the debt was recognized as an extraordinary loss on early extinguishment of debt. The extraordinary loss on early extinguishment amounted to $1,024,574.

4. Leases

In December 2000, the Company moved all of its operations into one new building and entered into a noncancellable operating lease agreement for the office space. The Company also has entered into operating leases for various pieces of office equipment.

The Company has two capital leases for software and computer equipment. The Company has placed $175,000 in escrow as restricted cash as collateral for these leases. The following is a schedule of future minimum payments under the leases as of December 31, 2000:

Year ending December 31,	Capital leases	Operating leases
2001	$ 377,331	$ 341,257
2002	336,921	376,581
2003	-	379,906
2004	-	387,681
2005	-	397,373
Thereafter	-	824,797
Total future minimum lease payments	714,252	$ 2,707,595
Less amount representing interest	(85,998)	
Total obligations under capital leases	628,254	
Less current portion	(313,498)	
Capital lease obligations, net of current portion	$ 314,756	

As of December 31, 2000, the Company leased software and equipment under capital leases with an original cost of $861,937 and accumulated amortization of $76,523.

5. Income Taxes

The components of the Company's net deferred income tax assets and liabilities as of December 31, 2000 are as follows:

Deferred income tax assets:	
Net operating loss carryforwards	$ 4,544,000
Reserves and accrued liabilities	313,000
Other	140,000
Total deferred income tax assets	4,997,000
Valuation allowance	(4,586,000)
Net deferred income tax asset	411,000
Deferred income tax liabilities:	
Capitalized software costs	(293,000)
Tax depreciation in excess of book depreciation	(118,000)
Net deferred income tax liability	(411,000)
Net deferred income taxes	$ -

As of December 31, 2000, the Company had net operating loss carryforwards for federal income tax reporting purposes of approximately $12,117,000. For federal income tax purposes, utilization of these carryforwards is limited if the Company has had more than a 50 percent change in ownership (as defined by the Internal Revenue Code) or, under certain conditions, if such a change occurs in the future. The Company has not performed an analysis to determine if any such limitations have occurred. The tax net operating loss carryforwards will expire beginning in 2012.

No benefit for income taxes has been recorded during the year ended December 31, 2000. As discussed in Note 1, certain risks exist with respect to the Company's ability to continue as a going concern and due to this and other uncertainties, the Company's deferred income tax assets may not be realized. Accordingly, a valuation allowance has been recorded to reduce the deferred income tax assets.

6. Commitments and contingencies

The Company is the subject of certain legal matters, which it considers incidental to its business activities. It is the opinion of management, after discussion with legal counsel, that the ultimate disposition of these legal matters will not have a material impact on the financial position, liquidity or results of operations of the Company.

7. Capital Transactions

Preferred Stock

The Board of Directors is authorized to classify any shares of the Company's authorized but unissued preferred stock in one or more series. With respect to each series, the Board of Directors is authorized to determine the number of shares which constitute such series; the rate of dividend, if any, payable on shares of such series; whether the shares of such series shall be cumulative, non-cumulative or partially cumulative as to dividends, and the dates from which any cumulative dividends are to accumulate; whether the shares of such series may be redeemed, and, if so, the price or prices at which and the terms and conditions on which shares of such series may be redeemed; the amount payable upon shares of such series in the event of the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; the sinking fund provisions, if any, for the redemption of shares of such series; the voting rights, if any, of the shares of such series; the terms and conditions, if any, on which shares of such series may be converted into shares of capital stock of the Company of any other class or series; whether the shares of such series are to be preferred over shares of capital stock of the Company of any other class or series as to dividends, or upon the voluntary or involuntary dissolution, liquidation, or termination of the affairs of the Company, or otherwise; and any other characteristics, preferences, limitations, rights, privileges, immunities or terms.

Series A 8% Cumulative Convertible Preferred Stock

During 1999, the Board of Directors authorized the issuance of 2,000,000 shares of Series A 8% Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") at an offering price of $2.00 per share. Gross proceeds of $4,000,000 were raised upon sale of the shares.

In connection with the offering, the Company agreed to pay the Placement Agent a sales commission and expense allowance aggregating 13 percent of the gross proceeds from the sale of the Series A Preferred Stock. The Company also incurred approximately $91,000 of additional expenses in connection with the offering. As additional consideration for the sale of the preferred stock, the Company agreed to sell to the Placement Agent 500,000 shares of the Company's common stock at a price of $0.01 per share. The Company also agreed to enter into a two-year consulting agreement with the Placement Agent through which the Placement Agent will receive $3,000 per month for investment banking and advisory services provided to the Company. Pursuant to the terms of the offering, the Placement Agent designated two members of the Company's Board of Directors for two-year terms.

As part of the Series A Preferred Stock offering, the Company issued warrants to purchase 125,000 shares of common stock to six individuals who purchased shares in the offering. The warrants expire five years after issuance and are exercisable at $1.25 per share. The Company allocated $179,500 of the proceeds received to the warrants based upon values determined by the Black-Scholes pricing model. All costs incurred and equity instruments issued in connection with the offering have been netted against the gross proceeds of the offering in additional paid-in capital.

