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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
SEPTEMBER 30, 2004

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 X No___

As of September 30, 2004, 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 September 30, 2004 and the related condensed, consolidated statements of income and cash flows for the nine-month periods ended September 30, 2004 and 2003. 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 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 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, in order 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

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the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Next Generation Media Corporation and subsidiary as of December 31, 2003, 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, 2004, 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, 2003, 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
November 9, 2004

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Next Generation Media Corporation
Condensed Consolidated
Interim Financial Statements
For The Nine Months Ended September 30, 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
Consolidated Statements of Financial Position

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ASSETS

	(Unaudited) September 30, 2004	(Audited) December 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 448,328	\$ 123,013
Accounts receivable, net of allowance for uncollectible accounts	402,244	411,256
Notes receivable, net of allowance for uncollectible accounts	162,863	321,279
Inventories	86,032	66,410
Prepaid expenses & other current assets	145,695	46,434
 Total current assets	 1,245,162	 968,392
PROPERTY, PLANT AND EQUIPMENT:		
Equipment & vehicles	1,444,707	1,424,882
Furniture and fixtures	63,214	61,348
Leasehold improvements	76,362	80,644
 Total property, plant and equipment	 1,584,283	 1,566,874
Less accumulated depreciation	(1,302,549)	(1,191,372)
 Net property, plant and equipment	 281,734	 375,502
 Intangibles, net of accumulated amortization	 951,133	 951,882
 TOTAL ASSETS	 2,478,029	 2,295,776

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable, current portion	37,074	99,190
Accounts and other payables	230,050	128,567
Accrued expenses	250,414	156,003
Sales tax payable	5,537	207,684
Obligation under capital lease	15,526	9,753
 Total current liabilities	 538,601	 601,197
LONG TERM LIABILITIES:		
Notes payable	6,086	18,815
Obligation under capital lease	29,908	43,660
 Total long term liabilities	 35,994	 62,475
 Total liabilities	 574,595	 663,672
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	 (5,581,544)	 (5,852,874)

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Total stockholders' equity	1,903,434	1,632,104
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,478,029	2,295,776

See accompanying notes and accountant's review report

Next Generation Media Corporation
Condensed Consolidated Statements of Earnings (Unaudited)

	For The Three Months Ended Sept 30, 2004	Sept 30, 2003	For the Nine Months Sept 30, 2004
REVENUES:			
Coupon sales, net of discounts	\$ 1,969,597	\$ 1,885,805	\$ 5,748,813
Franchise fees	122,500	88,350	358,000
Total revenues	2,092,097	1,974,155	6,106,813
COST OF GOODS SOLD:			
Materials	263,808	248,398	782,749
Direct labor	427,962	365,449	1,202,116
Equipment repairs	9,857	3,854	22,398
Other direct costs	29,794	30,887	93,678
Postage and delivery	576,004	571,742	1,741,923
Payroll taxes from direct labor	32,739	27,849	91,969
Total cost of goods sold	1,340,164	1,248,179	3,934,833
Gross margin	751,933	725,976	2,171,980
OPERATING EXPENSES:			
401(k) matching	12,000	10,500	36,000
Advertising	2,980	5,090	26,495
Amortization	-	750	750
Bad debt expense	30,000	7,500	240,000
Bank charges			
Depreciation	40,155	40,155	111,177
Franchise development and support	90,576	56,211	261,313
Insurance	14,057	10,768	42,321
Meals and entertainment	1,376	2,656	3,495
Office expense	22,089	17,114	75,628
Payroll	221,774	158,341	683,268
Payroll taxes	13,023	10,190	58,673
Professional fees	45,609	29,024	105,894
Property taxes	3,375	900	11,964
Rent and pass thru expenses	70,228	68,472	211,517
Repairs and maintenance	16,063	3,763	32,343
Utilities	26,761	23,311	63,332
Total operating expenses	610,066	444,745	1,964,170
Gain/(Loss) from operations	141,867	281,231	207,810
OTHER INCOME AND EXPENSES:			
Interest income	-	-	-
Other income (expense)	(14,519)	(17,363)	(88,095)
Gain/(Loss) on legal settlement	290	-	176,954

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Interest expense	(8,671)	(7,356)	(25,339)
Total other income (expense)	(22,900)	(24,719)	63,520
Net Income/(Loss)	118,967	256,512	271,330
Gain/(Loss) applicable to common shareholders	118,967	256,512	271,330
Basic gain/(loss) per common share	0.011	0.022	0.026
Weighted average common shares outstanding	10,523,397	11,523,397	10,523,397
Diluted gain per common share	0.008	0.020	0.019
Fully diluted common shares outstanding	14,213,397	12,863,397	14,213,397

