

Edgar Filing: NEXT GENERATION MEDIA CORP - Form 10QSB/A

NEXT GENERATION MEDIA CORP  
Form 10QSB/A  
June 06, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH  
31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM  
\_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 000-28083

NEXT GENERATION MEDIA CORP.

(Exact name of Company as specified in its charter)

Nevada 88-0169543  
(State or jurisdiction of incorporation (I.R.S. Employer or  
organization) Identification No.)

7644 Dynatech Court, Springfield, Virginia 22153  
(Address of principal executive offices) (Zip Code)

Company's telephone number: (703) 644-0200

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

As of March 31, 2005, the Company had 10,523,397 shares of common  
stock issued and outstanding.

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### Signature

Turner, Jones & Associates, P.L.L.C.  
Certified Public Accountants  
108 Center Street, North, 2nd Floor  
Vienna, Virginia 22180-5712

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Next Generation Media Corporation  
7644 Dynatech Court  
Springfield, VA 22153

We have reviewed the condensed consolidated balance sheet of Next  
Generation

Media Corporation and subsidiary as of March 31, 2005, and the  
related condensed consolidated statements of income and cash flows for the  
three-month periods ended March 31, 2005 and 2004. These financial statements  
are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company  
Accounting Oversight Board (United States). A review of interim  
financial information consists principally of applying analytical procedures  
and making inquiries of persons responsible for financial and accounting  
matters. It is substantially less in scope than an audit conducted in  
accordance with the standards of the Public Company Accounting  
Oversight Board (United States), the objective of which is the  
expression of an opinion regarding the financial statements taken as a whole.  
Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that  
should be made to the condensed financial statements, referred to above, for  
them to be in conformity with accounting principles generally accepted in the  
United States of America. We have previously audited in accordance with the  
standards of the Public Company Accounting Oversight Board (United States), the  
consolidated balance sheet of Next Generation Media Corporation and subsidiary

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as of December 31, 2004, and the related consolidated statements of income, retained earnings, and cash flows for the year then ended (not presented herein); and in our report dated March 23, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in the notes to the financial statements, in 2004 the Company changed from an unacceptable method of accounting for goodwill to an acceptable method. The change in accounting principles has been accounted for as a correction of an error and prior financial statements presented have been restated.

Turner, Jones & Associates, P.L.L.C  
Vienna, Virginia  
May 11, 2005

### PART I - FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS.

Next Generation Media Corporation

Consolidated Interim Financial Statements

For The Three Months Ended March 31, 2005 and 2004

With Review Report of Independent

Registered Public Accounting Firm

TURNER, JONES AND ASSOCIATES, P.L.L.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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Next Generation Media Corporation  
Condensed Consolidated Balance Sheets  
For the Periods Ended

#### ASSETS

(Unaudited)	(Audited)
March 31,	December 31,
2005	2004

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CURRENT ASSETS:		
Cash and cash equivalents	\$ 408,735	\$ 395,575
Accounts receivable, net of uncollectible accounts	512,181	325,698
Notes receivable, net	64,350	85,833
Trade notes receivable	45,137	46,587
Inventories	95,333	103,380
Prepaid expenses & other current assets	81,652	67,711
Total current assets	1,207,388	1,024,784
PROPERTY, PLANT AND EQUIPMENT:		
Equipment	1,413,321	1,443,587
Furniture and fixtures	67,124	65,093
Leasehold improvements	81,159	76,363
Computer equipment/software	69,187	53,887
Vehicles	9,200	9,200
Total property, plant and equipment	1,639,991	1,648,130
Less accumulated depreciation	(1,327,635)	(1,320,701)
Net property, plant and equipment	312,356	327,429
Intangibles	951,133	951,133
Trade notes receivables	21,630	21,630
Total other assets	962,763	972,763
TOTAL ASSETS	2,492,507	2,324,976
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable, current portion	9,498	13,998
Accounts and other payables	227,686	175,663
Accrued expenses	228,491	206,006
Sales tax payable	4,113	4,299
Custom deposits	73,459	29,000
Obligation under capital lease, current portion	16,015	18,595
Total current liabilities	559,262	447,561
LONG TERM LIABILITIES:		
Obligation under capital lease	58,952	61,851
Total long term liabilities	58,952	61,851
Total liabilities	618,214	509,412
STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value, 50,000,000 shares authorized and 10,523,397 issued and outstanding	105,234	105,234
Additional paid in capital	7,379,744	7,379,744
Accumulated deficit	(5,610,685)	(5,669,414)
Total stockholders' equity	1,874,293	1,815,564

