

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

JACKSON RIVERS CO
Form 10QSB/A
September 12, 2006

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

FORM 10-QSB/A

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

For the quarterly period ended June 30, 2006

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 333-70932

THE JACKSON RIVERS COMPANY
(Name of small business issuer in its charter)

FLORIDA
(State or other jurisdiction of
incorporation or organization)

65-1102865
(I.R.S. Employer
Identification No.)

550 Greens Parkway, Suite 230, Houston, Texas 77067
(Address of principal executive offices) (Zip Code)

(619) 342-7449
(Issuer's telephone number)

Check whether the issuer (1) filed all reports
required to be filed by Section 13 or 15(d) of the
Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to
file such reports), and (2)

has been subject to such filing requirements
for the past 90 days.

Yes No

State the number of shares outstanding of each of
the issuer's classes of common equity, as of the
latest practicable date: As of August 15, 2006, the
issuer had 151,158,574 shares of its common stock issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

PART I. FINANCIAL INFORMATION

THE JACKSON RIVERS COMPANY
CONSOLIDATED BALANCE SHEET
(Unaudited)

June 30, December 31,
2006 2005

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

	-----	-----
	(restated)	
Assets		
Current assets		
Cash and cash equivalents	\$ 145,752	\$ 36,361
Accounts receivable, net of allowance	540,490	272,330
Inventory	--	19,633
Prepaid and other assets	175,003	32,681
	-----	-----
Total current assets	861,245	361,005
Property and equipment	1,392,477	1,106,234
Accumulated Depreciation	(1,193,884)	(854,839)
	-----	-----
Customer list, net of amortization	198,593	251,395
Goodwill	710,919	--
Other long term assets	1,868,986	--
	-----	-----
Total assets	\$ 3,667,949	\$ 612,400
	=====	=====
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable and accrued expenses	\$ 920,811	\$ 703,125
Current derivative liability	350,488	--
Note payable - short term	745,322	--
Line of credit	430,000	--
Capital lease - current portion	8,350	10,287
Other current liabilities	38,225	--
	-----	-----
Total current liabilities	2,493,196	713,412
Derivative liability	1,300,436	--
Note payable - related parties	78,803	302,644
Note payable - long term	--	917,000
Capital lease - net of current portion	586	4,765
	-----	-----
Total Liabilities	3,873,021	1,937,821
Stockholders' deficit		
Series A preferred stock, par value \$.001 per share, 10,000,000 shares authorized; 960,000 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	10	10
Series B preferred stock, par value \$.001 per share, 10,000,000 shares authorized; 8,413,607 issued and outstanding at June 30, 2006	1,000	1,000
Series C preferred stock, par value \$1.00 2,200,000 shares authorized, issued and outstanding as of completion of the merger	2,200,000	--
Common stock, par value \$.00001 per share, 990,000,000 shares authorized, 151,158,574 issued and outstanding at June 30, 2006	1,511	495
Additional paid-in capital	1,038,696	507,755
Stock subscription receivable	--	(92,400)
Accumulated deficit	(3,369,825)	(1,742,281)
Comprehensive Income - translation of non-dollar currency financials of Branch	(76,464)	--
	-----	-----
Total stockholders' deficit	(205,072)	(1,325,421)
	-----	-----
Total liabilities and stockholders' deficit	\$ 3,667,949	\$ 612,400
	=====	=====

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

* No common shares were issued to effectuate the reverse acquisition of Diverse Networks, Inc., or the acquisition of UTSI. Only preferred shares were issued.

See accompanying notes to consolidated financial statements

2

THE JACKSON RIVERS COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 757,836	\$ 33,303	\$ 1,226,550	\$ 41,210
Cost of goods sold	533,420	9,267	746,508	11,922
Gross profit	224,416	24,036	480,042	29,288
Selling, general & administrative	872,392	293,581	1,693,741	1,515,666
Depreciation and amortization	71,544	578	107,676	1,156
Total operating expenses	943,936	294,159	1,801,417	1,516,822
Loss from operations	(719,520)	(270,123)	(1,321,375)	(1,487,534)
Other income (expense)				
Interest expense, net	(237,811)	1	(200,255)	10
Gain/(loss) on derivative liability	130,794	--	--	--
Other income (expense)	(43,537)	--	(95,553)	--
Total other income (expense)	(150,554)	1	(295,808)	10
Net loss	\$ (870,074)	\$ (270,122)	\$ (1,617,183)	\$ (1,487,524)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.06)	\$ (0.02)	\$ (0.60)
Weighted average number of shares outstanding basic and diluted	149,414,689	4,655,116	92,041,137	2,481,402

