NEXTERA ENTERPRISES INC
Form 10-Q
August 16, 2004

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

FORM 10-Q

(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, 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 0-25995

NEXTERA ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4700410 (I.R.S. Employer Identification Number)

One Exeter Plaza
699 Boylston Street,
Boston, Massachusetts 02116
(Address of principal executive office, including zip code)

(617) 262-0055
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of July 31, 2004 there were 30,025,441 shares of $0.001 par value Class A Common Stock outstanding and 3,844,200 shares of $0.001 par value Class B Common Stock outstanding.

NEXTERA ENTERPRISES, INC.
Quarterly Report on Form 10-Q
for the Quarter Ended June 30, 2004

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Nextera Enterprises, Inc.

Condensed Consolidated Balance Sheets
(Dollar amounts in thousands, except per share data)

	June 30, 2004	December 31, 2003
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 17,642	$ 20,124
Accounts receivable, net of allowance for doubtful accounts of $250 at December 31, 2003		528
Prepaid expenses and other current assets	1,347	2,389
Total current assets	18,989	23,041
Property and equipment, net	41	7
Other assets	117	18
Total assets	$ 19,147	$ 23,066
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,665	$ 3,035
Accrued taxes	130	1,347
Accrued restructuring costs, current portion		173
Current portion of long-term debt	185	185
Total current liabilities	1,980	4,740
Long-term debt	543	543
Other long-term liabilities	400	400
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 600,000 authorized shares designated Series A, 44,060 and 42,554 Series A issued and outstanding at June 30, 2004 and December 31, 2003, respectively	4,406	4,255

Class A Common Stock, $0.001 par value, 95,000,000 shares authorized, 30,025,441 shares issued and outstanding at June 30, 2004 and December 31, 2003	30	30
Class B Common Stock, $0.001 par value, 4,300,000 shares authorized, 3,844,200 shares issued and outstanding at June 30, 2004 and December 31, 2003	4	4
Additional paid-in capital	161,607	161,755
Retained earnings (accumulated deficit)	(149,813)	(148,445)
Accumulated other comprehensive loss	(10)	(216)
Total stockholders equity	16,224	17,383
Total liabilities and stockholders equity	$ 19,147	$ 23,066

See Notes to Condensed Consolidated Financial Statements

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Nextera Enterprises, Inc.

Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share amounts; unaudited)

	Three Months Ended June 30	
	2004	2003
Net revenues	$	$
Cost of revenues		
Gross profit		
Selling, general and administrative expenses	691	1,026
Operating loss	(691)	(1,026)
Interest Income, net	43	
Loss from continuing operations before income taxes	(648)	(1,026)
Provision for income taxes		
Loss from continuing operations	(648)	(1,026)
Loss from discontinued operations		(1,313)
Net loss	(648)	(2,339)
Preferred stock dividends	(78)	(70)
Net loss applicable to common stockholders	$ (726)	$ (2,409)
Net loss per common share, basic and diluted		
Continuing operations	$ (0.02)	$ (0.03)
Discontinued operations		(0.04)
Net loss per common share, basic and diluted	$ (0.02)	$ (0.07)
Weighted average common shares outstanding, basic and diluted	33,870	33,870

See Notes to Condensed Consolidated Financial Statements

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Nextera Enterprises, Inc.

Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share amounts; unaudited)

	Six Months Ended June 30	
	2004	**2003**
Net revenues	$	$
Cost of revenues		
Gross profit		
Selling, general and administrative expenses	1,451	2,122
Special charges		1,921
Operating loss	(1,451)	(4,043)
Interest Income, net	83	
Loss from continuing operations before income taxes	(1,368)	(4,043)
Provision for income taxes		
Loss from continuing operations	(1,368)	(4,043)
Loss from discontinued operations		(1,359)
Net loss	(1,368)	(5,402)
Preferred stock dividends	(151)	(144)
Net loss applicable to common stockholders	$ (1,519)	$ (5,546)
Net loss per common share, basic and diluted		
Continuing operations	$ (0.04)	$ (0.12)
Discontinued operations		(0.04)
Net loss per common share, basic and diluted	$ (0.04)	$ (0.16)

Weighted average common shares outstanding, basic and diluted	33,870	33,954

See Notes to Condensed Consolidated Financial Statements

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Nextera Enterprises, Inc.