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY 2,492,507 2,324,976

See accompanying notes and accountant's review report

Next Generation Media Corporation  
Condensed Consolidated Statements of Income - Unaudited  
For The Three Months Ended March 31

	2005	2004
REVENUES:		
Coupon sales, net of discounts	\$ 2,032,520	\$1,799,105
Franchise fees	63,000	116,500
Total revenues	2,095,520	1,915,605
Cost of goods sold:	1,416,058	1,182,435
Gross margin	679,462	733,170
General and administrative expenses	598,578	594,917
Depreciation and armortization	37,500	31,617
Total operating expenses	636,078	626,534
Gain/(Loss) from operations	43,384	106,636
OTHER INCOME AND (EXPENSES):		
Interest expense	(1,064)	(1,818)
Miscellaneous income	14,454	9,156
Interest income	454	1,247
Gain on disposal of equipment	1,500	-
Total other income (expense)	15,344	8,585
Net income	58,728	115,221
Gain applicable to common shareholders	58,728	115,221
Basic gain/(loss) per common share	0.0056	0.011
Weighted average common shares outstanding	10,523,397	10,523,397
Diluted gain per common share	0.0058	0.008
Fully diluted common shares outstanding	14,213,397	14,213,397

See accompanying notes and accountant's review report

Next Generation Media Corporation  
Condensed Consolidated Statements of Cash Flows - Unaudited  
For The Three Months Ended March 31

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 58,728	\$ 115,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal	(1,500)	-
Depreciation	37,500	31,617

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(Increase) decrease in assets:		
Accounts & notes receivable	(163,550)	(107,630)
Inventories	8,048	8,083
Prepays and other current assets	(13,941)	(3,085)
Increase (decrease) in liabilities		
Accounts and other payables	96,298	62,213
Accrued expenses	22,486	(2,351)
 Net cash flows (used) by operating activities	 44,069	 104,068
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(22,428)	-
Disposal of property & equipment	1,500	6,898
 Net cash provided/(used) by investing activities	 (20,928)	 6,898
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital leases	(5,480)	(2,605)
Repayment of notes payable	(4,500)	(8,334)
 Net cash provided/(used) by financing activities	 (9,980)	 (10,939)
 NET INCREASE/(DECREASE) IN CASH	 13,161	 100,027
 CASH, BEGINNING OF PERIOD	 395,575	 123,013
 CASH, END OF PERIOD	 408,736	 223,040
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
 CASH PAID DURING THE YEAR FOR:		
Income taxes	-	-
Interest	1,064	1,818

### UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements included herein have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The interim condensed consolidated accounts of Next Generation Media Corporation and its subsidiary (collectively, the Company). In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented have been made. The preparation of the financial statements includes estimates that are used when accounting for revenues, allowance for uncollectible receivables, telecommunications expense, depreciation and amortization and certain accruals. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 2005, are not necessarily indicative of the results to be expected for the full year. Some information and footnote disclosures normally included in financial statements or notes thereto prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations. The Company believes, however, that its disclosures are adequate to make the information provided not misleading.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries' annual report on Form 10-KSB for the year ended December 31, 2004.

