W3 GROUP INC
Form 10QSB
August 02, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2005.

[ ] 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: 0-27083

W3 GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	84-1108035
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

60 East 42nd Street, New York, NY 10165
(Address of Principal Executive Offices)

(212) 750-7878
(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 [X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,601,167 shares of Common Stock, $.0001 par value, outstanding on June 30, 2005.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

W3 GROUP, INC.

Form 10-QSB Quarterly Report
For Quarterly Period Ended June 30, 2005

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

W3 GROUP, INC.

BALANCE SHEETS

	March 31, 2005 (Unaudited)	December 31, 2004 (Audited)
ASSETS		
Current assets:		
Cash	$ 0	$ 0
Total current assets	0	0
Total assets	$ 0	$ 0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable & accrued expenses	$ 26,650	$ 24,850

Total Current Liabilities:	$ 26,620	$ 24,850
Shareholder loan payable	$ 68,254	$ 65,854
Stockholders' equity: (See Notes 3 and 4)		
Common stock - $.0001 par value, authorized 100,000,000 shares; 1,601,167 issued and outstanding at June 30, 2005 and 1,550,943 at December 31, 2004	160	155
Additional paid-in-capital	2,511,342	2,511,346
Accumulated deficit	(2,606,406)	(2,602,205)
Total shareholders' equity	(94,904)	(90,704)
Total Liabilities & Shareholders' Equity	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

W3 GROUP, INC.

STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues:	$ 0	$ 0	$ 0	$ 0
General and Administrative Expenses:				
Consulting	$ 0	$ 36,000	$ 0	$ 36,000
Administration	$ 25	$ 2,330	$ 1,801	$ 2,688
Total General and Administrative Expenses	$ 25	$ 38,330	$ 1,801	$ 38,688
Loss From Operations	$ (25)	(38,330)	$ (1,801)	$ (38,688)
Other Income and (Expenses):				
Interest (Expense)	$ (1,200)	$ (1,200)	$ (2,400)	$ (2,400)
Total Other Income and (Expenses)	$ (1,200)	$ (1,200)	$ (2,400)	$ (2,400)
Net Loss Before Provision For Income Taxes	$ (1,225)	$ (39,530)	$ (4,201)	$ (41,088)
Provision For Income Taxes	$ 0	$ 0	$ 0	$ 0
Net Loss	$ (1,225)	$ (39,530)	$ (4,201)	$ (41,088)

Net Loss Per Share Basic and Fully Diluted	$ 0.0008	$ 0.0360	$ 0.0027	$ 0.0459
Weighted Average Number of Shares Basic and Fully Diluted	1,584,252	1,098,302	1,550,943	895,556

The accompanying notes are an integral part of these financial statements.

W3 GROUP, INC.

CASH FLOW STATEMENTS

FOR SIX MONTHS ENDED JUNE 30

	2005 (Unaudited)	2004 (Unaudited)
Operating Activities:		
Net loss	$ (4,201)	$ (41,088)
Adjustments to reconcile net income items not requiring the use of cash:		
Administration expense	0	0
Changes in other operating assets and liabilities:		
Accounts payable & accrued expenses	4,201	(41,088)
Net cash used by operations	$ 0	$ 0
Net increase (decrease) in cash during the period		
Cash balance at beginning of the fiscal year	$ 0	$ 0
Cash balance at end of the fiscal year	$ 0	$ 0
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 0	$ 0
Income taxes paid during the period	$ 0	$ 0

The accompanying notes are an integral part of these financial statements.

W3 GROUP, INC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SECOND QUARTER ENDED JUME 30, 2005

1. Organization of the Company and Significant Accounting Principles

W3 Group, Inc. ("the Company") was incorporated in the State of Colorado in February 1988. The Company has no business operations at present and its activities since inception are primarily related to its initial public offering and merger activities.

In May 2003, the Company changed its state of incorporation to Delaware.

Use of Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses at the date of the financial statements and for the period they include. Actual results may differ from these estimates.

Income taxes - The Company accounts for income taxes in accordance with the Statement of Accounting Standards No. 109 (SFAS No. 109), Accounting for Income Taxes". SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between financial statement and income tax bases of assets and liabilities that will result in taxable income or deductible expenses in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets and liabilities to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period adjusted for the change during the period in deferred tax assets and liabilities.