Condensed Consolidated Statements of Cash Flows
(Dollar amounts in thousands; unaudited)

	Six Months Ended June 30	
	2004	**2003**
Operating activities		
Net loss	$ (1,368)	$ (5,402)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6	4,491
Provision for doubtful accounts		591
Non-cash compensation charges	3	1,134
Non-cash interest Paid in Kind		2,518
Other		48
Change in operating assets and liabilities:		
Accounts receivable	528	(1,992)
Prepaid expenses and other assets	943	(5,114)
Accounts payable and accrued expenses	(2,381)	(865)
Restructuring costs	(173)	(158)
Other		74
Net cash used in operating activities	(2,442)	(4,675)
Investing activities		
Purchase of property and equipment	(40)	(444)
Changes in restricted cash		2,081
Net cash provided by (used in) investing activities	(40)	1,637
Financing activities		
Borrowings under Senior Credit Facility		3,180
Repayments of long-term debt and capital lease obligations		(311)
Net cash provided by financing activities		2,869
Effects of exchange rates on cash and cash equivalents		(9)
Net decrease in cash and cash equivalents	(2,482)	(178)
Cash and cash equivalents at beginning of period	20,124	1,606
Cash and cash equivalents at end of period	$ 17,642	$ 1,428

See Notes to Condensed Consolidated Financial Statements

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NEXTERA ENTERPRISES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Nextera Enterprises, Inc. (Nextera or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The balance sheet as of December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, contained in the Company s Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 26, 2004.

On November 28, 2003, Nextera Enterprises, Inc. sold substantially all of the assets Lexecon and its subsidiaries used in their economic consulting business (Asset Sale) to FTI Consulting, Inc. and LI Acquisition Company, LLC, a wholly owned subsidiary of FTI (collectively FTI). As of June 30, 2004 and December 31, 2003, Nextera had no business operations.

The Asset Sale is reflected in the accompanying financial statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* . Accordingly, the results of operations of the economic consulting business for the three and six-months ended June 30, 2003 have been reflected as discontinued operations.

Knowledge Universe, LLC controls a majority of the voting power of our equity securities through its ownership of our Class A Common Stock, Class B Common Stock and Series A Cumulative Preferred Stock.

Note 2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

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NEXTERA ENTERPRISES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Use of Estimates

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

Reclassification

Certain reclassifications were made to the 2003 financial statements in order that they may be consistent with the 2004 presentation.

Stock-Based Compensation and Other Equity Instruments

As allowed under Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation* (SFAS 123) the Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company s employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company accounts for equity instruments issued to non-employees in exchange for goods or services using the fair value method. Accordingly, warrants issued to creditors have been recorded at their fair value on the date of grant.

If the Company had adopted the optional recognition provisions of SFAS 123 for its stock option plans, net loss and net loss per common share would have been changed to the pro forma amounts indicated below:

	Three months ended June 30		**Six months ended June 30**	
	2004	**2003**	**2004**	**2003**
	(Amounts in thousands, except per share data)			
Net loss as reported	$ (648)	$(2,339)	$(1,368)	$(5,402)
Compensation expense under SFAS 123	(279)	(960)	(572)	(1,367)
Pro forma net loss	$ (927)	$(3,299)	$(1,940)	$(6,769)
Net loss per common share, basic and diluted:				
As reported	$(0.02)	$ (0.07)	$ (0.04)	$ (0.16)

Pro forma	$(0.03)	$ (0.10)	$ (0.06)	$ (0.20)

The weighted average fair value of options granted during 2004 and 2003 was $0.38 and $0.26, respectively, at the date of the grants. As recommended by SFAS No. 123, the fair values of options were estimated using the Black-Scholes option pricing model assuming expected volatility of 121% and 120% in 2004 and 2003, respectively, a risk free interest rate of 3.75% and 4.70% in 2004 and 2003, respectively, and an expected life of 6 years in 2004 and 2003.