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Business:

Next Generation Media Corporation was incorporated in the State of Nevada in November of 1980 as Micro Tech Industries Inc., with an official name change to Next Generation Media Corporation in April of 1997. The Company, through its wholly owned subsidiary, United Marketing Solutions, Inc., provides direct marketing products, which involves the designing, printing, packaging, and mailing of public relations and marketing materials and coupons for retailers who provide services. Sales are conducted through a network of franchises that the Company supports on a wholesale basis. At March 31, 2005, the Company had approximately 54 active area franchise operations located throughout the United States.

#### Property and Equipment:

Property and equipment are stated at cost. The company uses the straight-line method in computing depreciation for financial statement purposes.

Expenditures for repairs and maintenance are charged to income, and renewals and replacements are capitalized. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts.

Estimated useful lives are as follows:

Furniture, fixtures and equipment	7-10 years
Leasehold improvements	10 years
Vehicles	5 years
Computer equipment & software	5 years

Depreciation expense for the three months ended March 31, 2005 and 2004 was \$37,500 and \$30,867 respectively.

#### Intangibles:

The Company has recorded goodwill based on the difference between the cost and the fair value of certain purchased assets. The Company annually evaluates the goodwill for possible impairment. The analysis consists of a comparison of the Company's market capitalization under SFAS No. 142 to the net fair market value of all identifiable assets plus goodwill and/or projected cash flows to the carrying value of the goodwill. Any excess book value over market capitalization would be written off due to impairment.

#### Advertising Expense:

The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations for the three months ended March 31, 2005 and 2004 was \$7,028 and \$14,820.

#### Revenue Recognition:

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The Company recognizes revenue from the design production and printing of coupons upon delivery. Revenue from initial franchise fees is recognized when substantially all services or conditions relating to the sale have been substantially performed. Substantially all services and conditions are performed upon payment of the fee. Initial franchise fees are a one-time fee charged per franchise license agreement. The initial franchise fees are non-refundable. Franchise support of \$150 per quarter per franchise and other fees are recognized when billed to the franchisee. Amounts billed or collected in advance of final delivery or shipments are reported as deferred revenue.

### Impairment of Long-Lived Assets:

The Company reviews the carrying values of its long-lived assets for possible impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount of the assets should be addressed. The Company believes that no permanent impairment in the carrying value of long-lived assets exists as of March 31, 2005.

### Comprehensive Income:

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". Comprehensive income as defined includes all changes to equity except that resulting from investments by owners and distributions to owners. The company has no items of comprehensive income to report.

### Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

### New Accounting Pronouncements:

In March 2004, the FASB issued EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments which provides additional guidance on how companies, carrying debt and equity securities at amounts higher than the securities fair values, evaluate whether to record a loss on impairment. In addition, EITF No. 03-1 provides guidance on additional disclosures required about unrealized losses. The impairment accounting guidance is effective for reporting periods beginning after June 15, 2004 and the disclosure requirements are effective for annual reporting periods ending after June 15, 2004. On September 30, 2004, the FASB approved the issuance of FASB Staff Position EITF No. 03-1-1, which delays the effective date for the application of the recognition and measurement provisions of EITF No. 03-1 to investments in securities that are impaired. Certain disclosure provisions in EITF No. 03-1 were effective for fiscal years ended after December 15, 2003 and other disclosure provisions are effective for annual reporting periods after June 15, 2004. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123 r"). This statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS



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123r requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This statement is effective beginning with the Company's third quarter of fiscal year 2005. The Company is currently evaluating the requirements of SDAF 123r and has not yet fully determined the impact on its consolidated financial statements. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

### Use of Estimates:

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

### Income Taxes:

The Corporation uses Statement of Financial Standards No. 109 "Accounting for Income Taxes" (SFAS No. 109) in reporting deferred income taxes. SFAS No. 109 requires a company to recognize deferred tax liabilities and assets for expected future income tax consequences of events that have been recognized in the company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences in financial carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which temporary differences are expected to reverse.

