

# ***THE EYESHADE REPORT***

**March 7, 2004**

<u>Company:</u> <b>ACCUPOLL HOLDING CORP.</b>		<u>Address and Phone:</u> 15101 Red Hill Ave. Suite # 220 Tustin, Ca 92780 (949) 200-4000
Ticker: ACUP		Shares Out (basic): 147.5 M
Exchange: OTC BB		Float: Unknown
Market Cap: \$ 426.3 M	EV*: 428.5 M	Short Interest: Unknown
P/S: 1,336	EV/S: 1,336	Closing Price: (3/5/04): \$ 2.89
P/E: NE		52 Week Range: \$ 0.81 - \$ 3.85
Level of Concern: <b>E</b> (Scale: A – E; with “E” the highest level of concern)		

\*Enterprise value – defined as market capitalization plus debt minus cash and equivalents.

*Description of Business:* Accupoll Holdings Corp. (the “Company” or “ACUP”) seeks to become a leader in the development, manufacturing and marketing of computerized voting machines and associated equipment.

## **Summary**

- Company came public via a reverse merger in May 2002.
- Going concern warning from auditors.
- Material increase in shares outstanding and some unusual fluctuations in reported shares outstanding.
- Multiple Regulation S sales of millions of shares below market price in 2003.
- Company’s CFO may be misstating past experience, associated with prior bankrupt companies and officers at another company where ACUP’s CFO is a director have been charged with fraud and stock manipulation by SEC regarding Regulation S sales.
- Possibly overvalued asset and unusual purchase of shares of a bulletin board stock in December 2003.
- Almost a development stage company with virtually no sales.
- Multiple delays in predicted “first sale” of its voting machine.
- Six-month cash burn of \$1.8 million but only \$6 thousand in cash on balance

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sheet at December 31, 2003.

- Negative working capital and little inventory on its balance sheet.
- Only six (6) employees and multiple late filings of its financial statements.
- A brief look at a competitor's (Diebold Inc.) voter machine sales.

### Background

ACUP came public in May 2002 via a **reverse merger with a public shell company** called Western International Pizza Corporation.<sup>1</sup> Up until this year, its shares were very thinly traded, but trading volume has exploded (relatively) since the beginning of February 2004 to often more than 100,000 shares a day. The Company gave a presentation at an Edgewater Research Conference in Las Vegas on February 5, 2004. As of June 30, 2003, insiders owned 63.1 million shares.<sup>2</sup>

The Company has a voting machine that it hopes to sell to governmental entities to aid in the collection and tabulation of voting data. It hopes to take advantage of the Help America Vote Act of 2002 ("HAVA") that was signed into law on October 29, 2002.<sup>3</sup>

In its auditor's report for the year ended June 30, 2003, ACUP's auditors expressed substantial doubt about the Company's ability to continue as a **going concern** for the next year.

### Financial Statement Review

**Material increase in shares outstanding and some unusual fluctuations in reported shares outstanding** – From September 2002 through December 2003, the Company's shares outstanding increased from 104.5 million to 147.5 million, a **41% increase**. There were reported declines in shares outstanding in its Form 10-K filed in October 2003 and a 10-Q filed in May 2003 versus an amended 10-K filed on May 13, 2003. However, we found no explanation for the decline.

Additionally, the shares outstanding as of February 12, 2003 were reduced per an amended 10-Q filed one week after the initial 10-Q. However, we found no explanation for that change either.

In millions	4/28/03	4/30/03	10/7/03	11/19/03	12/31/03
<b>Shares Out</b>	121.3*	109.8**	119.9	121.3	147.5

\* Per a Form 10-KSB/A filed 5/13/03.

\*\* Per a Form 10-QSB filed 5/20/03.

In millions	9/30/02	11/11/02	2/12/03	2/12/03
<b>Shares Out</b>	104.5	105.5	107.5*	107.2**

\* Per a Form 10-QSB filed 2/14/03.

\*\* Per its Form 10-QSB/A filed 2/20/03.

<sup>1</sup> . ACUP, 10-K (6/03), p. 2.

<sup>2</sup> . ACUP, 10-K (6/03), p. 26.

<sup>3</sup> . Per the Company, HAVA establishes new requirements for voting systems, statewide centralized voter registration systems, and authorized \$3.9 billion in federal funding over three fiscal years. In the fiscal year ended September 30, 2003, Congress appropriated \$1.5 billion in funding. ACUP, 10-K (6/03), p. 2.