See accompanying notes to consolidated financial statements

3

THE JACKSON RIVERS COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

	ended June 30,	
	2006	2005
Cash flows from operating activities		
Net loss	\$(1,617,183)	(1,487,524)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	107,676	1,156
Common stock issued for consulting services rendered	307,351	--
Common stock issued in exchange for employee services rendered	211,200	--
Common stock issued from stock subscription receivable	92,400	--
Accretion of discount on note payable	100,488	--
Changes in assets and liabilities		
(Increase) decrease:		
Accounts receivable	(67,154)	15,102
Inventories	19,633	(38,022)
Other assets	(142,322)	(3,031)
Cash disbursed in excess of available funds	--	(9,794)
Increase (decrease):		
Accounts payable and accrued liabilities	(172,356)	195,550
Other liabilities	(6,637)	--
Net cash used in operating activities	(1,166,904)	(1,326,563)
Cash flows from investing activities		
Purchase of property and equipment	(6,730)	(450)
Net cash used in investing activities	(6,730)	(450)
Cash flows from financing activities		
Proceeds from sale of stock	7,055	1,270,745
Proceeds from notes payable	1,088,270	--
Proceeds from notes payable - related parties	75,050	52,000
Payment for capital lease obligations	(6,116)	--
Cash acquired in acquisition of UTSI	195,229	--
Net cash provided by financing activities	1,359,488	1,322,745
Net increase (decrease) in cash and cash equivalents	185,855	(4,268)
Effect of exchange rate on cash and cash equivalents	(76,464)	--
Cash and cash equivalents - beginning of period	36,361	5,272
Cash and cash equivalents - end of period	\$ 145,752	\$ 1,004
Supplemental disclosures of cash flow information		
Cash paid for income taxes	\$ 1,544	\$ 4,655
Cash paid for interest	\$ 57,605	\$ 19,361

See accompanying notes to consolidated financial statements

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for The Jackson Rivers Company ("Jackson Rivers" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and such adjustments are of a normal recurring nature. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. The audited financial statements at December 31, 2005, which are included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, should be read in conjunction with these condensed consolidated financial statements.

The accompanying unaudited consolidated financial statements for Jackson Rivers have been restated from those previously reported. The previously reported unaudited consolidated financial statements were prepared based on management's then determination that the fair value of UTSI International Corporation ("UTSI") (see note 2) was more clearly evident and reliably measurable than the fair value of Series C Preferred Stock. The accompanying unaudited consolidated financial statements have been prepared based on management's current determination that the fair value of the Series C Preferred Stock of Jackson Rivers is more clearly evident and reliably measurable than the fair value of UTSI. The effects of the restatement on the unaudited consolidated balance sheet of Jackson Rivers as of June 30, 2006 are as follows:

	Previously Reported	Restated
	-----	-----
Goodwill	659,281	1,868,986
Additional paid-in-capital	(171,009)	1,038,696

2. ACQUISITION OF UTSI INTERNATIONAL CORPORATION

On May 5, 2006, the company through its wholly-owned subsidiary, JKRI Acquisition Corp., a Texas corporation ("JKRI"), consummated its acquisition of UTSI, a Texas corporation, pursuant to that certain Agreement and Plan of Merger, dated May 5, 2006, by and among JRC, JKRI, UTSI, and each of the stockholders of UTSI (the "Merger Agreement"). Pursuant to the Merger Agreement, UTSI merged with and into JKRI, with JKRI as the surviving corporation, and each share of UTSI common stock outstanding at the effective time of the merger was converted into the right to receive 1.4380297 share of a JRC Series C Preferred Stock (i.e., the 1,529,871 shares of common stock of UTSI outstanding are convertible into an aggregate of 2,200,000 shares of Series C Preferred Stock of JRC).

Each share of Series C Preferred Stock will initially be convertible, starting after May 5, 2008, into that number of shares of The Jackson Rivers Company common stock obtained by multiplying the number of shares to be converted by a fraction, the numerator of which is \$1.00 and the denominator equal to the "market price" of The Jackson Rivers Company common stock at the time of conversion subject to adjustment.

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

The Balance Sheet as of December 31, 2005, and the Statement of Operations for the three and six months ending June 30, 2006 and 2005 and the Statement of Cash Flows for the six months ending June 30, 2006 and 2005 are presented to include the results of UTSI during those periods.

The following table summarizes the preliminary fair values assigned to the assets and liabilities at the date of acquisition:

Current assets	\$ 389,884
Property and equipment	23,630
Customer List	735,433
Goodwill	1,868,986

Total assets	3,017,933
Less:	
Total liabilities	817,933

	\$2,200,000
	=====

Customer list was valued using the expected discounted cash flow of existing customers discounted by a risk adjusted discount factor of 50%.