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NEXTERA ENTERPRISES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Note 3. Discontinued Operations

On November 28, 2003, Nextera sold substantially all of the assets Lexecon and its subsidiaries used in their economic consulting business to FTI. Accordingly, all consulting operations of the Company have been recorded as discontinued operations in the accompanying financial statements.

FTI paid cash in the amount of $129.2 million, plus additional consideration, including the assumption of certain operating liabilities, in exchange for the Lexecon assets. Included within *Prepaid expense and other current assets* is $1.1 million of the sale proceeds which was placed in escrow pending a final review of the adequacy of the allowance for doubtful accounts receivable acquired by FTI. The review period has been extended by mutual agreement between the parties. The funds held in escrow were included as part of the gain on sale recognized in the fourth quarter of 2003.

Revenues from discontinued operations for the three and six-month periods ended June 30, 2003 were $16.8 and $35.6 million and the pre-tax loss was $1.3 million and $1.4 million, respectively. Included within the three and six-month periods ended June 30, 2003 discontinued operations was interest expense of $2.1 million and $4.1 million, respectively. Interest expense was allocated to discontinued operations as the debt related to the interest expense was repaid, as required, as part of the Asset Sale.

Note 4. Basic and Diluted Net Income (Loss) per Common Share

Basic net income (loss) per share (Basic EPS) is computed by dividing income (loss) from continuing operations applicable to common stockholders and net income (loss) applicable to common stockholders by the weighted average number of common shares outstanding. Diluted net income (loss) per common share (Diluted EPS) is the same as the basic loss per share for the three and six-month periods ended June 30, 2004 and 2003 as the computation of diluted income (loss) per share would have an anti-dilutive effect on loss per share.

Basic and diluted loss per share were calculated as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2004	**2003**	**2004**	**2003**
	(dollar amounts in thousands, except per share data)			
Loss from continuing operations	$ (648)	$ (1,026)	$ (1,368)	$ (4,043)
Preferred stock dividends	(78)	(70)	(151)	(144)
Loss from continuing operations applicable to common stockholders	$ (726)	$ (1,096)	$ (1,519)	$ (4,187)
Loss from discontinued operations		(1,313)		(1,359)

Net loss applicable to common stockholders	$ (726)	$ (2,409)	$ (1,519)	$ (5,546)
Weighted average common shares outstanding basic and diluted	33,870	33,870	33,870	33,954

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NEXTERA ENTERPRISES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Basic and diluted net loss per common share				
Loss from continuing operations	$(0.02)	$(0.03)	$(0.04)	$(0.12)
Loss from discontinued operations		(0.04)		(0.04)
Net loss per common share, basic and diluted	$(0.02)	$(0.07)	$(0.04)	$(0.16)

Note 5. Special Charges

Accrued restructuring charges and their utilization for the periods presented are summarized as follows (in thousands):

	Balance at December 31, 2003	Utilized Non-Cash	Utilized Cash	Balance at June 30, 2004
Severance	$ 77	$	$ 77	$
Facilities	45		45	
Operating lease obligations	51		51	
	$ 173	$	$173	$

	Balance at December 31, 2002	Q1 2003 charge	Utilized Non-Cash	Utilized Cash	Balance at June 30, 2003
Severance	$	$785	$	$334	$ 451

Facilities	1,380		324	576	480
Operating lease obligations	84			33	51
	$ 1,464	$785	$324	$943	$ 982

In connection with the resignation of the Company s former Chief Executive Officer, David Schneider, in the first quarter of 2003, the Company incurred a $1.9 million charge. Approximately $0.8 million of the charge related to salary continuance until February 2004 and approximately $1.1 million related to a non-cash charge for fully vested options, with an exercise price of $2.00 per share, which was previously being expensed over the anticipated service period. In accordance with the original employment agreement, Mr. Schneider was to be granted a bonus, if and only if the above mentioned options vested and became exercisable, equal to the exercise price of the options at the time of the exercise of the

NEXTERA ENTERPRISES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

options. The portion of the option exercise price bonus not expensed at the time of the resignation of Mr. Schneider was required to be expensed immediately and recorded in equity due to the accelerated vesting of the options which occurred as a result of the resignation.