Next Generation Media Corporation
Consolidated Statements of Stockholders' Equity-Unaudited

	Common Stock Shares	Amount	Additional Paid In Capital	Accumulated Deficit	
Balance: January 1, 2003	9,523,397	95,234	7,343,744	(6,147,665)	\$1
Common stock issued in exchange for services	1,000,000	10,000	36,000	-	
Net Income - Year to Date	-	-	-	294,791	
Balance: December 31, 2003	10,523,397	105,234	7,379,744	(5,852,874)	1
Net Income - Year to Date	-	-	-	271,330	
Balance: September 30, 2004	10,523,397	105,234	7,379,744	(5,581,544)	1

Next Generation Media Corporation
Statement of Cash Flows - Unaudited
For The Three Months Ended

	September 30, 2004	September 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 118,967	\$ 256,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,155	40,905
(Increase) decrease in assets		
Accounts & notes receivable	(172,309)	(134,088)
Inventories	2,256	3,751

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Prepays and other current assets	(45,664)	(37,767)
Increase (decrease) in liabilities		
Accounts and other payables	(1,746)	(43,313)
Pension payable	-	(3,167)
Accrued expenses	121,687	(13,285)
Net cash flows (used) by operating activities	63,346	69,548
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(18,291)	(15,563)
Net cash provided/(used) by investing activities	(18,291)	(15,563)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of notes payable and capital leases	(36,081)	(30,393)
Net cash provided/(used) by financing activities	(36,081)	(30,393)
NET INCREASE/(DECREASE) IN CASH	8,974	23,592
CASH, BEGINNING OF PERIOD	439,354	159,785
CASH, END OF PERIOD	448,328	183,377
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID DURING THE PERIOD FOR:		
Income taxes	-	-
Interest	8,671	1,776

See accompanying notes and accountant's review report

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 and nine month periods ended September 30, 2004, 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. You should read these interim consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in the Company's 2003 Annual Report on Form 10-KSB40.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 September 30, 2004, the Company had approximately 50 active area franchise licenses 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:

Computers	3 years
Furniture, fixtures and equipment	10 years

Leasehold improvements are amortized over the lesser of the lease term or the useful life of the property.

Depreciation expense for the three months ended September 30, 2004 and 2003 was \$40,155.

Intangibles:

The Company has recorded goodwill based on the difference between the cost and the fair value of certain purchased assets. The Company periodically 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.

Intangibles:

Any excess over market capitalization would be written off due to impairment. In addition, the Company had a covenant not to compete, which was being amortized over five (5) years. Amortization expense for the three months ended September 30, 2004 and 2003 amounted to \$0 and \$750 respectively.

Advertising Expense:

The Company expenses the cost of advertising and promotions as incurred. Advertising costs charged to operations for the three months ended September 30, 2004 and 2003 was \$2,980 and \$5,090 respectively.

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 or conditions are performed prior to receipt of payment from the franchise. Franchise support fees of \$150 per quarter and other charges are recognized when billed to the franchisee. Amounts billed or collected in advance of final delivery or shipment 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 September 30, 2004.

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 item of comprehensive income to report.

Reclassifications:

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

New Accounting Pronouncements:

FASB Interpretation No. 45 - In November 2002, the FASB issued interpretation No. 45, Guarantor's Accounting and Disclosures Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45), which changes the accounting for, and disclosure of, guarantees. Beginning with transactions entered into after December 31, 2002, the Interpretation requires certain guarantees to be recorded at fair value, which is different from prior practice, which was generally to record a liability only when a loss was probable and reasonably estimable, as defined by SFAS No. 5, Accounting for Contingencies. In general, FIN 45 applies to contracts or indemnification agreements that require Next Generation Media Corporation to make payments to a guaranteed third-party based on changes in an underlying that is related to an asset, liability, or an equity security of the guaranteed party. The accounting provisions of FIN 45 apply only to new transactions entered into after December 31, 2002. FIN 45 immediately requires new disclosures effective immediately. The adoption of FIN45 does not have a material impact on the Company's financial position, results of operations or cash flows.

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

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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 September 30, 2004 and 2003 was \$481,940 and \$304,697 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 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 of September 30, 2004, 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

Common Stock

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Stock options outstanding as of September 30, 2004
with a weighted average exercise price per share
of \$0.26 3,690,000

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 subsidiaries as of September 30, 2004.

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 2004. The Corporation accrued \$12,000 and \$10,500 in the three months ended September 30, 2004 and 2003 respectively.