The Series A Preferred Stock is convertible to common stock at any time at the election of the holder and - under limited circumstances - at the election of the Company. The conversion rate is one for one, subject to adjustment in the event of a recapitalization, reorganization, or other corporate restructuring or in the event that the Company shall sell or otherwise issue securities at a price below $2.00 per share or the then adjusted conversion price. The Series A Preferred Stock can be redeemed at the Company's election at any time commencing January 1, 2005, at a redemption price of $2.00 per share plus all accrued dividends as of the redemption date. During 2000, certain stockholders converted 125,000 Series A preferred shares into common shares.

Series B 8% Cumulative Convertible Preferred Stock

In September 2000, the Board of Directors authorized the issuance of 1,234,500 shares of Series B 8% Cumulative Convertible Preferred Stock (the "Series B Preferred Stock") and related warrants to purchase common shares at an offering price of $10.00 per unit. Each unit consists of one share of Series B Preferred Stock and five warrants to purchase one share of common stock at an exercise price of $2.50 per share. As discussed in Note 3, during 2000 various investors made loans to the Company and subsequently elected to exchange their promissory notes for units. In addition to the converted loans of $2,545,000, the Company raised an additional $1,993,000 through the issuance of units through December 31, 2000 and subsequent to December 31, 2000 through the end of March 2001 had raised an additional $1,100,000.

In connection with the unit offering, the Company agreed to pay the Placement Agent a sales commission and expense allowance aggregating 13 percent of the gross proceeds from the sale of the Series B Preferred Stock, in addition to 10 percent of the gross proceeds of certain related bridge financing. The Company also incurred approximately $23,000 of direct expenses in connection with the offering. As additional consideration, the Company agreed to issue to the Placement Agent warrants to purchase 351,800 shares of the Company's common stock at an exercise price of $2.50 per share.

As part of the Series B Preferred Stock offering, the Company issued 2,269,000 warrants to purchase common stock at $2.50 per share. The Company allocated the net proceeds from the offering of $4,208,762 between the Series B Preferred Stock and the warrants based on estimated relative fair values. The Series B Preferred Stock was recorded at $2,432,476 and the warrants were recorded at $1,776,286. The estimated fair value of the warrants was determined using the Black-Scholes pricing model. The Series B Preferred Stock is convertible to common stock at any time at the election of the holder and - under limited circumstances - at the election of the Company. The conversion rate is five for one, subject to adjustment in the event of a recapitalization, reorganization, or other corporate restructuring or in the event that the Company shall sell or otherwise issue securities at a price below $2.00 per share or the then adjusted conversion price. On most of the dates the Series B preferred shares were issued, the quoted market price of the Company's common stock exceeded the $2.00 conversion price. Accordingly, the Company measured the intrinsic value of the beneficial conversion feature as the difference between the quoted prices of the common stock into which the Series B preferred shares are convertible and the recorded value of the Series B preferred shares of $2,432,476. The total intrinsic value of the beneficial conversion feature of $2,098,134 has been reflected in the accompanying consolidated financial statements as a preferred stock dividend and as an increase to additional paid in capital.

The Series B Preferred Stock can be redeemed at the Company's election at any time commencing January 1, 2004, at a redemption price of $10.00 per share plus all accrued dividends as of the redemption date.

Cumulative dividends accrue on both Series A and B Preferred Stock at the rate of eight percent per annum from the date of original issue and are payable semi-annually on June 30 and December 31 of each year out of funds legally available for the payment of dividends. Dividends are payable in cash or common stock at the election of the Company. If paid in common stock, the number of shares issued will be based on the average of the closing bid prices for the common stock over the five trading days immediately prior to the dividend payment date. If the Company fails to pay any dividend within 60 days of its due date, the conversion price (see below) is adjusted downward by $0.25 per share for each occurrence. During the year ended December 31, 2000, the Company declared dividends aggregating $383,458, and to satisfy payment obligations issued a total of 176,455 shares of common stock. As of December 31, 2000, the Company had accrued dividends payable in the amount of $223,896. In February 2001, the Company settled the dividend payable by issuing 210,669 shares of common stock.

The Series A and B Preferred Stock have no voting rights, except as required by the General Corporation Laws of Delaware that require class votes on certain corporate matters and matters affecting the rights of the holders of the Preferred Stock. The Preferred Stock is senior in right of payment in the event of liquidation and with respect to dividends to the common stock and all other subsequent preferred stock issuances that may be authorized. The Series A Preferred Stock has a liquidation preference of $2.00 per share and the Series B Preferred Stock has a liquidation preference of $10.00 per share.

Issuance of common stock

In August 2000, the Company sold 150,000 shares of common stock to an individual for $300,000. The individual also received warrants to purchase 200,000 additional shares of common stock at $2.00 per share. Proceeds from the sale were allocated between common stock and the warrants based on the relative fair values. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model. The common stock was recorded at $187,199 and the warrants were recorded at $112,801.

During 1999, the Company sold 47,000 shares of common stock in a private placement at prices ranging from $2.00 to $4.00 per share.