Note 6. Income Taxes

No federal tax benefit was recorded for the three and six-month periods ended June 30, 2004 and 2003 due to the Company s uncertainty associated with utilizing its net operating losses.

Note 7. Comprehensive Income

Comprehensive income combines net income (loss) and other comprehensive items which represent certain amounts that are reported as components of stockholder s equity in the accompanying balance sheet. During the second quarter of 2004 and 2003, comprehensive loss was $0.7 million and $2.3 million, respectively. For the six months ended June 30, 2004 and 2003, comprehensive loss was $1.2 million and $5.4 million, respectively. Accumulated other comprehensive loss at June 30, 2004 consisted solely of unrealized investment losses.

Note 8. Commitments and Contingencies

The Company, from time to time, is subject to certain asserted claims arising in the ordinary course of business. The Company intends to vigorously assert its rights and defend itself in any litigation that may arise from such claims. While the ultimate outcome of these matters could affect the results of operations of any one quarter or year when resolved in future periods, and while there can be no assurance with respect thereto, management believes that after final disposition, any financial impact to the Company would not be material to the Company s financial position and results of operations or liquidity.

As mentioned in Note 3, as of June 30, 2004, $1.1 million of the Asset Sale proceeds is being held in escrow by a third party pending the final review of the adequacy of the allowance for doubtful accounts related to the accounts receivables acquired by FTI. The date to finalize this determination has been extended to allow for additional time for certain receivables to be collected. The Company believes that the escrow amount is fairly recorded on the balance sheet, however, actual results may vary materially pending the final outcome.

In accordance with the Asset Purchase Agreement, Nextera agreed to indemnify FTI for a number of matters including the breach of its representations, warranties and covenants contained in the Asset Purchase Agreement. These representations, warranties and covenants related to organization, corporate, financial statement, business, operational, tax, legal, insurance, intellectual property, title to assets, employee, labor, leases, environmental, record keeping, contracts, permits, licenses, authorizations, solvency, cooperation and other matters. A breach or inaccuracy of any of these representations, warranties and covenants could lead to an indemnification claim by FTI against the Company. Any such indemnification claims could require the Company to pay substantial sums and incur related costs and expenses and have a material adverse effect on our liquidity, financial condition, future prospects and ability to acquire a new operating business.

In connection with the Asset Sale, the Company continues to be a guarantor on certain leased property through August 2007, the lease expiration date. The annual lease obligation is approximately $0.8 million. Under the lease assignment agreement with the assignee, the Company, as guarantor, would have recourse for any damages incurred due to any default by the assignee.

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NEXTERA ENTERPRISES, INC.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The disclosure and analysis in this quarterly report contain forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historic or current facts. They use words such as anticipate, estimate, expect, project, intend, believe, and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these forward-looking statements include statements relating to future actions or the outcome of financial results. From time to time, we also may provide oral or written forward-looking statements in other materials released to the public. Any or all of the forward-looking statements in this quarterly report and in any other public statements may turn out to be incorrect. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual results may vary materially.

Forward-looking statements are based on many factors that may be outside our control, causing actual results to differ materially from those suggested. These factors include, but are not limited to, those disclosed below under the heading Factors That May Affect Our Future Performance . New factors emerge from time to time, and it is not possible for us to predict all these factors nor can we assess the impact of these factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

Nextera was formed in 1997 and focused on building a portfolio of consulting companies through multiple acquisitions. The Company offered services in three practice areas: technology consulting, human capital consulting, and economic consulting. The technology consulting business was exited during the latter half of 2001 and the human capital consulting business was sold on January 30, 2002. On November 28, 2003, Nextera and its direct and indirect subsidiaries, Lexecon Inc., CE Acquisition Corp. and ERG Acquisition Corp., sold substantially all of the assets Lexecon and its subsidiaries used in their economic consulting business to FTI.