We find the decline in shares between April 28, 2003 and October 7, 2003 confusing because the Company issued **3.4 million shares** of restricted stock in **June 2003** (many of the shares for as little as \$0.1224 when the shares were trading at \$0.91) pursuant to Regulation S and Section 4(2) exemptions. (In April 2003, ACUP issued **740,280 shares** of its stock relying on Regulation S and Section 4(2) exemptions).<sup>4</sup> In the September 2003 quarter the Company issued another **80,000 shares** of stock and **1.2 million warrants** were exercised for stock at a price of approximately \$0.12.<sup>5</sup>

We saw no evidence of share repurchases at any time in 2003. We would have expected the transactions described in the prior paragraph to **increase** shares outstanding from April 28, 2003 to October 7, 2003 by approximately **4.7 million**, yet shares outstanding declined by **1.4 million**.

In addition, the Company purchased a private company called Z Prompt, Inc. on October 31, 2003. Part of that consideration involved issuing Z Prompt's shareholders **8.5 million shares** of ACUP's stock.<sup>6</sup> However, ACUP's shares outstanding were the same on November 19, 2003 as April 28, 2003. We also note that the **8.5 million** shares of restricted stock issued in the acquisition of Z Prompt, Inc. were only valued at **\$1.8 million** by ACUP (approximately \$0.21 per share). ACUP's stock closed at \$1.50 on October 31, 2003 (making 8.5 million shares of unrestricted stock worth **\$12.75 million**). ACUP said it obtained an independent valuation of those shares that utilized, among other things, the valuation of recent shares issued for fund raising activities.<sup>7</sup>

#### **Multiple Regulation S sales of millions of shares below market price in 2003**

– The Company has issued millions of shares of restricted stock and warrants at below market prices in 2003 pursuant to Regulation S and under Section 4(2) of the Securities Act of 1933. For example, in addition to the stock sales mentioned in the previous section, the Company issued **2.7 million** restricted shares pursuant to Regulation S in the December 2003 **quarter** (as well as an additional 7.2 million restricted shares issued pursuant to Section 4(2) of the '33 Act in that quarter). All these shares were issued for less than \$0.40 per share and some for as little as \$0.11 a share.<sup>8</sup>

Also in December 2003, ACUP issued warrants to purchase 13.3 million shares of the Company's restricted stock at prices between \$0.12 and \$1.35. The warrants were issued in connection with fund raising activity and vested immediately, but the Company **recorded no expense** in relation to the issuance.<sup>9</sup> We did not find an explanation for this treatment.

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<sup>4</sup> . ACUP, 10-K (6/03), pp. 15-17.

<sup>5</sup> . ACUP, 10-Q (9/03), Note 7.

<sup>6</sup> . ACUP, 10-Q (9/03), Note 8.

<sup>7</sup> . ACUP, 10-Q (12/03), p. F-15.

<sup>8</sup> . ACUP, 10-Q (12/03), p. F-14. In November 2003, the Company issued warrants to purchase 6 million shares of restricted common stock at \$0.06. Id.

<sup>9</sup> . ACUP, 10-Q (12/03), p. F-14.

We found no details as to whom these shares were sold or the warrants issued. However, in light of the alleged activities of some officers at a company on whose board of directors Craig A. Hewitt, ACUP's Chief Financial Officer, sits (described in the next section), these sales are a concern.

**Company's CFO may be misstating past experience, associated with prior, bankrupt companies and officers at another company where ACUP's CFO is a director have been charged with fraud and stock manipulation by SEC regarding Regulation S sales** – ACUP states in its most recent 10-K that its CFO, Craig A. Hewitt, was CFO of Universal Broadband Networks, Inc., a public company, from August 1998 to August 2000.<sup>10</sup>

Actually, from August 1998 to August 2000, it appears Universal Broadband Networks, Inc. was known as IJNT.net, Inc. per S.E.C. filings. Further, we found Hewitt's name associated with only one of IJNT.net's S.E.C. filings, and that was the 2000 10-K (filed on July 10, 2000) which included a lease amendment signed by Hewitt on behalf of IJNT.net in December 1999.<sup>11</sup> Hewitt was listed thereon as the **V.P. of Finance** of IJNT.net, **not the CFO**.

From August 1998 through the first half of 2000, most of IJNT.net's S.E.C. filings list **Jon H. Marple as its CFO**. (Marple was also Chairman of the Board. From January 1997 to May 5, 2000, Marple served as the Chief Executive Officer, and from January 1999 to October 1999, Marple also served as the Company's President).<sup>12</sup> Kim Marcus was listed as the **interim CFO** on the Form 10-K filed on July 10, 2000 in which we found Hewitt's name. **Mary E. Blake** (Jon H. Marple's wife) was IJNT.net's President from October 1999 to May 5, 2000 and Vice President from January 1997 to October 1999. Ms. Blake was a director since January 1997<sup>13</sup> (also listed as Vice-Chairman on some S.E.C. filings).