Development Stage Company - the Company has had no operations or revenues since its inception and therefore qualifies for treatment as a development stage company as per Statement of Financial Accounting Standards (SFAS) No. 7. As per SFAS No.7, financial transactions are accounted for as per generally accepted accounted principles. Costs incurred during the development stage are accumulated in "losses accumulated during the development stage" and are reported i n the Stockholders' Equity section of the balance sheet.

Recent Accounting Pronouncements -

EITF 03-16: In March 2004, the EITF reached a consensus regarding Issue No. 03-16, "Accounting for Investments in Limited Liability Companies" ("EITF 03-16"). EITF 03-16 requires investments in limited liability companies ("LLCs") that have separate ownership accounts for each investor to be accounted for similar to a limited partnership investment under Statement of Position No. 78-9, "Accounting for Investments in Real Estate Ventures." Investors are required to apply the equity method of accounting to their investments at a much lower ownership threshold than the 20% threshold applied under APB No. 18, "The Equity Method of Accounting for Investments in Common Stock." The adoption of EITF 03-16 did not have a material impact on the financial condition or results of operations.

EITF 04-1: In September 2004, the EITF reached a consensus regarding Issue No. 04-1, "Accounting for Preexisting Relationships Between the Parties to a Business Combination" ("EITF 04-1"). EITF 04-1 requires an acquirer in a business combination to evaluate any preexisting relationship with the acquiree to determine if the business combination in effect contains a settlement of the preexisting relationship. A business combination between parties with a preexisting relationship should be viewed as a multiple element transaction. EITF 04-1 is effective for business combinations after October 13, 2004, but requires goodwill resulting from prior business combinations involving parties with a preexisting relationship to be tested for impairment by applying the guidance in the consensus. The adoption of EITF 04-1 did not have a material impact on the financial condition or results of operations.

SFAS No. 123R: In December 2004,the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The adoption of SFAS No. 123R did not have a material impact on the financial condition or results of operations.

2. Fair Value of Financial Instruments

The value of accounts payables and accrued expenses and shareholder loans payable are estimated to approximate fair market value at June 30, 2005 and December 31, 2004.

3. Preferred Stock

On April 14, 2005, the Board of Directors passed a resolution, which was approved by shareholder action, to implement mandatory conversion of all of the Company's issued and outstanding Series B Convertible Preferred Stock effective April 25, 2005 for shareholders of record on April 20, 2005, on the basis of one share of common stock for each two (2) shares of preferred stock. Accordingly, 1,478,901 shares of Series B Preferred Stock were converted to 739,451 shares of Common Stock effective April 25, 2005. These shares of Common Stock were subsequently subjected to a 1 - 15 reverse split of all common stock effective May 9, 2005. (See Note 4)

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4. Issuance of Common Stock

On February 8, 2005, 20,000 shares of Series B convertible preferred stock were converted to 10,000 shares of common stock.

On January 5, 2004, 159 shares of Series B preferred stock were converted to 79 shares of common stock.

On May 18, 2004, the Company issued 5,314,216 shares of common stock valued at $159,426 to vendors and consultants to settle unpaid debt.

On May 18, 2004, the Company issued 6,357,766 shares of common stock valued at $190,733 to a consultant to settle unpaid debt.

On May 18, 2004, the Company issued 1,200,000 shares of common stock valued at $36,000 to a director of the Company for services performed.

On April 14, 2005, the Board of Directors unanimously approved a reverse split of the Company's common stock on the basis of one (1) share for each fifteen (15) shares held on the record date, May 8, 2005, effective May 9, 2005, which was approved by shareholders' action.

On April 25, 2005, 1,478,901 shares of Series B Convertible Preferred Stock were converted to 739,451 shares of Common Stock. (See Note 3)

On May 9, 2005, the Company effected a one for fifteen reverse stock split of the 24,013,596 outstanding shares of common stock. All common share and per share information included in these financial statements have been retroactively adjusted to reflect this reverse split.

5. Addendum to the Consolidated Statement of Cash Flows

The following transactions occurring during the fiscal year ended December 31, 2004 and were excluded from the calculation of the statement of cash flows since they did not involve a transfer of cash.

On May 18, 2004, the Company issued 5,314,216 shares of common stock valued at $159,426 to vendors and consultants to settle unpaid debt.

