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ALEC BRADLEY CIGAR CORP/FL
Form 10KSB
March 30, 2005

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

Commission file number 0-32137

Alec Bradley Cigar Corporation

(Name of Small Business Issuer in its Charter)

Florida

65-0701352

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

3400 S.W. 26th Terrace, #A-1, Dania, Florida 33312

(Address of Principal Executive Offices) (Zip Code)

(954) 321-5991

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Act:

| Title of Each Class ----- | Name of Each Exchange on Which Registered ----- |
|------------------------------|--|
| None | None |

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.0001 par value

(Title of Class)

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 []

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. []

State issuer's revenues for its most recent fiscal year. \$2,392,858

State the aggregate market value of the voting stock held by non-affiliates (1,104,777) computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days (\$.15 on March 25, 2005). \$165,716.55.

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APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: March 25, 2005: 4,499,777 Shares of Common Stock.

Transitional Small Business Disclosure Format (Check One):

Yes [] No [X]

DOCUMENTS INCORPORATED BY REFERENCE

- None -

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

GENERAL

Alec Bradley Cigars was organized under the laws of the State of Florida on July 15, 1996. The Company is an importer and distributor of cigars. The Company's executive offices are located at 3400 SW 26 Terrace # A-1, Dania, Florida 33312 and its telephone number is (954) 321-5991.

DESCRIPTION OF OPERATIONS

The Company is a cigar importer and distributor. The Company initially imported and distributed a line of cigars to golf pro shops and country clubs nationwide under the name "Bogey's Stogies." The Company currently imports and distributes several cigar lines.

The Company primarily sells to two types of customers:

1. Distributors, including wine and liquor wholesalers; and
2. Retailers, which includes tobacco shops, convenience stores, bars, restaurants and country clubs.

BACKGROUND OF THE INDUSTRY

In 1993 the cigar industry began to experience a dramatic increase in demand from consumers. This created a sizable increase in the number of both cigar manufacturers and retail tobacconists and distributors. Through the end of 1997, many of the cigar manufacturers were able to sell their entire production. However, by early 1998, the supply of cigars from the larger manufacturers exceeded demand from the retail tobacconists and distributors thereby causing the market to be flooded with cigars. This had an adverse effect on manufacturers, retailers and distributors. However, Bureau of Alcohol, Tobacco

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and Firearms Monthly Statistical Releases show that the industry remains strong. Recent statistical releases indicate that cigars are being imported from foreign manufacturers at increasing levels. These releases can be found at www.atf.treas.gov.

COMPANY CIGARS

Cigars distributed by the Company include, but are not limited to, the following:

Trilogy

Trilogy is one of the most unique cigar in today's market features the new triangular Trilogy Press. Each of the three blends (Cameroon, Corojo, and Maduro) is specifically designed to enhance the flavor characteristics of the wrapper. Trilogy is available in boxes of 20 cigars.

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Trilogy Ovation

Like Trilogy, our Trilogy Ovation offers a choice of Cameroon, Corojo and Maduro wrappers. Each blend is a bold version of our original Trilogy and is available in 2 sizes, with a 54 ring in lengths of 5 1/4 and 6 1/2. Trilogy Ovation is available in a lacquered humidor box of 20 cigars.

Special Blends

Special Blends is a hand made cigar from the Dominican Republic. Special Blends are packaged in bundles of 25 and wood bulk packages of 100 cigars. This cigar retails from \$1.50 to \$2.50 per cigar.

Spirit of Cuba

Spirit of Cuba is hand made in Honduras. This sandwich filler cigar is priced at a retail level of under \$35.00 a box and comes in Connecticut Shade, Habano, and Corojo wrappers. It is available in Churchill and Robusto sizes in boxes of 25.

Occidental Reserve

Occidental Reserve is a premium cigar manufactured by one of the top producers of premium cigars in the Dominican Republic. The Occidental Reserve is produced with filler from the Dominican Republic and is finished with a US Connecticut wrapper. We believe this cigar directly competes in quality with cigars that are priced higher than the retail cost of the Occidental Reserve. It is available in 5 of the most popular sizes, a corona, robusto, toro, churchill and torpedo, and is sold in bundles of 25. The Occidental Reserve is also available in a Broadleaf Maduro wrapper.