On October 31, 2000, shortly after ACUP's 10-K says Hewitt left, Universal Broadband Network filed a Chapter 11 bankruptcy petition.<sup>14</sup> Its corporate shell was later purchased by FoneFriend, Inc. (OTC BB: FFRD.OB).

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<sup>10</sup> . ACUP, 10-K (6/03), p. 21. ACUP's website (www.accupoll.com) further says Hewitt served as CFO of Universal Broadband Networks, when the company was granted listing on the Nasdaq National Exchange.

<sup>11</sup> . IJNT.net, 10-K (3/31/00).

<sup>12</sup> . IJNT.net's Form Pre 14A filed 5/31/00, p. 5.

<sup>13</sup> . IJNT.net's Form Pre 14A filed 5/31/00, p. 5.

<sup>14</sup> . Universal Broadband Network, press release dated October 31, 2000. ACUP's 10-K also states that Hewitt was CFO of **Junum, Inc.** from August 2000 to September 2001. This appears to be correct per S.E.C. filings. Junum was a "development stage" company whose revenue never exceeded \$200,000 per quarter while Hewitt was there, came public through a merger with Eurbid.com, Inc. in November 2000, and raised cash through Regulation S sales of stock. One of its creditors foreclosed on Junum in September 2002 and it **effectively ceased operations** at that time. Junum, Inc. (now know as WinWin Gaming), 10-Q (9/02), p. 7.

ACUP's 10-K (filed **October 14, 2003**) also states that Hewitt is a director of Force Ten Trading, Inc., a public company. Actually, Force Ten Trading, Inc. is now known as GFY Foods, Inc. (OTC BB: GFYF). Its stock trades for less than a **penny a share** and carries a **going concern warning** from its auditors. By November 2002, Force Ten Trading had closed its stock trading tutorial business and started its development stage oil and gas business under the name **F10 Oil and Gas Properties, Inc.** By January 2004, its name had changed again to GFY Foods, Inc. and its primary business was operating a fruit juice smoothie and food restaurant in Buffalo Grove, Illinois, though it says it continues to explore opportunities in the oil and natural gas arena.<sup>15</sup>

Perhaps of greater concern is that **Force Ten** is a reunion for Mr. Hewitt with his former colleagues at IJNT.net, **Jon H. Marple** and **Mary Blake**. This is a concern because on October 16, 2003, the **S.E.C. filed a complaint** against 21 defendants including **F10 Oil & Gas Properties, Inc.**, **Jon H. Marple**, the former Chief Executive Officer of F10 (he resigned on July 23, 2003 and was replaced by Charles Blake, his brother-in-law), **Mary E. Blake**, the former President of F10, Jon R. Marple (Jon H. Marple's son), a consultant to F10 and others.

The complaint alleges that overseas investors were **defrauded** by a scheme organized by co-defendants David Wolfson, Gino Carlucci and Sukumo Ltd. to sell securities in five United States-based issuers including **F10 Oil & Gas Properties, Inc.** (Wolfson, in conjunction with Sukumo Ltd. allegedly operated **boilers rooms in Thailand and Laos** since **October 2002** that sold the securities to over 1,000 investors located primarily in the United Kingdom). F10 Oil & Gas Properties, with its former officers Jon H. Marple and Mary E. Blake, are alleged to have made **false or incomplete filings** with the SEC and to have **manipulated the price of F10's securities** in violation of the law.<sup>16</sup> Allegedly, in December 2002, Jon H. Marple signed an agreement to sell 10 million shares of F10 stock at 30% of the bid price to the CEO of Sukumo Ltd. (While not necessarily related, we note that Craig Hewitt received 150,000 shares of F10's stock in March 2003 as a director fee).<sup>17</sup>

F10 Oil & Gas Properties discussed its sale of the 10 million shares to Sukumo in its June 2003 10-K.<sup>18</sup> In that respect, F10 Oil & Gas Properties **provided more details** regarding its Regulation S sales than has ACUP. In light of the fact that it appears Hewitt may be misrepresenting his prior experience, was on the board of directors at F10 Oil & Gas Properties when it was engaging in these allegedly illegal Reg S sales, the fact that ACUP engaged in multiple Reg S sales of millions of shares at approximately the same time as was F10 and the extremely limited information ACUP has provided about its Reg S sales in its S.E.C. filings, we are highly concerned about the nature and circumstances of those sales.