Warrants to purchase common shares

As mentioned above, the Company issued warrants in connection with its Series B preferred stock offering. In addition, the Company issued warrants when it issued and converted certain notes payable more fully described in Note 3. During 2000, the Company issued warrants in connection with the sale of 150,000 shares of common stock as described in the preceding paragraph. The Company also issued 223,082 warrants at prices ranging from $2.00 to $5.13 per share to various outside consultants and sales agents in exchange for services which were valued at $473,703. All of the warrants were exercisable at December 31, 2000. The following tables summarize the warrant activity for 2000 and 1999:

	Warrants	Price Range	Weighted Average Exercise Price
Balance at December 31, 1998	-	-	-
Issued	125,000	$1.25	$1.25
Balance at December 31, 1999	125,000	$1.25	$1.25
Issued	4,476,382	$2.00 - $5.13	$2.47
Balance at December 31, 2000	4,601,382	$1.25 - $5.13	$2.44

Long-term Stock Incentive Plan

Effective March 11, 1999, the Company established the Buyers United International, Inc. Long-term Stock Incentive Plan (the "Stock Plan"). The Stock Plan provides for a maximum of 1,200,000 shares of common stock of the Company to be awarded to participants and their beneficiaries. A Committee, as determined by the Board of Directors, determines and designates the eligible participants and awards to be granted under the Stock Plan. The Committee may grant incentive stock options, non-qualified options, stock appreciation rights ("SAR") and, on a limited basis, grant stock awards. The terms and exercise prices of options and SARs will be established by the Committee; except that the exercise prices cannot be less than 100 percent of the fair market value of a share of common stock on the date of grant. As of December 31, 2000, 572,451 options had been granted under this particular plan.

Stock options

The Company's Board of Directors has from time to time authorized the grant of stock options to directors, officers, key employees, and consultants as compensation and in connection with obtaining financing. The following tables summarize the option activity for 2000 and 1999:

	Options	Price Range	Weighted Average Exercise Price
Balance at December 31, 1998	1,339,645	$0.06 - $9.00	$2.82
Granted	772,927	$2.00 - $5.39	$2.57
Exercised	(19,468)	$0.06	$0.06
Canceled or expired	(598,266)	$2.00 - $5.39	$3.44
Balance at December 31, 1999	1,494,838	$2.00 - $9.00	$2.40
Granted	2,026,633	$2.00 - $5.13	$2.85
Canceled or expired	(468,452)	$2.00 - $9.00	$2.67
Balance at December 31, 2000	3,053,019	$2.00 - $9.00	$2.66

A summary of the options outstanding and options exercisable at December 31, 2000 is as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2000	Weighted Average Exercise Price
$2.00 – $3.99	2,728,879	5.8 years	$2.39	1,944,095	$2.23
$4.00 – $5.99	321,640	4.5 years	$4.88	301,640	$4.87
$6.00 – $9.00	2,500	1.0 years	$9.00	2,500	$9.00
	3,053,019	5.7 years	$2.66	2,248,235	$2.59

Stock-based compensation

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its grants of options to purchase common shares to employees. SFAS No. 123, "Accounting for Stock-Based Compensation," requires pro forma information regarding net income (loss) as if the Company had accounted for its stock options granted under the fair value method of the statement. The fair value of the stock options was estimated at the grant date by the Company based on the Black-Scholes option pricing model. The following assumptions were used in the Black-Scholes model: a weighted-average risk-free interest rate of 6.2 and 5.5 percent, a dividend yield of 0 and 0 percent, a weighted average volatility of 104.3 and 71.0 percent, and weighted-average expected lives of 5.8 and 8.1 years for the years ended December 31, 2000 and 1999, respectively. The weighted average fair value of options granted during the years ended December 31, 2000 and 1999 was $2.66 and $2.13, respectively. The net losses applicable to common stockholders under SFAS No. 123 for the years ended December 31, 2000 and 1999 would have been increased to the pro forma amounts indicated below:

	2000	1999
Net loss applicable to common stockholders:		
As reported	$ (11,608,114)	$ (1,924,885)
Pro forma	(13,526,510)	(2,203,921)
Basic and diluted net loss per common share:		
As reported	$(3.12)	$(0.60)
Pro forma	(3.63)	(0.68)

Due to the nature and timing of option grants, the resulting pro forma compensation cost may not be indicative of future years.

8. Related party transactions

In October 2000, the Board approved a consulting agreement with Theodore Stern, Chairman of the Board of Directors. Mr. Stern was to earn a monthly fee of $6,000 plus expense reimbursement in connections with duties performed as the Company's Chief Executive Officer. The Board also approved a five-month consulting agreement for Gary Smith, also a member of the Board. In exchange for fund-raising and other services, Mr. Smith was to receive a monthly fee of $5,000. For the year ended December 31, 2000, Mssrs. Stern and Smith earned, $22,400 and $12,500 in fees, respectively. None of the fees have yet been paid, pending successful fund-raising efforts. As a result, these amounts were owed to these Directors as of December 31, 2000.

During the first part of 2000, Steve Barnett was engaged as an outside consultant before becoming a director. The Company incurred $24,500 in fees billed by Mr. Barnett, of which $8,300 remained unpaid at December 31, 2000.