NOTE 3 - NOTES PAYABLE

Notes payable consists of the following:

September 30, 2004	Amount
Note payable to Capital York, unsecured with payments inclusive of interest of \$1,000 per month	\$ 10,500
Note payable to CIT Group, interest of 10% on principal only, collateralized by the equipment of United Marketing Solutions, Inc.	\$ 7,998
Note payable to PS Business Park, face amount of \$130,000, interest at 5%, payable over three years	\$15,424
Note payable to Frank Parsons Paper payable in monthly Installments	\$ 9,238
	\$43,160
Less: Current portion	\$37,074
Long-term portion	\$ 6,086

NOTE 4 - NOTES RECEIVABLE

On June 30, 2000, the Company executed a promissory note with UNICO, Inc. for \$200,000 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 recognized \$150,000 of bad debt expense during the quarter ended June 30, 2004.

NOTE 5 - COMMON STOCK

During the three months ended September 30, 2004 and 2003, the Company issued no shares of common stock.

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In 2003, the Company issued 2,350,000 options to purchase shares of common stock at \$0.01 per share to members of the Company's Board of Directors and employees. The options were issued at the then fair market value of the underlying shares. In addition, the Company issued 1,000,000 shares of common stock valued at \$46,000 to various consultants and employees for services rendered.

NOTE 6 - EMPLOYEE STOCK INCENTIVE PLAN

One 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.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Company has entered into various employment contracts. The contracts provided for the award of present and/or future options to purchase common stock at then fair market value of the underlying shares at date of grant or vesting. The contracts can be terminated without cause upon written notice within thirty to ninety days.

The Company is party to various legal matters encountered in the normal course of business. In the opinion of management and legal counsel, the resolution of these matters will not have a material adverse effect on the Company's financial position or the future results of operations.

Future minimum annual lease payments for capital and operating leases as of September 30, 2004 are:

	Operating	Capital
2004	162,940	4,555
2005	282,780	14,628
2006	280,006	14,628
2007	23,409	14,628
2008	0	4,916
Thereafter	0	0
Total	749,135	53,355

Rent expense for the quarters ended September 30, 2004 and 2003 were \$70,229 and \$68,472 Respectively.

NOTE 8 - OBLIGATION UNDER CAPITAL LEASE

The Company acquired machinery under the provisions of a 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 September 30, 2004 are as follows:

Total minimum lease payments	\$53,355
Amount representing interest	7,921
Present value of net minimum lease payments	45,434
Current portion	15,526
Long-term capital lease obligation	29,908

NOTE 9 - CORRECTION OF AN ERROR

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The interim financial statements have been corrected to remove amortization of goodwill pursuant to SFAS No. 142. The cumulative effect was a \$265,370 decrease in accumulated deficit and corresponding increase in intangibles through December 31, 2003. The correction resulted in an increase in net income and intangibles and a corresponding decrease in accumulated deficit of approximately \$33,921 and \$33,721 for the quarters ended September 30, 2004 and 2003. 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 in the quarter ended September 30, 2004 and the nine months ended September 30, 2004, respectively \$2,092,097 and \$6,106,813, increased from \$1,974,155 in the quarter ended September 30, 2003 and \$5,621,492 in the nine months ended September 30, 2003, a three month increase of five percent (5%) and a nine month increase of eight percent (8%).

Total cost of goods sold in the quarter ended September 30, 2004 and the nine months ended September 30, 2004, respectively, \$1,340,164 and \$3,934,833, increased from \$1,248,179 in the quarter ended September 30, 2003 and \$3,779,412 in the nine months ended September 30, 2003. The gross margin in the quarter ended September 30, 2004 and the nine months ended September 30, 2004, respectively, \$751,933 and \$2,171,980, increased from \$725,976 in the quarter ended September 30, 2003 and \$1,842,080 in the nine months ended September 30, 2003.

Total operating expenses in the quarter ended September 30, 2004 and the nine months ended September 30, 2004, respectively, \$610,066 and \$1,964,170, increased from \$444,745 in the quarter ended September 30, 2003 and \$1,269,088 in the nine months ended September 30, 2003. The greatest percentage of this increase in expenses was due to an increase in franchise development and support of \$34,365 and an increase in payroll expense of \$63,433.

Total net gain from operations in the quarter ended September 30, 2004 and the nine months ended September 30, 2004, respectively, \$141,867 and \$207,810, decreased from a gain of \$281,231 in the quarter ended September 30, 2003 and \$572,207 in the nine months ended September 30, 2003.

Net cash flows provided by operating activities was \$63,346 for the period ended September 30, 2004 as compared to \$69,548 provided for the period ended September 30, 2003.

Cash used by investing activities was \$18,291 for the period ended September 30, 2004, as compared to net cash provided by investing activities of \$69,548 for the period ended September 30, 2003.

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

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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.

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 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

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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 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.

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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 September 30, 2004.

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 September 30, 2004.

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 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

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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