We are currently reviewing opportunities with the goal of maximizing our resources and increasing stockholder value. We believe that an increase in stockholder value will be best obtained through the acquisition of one or more on-going businesses or operations. To that end, we have retained an investment-banking firm to assist in the identification and selection of appropriate acquisition and merger candidates.

As a result of the Asset Sale, Nextera ceased to have business operations. All results from consulting operations have been classified as discontinued operations. The continuing operations in the financial statements consist of operating expenses incurred in operating the corporate entity. Selling, general and administrative expenses consist primarily of salaries and benefits of certain senior management and other administrative personnel and facility, information technology, insurance, legal and professional, marketing and promotional costs. These expenses are associated with our efforts to identify and develop new business operations and with our management, finance, marketing and administrative activities.

Our tax provision has historically varied from the federal statutory rate of 34% predominately due to deferred tax valuation allowance adjustments, the utilization of net operating losses, and state and local taxes.

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COMPARISON OF THREE MONTHS ENDED JUNE 30, 2004 AND THREE MONTHS ENDED JUNE 30, 2003

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 32.7%, or $0.3 million, to $0.7 million for the three months ended June 30, 2004 from $1.0 million for the three months ended June 30, 2003. The decrease in selling, general and administrative expenses from the second quarter of 2003 was primarily attributed to the following components: a decrease of $0.1 million in promotion expenses due to the termination of the Company s investor relations firm and public relations firm along with cost savings associated with the production of the Annual Report; a $0.1 million decrease in insurance expense; and a $0.1 million decrease in facilities and compensation expense associated with a reduced overhead structure. The Company anticipates that selling, general, and administrative expenses will approximate $0.7 million per quarter under the Company s current structure. If the Company acquires a business during 2004, it is expected that the selling, general, and administrative expenses will materially exceed the $0.7 million per quarter.

Interest Income, Net. Interest Income, net was $0.04 million for the three months ended June 30, 2004. Interest expense in the second quarter of 2003 was included within discontinued operations as the debt related to the interest expense was repaid, as required, as part of the Asset Sale.

Income taxes. No federal tax benefit was recorded for the three months ended June 30, 2004 and 2003 due to the Company s uncertainty associated with utilizing its net operating losses.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2004 AND THREE MONTHS ENDED JUNE 30, 2003

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 31.6%, or $0.6 million, to $1.5 million for the six months ended June 30, 2004 from $2.1 million for the six months ended June 30, 2003. The decrease in selling, general and administrative expenses from the first six-months of 2003 was primarily attributed to the following components: a decrease of $0.3 million in promotion expenses due to the termination of the Company s investor relations firm and public relations firm along with cost savings associated with the production of the Annual Report; a $0.1 million decrease in compensation expense primarily attributed to the resignation of the Company s former Chief Executive Officer in February 2003; and a $0.1 million decrease in insurance expense. The Company anticipates that selling, general, and administrative expenses will approximate $0.7 million per quarter under the Company s current structure. If the Company acquires a business during 2004, it is expected that the selling, general, and administrative expenses will materially exceed the $0.7 million per quarter.

Special Charges. In connection with the resignation of the Company s former Chief Executive Officer, David Schneider, in the first quarter of 2003, the Company incurred a $1.9 million charge. Approximately $0.8 million of the charge related to salary continuance until February 2004 and approximately $1.1 million related to a non-cash charge for fully vested options, with an exercise price of $2.00 per share, which was previously being expensed over the anticipated service period. In accordance with the original employment agreement, Mr. Schneider was to be granted a bonus, if and only if the above mentioned options vested and became exercisable, equal to the exercise price of the options at the time of the exercise of the options. The portion of the option exercise price bonus not expensed at the time of the resignation of Mr. Schneider was required to be expensed immediately and recorded in equity due to the accelerated vesting of the options which occurred as a result of the resignation.