During 2000, directors Theodore Stern, Dal Bagley, and Harold C. McCray loaned the Company a total of $595,000, $275,000, and $150,000 as bridge financing, respectively. The Company issued 14% and 18% promissory notes, with maturity dates ranging from July 31, 2000 to June 30, 2001. On September 1, 2000 the Company repaid the loan to Mr. McCray and the rest of the notes were converted into Series B Convertible Preferred Stock and related warrants (see Notes 3 and 7). The directors also received warrants as part of their promissory notes and preferred stock conversions. The five- and two-year warrants have an exercise price of $2.50 per share. The total number of warrants issued to the three directors was 680,000, 275,000, and 75,000, respectively.

Mr. Stern also loaned the Company $100,000 in December 2000. The Company issued a promissory note, payable on demand. The note is secured by the Company's accounts receivable and accrues interest at 12 percent. If the note hadn't been paid by February 1, 2001, 10,000 shares of common stock were to be issued. The note wasn't repaid at that time and the Company has since complied with the additional terms.

9. Subsequent Financing

Subsequent to December 31, 2000, the Company received approximately $1,100,000 of proceeds from the issuance of 110,000 shares of Series B Preferred Stock and 550,000 warrants to purchase common stock (see Note 7). The Company also received $390,000 from the issuance of various notes payable to a director of the Company. The notes bear interest at 12 percent, are due and payable on demand, and are secured by accounts receivable. In connection with the issuance of these notes, the Company issued 41,000 shares of common stock.

Board of Directors and Executive Officers

Theodore Stern
Chairman of the Board
and Chief Executive Officer

Gary Smith
Director
Business Consultant

Edward Dallin Bagley
Director
Business Consultant

Steve Barnett
Director
Business Consultant

G. Douglas Smith
Executive Vice President

Paul Jarman
Treasurer, Secretary
and Chief Operating Officer

Independent Public Accountants

Arthur Andersen LLP
Salt Lake City, Utah

Corporate Counsel

Lehman Walstrand & Associates, LLC
Salt Lake City, Utah

Transfer Agent

Atlas Stock Transfer Company
Salt Lake City, Utah

Upon written request we will furnish to our stockholders without charge a copy of our report on Form 10-KSB for the year ended December 31, 2000, as filed with the Securities and Exchange Commission. Requests should be directed to:

Paul Jarman, Chief Operating Officer
BuyersOnline.com, Inc.
14870 Pony Express Road
Bluffdale, Utah 84065

This Report is also available from the Securities and Exchange Commission's Internet web site, http://www.sec.gov.

EXHIBIT "C"

BUYERSONLINE.COM, INC.

2000 ANNUAL REPORT TO STOCKHOLDERS

September 14, 2001

Table of Contents

Our Business

This Annual Report to Stockholders recites information as of December 31, 2000 and describes BuyersOnline.com, Inc. (referred to herein sometimes as **"BuyersOnline"** or the **"Company"**) business as of that date, with references to events occurring during 2001. BuyersOnline is a Delaware corporation that has been engaged for the past five years in the business of selling essential monthly services to its members--representing a "buying collective" of approximately 28,500 domestic residential consumers and small businesses. BuyersOnline uses the purchasing power of its membership to negotiate lower prices from producers and resellers to provide "essential" products and services. These are products and services that are part of most consumers' (with annual incomes ranging from $30,000 to $100,000 per year) monthly budgets. Presently, the "essential" services we offer include long distance and Internet service. To join BuyersOnline as a member, a consumer or small business owner must simply choose one or more of the essential services currently offered by BuyersOnline. There are no membership fees.

BuyersOnline has expanded its business model to include additional consumer products and services. In August 2000 we unveiled our new Internet Portal (the **"Portal"**) that we believe will attract a substantial number of online shoppers. The Portal will take advantage of the growing consumer trend to shop online by offering added value to consumers in the form of rebates that are typically offered by the online merchants. Simply by choosing one or more of the essential monthly services offered, consumers may gain unrestricted access to a large variety of products and services through the Portal and earn rebates when they buy online. Rebates earned from online spending are applied directly against each member's monthly bills for "essential" services, giving them the added benefit of reducing their bills for the services they choose from BuyersOnline.

Until recently, BuyersOnline's marketing strategy has been exclusively based on a "word of mouth" advertising campaign and a member rebate program. The member rebate program allows members in BuyersOnline to reduce or "zero-out" the monthly bill for the services they receive. This is accomplished through a direct rebate plan that recurs monthly based on service purchases by new member referrals.

We now pursue multiple marketing avenues, including the Internet, an infomercial, independent agents, affiliate groups, acquisitions and other advertising to stimulate interest in our service offerings to generate a substantial increases in membership. There are approximately 5,000 independent telecommunications agents around the country that are responsible for a substantial amount of annual U.S. telecommunication sales. BuyersOnline currently has engaged over 1,400 independent agents to sell our telecommunications services. We also launched the Portal in 2000 to attract members through expanded access to consumer products and services. We have developed an infomercial (the **"Infomercial"**) as part of our planned nationwide advertising campaign that incorporates the endorsements of Dick Clark, Della Reese, and Marie Osmond. Via the Infomercial, these celebrities will promote BuyersOnline's buisiness to potential members with nationwide television broadcasting of a 28.5-minute infomercial and a series of thirty-second, one-minute and two-minute commercials. BuyersOnline has tested the Infomercial, and, based on the successful results, intends to effect a nationwide roll out of the infomercial in late 2001 or early 2002, provided we are successful in obtaining sufficient capital to finance the roll out.