Jackson Rivers reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. Jackson Rivers assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

The following pro forma information assumes the acquisition of UTSI on January 1, 2006 and January 1, 2005, respectively. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the period presented.

6

THE JACKSON RIVERS COMPANY PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

	For the three months ended June 30,		For the six months ended June 30	
	2006	2005	2006	2005
	-----	-----	-----	-----
Revenues	\$ 883,423	\$ 1,315,788	\$ 1,619,479	\$ 2,714,479
Cost of goods sold	479,650	410,094	904,834	1,014,094
	-----	-----	-----	-----
Gross profit	403,773	905,694	714,645	1,699,385
Selling, general & administrative	1,143,721	943,519	2,471,674	3,214,519
Depreciation and amortization	71,544	84,100	113,543	113,543
	-----	-----	-----	-----
Total operating expenses	1,215,265	1,027,619	2,585,217	3,341,581

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

Loss from operations	(811,492)	(121,925)	(1,870,572)	(1,7
Other income (expense)				
Interest expense, net	(108,192)	(17,073)	(153,610)	(
Gain/(loss) on derivative liability	71,940	--	--	
Other income (expense)	(41,736)	1,605	(6,238)	
Total other income (expense)	(77,988)	(15,468)	(159,848)	(
Loss before income taxes	(889,480)	(137,393)	(2,030,420)	(1,7
Income tax expense (benefit)	--	67,701	--	(
Net loss	\$ (889,480)	\$ (205,094)	\$ (2,030,420)	\$ (1,6
Earnings (loss) per share, basic and diluted	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$
Weighted average number of shares outstanding basic and diluted	149,414,689	4,655,116	92,041,137	2,4

7

3. GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements at June 30, 2006, Jackson Rivers has an accumulated deficit of \$3,369,825. In addition, Jackson Rivers' current liabilities exceeded its current assets by \$1,631,951 as of June 30, 2006. These factors among others may indicate that Jackson Rivers will be unable to continue as a going concern for a reasonable period of time. The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates Jackson Rivers will attain profitable status and improve its liquidity through the continued developing, marketing and selling of its products and additional equity and debt investment in the Company. The accompanying financial statements do not include any adjustments that might result should Jackson Rivers be unable to continue as a going concern.

In order to improve Jackson Rivers' liquidity, Jackson Rivers is actively pursuing additional equity and debt financing through discussions with investment bankers and private investors. There can be no assurance Jackson Rivers will be successful in its effort to secure additional equity financing.

If operations and cash flows continue to improve through these efforts, management believes that the Company can continue to operate. However, no assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems.

4. NOTES PAYABLE

On January 2, 2006, Jackson Rivers issued an unsecured convertible note totaling \$250,000 to purchase shares of our common stock. The convertible note has a 1 year term and bears interest at six percent (6%). The note is convertible into our common stock pursuant to a "variable conversion price" equaling 80% of market, as defined.

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

On March 31, 2006, Jackson Rivers executed a Securities Purchase Agreement with certain accredited investors pursuant to which they agreed to issue up to \$2,000,000 of principal amount of convertible promissory notes in three separate tranches and warrants to purchase shares of our common stock (the "Securities Purchase Agreement"). The tranches of notes are to be issued and sold as follows: (i) \$700,000 upon execution and delivery of the Securities Purchase Agreement (issued March 31, 2006); (ii) \$600,000 within 5 days of filing of a registration statement with the Securities and Exchange Commission (the "SEC") registering the shares of common stock issuable upon conversion of the notes and exercise of the warrants issued pursuant to the Securities Purchase Agreement (the "Registration Statement") and (iii) \$700,000 within 5 days of the Registration Statement being declared effective by the SEC. The convertible notes have a 3 year term and bear interest at six percent (6%). At this time, we have received funding from the first and second tranche. The notes are convertible into our common stock pursuant to a "variable conversion price" equal to the "Applicable Percentage" multiplied by the "Market Price." "Applicable Percentage" is initially 50% provided, that, such percentage will be increased to 55% if the Registration Statement is filed on or before April 30, 2006 and further increased to 60% if the Registration Statement is declared effective by the SEC on or before July 29, 2006. The Registration Statement was filed on time and the "Applicable Percentage" used is 55% in valuing the convertible promissory notes. "Market Price" means the average of the lowest three trading prices (as defined) for our common stock during the 20 trading day period prior to conversion. Upon an event of default (as defined), the notes are immediately due and payable at an amount equal to the greater of (i) 140% of the then outstanding principal amount of notes plus interest and (ii) the "parity value" defined as (a) the highest number of shares of common stock issuable upon conversion of the notes multiplied by (b) the highest closing price for our common stock during the period beginning on the date of the occurrence of the event of default and ending one day prior to the demand for prepayment due to the event of default. The notes are secured by a first lien on all of our assets, including all of our intellectual property.