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<sup>15</sup> . GFYF, 10-QSB (12/03), Note 1.

<sup>16</sup> . GFYF, 10-QSB (12/03), pp. 10-11. See also, S.E.C. v. David Wolfson, et al., U.S.D.C. Utah. A copy of the complaint is available at: <http://www.sec.gov/litigation/complaints/comp18413.htm>.

<sup>17</sup> . F10 Oil & Gas Properties, Inc., 10-K (6/03), p. 12.

<sup>18</sup> . F10 Oil & Gas Properties, Inc., 10-K (6/03), p. 13.

**Possibly overvalued asset and unusual purchase of shares in a bulletin board stock in December 2003** - ACUP carries available for sale securities on its balance sheet valued at **\$4.5 million**. However, that represents 3.3 million shares of Material Technologies, Inc. (OTC BB: MTNA). ACUP obtained its 3.3 million shares of MTNA in December 2003 for \$1.2 million of convertible notes and 8,471 of ACUP's Series A preferred stock (each Series A preferred stock is convertible to 1,000 shares of common stock).<sup>19</sup>

MTNA is engaged in the research and development of metal fatigue detection, measurement, and monitoring technologies. **MTNA** is very illiquid company with **no revenues** through the nine months ended September 2003 that executed a **1,000 for 1 reverse stock** split on September 23, 2003<sup>20</sup> and has only **4 employees**.<sup>21</sup> It closed on March 5, 2004 at \$3.06.

While we applaud ACUP for not valuing the MTNA shares at MTNA's December 31, 2003 closing price (\$2.75 per share), we wonder if such an illiquid asset is even worth the \$4.5 million at which ACUP is carrying MTNA, especially after ACUP tendered only \$1.2 million in a convertible note payable (presumably tendered to MTNA, though we were not certain from reading ACUP's 10-Q) for the shares in December 2003 and 8,471 of ACUP's Series A preferred stock. (These Series A preferred shares are convertible to 8,471,000 common shares.<sup>22</sup> But, ACUP just valued the 8.5 million shares tendered for Z Prompt, Inc. at only \$1.8 million).

We also wonder **why the purchase was made in the first place**. ACUP states that it made the purchase "*...in order to gain access to capital through the potential subsequent sales of such stock.*"<sup>23</sup> But why this particular stock? Does ACUP have material, non-public information about MTNA? And, why such an illiquid stock? Further, if MTNA's prospects are so promising, why did MTNA sell its stock to ACUP at below market prices? Why did MTNA accept ACUP's stock and convertible note for MTNA's shares? Was it done just to prop up the asset side of each company's balance sheet? Additionally, if ACUP wants capital and ACUP's prospects are as promising as it would like investors to think, why doesn't ACUP sell its own stock through an underwriting with an investment bank rather than the below-market price Regulation S sales ACUP has been doing?<sup>24</sup>

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<sup>19</sup> . ACUP, 10-Q (12/03), p. F-13 and Item 2, p. 7.

<sup>20</sup> . MTNA, 10-Q (9/03), Note 1.

<sup>21</sup> . MTNA, 10-K/A filed 1/21/04, Item 1.

<sup>22</sup> . ACUP, 10-Q (12/03), p. 7.

<sup>23</sup> . ACUP, 10-Q (12/03), p. F-13.

<sup>24</sup> . The president, CEO, CFO, Chairman and largest single stockholder of MTNA is Robert M. Bernstein, 68 years old. MTNA, Form Pre 14C filed 4/18/03. A preliminary examination found no connection between Bernstein and Craig Hewitt or other officers at ACUP. In addition to this transaction, MTNA received a loan of up to \$1.5 million from a company called Palisades Capital LLC in September 2003. However, we found no mention of Palisades Capital LLC in connection with any other companies mentioned in this report. MTNA, Form 8-K filed 10/8/03.

**Almost a development stage company with virtually no sales** – ACUP says it was a development stage company until October 31, 2003 when it bought Z Prompt, Inc. (“Z Prompt”). Z Prompt, Inc. offers services such as on-site hardware service, installation and training, inventory management and preventive maintenance.<sup>25</sup>

However, had ACUP owned Z Prompt for the entire six (6) months ended December 31, 2003, ACUP would have reported revenue of only \$1.2 million (versus the \$361 thousand ACUP reported for that period). While this is an increase from the \$712 thousand Z Prompt earned in the six months ended December 31, 2002,<sup>26</sup> it is, in our opinion, still a relatively low figure for a company with ACUP’s market capitalization.