BuyersOnline's offices are located at 14870 Pony Express Road, Bluffdale, Utah 84065. Our telephone number is (801) 523-8929.

Market for Common Equity and Related Stockholder Matters

BuyersOnline's common stock trades sporadically in the over-the-counter market. The following table sets forth for the respective periods indicated the prices of the common stock in the over-the-counter market, as reported and summarized on the OTC Bulletin Board. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions. In April 1999, BuyersOnline effected a 1-for-4 reverse split in the issued and outstanding common stock in connection with the change of its domicile to Delaware. Prices for the first quarter of 1999 have been adjusted retroactively to reflect the reverse split.

Calendar Quarter Ended	High Bid ($)	Low Bid ($)
March 31, 1999	4.25	1.00
June 30, 1999	3.00	3.00
September 30, 1999	2.88	2.00
December 31, 1999	2.13	1.13
March 31, 2000	5.75	1.63
June 30, 2000	5.19	1.75
September 30, 2000	3.50	1.50
December 31, 2000	2.50	0.88

Since its inception, no dividends have been paid on the common stock. BuyersOnline intends to retain any earnings for use in its business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future. There are currently outstanding 1,875,000 shares of Series A Convertible Preferred Stock and 563,800 shares of Series B Convertible Preferred Stock. As of March 28, 2001, there were approximately 4,800 holders of record of our common stock.

Summary Financial Information

Income Statement Data for the Years Ended December 31, 2000, 1999, and 1998

	2000	1999	1998
Total revenues	$ 7,355,559	$ 4,755,687	$ 4,865,776
Total operating expenses	13,853,238	6,446,271	5,943,659
Total other expenses	1,604,269	74,174	388,699
Total preferred stock dividends	2,481,592	160,127	-
Net loss	11,608,114	1,924,885	1,466,582
Net loss per common share	3.12	0.60	0.66

Balance Sheet Data as of December 31, 2000, 1999, and 1998

	2000	1999	1998
Total current assets	$ 2,044,032	$ 2,196,734	$ 699,401
Total assets	4,402,907	2,549,315	811,663
Total current liabilities	5,910,462	1,294,557	1,511,251
Total liabilities	6,225,218	2,418,620	2,561,251
Total stockholders' equity (deficit)	(1,822,311)	130,695	(1,749,588)

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

BuyersOnline is engaged in the business of selling to consumers and small businesses long distance and Internet access services. The marketing strategy of BuyersOnline is based on a membership concept under which BuyersOnline members are entitled to receive the services offered at low prices. BuyersOnline uses the purchasing power of its membership to negotiate lower cost or rebates from producers and resellers of the services and products. Lower costs allow BuyersOnline to offer more competitive pricing to attract and retain members, and makes it possible for BuyersOnline to offer rebate incentive programs to its members for referring to BuyersOnline new prospective members. BuyersOnline's goal is to build a national consumer membership organization. Its strategy for achieving this goal is to focus on expanding service and product offerings, continue its member referral and rebate program, continue development of its agent sales program, promote a television advertising program (the Infomercial), and pursue Internet advertising to attract new members.

BuyersOnline provides services that it believes are perceived by consumers and businesses as essential or are compatible with their normal annual expenditures. Since its inception in January 1996, BuyersOnline focused on selling long distance service. This focus has enabled BuyersOnline to build the size of its membership base. With the recent explosion in Internet commerce, especially among small businesses, BuyersOnline is now offering low cost Internet access to its members.

We have expanded our selection to offer a broader range of consumer products and services through the Portal, including auto parts, music, clothing and accessories, computer products, health and beauty products, sports products, travel services, toys, pet supplies, home and garden products, specialty food items, and office supplies. In the second half of 2000, BuyersOnline launched its new web site that enables members to purchase these products online and receive from BuyersOnline a rebate on each product and service purchase. By expanding product offerings, BuyersOnline believes that membership will be attractive to a larger number of prospective members and existing members will have added incentive for staying with BuyersOnline.

BuyersOnline has approximately 28,500 members. Our target market includes networking professionals, small businesses, and middle-class families with an annual household income between $30,000 and $100,000, as these are the most likely to respond actively to the savings opportunity offered by BuyersOnline. Members reside mostly in high population centers and they tend to spend more than the average on long distance services.

Results of Operations - Year Ended December 31, 2000 Compared to 1999

Revenues increased 55% during 2000 to $7,355,559 as compared to $4,755,687 during 1999. The increase was due to higher membership in general resulting from BuyersOnline's ongoing promotional efforts, particularly those involving independent agents. Membership at the end of 2000 increased 53% as compared to the previous year. In 1999, BuyersOnline began aggressively lowering its long distance rates, but also began negotiating with additional vendors to lower the cost of long distance service provided to members. As a result, BuyersOnline now uses three long distance wholesalers. While the costs of revenues increased 54% during 2000 to $4,773,707 as compared to $3,096,490 during 1999 due to the increase in members, the gross profit margin during 2000 remained relatively steady at 35.1% vs. 34.9% for 1999. We intend to continue negotiating lower wholesale rates and improving our gross margins as we expand and diversify our services base.