### Risks and Uncertainties:

The Company operates in an environment where intense competition exists from other companies. This competition, along with increases in the price of paper, can impact the pricing and profitability of the Company.

### Credit Risk:

The Company at times may have cash deposits in excess of federally insured limits.

### Accounts Receivable:

The Corporation grants credit to its customers, which includes the retail sector and their own franchisees. The Company establishes an allowance for doubtful accounts based upon on a percentage of accounts receivable plus those balances the Company feels will be uncollectible. Allowance for uncollectible accounts as of March 31, 2005 and 2004 was \$29,313 and \$88,314 respectively.

### Cash and Cash Equivalents:

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

### Earnings Per Common Share:

The Company calculates its earnings per share pursuant to Statement

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of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128"). Under SFAS No. 128, basic earnings per share is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. Diluted earnings per share reflect the potential dilution assuming the issuance of common shares for all potential dilutive common shares outstanding during the period. As a result of the Company's net losses, all potentially dilutive securities including warrants and stock options, would be anti-dilutive and thus, excluded from diluted earnings per share.

As of March 31, 2005, the Company had financial obligations that could create future dilution to the Company's common shareholders and are not currently classified as common shares of the company. The following table details such instruments and obligations and the common stock comparative for each. The common stock number is based on specific conversion or issuance assumptions pursuant to the corresponding terms of each individual instrument or obligation.

### Instrument or Obligation

Stock options outstanding as of March 31, 2005 with a weighted average exercise price per share of \$0.26	3,690,000
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### Inventories:

Inventories consist primarily of paper, envelopes, and printing materials and are stated at the lower of cost or market, with cost determined on the first-in, first-out method.

### Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the parent company, Next Generation Media Corporation and its subsidiary as of March 31, 2005.

### NOTE 2 - RETIREMENT PLAN

The company maintains a 401(k) defined contribution plan covering substantially all employees. The Corporation may elect to contribute up to 3% of each eligible employee's gross wages. Employees can elect up to 15% of their salary to be contributed before income taxes, up to the annual limit set by the Internal Revenue Code. The company anticipates making a contribution for the quarter ended March 31, 2005 of \$15,000.

### NOTE 3 - NOTES PAYABLE AND LINE OF CREDIT

Notes payable at December 31, 2004 consists of:

Obligation to CIT Group, bearing interest at 10%, the loan is payable in fifty-six monthly installments of \$500, including interest, and is collateralized by the property and equipment of the Company. Balance outstanding at March 31, 2005 was \$4,998.

Unsecured note payable to Capitol York calling for payments of \$1,000 per month inclusive of interest. Balance at March 31, 2005 was \$4,500.

The 5 year schedule of maturities is as follows:

2005	9,498
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2006	0
Thereafter	0
	9,498

### NOTE 4 - NOTES RECEIVABLE

On June 30, 2000, the Company executed a promissory note with UNICO, Inc. for \$200,000 plus accrued interest of \$45,833 in conjunction with the sale of Independent News, Inc. The note is outstanding and currently in default; the Company's management considers a portion of the note collectible. Accordingly, the Company discontinued accruing interest; an allowance for uncollectible accounts of \$181,483 has been established.

### NOTE 5 - COMMON STOCK

During the three months ended March 31, 2005 and 2004, the Company issued no shares of common stock.

### NOTE 6 - EMPLOYEE STOCK INCENTIVE PLAN

On December 26, 2001, the Company adopted the Employee Stock Incentive Plan authorizing 3,000,000 shares at a maximum offering price of \$0.10 per share for the purpose of providing employees equity-based compensation incentives. The Company issued no shares under the plan during the periods.

### NOTE 7 - OBLIGATION UNDER CAPITAL LEASE

The Company acquired machinery under the provisions of long-term leases. For financial reporting purposes, minimum lease payments relating to the machinery have been capitalized.