8

Subject to certain terms and conditions set forth therein, the notes are redeemable by us at a rate from 120% to 140% of the outstanding principal amount of the notes plus interest. In addition, so long as the average daily price of our common stock is below the "initial market price" (as defined) Jackson Rivers may prepay a monthly portion due on the outstanding notes and the investors agree that no conversions will take place during such month where this option is exercised by us.

The notes were issued with warrants to purchase up to 50,000,000 shares of our common stock at an exercise price of \$0.07 per share, subject to adjustment.

In connection with the offer and sale of the notes and the warrants, Jackson Rivers engaged Envision Capital LLC, as a finder for the transaction. Envision will receive a ten percent (10%) cash commission on the sale of the notes and warrants to purchase up to 5,000,000 shares of our common stock on the same terms and conditions as the warrants issued to purchasers under the Securities Purchase Agreement.

Jackson Rivers is accounting for the conversion option in the Convertible Note and the conversion option in the Securities Purchase Agreement and the associated warrants as derivative liabilities in accordance with SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock ("EITF 00-19") due to the fact that

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

the conversion feature and the warrants both have a variable conversion price.

The fair value of the Convertible Note was determined utilizing the Black-Scholes stock option valuation model. The significant assumptions used in the valuation are: the exercise prices as noted above; the stock price as of June 30, 2006; expected volatility of 109%; risk free interest rate of approximately 5.21%; and a term of one year.

9

The fair value of the Securities Purchase Agreement was determined utilizing the Black-Scholes stock option valuation model. The significant assumptions used in the valuation are: the exercise prices as noted above; the stock price as of June 30, 2006; expected volatility of 109%; risk free interest rate of approximately 5.13%; and a term of three years.

5. CAPITAL STOCK

During the six months ended June 30, 2006, the Company issued 79,250,000 shares of common stock to consultants for services valued at \$307,351. Valuation of common stock issued for services was based upon the value of the services rendered, which did not differ materially from the fair value of the Company's common stock during the period the services were rendered. The Company issued 20,000,000 shares of common stock, valued at \$211,200 to officers and employees for stock options exercised. The Company received \$179,520 of proceeds in connection with common shares issued to employees for common stock subscribed and stock options exercised, net of costs and fees.

Jackson Rivers evaluated the application of Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" and Emerging Issues Task Force ("EITF") 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" for the Series A and Series B Preferred Stock to determine if the embedded conversion options should be bifurcated from the host and accounted for separately. Based on the guidance of SFAS No. 133 and EITF 00-19, Jackson Rivers concluded that the embedded conversion options were not required to be accounted for as derivatives because the economic characteristics and risks of the embedded conversion options are clearly and closely related to the economic characteristics and risks of the Series A and Series B preferred stock.

6. STOCK OPTIONS

Jackson Rivers has stock option plans, which provide for the granting of qualified and nonqualified options to employees of Jackson Rivers. A maximum of 5,000,000 shares of common stock may be issued under the plans. The option price, number of shares, vesting schedule, holding period or other restrictions and grant dates are determined at the discretion of a committee appointed by Jackson Rivers' board of directors. Options granted under the plans are exercisable for a period not to exceed ten years from the option grant date.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123R, Share-Based Payment, and related interpretations using the modified-prospective transition method. Under that method, compensation cost recognized in the first half of 2006 includes (a) compensation cost for all share-based payments granted prior to, but not yet vested as of, December 31, 2005 based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (b) compensation cost for all share-based payments granted on or subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

of SFAS No. 123R. Compensation is being recognized on a straight-line basis over the requisite service period for the entire award in accordance with the provisions of SFAS No. 123R. Results for the prior periods have not been restated.

10

As part of the merger agreement with DNI, all of the options under DNI's 1999 Plan were assumed by Jackson Rivers and converted 1:1 to options for Jackson Rivers' Series B Preferred Stock. DNI's 2000 Plan options that were not forfeited or were "under water" were assumed by Jackson Rivers and converted 1:1 to options for Jackson Rivers' Series B Preferred Stock. As a result, 2,915,383 of DNI options with an average exercise price of \$0.1555 and future value of \$0.0675 using the risk free rates of 1.66% to 3.94% were converted to the same amount and the same option price at the time of the merger. As of June 30, 2006, no options have been exercised, converted or forfeited, so the number and average price of the options is the same at this time.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's net loss for the quarter ended June 30, 2006 is \$4,215 higher, than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the quarter ended June 30, 2006 would have been \$(0.02) and \$(0.02), respectively, if the Company had not adopted Statement 123(R), compare to reported basic and diluted earnings per share of \$(0.02) and \$(0.02), respectively. We recorded share based compensation costs of \$2,107 for the second quarter of 2006.