On May 18, 2004, the Company issued 6,357,766 shares of common stock valued at $190,733 to a consultant to settle unpaid debt.

On May 18, 2004, the Company issued 1,200,000 shares of common stock valued at $36,000 to a director of the Company for services performed.

6. Net Loss per Share

The Company applies SFAS No. 128, "Earnings per Share" to calculate loss per share. In accordance with SFAS No. 128, basic net loss per share has been computed based on the weighted average of common shares outstanding during the years. Fully diluted loss per share includes the dilutive effects of outstanding common stock equivalents.

As of June 30, 2005, there are no financial instruments outstanding convertible into common stock.

7. Related Party Transactions

The Company currently utilizes office space provided by a director of the Company at no cost.

At June 30, 2005 and June 30, 2004, the Company is indebted to four shareholders, including one director of the Company for notes payable in the amount of $40,000. The loans are unsecured and due on demand and at 12% interest. Accordingly, the Company recorded $1,200 interest expense on the loans for the quarters ended June 30, 2005 and 2004.

8. Concentration of Credit Risk

The president and directors of the Company provide various administrative services on behalf of the Company in addition to providing necessary funds to pay for administrative services. A withdrawal of their financial support could have a material adverse impact on the financial condition of the Company and its ability to operate as a going concern.

9. Income taxes

There is no provision for federal or state income taxes for the three month periods ended June 30, 2005 and 2004, since the Company incurred losses from inception.

As of June 30, 2005, the Company has a net operating loss carry forward of $2,606,406 which expires in various years through 2023. Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Service Code, utilization of its tax net operating loss carry forwards may be limited.

10. Going Concern Considerations

The accompanying financial statements have been presented in accordance with generally accepted accounting principals, which assume the continuity of the Company as a going concern. However, during the six months ended June 30, 2005 and during the prior several fiscal years, the Company has experienced, and continues to experience, certain going concern issues related to profitability. The Company incurred a net loss of $2,606,406 since its inception and has no cash balances and no business operations.

Management's plans with regard to this matter include the search for an operating entity for a business combination with the Company. There can be assurance that management will be successful in finding a candidate suitable for a business combination or that such business combination could be successfully consummated.

Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I - Item 1 of this report, and Management's Discussion and Analysis of Financial Conditions and Results of Operations and General Risk Factors Affecting us contained in our annual report for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on March 30, 2005.

Forward-Looking Statements

Some of the information contained in this report may constitute forward-looking statements or statements within the meaning of the Private Securities Litigatio n Reform Act of 1995. Any such forward-looking statements are based on current expectations and projections about future events. The words, estimate, plan, intend, expect, anticipate and similar expressions are intended to identify forward-looking statements which involve, and are subject to, known and unknown risks, uncertainties and other factors which could cause our actual results, financial or operating performance, or achievements to differ materially from future results, financial or operating performance, or achievements expressed or implied by such forward-looking statements. Projections and assumptions contained and expressed herein were reasonably based on information available to us at the time so furnished and as of the date of this filing. All such projections and assumptions are subject to significant uncertainties and contingencies, many of which are beyond our control, and no assurance can be given that the projections will be realized. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date hereof. Careful consideration should be given to the General Risk Factors contained in our Form 10-KSB for the year ended December 31, 2004. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

We did not have any revenue during the three month period ended June 30, 2005, or during the comparable period for the prior year, and have not had any revenue since the first quarter of 1999.

The net loss for the three month period ended June 30, 2005 was $1,225 compared to a net loss of $39,530 for the comparable period in the prior year, a decrease of $37,972 resulting primarily from a decrease in consulting fees.

We had no cash at June 30, 2005 and at December 31, 2004.

On April 25, 2005, all of our Series B Convertivle Preferred Stock was converted to Common Stock. (Refer to Part II, Item 4 of this report).

On May 9, 2005, a one for fifteen reverse split of all shares of common stock was effected (Refer to Part II, Item 4 of this report). In connection with this reverse split, our OTCBB trading symbol was changed from WWWG to WWWT.