Total operating expenses other than costs of revenues increased 171% during the year ended December 31, 2000 compared to 1999. General and administrative costs in 2000 increased 136% to

$5,224,290 compared to $2,217,165 in 1999. Selling and promotion costs increased 240% to $3,855,241 during 2000 from $1,132,616 in 1999. The increases in both areas stem from our ongoing efforts in significantly expanding our business. Toward the end of 1999, BuyersOnline began to increase spending in strategic areas to prepare for revenue growth during the year 2000. In the sales and promotion area, increases during 2000 stem in part from higher commissions paid in proportion to higher revenue amounts, along with additional employees hired to maintain and service the expanded agent sales channel. BuyersOnline also hired personnel to continue expanding existing, and develop new sales channels. Almost one-third of the increase in selling and promotion expense resulted from the costs of production of an infomercial, which we plan to televise during late 2001 and 2002. In the general and administrative categories, most of the higher costs resulted from an increase in internal and external information technology personnel and other resources obtained to significantly increase BuyersOnline's ability to handle the higher order rate expected once the infomercial begins regular broadcasts. BuyersOnline also developed and implemented a new web page launched in August 2000, in part to prepare for infomercial marketing support, but also to increase agent marketing support. It also allows members to purchase online varied unrelated products and services from outside vendors through BuyersOnline's Internet Portal. The vendors then will pay BuyersOnline rebates that will be passed on to the members. In addition, general and administrative expenses were higher due to executive support of the infomercial development process, fund raising efforts conducted throughout the year, and an overall increase in administrative support personnel required to implement our increased activity during the year. During the first half of 2001, the Company took steps to halt any further significant increases in operating costs not directly related to existing revenues such as costs of revenues or commissions. The Company feels that cost levels at the end of 2000 and beginning of 2001 are sufficient to enable it to continue sales increases in existing channels, and does not plan on increasing administrative support or promotional costs associated with the infomercial until the related financing is accomplished.

Interest income for 2000 was $21,943 as compared to $49,454 in 1999. The difference is attributable to the amount of funds on hand during 1999, primarily as a result of the Series A preferred stock offering completed during 1999's third quarter. Interest expense for 2000 was $1,626,212 as compared to $123,628 for 1999. Interest expense for 2000 included $614,119 of amortization of discounts on notes payable. The discounts resulted from a portion of the debt proceeds being allocated to warrants issued together with the loans. Interest expense also included an interest charge of $722,050 related to a beneficial conversion feature associated with the modification and extension of a $1,050,000 note payable. Excluding the discount amortization and beneficial conversion feature, interest expense increased 135% as a result of higher interest rates and higher overall borrowings in 2000.

During 2000, BuyersOnline recognized an extraordinary loss of $1,024,574 on early extinguishment of debt. BuyersOnline obtained $2,545,000 of debt financing during 2000, which was subsequently exchanged for Series B 8% cumulative convertible preferred stock and warrants to purchase common stock. The difference between the estimated fair value of the Series B preferred stock and warrants and the carrying amount of the debt was recognized as a loss on early extinguishment of debt.

As a result of the above factors, the net loss before preferred stock dividends increased 417% to $9,126,522 for 2000 as compared to $1,764,758 for 1999. During 2000, preferred stock dividends amounted to $2,481,592, consisting of $383,458 of 8% cumulative dividends on outstanding shares of Series A 8% cumulative convertible preferred stock and Series B preferred stock and $2,098,134 of preferred stock dividends related to the beneficial conversion feature associated with the issuance of 453,800 shares of Series B preferred stock. During 1999, $160,127 of preferred stock dividends were recorded related to Series A preferred stock.

Liquidity and Capital Resources

BuyersOnline has suffered recurring losses from operations. During the years ended December 31, 2000 and 1999, our net loss applicable to common stockholders was $11,608,114 and $1,924,885, respectively. As of December 31, 2000, we had a working capital deficit of $3,866,430 and an accumulated deficit of $18,803,645. During the years ended December 31, 2000 and 1999, our operations used $3,476,070 and $1,910,397 of cash, respectively. These matters raise substantial doubt about the

Company's ability to continue as a going concern. Subsequent to December 31, 2000, the Company has obtained $1,100,000 of additional funding through the sale of convertible preferred stock and warrants and has received $2,215,000 of short-term debt financing. However, BuyersOnline needs additional capital to finance future operations until its business objectives are implemented and generate sufficient revenue to sustain the business. Management is attempting to raise additional capital to fund operations and provide working capital; however, there can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms or in required amounts. If we do not obtain financing, there is no assurance that BuyersOnline will succeed in achieving profitable operations. We estimate that we will need additional capital of approximately $500,000 to $1 million to fund operating expenses through the end of 2001.