The assumptions used in the Black-Scholes model were as follows for stock options granted in 2005 and 2004:

Risk-free interest rate	1.66%-3.94%
Expected life (years)	10
Expected dividends	None
Expected volatility	137%

There were no nonvested stock options at any point during the year ended December 31, 2005 or the six months ended June 30, 2006.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options, and Jackson Rivers' options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

The terms of awards issued to employees state that awards are forfeited upon termination of employment with Jackson Rivers.

Pro Forma Information Under SFAS No.123 for Periods Prior to 2006

11

The Company accounted for stock options under the intrinsic value method specified in APB 25 and adopted the disclosure-only provisions of SFAS No. 123 for periods prior to the quarter ending March 31, 2006. Accordingly,

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

compensation cost for prior reported periods has been recognized for grants under the stock option plans only when the exercise prices of employee stock options are less than the market prices or fair values of the underlying stock on the date of grant.

The table below illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted in the three and six months ended June 30, 2005.

	Three months ended June 30, 2005	Six months ended June 30, 2005
	-----	-----
Net loss, as reported	\$ (270,122)	\$ (1,487,524)
Deduct: Total stock-based employee/director compensation expense under the fair value based method for all awards, net of related tax effects	(7,520)	(15,039)
Pro forma net loss	\$ (277,642)	\$ (1,502,563)
	=====	=====
Loss per share, pro forma basic and diluted	\$ (0.06)	\$ (0.61)
	=====	=====
Shares used in basic and diluted loss per share	4,655,116	2,481,402
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes included in this report. This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The statements contained in this report that are not historic in nature, particularly those that utilize terminology such as "may," "will," "should," "expects," "anticipates," "estimates," "believes," or "plans" or comparable terminology are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from expectations include, but are not limited to, those set forth under the section "Risk Factors" set forth in this report.

The forward-looking events discussed in this quarterly report, the documents to which is referred to the reader and other statements made from time to time by the company or its representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties and assumptions about the company. For these statements, the company claims the protection of the "bespeaks caution" doctrine. All forward-looking statements in this document are based on information currently available to the company as of the date of this report, and the company assumes no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

We build and operate large scale wireless networks and provide consulting and engineering services to allow our customers to build and operate their networks. We also provide data collection and management services between remote devices called Machine to Machine or M2M services. We entered this industry upon the acquisition of Diverse Networks, Inc. on December 2, 2005. The transaction was accounted for as a recapitalization effected through a reverse merger, such that Diverse Networks, Inc. was treated as the "acquiring company" for financial reporting purposes

Our executive offices are located at 550 Greens Parkway, Suite 230, Houston, Texas 77067 and telephone number (619) 342-7449. We maintain a website at www.jacksonrivers.com.

Recent Developments

On May 5, 2006, we, through our wholly owned subsidiary, JKRI Acquisition Corp., a Texas corporation, acquired UTSI International Corporation, a Texas corporation specializing in engineering and information solutions for the oil and gas pipeline industry ("UTSI"). Pursuant to the definitive agreement, each share of UTSI common stock was converted into the right to receive 1.438029742 shares of our Series C Preferred Stock, or 2,200,000 shares of our Series C Preferred Stock in the aggregate. UTSI now operates as our wholly owned subsidiary. The primary reason for the acquisition was that UTSI provides supervisory control and data acquisition (SCADA), telecommunications and other specialized services to major pipeline operators and utility companies worldwide.

The following table summarizes the preliminary fair values assigned to the assets and liabilities at the date of acquisition:

Current assets	\$ 389,884
Property and equipment	23,630
Customer List	735,433
Goodwill	1,868,986

Total assets	3,017,933
Less:	
Total liabilities	817,933

	\$2,200,000
	=====

The following pro forma information assumes the acquisition of UTSI on January 1, 2006 and January 1, 2005, respectively. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the period presented

THE JACKSON RIVERS COMPANY
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the three months
ended June 30,