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Havana Sun Grown -----

Havana Sun Grown is a ultra premium cigar hand rolled in the Dominican Republic. This cigar is a medium to full bodied cigar with complex flavor profiles. It is unique in that the wrapper is a US Connecticut - Havana hybrid, which is only available on this cigar. The Havana Sun Grown is available in the same sizes as our Occidental Reserve. Packaged in wooden boxes of 20 cigars, this cigar retails under \$5.00 making it a very affordable super premium cigar.

Pryme Limited Edition Gold Series -----

Pryme Gold Series is a limited edition release and is limited not by choice but by necessity. The supply of wrapper in the construction of Pryme is the dark Ecuador corona leaf and is very limited. Only 10 percent of the annual yield can be classified as wrapper and only the top 20 percent was graded and chosen for Pryme's production. Only 1,500 numbered boxes per size will be produced. This cigar is available in 4 sizes and packaged in a wooden box of 20 cigars.

PURCHASING AND DISTRIBUTION

The Company purchases and imports the majority of its cigars from cigar manufacturing plants in Honduras, Nicaragua and the Dominican Republic.

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Occidental Cigar Corporation, the Company's supplier from the Dominican Republic, is a leading manufacturer of premium cigars. They produce the Company's Occidental Reserve, Special Blends and Havana Sun Grown cigar lines. Located in Santiago, Dominican Republic, Occidental Cigar Corporation occupies a 20,000 square foot building and produces 15,000,000 cigars annually. Occidental Cigar Corporation stocks over 3 years of raw material that includes wrapper, filler and binder. This stock of raw material assures consistent quality and sufficient production supply for several years.

Tabacalera Endemano, located in Danli, Honduras, is the Company's supplier of the Company's Spirit of Cuba cigars.

Latin Cigars de Honduras, located in Danli, Honduras is the Company's supplier of the Trilogy, Ovation Maduro and Cameroon lines.

The Company does not have any agreements with cigar manufacturers. Purchases are made on a per order basis. The Company pays all shipping costs.

CUSTOMERS

The Company has increased its customer base to approximately 1,000 customers. The Company's biggest customer represented approximately 6% of total sales revenue. Presently, the Company does not have any customers who account for more than 6% of the Company's sales. In 2004, the Company's 5 largest customers accounted for an aggregate of approximately 15% of total sales.

OTHER PROJECTS

As the Company continues to expand and improve on its current wholesale and retail programs, it maintains its focus on creating ways of supplying cigars to the public. These include:

Mail Order Companies -----

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The Company's intent is to focus on dealing with catalog companies with large sources of distribution. To date, the Company has 2 active mail order customers. Mail order companies generally sell to the final consumers, which will continue to help bring public awareness to the Company's product lines. Payment received when selling to a catalog company has not been significantly less than payments received from traditional customers.

Alec Bradley Direct

The Company has created a direct sales approach, which includes bi-monthly marketing via fax and daily in-house telemarketing. In order to increase distribution and product exposure, the Company has approached wholesale distributors and is hiring additional independent brokers to help support the retailers and introduce the Company's products to new customers. However, by marketing via broadcast fax and an in-house telemarketing staff the Company will continue to create and nurture relationships directly with the customers.

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Personalized and Customized Cigar Band Program

Alec Bradley, in conjunction with an outside consultant, has developed a computer system for creating high quality, metallic ink cigar label bands. This technology allows the Company to produce small run (25 to 3,000) high quality personalized and customized private labeled cigars for a corporation, bar, restaurant or event. The Company receives additional revenues from this technology by selling personalized and customized bands to corporations, bars, restaurants and special events on a per order basis.

The Company is able to create house brands for retail tobacconists utilizing the Occidental Reserve cigar and attaching customized private label cigar rings. The Company, on a per order basis, can provide a customer with a personally labeled cigar. Customers are under no contractual obligations, as they purchase personalized cigars on an order per order basis. These retail tobacconists who normally cannot order large enough quantities to entice a manufacturer to make a personalized product, can benefit by being able to order small quantities from the Company as needed from this program. Management believes the Company will gain additional revenues by selling small quantities of personalized and custom cigars at slightly higher profit margins. No contracts are required for this program.