On July 19,2005, we entered into an Acquisition Agreement (the "Agreement") with Aftersoft Group, Inc., a Delaware corporation ("Aftersoft") and Auto Data Network, Inc., a Delaware corporation and the sole shareholder of Aftersoft. Pursuant to the Agreement we will acquire all of the outstanding shares of common stock of Aftersoft in exchange for the issuance by us of 32,500,000 newly issued shares of our common stock to the Aftersoft Shareholder. It is anticipated that following the consummation of the transaction, our current shareholders will own approximately 4.7% of the total outstanding shares. The consummation of the transaction is subject to the satisfaction of due diligence and customary conditions in similar transactions, and no assurance can be given that such conditions will be met. Refer to Form 8-K and exhibit thereto filed on July 22, 2005 for the full text of the Agreement. Aftersoft is in the automotive software business and provides a broad range of supply chain management solutions to automotive parts manufacturers, distributors and retailers.

Present Overview

We intend to acquire, finance, and restructure operating companies that are interested in a business combination. We are seeking to acquire companies that would become wholly owned, or majority owned, subsidiaries of W3 and intend to concentrate on existing companies that have proven markets, profitability, and management.

Our approach is to develop "partnerships" with companies having exceptional management in order to improve the long-term value of a business. The participation of management through equity based compensation and stock ownership is a crucial ingredient of our plan.

Liquidity and Capital Resources

At June 30, 2005, we had no cash. We have received an audit opinion, which includes a "going concern" risk, which raises substantial doubt regarding our ability to continue as a going concern. (See Financial Statements, "Note 10 - Going Concern Considerations".) Management is reevaluating business opportunities and looking for a new business direction.

Risk Factors Affecting the Company

We have not had any business operations since the divestiture of our former operating subsidiary, L'Abbigliamento, Ltd., effective March 31, 1999. Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about the risks, together with the other information contained in this report, before you decide to buy our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. If any of the following risks actually occur, our business would likely suffer and our results could differ materially from those expressed in any forward-looking statements contained in this report. In such case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

1. We have no operations and no revenue.

We have no operations or revenue and therefore are subject to all the risks inherent in such a business venture, many of which are beyond our control, including the inability to implement successful operations, lack of capital to finance acquisitions and failure to achieve market acceptance. In addition, we face significant competition from many companies virtually all of which are larger, better financed and have significantly greater market recognition than us.

2. The ability to attract and retain highly qualified personnel to operate and manage our business is extremely important and our failure to do so could adversely affect us.

Presently, we are totally dependent upon the personal efforts of our current management. The loss of any of our officers or directors could have a material adverse effect upon our business and future prospects. We do not presently have key-person life insurance upon the life of any of our officers or directors. Further, all decisions with respect to management of our affairs will be made exclusively by current management. We may also employ independent consultants to provide business and marketing advice. Such consultants have no fiduciary duty to us or our stockholders, and may not perform as expected. Our success will, in significant part, depend upon the efforts and abilities of management, including such consultants as may be engaged in the future. Additionally, as we implement our planned acquisition of commercial operations, we will require the services of additional skilled personnel. There can be no assurance that we can attract persons with the requisite skills and training to meet our future needs or, even if such persons are available, that they can be hired on terms favorable to us.

3. Our financial statements contain a "going concern" qualification and our operations are dependent upon our ability to raise additional working capital.

We may not be able to operate as a going concern. The independent auditor's report accompanying our financial statements contains an explanation that our financial statements have been prepared assuming that we will continue as a going concern. We are in need to raise funds to implement our plans. As of June 30, 2005, we had no cash and a total deficit of $2,606,406. This condition raises substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. As a result, our ability to continue to operate as a going concern will depend upon our ability to raise additional working capital. Our failure to raise funds would materially and adversely affect our ability to continue as a going concern.

4. Our ability to execute our acquisition strategy will require us to obtain additional working capital.

Our business strategy will require that substantial capital investment and adequate financing be available to us for the completion of acquisitions, development and integration of operations and technology as needed. In the event that we cannot obtain the necessary capital to fund our operations as planned, we may need to limit our operations and activities. We cannot guarantee that such capital investment will be available to us at all or on terms that are acceptable to us. Our failure to obtain the necessary amount of capital to fund our operations as currently anticipated could have a material, adverse effect upon our capacity to continue operations.

5. The means by which we raise capital could cause substantial dilution to stockholders or result in significant interest expense or restrictive covenants.