Interest Income, Net. Interest Income, net was $0.08 million for the six months ended June 30, 2004. Interest expense in the first six months of 2003 was included within discontinued operations as the debt related to the interest expense was repaid, as required, as part of the Asset Sale.

Income taxes. No federal tax benefit was recorded for the six months ended June 30, 2004 and 2003 due to the Company s uncertainty associated with utilizing its net operating losses.

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LIQUIDITY AND CAPITAL RESOURCES

Consolidated working capital was $17.0 million on June 30, 2004, compared with working capital of $18.3 million on December 31, 2003. Included in working capital were cash and cash equivalents of $17.6 million and $20.1 million on June 30, 2004 and December 31, 2003, respectively.

Net cash used in operating activities was $2.4 million for the six months ended June 30, 2004. The primary components of net cash used in operating activities was a net loss of $1.4 million; a decrease in accounts payable of $2.4 million due primarily to the payment of $1.2 million related to Company s 2003 federal tax liability along with a $0.7 million profit sharing plan contribution; and the payment of $0.2 million of restructuring obligations related to the final salary continuation payment to the Company s former Chief Executive Officer, David Schneider, and the final settlement of a lease obligation. Partially offsetting the cash used in operating activities was the collection of approximately $0.5 million of accounts receivable; the collection of approximately $0.4 million of the Asset Sale proceeds that were held in escrow; and the collection of approximately $0.3 million of cash which had been acting as collateral for a letter of credit which was subsequently terminated.

Net cash provided by investing activities was not material for the six-months ended June 30, 2004. The Company anticipates that its capital expenditures for 2004 will be immaterial, unless it acquires business operations. In such case, capital expenditures may be materially increased.

Net cash used in financing activities was not material for the six-months ended June 30, 2004.

The Company s primary source of liquidity is cash on hand. The Company believes that its current cash on hand is sufficient to meet all expenditures over the next twelve months. The Company is in the process of identifying opportunities to acquire one or more operating businesses and expects that it will use a combination of cash on hand, third party debt, and the Company s equity securities to acquire any such on-going businesses or operations. We believe that additional liquidity sources, if necessary, could be obtained by borrowing funds from a third party or raising equity through a public or private transaction.

Critical Accounting Policies

Our Condensed Consolidated Financial Statements have been prepared with accounting principles generally accepted in the United States of America. Preparation of these financial statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting polices and a description of accounting policies that are considered critical may be found in our 2003 Annual Report on Form 10-K, filed on March 26, 2004, in the Notes to the Consolidated Financial Statements, Note 2 and the Critical Accounting Policies Section.

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Factors That May Affect Our Future Performance

You should carefully consider the following risk factors in your evaluation of our company. If any of the following risks actually occur it could materially harm our business and impair the price of our stock.

We will likely liquidate if we are unable to acquire a new business by December 2004.

We are in the process of identifying new business acquisition opportunities for Nextera in order to maximize the use of our assets and balance sheet. We do not intend to continue our corporate existence beyond December 2004 without having tangible business operations. If we cannot successfully acquire such new business operations before December 2004, then it is likely that we will commence a process to liquidate Nextera. If we liquidate, no assurance can be given as to the amount or timing of when funds will be available to distribute to our stockholders, whether from the proceeds of the Asset Sale or elsewhere.

The Asset Purchase Agreement will expose us to contingent liabilities.

In accordance with the Asset Purchase Agreement, we agreed to indemnify FTI for a number of matters including the breach of our representations, warranties and covenants contained in the Asset Purchase Agreement. These representations, warranties and covenants related to organization, corporate, financial statement, business, operational, tax, legal, insurance, intellectual property, title to assets, employee, labor, leases, environmental, record keeping, contracts, permits, licenses, authorizations, solvency, cooperation and other matters. A breach or inaccuracy of any of these representations, warranties and covenants could lead to an indemnification claim by FTI against us. Any such indemnification claims could require us to pay substantial sums and incur related costs and expenses and have a material adverse effect on our liquidity, financial condition, future prospects and ability to acquire a new operating business.