For the six months
ended June 30

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

	2006	2005	2006	2005
Revenues	\$ 883,423	\$ 1,315,788	\$ 1,619,479	\$ 2,719,479
Cost of goods sold	479,650	410,094	904,834	1,010,094
Gross profit	403,773	905,694	714,645	1,709,385
Selling, general & administrative	1,143,721	943,519	2,471,674	3,219,519
Depreciation and amortization	71,544	84,100	113,543	113,543
Total operating expenses	1,215,265	1,027,619	2,585,217	3,347,182
Loss from operations	(811,492)	(121,925)	(1,870,572)	(1,637,797)
Other income (expense)				
Interest expense, net	(108,192)	(17,073)	(153,610)	(170,765)
Gain/(loss) on derivative liability	71,940	--	--	--
Other income (expense)	(41,736)	1,605	(6,238)	(6,238)
Total other income (expense)	(77,988)	(15,468)	(159,848)	(177,003)
Loss before income taxes	(889,480)	(137,393)	(2,030,420)	(1,814,800)
Income tax expense (benefit)	--	67,701	--	(67,701)
Net loss	\$ (889,480)	\$ (205,094)	\$ (2,030,420)	\$ (1,882,501)
Earnings (loss) per share, basic and diluted	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding basic and diluted	149,414,689	4,655,116	92,041,137	2,440,000

14

Significant Accounting Policies

Revenue Recognition

We rely on the guidance provided by paragraph 45 of SOP 81-1 to measure the extent of progress towards completion of our contracts for construction of large scale wireless networks. Paragraph SOP 81-1 identifies three methods of measuring percentage of completion: 1) costs, 2) units of work, and 3) value added and further states that the method selected should be applied consistently. Accordingly, upon receipt of a contract for construction of a large scale wireless network, we establish certain "milestones" for discrete units of work based upon the total cost of the project. Each milestone is budgeted for a predetermined percentage of total cost and we recognize revenue when each such milestone, or unit of work, is achieved. Each milestone is budgeted to be x% of the cost of the project, and revenue is recognized using the same percentage factor. However, many of our projects are completed within one to two months, so revenue for the full project has been recognized in the period when the project was completed.

Results of Continuing Operations

Basis of Presentation

The results of operations set forth below for the periods ended June 30, 2006 and June 30, 2005 are those of the continuing operations of The Jackson Rivers

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

Company, which include Diverse Networks, Inc. and UTSI International Corporation on a consolidated basis

The following table sets forth, for the periods indicated, certain selected financial data from continuing operations:

	For the three months ended June 30,		For the six months ended June 30,	
	2006	2005	2006	2005
Revenues	\$ 757,836	\$ 33,303	\$ 1,226,550	\$ 41,210
Cost of goods sold	533,420	9,267	746,508	11,922
Gross profit	224,416	24,036	480,042	29,288
Selling, general & administrative	872,392	293,581	1,693,741	1,515,666
Depreciation and amortization	71,544	578	107,676	1,156
Total operating expenses	943,936	294,159	1,801,417	1,516,822
Loss from operations	(719,520)	(270,123)	(1,321,375)	(1,487,534)

15

Comparison of the Three Months and Six Months Ended June 30, 2006 and June 30, 2005

Net sales. Our net sales for operations increased to \$757,836 and \$1,226,550, or an increase of approximately 2,176% and 2,876%, for the three months and six months ended June 30, 2006, respectively. This increase is primarily due to the acquisitions of Diverse Networks and UTSI.

Cost of Sales. Cost of sales increased to \$533,420 and \$746,508, or approximately 5,656% increase and 6,162%, for the three months and six months ended June 30, 2006, respectively. As a percentage of net sales, cost of sales increased to 70% and 61% of net sales for the three and six months ended June 30, 2006, respectively, versus approximately 28% and 29% of sales for the three and six months ended June 30, 2005. The increase is primarily due to the inclusion of the full period of the cost of goods sold from Diverse Networks and 7 weeks of UTSI, respectively. As a result, the company generated a gross profit of \$224,416 and \$480,042 for the three and six months ended June 30, 2006 with a gross profit margin of approximately 30% and 39% for the three and six months ended June 30, 2006, respectively.

Selling, general and administrative. Selling, general and administrative expenses increased to \$872,392 and \$1,693,741 for the first three and six months ending June 30, 2006, respectively. As a percentage of net sales, selling, general and administrative expenses were approximately 115% and 138% for the three and six months ended June 30, 2006, as compared to approximately 882% and 3,678% for the comparable period in 2005. Selling, general and administrative expenses were 197% and 12% higher in the three months and six months ending June 30, 2006, respectively than the corresponding period last year, primarily due to the inclusion of Diverse Networks and UTSI.

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

Depreciation and Amortization. Depreciation and amortization expense increased to \$71,544 and \$107,676 for the three and six months ending June 30, 2006, from \$578 and \$1,156 for the similar periods in 2005. This increase was primarily due to the inclusion of depreciation for Diverse Networks and UTSI.