Our ability to operate as a going concern and to fund our planned acquisition activities will require that we obtain substantial capital. We may raise these funds by selling additional shares of our common stock or by incurring additional debt. Depending on the terms negotiated with potential investors, such shares of common stock may be issued at a price per share less than the trading prices listed for our common stock on the OTC Bulletin Board and thus may be significantly dilutive to our current stockholders. In

addition, such dilution could likely have a depressive effect on the market price of our common stock, should a public market continue for our shares of common stock. In addition, any debt financing that we are able to obtain, if any, may involve significant interest expense or restrictive covenants that may limit our activities.

6. Our business strategy depends upon our ability to acquire operating companies and our failure to successfully do so would have a material adverse affect upon our business.

Our acquisition plan depends on our ability to identify suitable acquisition candidates, effectively integrate acquired companies into our organization, retain personnel and customers in the acquired companies and obtain necessary financing on acceptable terms. There can be no assurances that any transactions will be consummated on the terms proposed. Our failure to consummate such transactions on the terms proposed could have a material, adverse effect on our business.

7. Our failure to successfully integrate any companies that we acquire would materially and adversely affect our business.

Any acquisition that we complete or will contemplate, is accompanied by risks which include difficulty assimilating the operations and personnel of acquired businesses, maximizing our financial and strategic position through the successful incorporation and integration of acquired personnel and customers, maintaining uniform standards and preventing the impairment of relationships with employees and customers. Additionally, as we implement our plan, there can be no assurance that there will not be substantial unanticipated costs and expenses associated with the start-up and implementation of such acquisition plan. Our failure to integrate these businesses satisfactorily or to consummate such transactions on the terms proposed could have a material, adverse effect on our business.

8. The successful implementation of our business strategy depends upon the ability of our management to monitor and control costs.

With respect to our planned operations, management cannot accurately project or give any assurance with respect to our ability to control development and operating costs and/or expenses in the future. Consequently, even if we are successful in implementing our acquisition plan, of which there can be no assurance, management still may not be able to control costs and expenses adequately, and such operations may generate losses.

9. We may become subject to governmental regulations and oversight, which could adversely affect our ability to continue or expand our business strategy.

Although our acquisition plans are currently not subject to any regulations, it is possible that, in the future, such regulations may be legislated. Although we cannot predict the extent of any such future regulations, a possibility exists that future or unforeseen changes may have an adverse impact upon our ability to continue or expand our business as presently planned.

10. We do not foresee issuing any cash dividends.

We have not paid any dividends to date nor, by reason of our present financial status and contemplated financial requirements, do we anticipate paying any dividends in the foreseeable future.

11. There is a lack of an active public market for our common stock.

Our Common Stock trades under the symbol "WWWT" on the OTC Electronic Bulletin Board. There can be no assurances, however, that a market will develop or continue for our common stock. Our common stock may be thinly traded, if traded at all, even if we achieve full operation and generate significant revenue. In addition, our stock is defined as a "penny stock" under Rule 3a51-1 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. In general, a "penny stock" includes securities of companies which are not listed on the principal stock exchanges or the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or National Market System ("NASDAQ NMS") and have a bid price in the market of less than $5.00; and companies with net tangible assets of less than $2,000,000 ($5,000,000 if the issuer has been in continuous operation for less than three years), or which have recorded revenues of less than $6,000,000 in the last three years. "Penny stocks" are subject to rule 15g-9, which imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses, or individuals who are officers or directors of the issuer of the securities). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell our common stock, and therefore, may adversely affect the ability of our stockholders to sell common stock in the public market.

12. Sales by our existing stockholders of shares of our common stock could cause our stock price to decline.

A total of 1,601,167 shares of common stock were issued and outstanding as of June 30, 2005, of which 1,402,050 shares thereof were "restricted securities" as that term is defined under the Securities Act of 1933, as amended. All such restricted shares must be held indefinitely unless subsequently registered under the Securities Act or an exemption from registration becomes available. One exemption which may be available in the future is Rule 144 adopted under the Securities Act. Generally, under Rule 144 any person holding restricted securities for at least one year may publicly sell in ordinary brokerage transactions, within a 3 month period, the greater of one (1%) percent of the total number of a company's shares outstanding or the average weekly reported volume during the four weeks preceding the sale, if certain conditions of Rule 144 are satisfied by the company and the seller. Furthermore, with respect to sellers who are "non-affiliates" of the company, as that term is defined in Rule 144, the volume sale limitation does not apply and an unlimited number of shares may be sold, provided the seller meets a holding period of 2 years.