The Company has produced custom bands for the Gulfstream Race Track, the Carquest Bowl, Tyson Foods, and many restaurants.

COMPETITION

The Company experiences competition with respect to its cigar distribution. The cigar distribution industry is highly competitive. The Company believes that as a distributor of premium cigars, it competes with a smaller number of domestic and foreign companies that specialize in premium cigars, and certain larger companies that maintain premium cigar lines, including Altadis and Swedish Match. The Company competes effectively within this industry by consistently purchasing high quality cigars and distributing them at an affordable price to its customers. The Company believes that it can grow by following this fundamental principle. The Company is continually seeking

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manufacturers that can provide the highest quality cigars at the lowest possible prices.

GOVERNMENT REGULATION

The Company as an importer of cigars is required to have an importer permit from the Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms. The Company applied for and has been granted Permit Number FL-TI-127. Management believes any future regulations including affixing warning labels on products, the tobacco buyout assessment, regulations on tobacco advertising, and limits on public smoking areas will be met with full compliance and will not affect the Company's potential for continued growth. We believe the material costs to comply with governmental regulation will be negligible. Furthermore, management anticipates that there are no additional existing or probable governmental regulation to effect its business. The Company complies with all environmental laws. The costs of compliance with such laws are not material to the Company.

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RESEARCH AND DEVELOPMENT

Currently, the Company is not involved in any research and development projects. Over the past two years, the Company has not spent any capital on research and development. The Company does not plan on incurring any research and development costs in the near future.

EMPLOYEES

The Company currently employs five individuals and has nine independent sales representatives. Of its employees, two are engaged in sales and marketing; two in executive and administrative roles; and the remaining employee is engaged in shipping and receiving. None of the Company's employees are covered by any labor union. The Company believes its relationships with its employees are generally good. The Company does not have employment contracts or agreements with any of its employees.

TRADEMARKS

The Company has trademarked the name Bogey's Stogies. The Company has applied for other trademarks for the cigars it distributes including Occidental Reserve, Trilogy, Spirit of Cuba, Special Blends, Double Broadleaf, Pryme, and Havana Sun Grown, but these applications are pending.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company previously occupied office and warehouse facilities pursuant to a month-to-month operating lease agreement. Rent expense for the years ended December 31, 2003 and 2002 was \$16,200 and \$12,000, respectively. During 2003, the Company's monthly rent payments for the premises increased from \$1,400 to \$1,600 per month. During the second fiscal quarter 2004 the Company entered into a new lease agreement for office and warehouse facilities. Future minimum payments under the new lease agreement are currently as follows:

| Year | Amount |
|------|-----------|
| ---- | ----- |
| 2005 | \$ 36,000 |
| 2006 | \$ 36,000 |
| 2007 | \$ 9,000 |

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ITEM 3. LEGAL PROCEEDINGS.

As of the date of this report, the Company is not a party to any pending legal proceeding and is not aware of any threatened legal proceeding.

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

No matters were submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR COMMON EQUITY

The Company's Common Stock currently trades on the OTC Bulletin Board under the symbol ABDC. The stock is thinly traded and transactions in the stock are sporadic and infrequent. On March 25, 2005, the Closing bid and asked price of our Common Stock was \$.15. The following table sets forth the high and low bid quotations for the Common Stock for the periods indicated. These quotations, as reported by Bloomberg, reflect prices between dealers, do not include retail mark-ups, markdowns, commissions and may not necessarily represent actual transactions.

| Period ----- | High ----- | Low ----- |
|------------------|---------------|--------------|
| 1st quarter 2003 | \$0.03 | \$0.03 |
| 2nd quarter 2003 | \$0.04 | \$0.02 |
| 3rd quarter 2003 | \$0.08 | \$0.02 |
| 4th quarter 2003 | \$0.08 | \$0.04 |
| 1st quarter 2004 | \$0.18 | \$0.04 |
| 2nd quarter 2004 | \$0.20 | \$0.10 |
| 3rd quarter 2004 | \$0.20 | \$0.05 |
| 4th quarter 2004 | \$0.25 | \$0.10 |

As of the date of this report, there were approximately 50 holders of record of the Company's Common Stock.