BuyersOnline's current ratio at the end of 2000 declined to 0.3:1 from 1.7:1 at the end of 1999. The primary reasons for the decline was the cash used to fund operations during the year and the related increase in accrued liabilities and accounts payable. Accrued liabilities rose due to higher accrued payroll and commission costs resulting from the overall increases in employees during the year and the higher revenue amounts, respectively. In addition, accrued dividends payable were higher at the end of the year as a result of the additional preferred stockholders from the Series B preferred stock offering. Accrued liabilities were also higher due to accrued severance costs primarily payable to the former chief executive officer. Accounts payable rose during the year due to the higher overall level of costs attained during the year, along with proportionately higher revenue-related excise taxes billed and owing at the end of the respective periods. In addition, current liabilities rose as a result of reclassifying from long-term to short-term a $1,050,000 note payable and from the addition of a $100,000 short-term promissory note due to a member of the board of directors.

In March 2000, BuyersOnline reached an agreement to extend repayment of the outstanding note payable in the amount of $1,050,000 to April 15, 2001. Under the terms of the extension, BuyersOnline agreed to increase the interest rate on the note to 18% per annum beginning April 15, 2000, grant the holder the right to convert the note to common stock at the rate of $3.00 of principal per share, or a total of 350,000 shares, and grant the holder the right to register the shares of common stock for resale under the Securities Act of 1933 under certain circumstances. In March 2001, the holder agreed to extend the due date to June 1, 2001. In August, 2001 BuyersOnline and the holder of this note reached a new agreement, whereby the holder extended the note to September, 2002; the Company reduced the holder's conversion price from $3.00 per share to $2.50 per share; and the Company agreed to give the holder a warrant to purchase 100,000 shares of its common stock should the Company pre-pay the note prior to its maturity date or a warrant to purchase 50,000 shares of its common stock upon payment at maturity.

During 2000, BuyersOnline raised $2,795,000 in loans from management and accredited investors as defined in Rule 501 of Regulation D adopted under the Securities Act of 1933. As an inducement to make the loans, we issued to the lenders warrants to purchase 1,432,500 shares of common stock at exercise prices of between $2.00 and $2.50 per share. In September, the Company entered into a unit sales agreement with First Level Capital, Inc., a stock brokerage firm, providing for the sale of up to 1,234,500 units, each unit consisting of one share of Series B 8% cumulative convertible preferred stock and five common stock purchase warrants at an offering price of $10.00 per unit or a total of $12,345,000. Loans in the amount of $2,545,000 were exchanged the offering for 254,500 units. An additional 199,930 units were sold for cash of $1,993,000 before the end of 2000 and 110,000 units have been sold for $1,100,000 in cash since the beginning of 2001. All of these sales were made to accredited investors. Each share of Series B preferred stock is convertible to five shares of common stock, subject to adjustment under certain circumstances. Each warrant included in the units entitles the holder to purchase one share of common stock at an exercise price of $2.50 per share and expire in December 2002. As commissions for its sales effort, First Level Capital and its affiliates received cash payments of $476,840 and warrants to purchase 351,800 shares of common stock on terms identical to the warrants except that the term was for five years instead of two. All of the foregoing securities were offered and sold in reliance on the exemptions from registration contained in Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D.

BuyersOnline will continue to pursue additional financing in 2001. In February 2001, we entered into a financial advisory agreement with Copp Wheelock Partners, LLC, of Addison, Texas, under which

Copp Wheelock will assist us in locating strategic alliances or acquisitions related to products, services, and marketing, and locating potential sources of financing for our operations. As compensation for these services we paid to Copp Wheelock a base fee of $10,000, and have agreed to pay an additional $10,000 upon obtaining additional financing. Copp Wheelock will also receive success fee ranging from 1.25% to 7.00% on each financing or strategic partner transaction resulting from its services. If Copp Wheelock locates at least $1,000,000 in financing for BuyersOnline, we will pay a monthly advisory fee of $10,000 over a term of not less than five months. Further, we agreed to issue to Copp Wheelock warrants to purchase up to 300,000 shares of common stock at an exercise price of $2.50 per share over a term of five years that vest incrementally based on financing of up to $3,000,000 obtained through Copp Wheelock. Additional warrants may be issued up to a maximum 3% fully diluted equity interest in BuyersOnline for additional financings obtained under the agreement. In January 2001, BuyersOnline entered into a finder agreement with Howard Bronson Associates, Inc., of New York City, New York, under which we paid Howard Bronson & Associates a $10,000 retainer and agreed to pay an additional 3% of funds realized through any financing source identified by Howard Bronson Associates.

In June 2001 we completed a receivable financing agreement with RFC Capital Corporation to provide a line of credit secured by BuyersOnline's billed and unbilled accounts receivable. As of August 31, 2001, there was outstanding $437,118, with a total of $2.5 million available. In addition, the Company has begun efforts with various parties to secure additional financing in order to begin significant infomercial broadcasting during the latter part of 2001 or early 2002.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by BuyersOnline. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that BuyersOnline expects or anticipates will or may occur in the future, including such things as expansion and growth of its operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect BuyersOnline's operations and financial condition. These factors include the availability of capital, 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 long distance service, and conditions in the capital markets. Forward-looking statements made by BuyersOnline are based on knowledge of its business and the environment in which it operates 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.