Item 3. Controls and Procedures

Based on his evaluation, as of a date within 90 days of the filing of this Form 10-QSB, the Company's Chief Executive Officer and Chief Financial Officer has concluded the Company's disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective.

There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of his evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings. Not Applicable

Item 2. Change in Securities.

Item 3. Defaults Upon Senior Securities. Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.

Conversion of Preferred Stock

On April 14, 2005 the Registrant's Board of Directors determined to implement mandatory conversion of all the Company's issued and outstanding Series B Preferred Stock upon expiration of the Preferred Stock conversion preference, on the preference basis, one (1) share of Common Stock for each two (2) shares of Preferred Stock issued and outstanding, on the record date, April 20, 2005; effective April 25, 2005 (the "Effective Date"). The mandatory conversion was approved by shareholder action without a meeting pursuant to Section 228 of the Delaware General Corporation Law with the written consent of shareholders owning in the aggregate 800,000, shares or approximately 54% of the 1,478,901 shares of issued and outstanding on the record date. Upon conversion there will be a total of 24, 013, 596 shares of the Issuer's Common Stock issued and outstanding, pre-reverse split. See Split of Common Stock below.

Reverse Split of Common Stock

Also on April 14, 2005, the Registrant's Board of Directors unanimously approved a reverse split of the Company's Common Stock on the basis of one (1) post-reverse split share for each fifteen (15) pre-reverse split shares held on the record date, May 8, 2005, effective May 9, 2005. The reverse split, as proposed by the Board of Directors, was approved by shareholders action without a meeting pursuant to Section 228 of the Delaware General Corporation Law and with the written consent of shareholders owning in the aggregate 19,930,749 shares, or approximately 83% of the Registrant's issued and outstanding Common Stock.

As an aspect of the shareholder action, the Company's management was authorized and directed to, establish the effective date for the reverse split as May 9, 2005, maintain the post-reverse split par value of the Registrant's Common Stock at $0.0001 per share and amend the Company's Amended Certificate of Incorporation to increase the total number of shares of stock which the Registrant is authorized to issue to 110,000,000 shares, consisting of 100,000,000 shares of post-reverse split Common Stock, par value $0.0001 per share, and 10,000,000 of Preferred Stock, par value $0.0001 per share. Following amendment of the Registrant's Certificate of Incorporation, future shares of Preferred Stock may be issued from time to time in one or more series as may be established from time to time by further resolution of the Board of Directors of the Registrant. Each such series, if any, shall consist of such number of shares and have such distinctive designation or title as shall be fixed by future resolution of the Board of Directors prior to the issuance of any shares in any such series. Each class or series of Preferred Stock shall have voting powers full or limited, or no voting powers, and such preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions, thereof, as shall be stated in such future resolution of the Board, if any, providing for issuance of such series of Preferred Stock.

As of the effective date, May 9, 2005, there are 1,601,167 shares of post-reverse split Common Stock issued and outstanding.

Increase in Authorized Common Stock

As indicated above, the Registrant's Board of Directors, and Shareholders owning approximately 83% of the Registrant's issued and outstanding Common Stock, approved an increase in the shares of Common Stock which the Company may issue to 100,000,000 shares, par value $0.0001 per share. The Registrant has filed a corresponding amendment to its Amended Certificate of Incorporation in the State of Delaware reflecting the increase in its authorized Common Stock to 100,000,000 post-reverse split shares, accordingly.

Item 5. Other Information. None

Item 6. Exhibits and Reports of Form 8-K. None

(a) Exhibits

Exhibit No.	Description
31	Certification Pursuant to Rule 13a-14 and 15d-14 Under the Securities Exchange Act of 1934, As Amended
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

(b) Reports on Form 8-K.

Form 8-K filed on April 20, 2005 Re: Material Modification of Rights and Securities Holders, Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year and Exhibit 20, Information Statement.

Form 8-K filed on July 22, 2005 Re: Entry into a Material Difinitive Agreement, Changes in Control of Registrant and Exhibit 10.1 Acquistion Agreement.

SIGNATURE

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 2, 2004

By: /s/ Robert Gordon

Robert Gordon
President
Principal Financial Officer