Operating loss. We incurred an operating loss of \$719,520 and \$1,321,375 for the three and six months ended June 30, 2006, compared to an operating loss of \$270,123 and \$1,487,534 for similar periods in 2005. The company had higher operating losses in the six months ended June 30, 2006 compared to the prior year primarily due to Diverse Networks and UTSI operating at a loss during the respective periods and additional acquisition expenses.

Liquidity and Capital Resources

We have financed our operations, acquisitions, debt service, and capital requirements through cash flows generated from operations, debt financing, and issuance of securities. Our working capital deficit at June 30, 2006 was \$1,631,951 and at December 31, 2005 it was \$352,407. We had cash of \$145,752 as of June 30, 2006, while we had cash of \$36,361 as of December 31, 2005. The differences are primarily due to funding the losses of the operations offset by the funding from the first and second tranch.

16

We used \$1,166,903 of net cash in operating activities for the six months ended June 30, 2006 compared to using \$1,326,563 in the six months ended June 30, 2005.

Net cash flows used for investing activities was \$6,730 for the six months ended June 30, 2006, compared to investments of \$450 in the six months ended June 30, 2005. The investments were for the updating of some computers.

Net cash flows provided by financing activities were \$1,359,488 for the six months ended June 30, 2006, compared to net cash provided by financing activities of \$1,322,745 in the same period last year. The increase is primarily from the funding from the first and second tranches.

On March 31, 2006, we entered into a Securities Purchase Agreement with certain accredited investors pursuant to which they agreed to issue up to \$2,000,000 of principal amount of convertible promissory notes in three separate tranches and warrants to purchase shares of the company's common stock (the "Securities Purchase Agreement"). The tranches of notes are to be issued and sold as follows: (i) \$700,000 upon execution and delivery of the Securities Purchase Agreement; (ii) \$600,000 within 5 days of filing of a registration statement with the Securities and Exchange Commission (the "SEC") registering the shares of common stock issuable upon conversion of the notes and exercise of the warrants issued pursuant to the Securities Purchase Agreement (the "Registration Statement") and (iii) \$700,000 within 5 days of the Registration Statement being declared effective by the SEC. The convertible notes have a 3 year term and bear interest at six percent (6%). At this time, we have received funding from the first and second tranche. The notes are convertible into the company's common stock pursuant to a "variable conversion price" equal to the "Applicable Percentage" multiplied by the "Market Price." "Applicable Percentage" is 55% and further increased to 60% if the Registration Statement is declared effective by the SEC on or before July 29, 2006. The Registration Statement was filed on time and the "Applicable Percentage" used is 55% in valuing the convertible promissory notes. "Market Price" means the average of the lowest three trading prices (as defined) for the company's common stock during the 20 trading day

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

period prior to conversion. Upon an event of default (as defined), the notes are immediately due and payable at an amount equal to the greater of (i) 140% of the then outstanding principal amount of notes plus interest and (ii) the "parity value" defined as (a) the highest number of shares of common stock issuable upon conversion of the notes multiplied by (b) the highest closing price for the company's common stock during the period beginning on the date of the occurrence of the event of default and ending one day prior to the demand for prepayment due to the event of default. The notes are secured by a first lien on all of the company's assets, including all of its intellectual property.

Subject to certain terms and conditions set forth therein, the notes are redeemable by the company at a rate from 120% to 140% of the outstanding principal amount of the notes plus interest. In addition, so long as the average daily price of the company's common stock is below the "initial market price" (as defined) the company may prepay a such monthly portion due on the outstanding notes and the investors agree that no conversions will take place during such month where this option is exercised by us.

17

The notes were issued with warrants to purchase up to 50,000,000 shares of our common stock at an exercise price of \$0.07 per share, subject to adjustment.

We agreed to register the secondary offering and resale of the shares issuable upon conversion of the notes, the shares issuable upon exercise of the warrants within 30 days of the execution of the Securities Purchase Agreement.

We relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, for the offer and sale of the notes and the warrants.

In connection with the offer and sale of the notes and the warrants, the company engaged Envision Capital LLC, as a finder for the transaction. Envision will receive a ten percent (10%) cash commission on the sale of the notes and warrants to purchase up to 5,000,000 shares of the company's common stock on the same terms and conditions as the warrants issued to purchasers under the Securities Purchase Agreement.

To date, the first two tranches of convertible notes have been issued and sold, resulting in gross proceeds of \$1.3 million to us.

Capital Requirements

We had a working capital deficit of \$1,631,951 as of June 30, 2006. We have closed the first two tranches of the March 2006 Private Offering discussed above, which resulted in gross proceeds to us of \$1,300,000 and we expect to close the final tranche of this private placement which will generate gross proceeds of \$700,000 in the next 90 days.