**Multiple delays in predicted “first sale” of voting machine** - The Company’s March 2003 10-Q predicted its first sale of its voting machine would occur in September 2003.<sup>27</sup> However, no sales occurred in the quarter ended September 2003.

ACUP’s June 2003 10-K predicted the first sale of its voting machine product by the fourth quarter of 2003.<sup>28</sup> One might think that would have been relatively accurate because the 10-K was not filed until the fourth quarter of 2003 (October 14, 2003). However, no sales occurred in the fourth quarter 2003.

ACUP’s September 2003 10-Q predicted the first sale would occur in the first quarter of 2004.<sup>29</sup> However, the Company’s 10-Q for the December 2003 quarter pushed the date back for the first sale to the second quarter of 2004.<sup>30</sup>

**Six-month cash burn of \$1.8 million but only \$5 thousand in cash on balance sheet as of December 31, 2003** – For the six months ended December 31, 2003, the Company’s free cash flow (defined as cash flows from operations minus capital expenditures and capitalized software costs) was **negative \$1.8 million**. Yet, despite its many sales of stock and warrants in 2003, the Company had only **\$5.8 thousand** in cash on its balance sheet at December 31, 2003. (ACUP does have the MTNA stock previously discussed. However, due to MTNA’s lack of liquidity, we are not certain how quickly ACUP could monetize that asset).

**Negative working capital and little inventory on its balance sheet** – At December 31, 2003, the Company had working capital (current assets minus current liabilities) of **negative \$4.6 million**, with only \$967 thousand in current assets and **\$97,000 of inventory**.

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<sup>25</sup> . ACUP, 10-Q (12/03), p. F-5.

<sup>26</sup> . ACUP, 10-Q (12/03), p. F-16.

<sup>27</sup> . ACUP, 10-Q (3/03), p. 12.

<sup>28</sup> . ACUP, 10-K (6/03), p. 18.

<sup>29</sup> . ACUP, 10-Q (9/03), Plan of Operations.

<sup>30</sup> . ACUP, 10-Q (12/03), p. 2.

**Only six (6) employees and multiple late filings of its financial statements** – As of October 7, 2003, ACUP had just six (6) employees.<sup>31</sup> In addition, ACUP was late in filing its 10-Q's for the March, September and December 2003 quarters and its 10-K for the June 2003 year.

**A brief look at a competitor's (Diebold Inc.) voter machine sales** – One of ACUP's competitors is a division of Diebold Inc. (NYSE: DBD). However, DBD experienced a decline in voter system sales in fiscal year (FY) 2003 and has reported operating losses in that division for the last two fiscal years.<sup>32</sup>

**Results of DBD's Division that Sells Voting Systems**

\$ - in 000's	FY 02	FY 03	FY 04
<b>Revenue</b>	111,205	100,402	105,000*
<b>Operating Loss</b>	(21,729)	(26,571)	Unknown

\* Estimated sales in U.S. per DBD, 10-K (12/03), p. 11.

DBD has admitted to having a number of problems with its voting systems. Groups have challenged the reliability and security of its products, hackers have obtained and posted on the Internet portions of its software source code and customers have required reviews of the product. In California, questions have been raised as to whether DBD's products were properly certified at the time they were used.<sup>33</sup> Per ACUP's presentation at the Edgewater Research conference in February 2004, more than 50 security flaws were found in DBD's product by the Secretary of State for Ohio.<sup>34</sup> DBD admits that these issues may increase its cost of this product and may adversely affect sales.<sup>35</sup>

Perhaps ACUP can step in and take advantage of DBD's problems. However, in light of DBD's difficulties and with DBD's much longer operating history and greater resources, we remain cautious on ACUP until it can demonstrate market acceptance of its product.

<sup>31</sup> . ACUP, 10-K (6/03), p. 13.

<sup>32</sup> . DBD, 10-K (12/03), p. 32-33.

<sup>33</sup> . DBD, 10-K (12/03), p. 5

<sup>34</sup> . A copy of the presentation can be found at [www.accupoll.com/edgewater/EdgewaterPresentation.pdf](http://www.accupoll.com/edgewater/EdgewaterPresentation.pdf)

<sup>35</sup> . DBD, 10-K (12/03), p. 5

## 1-Year Stock Chart



Chart courtesy of StockCharts.com (<http://stockcharts.com>).

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## DISCLOSURES

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