The Company has never paid a cash dividend on its Common Stock nor does the Company anticipate paying cash dividends on its Common Stock in the near future. It is the present policy of the Company not to pay cash dividends on the Common Stock but to retain earnings, if any, to fund growth and expansion. Any payment of cash dividends on the Common Stock in the future will be dependent upon the Company's financial condition, results of operations, current and anticipated cash requirements, plan for expansion, as well as other factors the Board of Directors deems relevant.

RECENT SALES OF UNREGISTERED SECURITIES AND OTHER MATTERS

None.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

INTRODUCTION

The following discussion is based upon, and should be read in conjunction with, the audited consolidated financial statements of the Company as of and for the years ended December 31, 2004 and 2003, together with the notes to the financial statements.

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RESULTS OF OPERATIONS

Year ended December 31, 2004 as compared to year ended December 31, 2003

Revenues

Revenues for 2004 were \$2,392,858, a decrease of \$2,416 from \$2,395,274 for 2003. The Company's sales of its Trilogy line of cigars decreased by approximately \$275,000 from 2003 to 2004 and the Company eliminated two lines (Criollo 98 and gourmet flavored cigars), which accounted for an additional \$108,000 decrease in sales in 2004 as compared to 2003. To offset these losses in sales, the Company introduced its Pryme line during the 4th quarter of 2004. Sales were over \$100,000 during the limited sales period. The Company's Spirit of Cuba line introduced in late 2003 increased over \$140,000 in sales in 2004 as compared to 2003. While gross volume remained relatively flat, the Company had an increase in sales of the number of units resulting from the sale of lower cost cigars. The Company's gross profit was \$941,883, an increase of \$25,466, or 2.8%, from \$916,417. The increase in gross profit is attributable to the change in the product sales mix.

As a result of increasing the number of sales representatives the Company has increased its number of customers to over 1,000. This caused a reduction in sales concentration from 2003 when the largest customer accounted for approximately 25% of sale as compared to 2004 when the three largest customers account for less than 18% as a group. As such, the Company does not currently rely on any of its customers for a material amount of its revenues.

Selling Expenses

Selling expenses for 2004 were \$402,595, an increase of \$43,343, or 12.1%, from \$359,252 in 2003. Selling expenses include all compensation and related benefits for the sales personnel and advertising and promotional costs. The increase in selling expenses was primarily attributable to the increase in advertising costs of approximately \$38,000 in 2004 as compared to 2003. Selling expenses represented 16.9% of revenues in 2004, compared to 15.0% in 2003.

General and administrative expenses

General and administrative expenses for 2004 were \$441,316, an increase of \$17,404, or 4.1%, from \$423,912 in 2003. General and administrative expenses primarily include salaries, supplies, and general operating expenses. The increase in general and administrative expenses is attributable to the increases in rent and occupancy costs of \$21,000 and local travel of \$11,000 partially

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offset by reductions in payroll and related taxes \$21,500. General and administrative expenses represented 18.4% of revenues in 2004, compared to 17.7% in 2003.

Liquidity and Capital Resources

During 2004, cash utilized by operations was approximately \$92,600 and primarily resulted from decreases in accounts payable of \$286,405, taxes payable of \$20,055 and an increase supplies inventories of \$32,300. This was offset by income from operations plus the effect of non-cash items (depreciation expense). The Company's cash balance as of December 31, 2004 increased by approximately \$5,300 from December 31, 2003 to \$113,617.

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The Company's working capital was approximately \$282,200 at December 31, 2004, compared to approximately \$227,000 at December 31, 2003. The increase in working capital was primarily attributable to Company profits of approximately \$73,700 plus the effect of net of non-cash items (depreciation expense) of approximately \$4,100. This increase was partially offset by purchases of other non-current assets (trademarks, equipment and security deposits).

The Company has negotiated with major suppliers extended credit terms for new products being developed through these suppliers. The Company has established a \$100,000 line of credit with its bank, which renews in March 2005. Additionally, the Company has received a term loan from its officer and director in the amount of \$150,474. This loan is repayable in monthly installments of \$10,000 plus interest payable at 5% per month and matures in December 2005.