Our ability to utilize our net operating loss carryforward may be limited or eliminated in its entirety.

As of June 30, 2004, we had approximately $45.0 million of net operating loss carryforwards that expire in 2022, for which a 100% valuation allowance has been recorded. The utilization of this net operating loss carryforward in the future is dependent upon our having U.S. federal taxable income. Currently, we have no business operations and are unable to generate U.S. federal taxable income to utilize the net operating loss carryforwards. We will likely need to acquire an operating business in order to generate such taxable income. Even if we are able to acquire an operating business, there can be no assurance that we will be able to generate taxable income in the future. Furthermore, the likelihood of an annual limitation on our ability to utilize the net operating loss carryforward to offset future U.S. federal taxable income is increased by (1) the issuance of common stock, certain convertible preferred stock, options, warrants, or other securities exercisable for common stock, (2) changes in the equity ownership occurring in the last three years and (3) potential future changes in the equity ownership. The amount of an annual limitation can vary significantly based on factors existing at the date of an ownership change. A substantial portion of the net operating loss was used to offset our federal tax liability, other than alternative minimum tax, generated by the Asset Sale. If the net operating loss carryforward were to be determined to be subject to annual limitations prior to its utilization to offset the taxable gain from the Asset Sale, our federal tax liability and the net operating loss could be materially different and our financial position could be adversely affected. Such limitations could have a material adverse impact on our financial condition, results of operations and cash flows.

The delisting of our Class A Common Stock from the Nasdaq SmallCap Market may make our Class A Common Stock more difficult to trade, harm our business reputation and adversely affect our ability to raise funds in the future.

Our Class A Common Stock was delisted from the Nasdaq SmallCap Market on November 28, 2003 due to our failure to have an operating business after the Asset Sale. As a result of the delisting, our common stock may be more difficult to trade and we may suffer harm to our general business reputation and have greater difficulty in the future raising funds in the capital markets. Each of these consequences could have a material adverse effect on our business, results of operations and financial condition. We currently do not meet Nasdaq s initial listing requirements to be re-listed on the Nasdaq SmallCap Market because we do not have business operations and do not satisfy the minimum bid price requirement.

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Knowledge Universe, LLC controls 71.7% of the voting power of our stock and can control all matters submitted to our stockholders and its interests may be different from yours.

Knowledge Universe, LLC owns 8,810,000 shares of Class A Common Stock, 3,844,200 shares of Class B Common Stock, and 44,060 shares of our Series A Preferred Stock, which combined represents approximately 71.7% of the voting power of our outstanding common and preferred stock. The Class A Common Stock entitles its holders to one vote per share, and the Class B Common Stock entitles its holders to ten votes per share, on all matters submitted to a vote of our stockholders, including the election of the members of the Board of Directors. Holders of Series A Preferred Stock are entitled to 145 votes per share, which equals the number of whole shares of Class A Common Stock into which one share of Series A Preferred Stock is convertible. Accordingly, Knowledge Universe, LLC will be able to determine the disposition of all matters submitted to a vote of our stockholders, including mergers, transactions involving a change in control and other corporate transactions and the terms thereof. In addition, Knowledge Universe, LLC will be able to elect all of our directors. This control by Knowledge Universe, LLC could materially adversely affect the market price of the Class A Common Stock or delay or prevent a change in control of our company.

Knowledge Universe, LLC was formed by Lawrence J. Ellison, Michael R. Milken and Lowell J. Milken to build, through a combination of internal development and acquisitions, leading companies in a broad range of areas relating to career management, technology and education and the improvement of individual and corporate performance. Knowledge Universe, LLC. may form, invest in or acquire other businesses which are involved in these and related areas, among others, which businesses may be operated under the direct or indirect control of Knowledge Universe, LLC independently of us. Potential conflicts of interest between Knowledge Universe, LLC and us may arise and may not be resolved in our favor. These potential conflicts of interest include competitive business activities, indemnity arrangements, registration rights, sales or distributions by Knowledge Universe, LLC of our Class A, Class B Common Stock or Series A Preferred Stock and the exercise by Knowledge Universe, LLC of its ability to control our management and affairs. This control and the potential conflicts of interest it creates could limit our future independence and harm our reputation.