The future minimum lease payments under capital leases and net present value of the future minimum lease payments as of March 31, 2005 are as follows:

Total minimum lease payments	\$88,938
Amount representing interest	13,971
Present value of net minimum lease payments	74,967
Current portion	16,015

Long-term capital lease obligation	\$58,952
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### NOTE 8 - CORRECTION OF AN ERROR

The cumulative effect of the correction to remove amortization of goodwill pursuant to SFAS No. 142 was a \$400,304 decrease in accumulated deficit and corresponding increase in intangibles through December 31, 2004. All prior periods presented have been restated to reflect the correction.

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

The following Management Discussion and Analysis should be read in conjunction with the financial statements and accompanying notes included in this Form 10-QSB.

Total revenues increased from \$1,915,605 in the quarter ended March 31, 2004 as compared to \$2,095,520 in the quarter ended March 31, 2005, an increase of nine percent.

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Total cost of goods sold increased to \$1,416,058 in the quarter ended March 31, 2005 as compared to \$1,182,435 in the quarter ended March 31, 2004, an increase of approximately 16%. The gross margin decreased from \$679,462 in the quarter ended March 31, 2005 to \$733,170 in the quarter ended March 31, 2004, a decrease of approximately 6%.

Total operating expenses increased to \$636,078 in the quarter ended March 31, 2005 from \$626,534 in the quarter ended March 31, 2004.

Net income for the quarter ending March 31, 2004 was \$115,221 as compared to a gain of \$58,728 for the quarter ending March 31, 2005.

Total assets grew from \$2,324,976 at December 31, 2004 to \$2,492,507 at March 31, 2005. Total current liabilities increased from \$618,214 at December 31, 2004 to \$509,412 at March 31, 2005.

Net cash flows by operating activities was \$44,069 for the period ended March 31, 2005 as compared to \$104,068 for the period ended March 31, 2004.

Cash used by investing activities was \$20,928 for the period ended March 31, 2005, as compared to net cash provided by investing activities of \$6,898 for the period ended March 31, 2004.

While the Company has raised capital to meet its working capital and financing needs in the past, additional financing may be required in order to meet the Company's current and projected cash flow deficits from operations. As previously mentioned, the Company has obtained financing in the form of equity in order to provide the necessary working capital. The Company currently has no other commitments for financing. There are no assurances the Company will be successful in raising the funds required.

The Company has issued shares of its common stock from time to time in the past to satisfy certain obligations, and expects in the future to also acquire certain services, satisfy indebtedness and/or make acquisitions utilizing authorized shares of the capital stock of the Company.

### Quantitative And Qualitative Disclosures About Market Risk

In the normal course of business, operations of the Company may be exposed to fluctuations in interest rates. These fluctuations can vary the cost of financing, investing, and operating transactions. Because the Company has only fixed rate short-term debt, there are no material impacts on earnings due to fluctuations in interest rates.

### New Accounting Pronouncements:

In March 2004, the FASB issued EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments which provides additional guidance on how companies, carrying debt and equity securities at amounts higher than the securities fair values, evaluate whether to record a loss on impairment. In addition, EITF No. 03-1 provides guidance on additional disclosures required about unrealized losses. The impairment accounting guidance is effective for reporting periods beginning after June 15, 2004 and the disclosure requirements are effective for annual reporting periods ending after June 15, 2004. On September 30, 2004, the FASB approved the issuance of FASB Staff Position EITF No. 03-1-1, which delays the effective date for the application of the recognition and

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measurement provisions of EITF No. 03-1 to investments in securities that are impaired. Certain disclosure provisions in EITF No. 03-1 were effective for fiscal years ended after December 15, 2003 and other disclosure provisions are effective for annual reporting periods after June 15, 2004. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS 123 r"). This statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123r requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This statement is effective beginning with the Company's third quarter of fiscal year 2005. The Company is currently evaluating the requirements of SDAF 123r and has not yet fully determined the impact on its consolidated financial statements. The adoption of this statement is not expected to have a material effect on the Company's consolidated financial statements.