In late 2004, the Company launched its "Pryme Limited Edition Gold Series" line of cigar targeted at the upper mid-range customer, which has been well received by the cigar smoking community. During mid-year 2005, the Company plans to launch an "Alec Bradley Medalist Label" targeted at the mid-range retail customer. The Company is continuing its development of new product blends to expand its sales.

Management believes that the cash generated from the Company's operations and the existing credit terms will be adequate to support its short-term cash requirements for capital expenditures and maintenance of working capital.

ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting where revenues are recognized upon shipment of merchandise to the customer and expenses are recognized in the period in which they are incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes as required by Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of certain

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assets and liabilities. Deferred income taxes are measured by the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability. Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized.

Inventory

Inventory consists primarily of cigars, humidors, displays, boxes and labels and is stated at the lower of cost (first-in, first-out) or market.

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Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comprehensive Income or Loss

The Company has no components of other comprehensive income or loss. Accordingly, net income or loss equals comprehensive income or loss for all periods presented.

CRITICAL ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") has recently issued several new accounting pronouncements which may apply to the Company.

In April 2002, the FASB issued Statement No. 145 Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. This statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. Any gain or loss on the extinguishment of debt that was classified as an extraordinary item in prior periods has been reclassified into continuing operations.

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Prior to this statement, a liability was recognized when the entity committed to an exit plan. Management believes that this statement will not have a material impact on the Company's financial statements; however, the statement will result in a change in accounting policy associated with the recognition of liabilities in connection with future restructuring charges.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others. This interpretation elaborates on the

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disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This interpretation also incorporates, without change, the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others, which is being superseded.

In December 2002, the FASB issued Statement No. 148 Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide

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alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In January 2003, the FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities. The interpretation defines a variable interest entity as corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights nor (b) has equity investors that do not provide sufficient financial resources for the equity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. This interpretation requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company would have to consolidate any of its variable interest entities that meet the above criteria as of July 1, 2003. The interpretation also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. Management is in the process of determining if its interests in unconsolidated entities qualify as variable interest entities and, if so, whether the assets, liabilities, non-controlling interest, and results of activities are required to be included in the Company's consolidated financial statements.

In May 2003, the FASB issued Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Company is currently classifying financial instruments within the scope of this Statement in accordance with this Statement. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not believe that this Statement will have a material impact on the Company's financial statements.

ITEM 7. FINANCIAL STATEMENTS.

The information required by Item 310 (a) of Regulation S-B is included

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herein elsewhere in this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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ITEM 8A. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The Directors and Executive Officers of the Company are as follows:

| Name | Age | Positions Held |
|---------------|-----|---|
| ---- | --- | ----- |
| Alan V. Rubin | 43 | Director, Chief Executive Officer, President and Principal Financial Officer |

Alan Rubin has served as a director and officer of the Company since its inception. Alan Rubin served as vice president of All Point Screw Bolt & Specialty Co., a distributor and direct importer of fasteners and building products from 1984 to 1996. Mr. Rubin attended the University of Florida.

The Company's directors are elected at the annual meeting of stockholders and hold office for one year and until their successors are elected and qualified. The Company's officers are appointed by the Board of Directors and serve at the pleasure of the Board. The Directors do not currently receive fees for their services as directors.

Code of Ethics

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During the year ended December 31, 2003, the Company adopted a Code of Ethics. The code applies to the Company's officers and directors. The code provides written standards that are designed to deter wrongdoing and promote: (1) honest and ethical conduct; (2) full, fair, accurate, timely and understandable disclosure; (3) compliance with applicable laws and regulations;

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(4) prompt reporting of internal violations of the code; and (5) accountability for the adherence to the code.

Committees

To date, the Company has not established a compensation or audit committee. The board of directors, solely consisting of Alan Rubin, reviews the professional services provided by the Company's independent auditors, the independence of the Company's auditors from its management, the Company's annual financial statements and its system of internal accounting controls. Alan Rubin does not qualify as a "financial expert" as defined under Item 401 of Regulation S-B.

Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of its outstanding common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock. These persons are required by SEC regulation to furnish the Company with copies of these reports they file.