We were formed in February 1997 by entities which were under the direct or indirect control of Lawrence J. Ellison, Michael R. Milken and Lowell J. Milken. After our formation, ownership of our common stock originally held by our founding entities was transferred to Knowledge Universe, LLC. Lawrence J. Ellison, Michael R. Milken and Lowell J. Milken may each be deemed to have the power to control Knowledge Universe, LLC. As a result, Lawrence J. Ellison, Michael R. Milken and Lowell J. Milken may each be deemed to have the power to direct the voting and disposition of, and to share beneficial ownership of, any shares of common stock owned by Knowledge Universe, LLC.

We have a history of losses and there is no assurance that we can achieve or sustain profitability in the future.

Since our inception in February 1997, we have incurred, on an historical basis, net losses of $3.0 million and $17.2 million for the years ended December 31, 1997 and 1998, respectively, and net losses of $24.0 million and $117.5 million for the years ended December 31, 2000 and 2001, respectively.

Currently, we have no business operations and are not profitable. There is no assurance that if even if we are able to acquire business operations that we will be profitable in the future.

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Our stock price may be volatile and you could lose all or part of your investment.

We expect that the market price of our common stock will be volatile. Stock prices have risen and fallen in response to a variety of factors, including:

- quarter-to-quarter variations in operating results;
- market conditions in the economy as a whole.

The market price for our common stock may also be affected by our ability to meet investors or securities analysts expectations. Any failure to meet these expectations, even slightly, may result in a decline in the market price of our common stock. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against that company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management s attention and resources.

Provisions in our charter documents and Delaware law may delay or prevent an acquisition of us, which could decrease the value of our common stock.

Provisions of our certificate of incorporation and bylaws and provisions of Delaware law could delay, defer or prevent an acquisition or change of control of us or otherwise decrease the price of our common stock. These provisions include:

- authorizing our board of directors to issue additional preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent; and
- establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are not currently exposed to changes in interest rates because we do not have any borrowings.

Foreign Currency Risk

We are not currently exposed to foreign currency risk because we do not currently have business operations and related sales and expenses.

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Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to the Company s management, including its President and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. 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 is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Company s President and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in the Company s internal controls over financial reporting during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

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PART II OTHER INFORMATION

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

On May 24, 2004, an annual meeting of the stockholders of Nextera was held in Boston, Massachusetts. At the meeting, each director that was a member of the Board of Directors immediately prior to the Annual Meeting was re-elected. The matters voted upon and the votes cast at the annual meeting were as follows:

Election of Directors	Votes For	Votes Withheld
Ralph Finerman	70,816,342	589,561
Steven B. Fink	70,815,952	589,951
Keith D. Grinstein	71,226,511	179,392
Alan B. Levine	71,225,011	180,892
Stanley E. Maron	70,807,719	598,184
Richard V. Sandler	70,796,819	609,084
Karl L. Sussman	71,217,711	188,192

Other Matters Voted Upon	For	Votes Against	Abstentions	Broker Non-Votes
2. Ratification of the selection of Ernst & Young LLP as the independent auditors for the fiscal year ending December 31, 2004.	71,152,521	206,692	46,690	

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31 Rule 13a-14(a)/15(d)-14(a) Certification

32 Section 1350 Certification

(b) Reports on Form 8-K

1. A Current Report on Form 8-K filed on April 30, 2004 regarding a press release issued with financial information for the first quarter ended March 31, 2004.

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SIGNATURES

Pursuant to the requirements 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.

	NEXTERA ENTERPRISES, INC. (Registrant)
Date: August 16, 2004	By: /s/ Michael P. Muldowney
	Michael P. Muldowney President and Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)
Date: August 16, 2004	By: /s/ Michael J. Dolan
	Michael J. Dolan Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)

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