### Forward Looking Statements.

The foregoing Managements Discussion and Analysis of Financial Condition and Results of Operations "forward looking statements" within the meaning of Rule 175 under the Securities Act of 1933, as amended, and Rule 3b-6 under the Securities Act of 1934, as amended, including statements regarding, among other items, the Company's business strategies, continued growth in the Company's markets, projections, and anticipated trends in the Company's business and the industry in which it operates. The words "believe," "expect," "anticipate," "intends," "forecast," "project," and similar expressions identify forward-looking statements. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, including but not limited to, those risks associated with economic conditions generally and the economy in those areas where the Company has or expects to have assets and operations; competitive and other factors affecting the Company's operations, markets, products and services; those risks associated with the Company's ability to successfully negotiate with certain customers, risks relating to estimated contract costs, estimated losses on uncompleted contracts and estimates regarding the percentage of completion of contracts, associated costs arising out of the Company's activities and the matters discussed in this report; risks relating to changes in interest rates and in the availability, cost and terms of financing; risks related to the performance of financial markets; risks related to changes in domestic laws, regulations and taxes; risks related to changes in business strategy or development plans; risks associated with future profitability; and other factors discussed elsewhere in this report and in documents filed by the Company with the Securities and Exchange Commission. Many of these factors are beyond the Company's control. Actual results could differ materially from these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Form 10-QSB will, in fact, occur. The Company does not undertake any obligation to revise these forward-looking statements to reflect future events or circumstances and other factors discussed elsewhere in this report and the documents filed or to be filed by the Company with the Securities and Exchange

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Commission.

### Inflation

In the opinion of management, inflation has not had a material effect on the operations of the Company.

### Trends, Risks and Uncertainties

The Company has sought to identify what it believes to be the most significant risks to its business as discussed in "Risk Factors" above, but cannot predict whether or to what extent any of such risks may be realized nor can there be any assurances that the Company has identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to the Company's stock.

### Limited operating history; anticipated losses; uncertainty of future results

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. The Company's prospects must be evaluated with a view to the risks encountered by a company in an early stage of development, particularly in light of the uncertainties relating to the business model that the Company intends to market and the potential acceptance of the Company's business model. The Company will be incurring costs to develop, introduce and enhance its products, to establish marketing relationships, to acquire and develop products that will complement each other, and to build an administrative organization.

To the extent that such expenses are not subsequently followed by commensurate revenues, the Company's business, results of operations and financial condition will be materially adversely affected. There can be no assurance that the Company will be able to generate sufficient revenues from the sale of its products and services. The Company expects that negative cash flow from operations may exist for the next 12 months as it continues to develop and market its products and services. If cash generated by operations is insufficient to satisfy the Company's liquidity requirements, the Company may be required to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in additional dilution to the Company's shareholders.

Potential fluctuations in quarterly operating results may fluctuate significantly in the future as a result of a variety of factors, most of which are outside the Company's control including: the demand for the Company's products and services; seasonal trends in demand and pricing of products and services; the amount and timing of capital expenditures and other costs relating to the expansion of the Company's operations; the introduction of new services and products by the Company or its competitors; price competition or pricing changes in the industry; political risks and uncertainties involving the world's markets; technical difficulties and general economic conditions. The Company's quarterly results may also be significantly affected by the impact of the accounting treatment of acquisitions, financing transactions or other matters. Particularly the Company's early stage of development, such accounting treatment can have a material impact on the results for any quarter. Due to the foregoing factors, among others, it is likely that the Company's operating results will fall below the expectations of the Company or investors in some future quarter.