To the Company's knowledge, based on a review of the copies of reports furnished to it, Section 16(a) filing requirements applicable to the Company's officers, directors and greater than ten percent beneficial owners were not complied with on a timely basis for the period which this report relates.

ITEM 10. EXECUTIVE COMPENSATION

Executive Compensation

Commencing January 2001, Mr. Rubin has been paid a weekly salary of \$2,000 as economic conditions permit the Company to do so. When the payment of his salary is not feasible, no accrual will be made on the Company's financial records, rather the expense will be accrued as a capital contribution.

The following table sets forth compensation awarded to, earned by or paid to our sole officer and director for the past 3 years. We have not granted any stock options, restricted stock awards or stock appreciation rights or made any long term incentive plan payments.

Summary Compensation Table

| Name | Year | Salary(\$) | Bonus(\$) | Other Annual Compensation |
|------------|------|------------|-----------|---------------------------|
| Alan Rubin | 2004 | \$104,000 | \$ 2,000 | \$15,912 (3) |
| | 2003 | \$104,000 | \$10,000 | \$12,300 (1) |
| | 2002 | \$104,000 | \$10,000 | \$23,550 (2) |

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- (1) Mr. Rubin received approximately \$525 per month for automobile lease expenses and approximately \$500 per month for automobile expense reimbursement. In addition, the Company has paid Mr. Rubin's health insurance.
- (2) Includes 250,000 shares of common stock issued in June 2002 valued at \$11,250.
- (3) Mr. Rubin received approximately \$826 per month for automobile lease expenses and approximately \$500 per month for automobile expense reimbursement. In addition, the Company has paid Mr. Rubin's health insurance.

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Stock Options and SARs

Since inception, the Company has issued no stock options nor SARs.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

As of the date of this report, there were 4,499,777 shares of the Company's Common Stock issued and outstanding. The following table sets forth information with respect to the beneficial ownership of each class of voting securities of the Company by: (1) each person known by the Company to be the owner of more than 5% of the outstanding shares of any class of voting securities; (2) each officer and director; and (3) all officers and directors as a group.

| Name and Address ----- | Beneficial Ownership | |
|--|----------------------|----------------------|
| | Shares ----- | % of Shares ----- |
| Alan V. Rubin 3400 S.W. 26th Terrace, #A-1 Dania, FL 33312 | 2,895,000 | 64.3% |
| Bruce A. Ginsberg 2523 Monterey Court Weston, FL 33327 | 500,000 | 11.1% |
| All Executive Officers and Directors as a Group (1 person) | 2,895,000 | 64.3% |

Securities Authorized for Issuance Under Compensation Plans

The Company has not authorized any equity compensation plan, nor has the Company issued any securities pursuant to an equity plan.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On August 13, 2004, the Company entered into an unsecured financing agreement with its sole officer. Under the agreement, the Company borrowed \$150,474 and will repay the loan over a period of not more than 15 months beginning September 2004, at a rate of at least \$10,000 per month plus interest payable at 5% per annum. As of December 31, 2004, the remaining principal balance on the loan was \$120,474. Interest expense paid on this loan was \$2,232 for 2004. The officer and the Company agreed to defer one month's payment until December 31, 2004 with the final payment due by December 31, 2005.

ITEM 13. EXHIBITS, LISTS AND REPORTS ON FORM 8-K.

(a) Exhibits

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 3.0 | Articles of Incorporation(1) |
| 3.1 | Amendment to Articles of Incorporation(1) |
| 3.2 | Bylaws(1) |
| 14.0 | Code of Ethics(3) |
| 16.2 | Letter from Former Independent Auditor(2) |
| 21 | Subsidiaries(1) |
| 31.1 | Rule 13a-14(a)/15d-4(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-4(a) Certification of Principal Financial Officer |
| 32.1 | Section 1350 Certification of Principal Executive Officer |
| 32.2 | Section 1350 Certification of Principal Financial Officer |

- (1) Previously filed on Form 10-SB Registration Statement dated December 19, 2000.
- (2) Previously filed on Form 8-K Current Report dated March 27, 2003.
- (3) Previously filed on the Annual Report on Form 10-KSB for fiscal year ended December 31, 2004

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees to Auditors.