In the event we seek to expand our operations or launch new products for sale into the marketplace, or in the event the company seeks to acquire a company or business or business opportunity, or in the event that our cash flows from operations are insufficient to fund our operations, working capital requirements, and debt service requirements, the company would need to finance its operations through additional debt or equity financing, in the form of a private placement or a public offering, a strategic alliance, or a joint venture. Such additional financing, alliances, or joint venture opportunities might not be available to the company, when and if needed, on acceptable terms or at all. If we are unable to obtain additional financing in sufficient amounts

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

or on acceptable terms under such circumstances, our operating results and prospects could be adversely affected. In addition, any debt financings or significant capital expenditures require the written consent of the company's lender under the March private placement.

Off-Balance Sheet Arrangements

None.

18

ITEM 3. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

At the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2006, the disclosure controls and procedures of the Company were not effective to ensure that the information required to be disclosed in the Company's Exchange Act reports was recorded, processed, summarized and reported on a timely basis.

Our independent auditor, Malone & Bailey PC, identified deficiencies our internal controls related to depreciation, amortization and the recapitalization for the fiscal period ended December 31, 2005. In addition, management identified deficiencies in their accounting for business combinations. To address these issues, we hired an accountant to assist in our preparation and review process. Our Chief Executive Officer and Chief Financial Officer feel this step now ensures that effective controls are now in place and will insure proper reporting of business combinations, depreciation, amortization and recapitalizations.

19

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

See our Current Report on Form 8-K dated May 5, 2006.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
3.1*	Articles of Incorporation filed May 8, 2001 (incorporated by reference to Exhibit A filed with Form SB-2 October 4, 2001).
3.2*	Articles of Amendment to the Articles of Incorporation, filed effective August 3, 2004.
3.3*	Certificate of Designation for the Series A Preferred Stock, filed effective October 18, 2004.
3.4*	Certificate of Designation for the Series B Preferred Stock, filed effective December 1, 2005.
3.5*	Articles of Amendment to the Articles of Incorporation, filed effective November 22, 2004.
3.6*	Articles of Amendment to the Articles of Incorporation, filed effective January 31, 2005
3.7*	Bylaws (incorporated by reference to Exhibit 3(ii) filed with Form SB-2 October 4, 2001).
3.8*	Amended and Restated Bylaws.
3.9**	Articles of Amendment to the Articles of Incorporation, filed effective May 5, 2006.
10.1*	Consulting Services Agreement dated August 1, 2003.
10.2*	Technology License Agreement
10.3*	Stock Purchase Agreement dated as of August 31, 2005 by and among The Jackson Rivers Company, Dennis Lauzon and Jeffrey Flannery.
10.4*	Agreement and Plan of Merger dated December 1, 2005 by and among the Jackson Rivers Company, JKRC Sub, Inc., Diverse Networks, Inc. and the shareholders of Diverse Networks, Inc.
10.5*	Stock Purchase Agreement dated as of December 1, 2005 by and between Jeffrey W. Flannery, James E. Nelson and The Jackson Rivers Company.
10.6*.	Employment Agreement dated as of December 1, 2005 between James E. Nelson and The Jackson Rivers Company

Edgar Filing: JACKSON RIVERS CO - Form 10QSB/A

- 10.7* Securities Purchase Agreement dated as of March 31, 2006 by and among The Jackson Rivers Company and the Purchaser set forth therein.
- 10.8* Form of Callable Secured Promissory Note dated March 31, 2006.
- 10.9* Security Agreement dated as of March 31, 2006.
- 10.10* Registration Rights Agreement dated as of March 31, 2006.
- 10.11* Intellectual Property Security Agreement dated as of March 31, 2006.
- 10.12* Form of Stock Purchase Warrant dated March 31, 2006.

20

- 10.13* Convertible Promissory Note dated as of January 2, 2006.
- 10.14* Convertible Promissory Note dated as of March 12, 2006.
- 10.15* Agreement and Plan of Merger, dated May 5, 2006 by and among The Jackson Rivers Company, JKRI Acquisition Corp., and UTSI International Corporation.
- 31.1** Certification of Jeffrey W. Flannery, Chief Executive Officer, Chief Financial Officer and Director of The Jackson Rivers Company, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of Jeffrey W. Flannery, Chief Executive Officer, Chief Financial Officer and Director of The Jackson Rivers Company, pursuant to 18 U.S.C. Sec.1350, as adopted pursuant to Sec.906 of the Sarbanes-Oxley Act of 2002.

* Previously Filed

** Filed Herewith

21

SIGNATURES

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

The Jackson Rivers Company

Dated: September 12, 2006

By /s/ Jeffrey W. Flannery

Jeffrey W. Flannery,
Chief Executive Officer,