EXHIBIT “D”

EXHIBIT "E"

ZIONS FIRST NATIONAL BANK
Private Banking 310 South Main - Suite 100
Salt Lake City, Utah 84101

14832

31-5/1240
275

buyersonline
Helping you zero-out monthly bills
ACCOUNTS PAYABLE
14870 SOUTH PONY EXPRESS DR.
BLUFFDALE, UT 84065
PH. 801-523-8929

2/4/2002

PAY TO THE ORDER OF State of South Dakota $ **250.00

Two Hundred Fifty and 00/100** DOLLARS

State of South Dakota
PUC
500 E. Capitol
Pierre. SD 57501-5070

VOID AFTER 90 DAYS

MEMO Cert of Authority

⑈014832⑈ ⑆124000054⑆ 275 00301 0⑈

14832

State of South Dakota 2/4/2002

Certificate of Authority 250.00

TC 02-013

Operating Cert of Authority 250.00

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of January 31, 2002 through February 6, 2002

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing. Phone: 605-773-3705 Fax: 605-773-3809

CONSUMER

CN02-001 In the Matter of the Complaint filed by Roslyn Bullion, Dell Rapids, South Dakota, against MidAmerican Energy Company Regarding a Billing Dispute.

Complainant has several billing issues in dispute regarding more than one property. Complainant requests that her debt be removed from her son's address, that money she has paid be applied to the appropriate account, information be provided to her as to why she should pay a bill for a vacant property that she does not own, she be awarded monetary relief for a collection action that she does not owe, her service be restored and meter readings be given for the months of November, December, January, February, March and April.

Staff Analyst: Mary Healy
Staff Attorney: Kelly Frazier
Date Docketed: 02/04/02
Intervention Deadline: N/A

TELECOMMUNICATIONS

TC02-012 In the Matter of the Filing for Approval of a Reciprocal Transport and Termination Agreement between WWC License L.L.C. and Northern Valley Communications, LLC.

On February 4, 2002, the Commission received for approval a filing for a Reciprocal and Termination Agreement between Northern Valley Communications and Western Wireless. According to the parties, the Agreement is a negotiated agreement whereby the parties wish to put in place an arrangement for the mutual exchange and reciprocal compensation of local telecommunications traffic in accord with the Telecommunications Act of 1996. Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than February 25, 2002. Parties to the agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Kelly Frazier
Date Docketed: 02/04/02
Initial Comments Due: 02/25/02

TC02-013 In the Matter of the Application of Buyers United, Inc. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

Buyers United, Inc. has filed an application for a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The applicant will provide service under Buyers United, Inc. and may provide service under the names of its two divisions "BuyersOnline" and "United Carrier Networks." Buyers United, Inc. intends to resell intrastate long distance and provide in a limited capacity, internet services throughout South Dakota.

Staff Analyst: Michele Farris
Staff Attorney: Kelly Frazier
Date Docketed: 02/05/02
Intervention Deadline: 02/22/02

Capitol Hill Consulting
Telecommunications & Technology
Regulatory Services

901 N Brutscher, D 358
Newberg, OR 97132

350 South 400 East, Suite 203
Salt Lake City, UT 84114

RECEIVED
JUN 07 2002
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

May 26, 2002

Kelly D. Frazier
Special Assistant Attorney General
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

RE: TC01-191 & TC02-013
Buyers United Inc.

Dear Ms. Frazier:

I am contacting you on behalf of Buyer's Online regarding the above referenced docket numbers.

Buyer's Online has retained Capitol Hill Consulting, LLC, to assist them in their regulatory filings with the South Dakota Public Utilities Commission. Accordingly, I have been given a copy of the list of items originally requested, by Michele M. Farris, on February 20, 2002. I will begin working on these items immediately. If there are any other requirements that I will need to complete for the pending application, please let me know.

You can reach me at: Capitol Hill Consulting, LLC
350 South 400 East, Suite 203 · Salt Lake City, UT 84114
Tel: 801-558-8149 Fax: 801-406-0261
E-mail: liz@capitolhillconsulting.com

Thank you for your assistance.

Sincerely,
Capitol Hill Consulting, LLC

Liz Petroni
Regulatory Affairs Consultant
for Buyers United Inc.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF BUYERS UNITED, INC. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA)

ORDER DENYING CERTIFICATE OF AUTHORITY

TC02-013

On February 5, 2002, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Buyers United, Inc. (Buyers United).

Buyers United proposes to resell intrastate long distance and provide in a limited capacity, internet services throughout South Dakota. The Commission has classified long distance service as fully competitive.

On February 7, 2002, the Commission electronically transmitted notice of the filing and the intervention deadline of February 22, 2002, to interested individuals and entities. No petitions to intervene or comments were filed. At its regularly scheduled July 23, 2002, meeting, the Commission considered Buyer's request for a certificate of authority. Commission Staff recommended denying the certificate of authority and closing the docket as Buyers United was non-responsive to data requests from Staff.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that Buyers United has not met the legal requirements established for the granting of a certificate of authority. Buyers United has not, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission voted to deny Buyers United's application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

ORDERED, that Buyers United's application for a certificate of authority is hereby denied.

Dated at Pierre, South Dakota, this 7th day of August, 2002.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 8/7/02

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Robert K. Sahr by dk
ROBERT K. SAHR, Commissioner