#### Management of Growth

The Company may experience growth in the number of employees relative to its current levels of employment and the scope of its operations. In particular, the Company may need to hire sales, marketing and administrative personnel. Additionally, acquisitions could result in an increase in employee headcount and business activity. Such activities could result in increased responsibilities for management.

The Company believes that its ability to increase its customer support capability and to attract, train, and retain qualified technical, sales, marketing, and management personnel, will be a critical factor to its future success. In particular, the availability of qualified sales and management personnel is quite limited, and competition among companies to attract and retain such personnel is intense. During strong business cycles, the Company may experience difficulty in filling its needs for qualified sales, and other personnel.

The Company's future success will be highly dependent upon its ability to successfully manage the expansion of its operations. The Company's ability to manage and support its growth effectively will be substantially dependent on its ability to implement adequate financial and management controls, reporting systems, and other procedures and hire sufficient numbers of financial, accounting, administrative, and management personnel. The Company is in the process of establishing and upgrading its financial accounting and procedures. There can be no assurance that the Company will be able to identify, attract, and retain experienced accounting and financial personnel. The Company's future operating results will depend on the ability of its management and other key employees to implement and improve its systems for operations, financial control, and information management, and to recruit, train, and manage its employee base. There can be no assurance that the Company will be able to achieve or manage any such growth successfully or to implement and maintain adequate financial and management controls and procedures, and any inability to do so would have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company's future success depends upon its ability to address potential market opportunities while managing its expenses to match its ability to finance its operations. This need to manage its expenses will place a significant strain on the Company's management and operational resources. If the Company is unable to manage its expenses effectively, the Company's business, results of operations, and financial condition will be materially adversely affected.

#### Risks associated with acquisitions

Although the Company does not presently intend to do so, as part of its business strategy in the future, the Company could acquire assets and businesses relating to or complementary to its operations. Any acquisitions by the Company would involve risks commonly encountered in acquisitions of companies. These risks would include, among other things, the following: the Company could be exposed to unknown liabilities of the acquired companies; the Company could incur acquisition costs and expenses higher than it anticipated; fluctuations in the Company's quarterly and annual operating results could occur due to the costs and expenses of acquiring and integrating new businesses or technologies; the Company could

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experience difficulties and expenses in assimilating the operations and personnel of the acquired businesses; the Company's ongoing business could be disrupted and its management's time and attention diverted; the Company could be unable to integrate successfully.

### PART II.

#### ITEM 1. LEGAL PROCEEDINGS.

Other than as set forth below, the Registrant is not a party to any material pending legal proceedings and, to the best of its knowledge, no such action by or against the Registrant has been threatened.

The Company is subject to other legal proceedings and claims that arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have material adverse effect on its financial position, results of operations or liquidity.

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

##### Sales of Unregistered Securities.

The Registrant had no sales of unregistered securities during the three-month period ending March 31, 2005.

##### Use of Proceeds.

Not Applicable.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

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

There were not any matters submitted requiring a vote of security holders during the three-month period ending March 31, 2005.

#### ITEM 5. OTHER INFORMATION.

None.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Reports on Form 8-K. No reports on Form 8-K were filed during the three-month period covered in this Form 10-QSB.

(b) Exhibits. Exhibits included or incorporated by reference herein: See Exhibit Index.

#### EXHIBIT INDEX

Exhibit	Description
3.1	Articles of Incorporation, under the name Micro Tech Industries, Inc. (incorporated by reference in the filing of the Company's annual report on Form 10KSB filed on April 15, 1998).
3.2	Amendment to the Articles of Incorporation (incorporated by reference in the Company's quarterly report filed on Form



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10 Q filed on May 15, 1997).

- 3.3 Amended and Restated Bylaws (incorporated by reference in the filing of the Company's annual report on Form 10KSB filed on November 12, 1999).
- 16.1 Letter on change in certifying accountant (incorporated by reference in the filing of the Company's current report on Form 8-K filed on January 5, 2001).
- 31.1 Certification of Principal Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002