Year ended December 13, 2004

Audit Fees: The aggregate fees, including expenses, billed by the Company's principal accountant in connection with the audit of our consolidated financial statements for the most recent fiscal year and for the review of our financial information included in our Annual Report on Form 10-KSB; and our quarterly reports on Form 10-QSB during the fiscal year ending December 31, 2004 was \$15,630.

Audit Related Fees: The aggregate fees, including expenses, billed by the Company's principal accountant for services reasonably related to the audit for the year ended December 31, 2004 were \$-0-.

Tax Fees: The aggregate fees, including expenses, billed by the Company's principal accountant for tax services were \$-0-.

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All Other Fees: The aggregate fees, including expenses, billed for all other services rendered to the Company by its principal accountant during year 2004 was \$-0-.

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The Board of Directors has considered whether the provisions of the services covered above under the captions "Financial Information Systems Design and Implementation Fees" and "All Other Fees" is compatible with maintaining the auditor's independence.

Year ended December 13, 2003

Audit Fees: The aggregate fees, including expenses, billed by the Company's principal accountant in connection with the audit of our consolidated financial statements for the most recent fiscal year and for the review of our financial information included in our Annual Report on Form 10-KSB; and our quarterly reports on Form 10-QSB during the fiscal year ending December 31, 2003 was \$11,102.00.

Audit Related Fees: The aggregate fees, including expenses, billed by the Company's principal accountant for services reasonably related to the audit for the year ended December 31, 2003 were \$-0-.

Tax Fees: The aggregate fees, including expenses, billed by the Company's principal accountant for tax services were \$-0-.

All Other Fees: The aggregate fees, including expenses, billed for all other services rendered to the Company by its principal accountant during year 2003 was \$-0-.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALEC BRADLEY CIGAR CORPORATION

Date: March 29, 2005

By: /s/ Alan Rubin

Alan Rubin, Principal Executive
Officer and Principal Financial Officer

ALEC BRADLEY CIGAR CORPORATION
FINANCIAL STATEMENTS

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Statements of Changes in Shareholders' Equity

Statements of Cash Flows

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Report of Independent Registered Public Accounting Firm

To the board of directors and shareholders of
Alec Bradley Cigar Corporation
Dania, Florida

We have audited the accompanying balance sheet of Alec Bradley Cigar Corporation as of December 31, 2004 and the related statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards of Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alec Bradley Cigar Corporation as of December 31, 2004, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States.

JEWETT, SCHWARTZ & ASSOCIATES

Hollywood, Florida
March 18, 2005

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ALEC BRADLEY CIGAR CORPORATION
BALANCE SHEET
As of December 31, 2004

ASSETS

CURRENT ASSETS:

| | |
|--|-------|
| Cash and cash equivalents | \$ |
| Accounts receivable, net of allowance for doubtful accounts of \$4,155 | |
| Inventory | |
| Prepaid expenses and other current assets | ----- |

TOTAL CURRENT ASSETS

FURNITURE AND EQUIPMENT, NET

INTANGIBLE ASSETS

TOTAL ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

| | |
|---------------------------------------|-------|
| Accounts payable and accrued expenses | \$ |
| Note payable - related party | |
| Income taxes payable | ----- |

TOTAL CURRENT LIABILITIES

SHAREHOLDERS' EQUITY:

| | |
|--|-------|
| Common stock, \$0.0001 par value, 30,000,000 shares authorized, 4,499,777 shares issued and outstanding | |
| Additional paid-in capital | |
| Retained earnings | ----- |

TOTAL SHAREHOLDERS' EQUITY

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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$

=====

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

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ALEC BRADLEY CIGAR CORPORATION
 STATEMENTS OF INCOME
 For the Years Ended December 31,

| | 2004 | |
|--|--------------|-------|
| | ----- | ----- |
| NET SALES | \$ 2,392,858 | \$ |
| Cost of goods sold | 1,450,975 | |
| | ----- | ----- |
| GROSS PROFIT | 941,883 | |
| | ----- | ----- |
| Operating expenses | | |
| Selling expenses | 402,595 | |
| General and administrative expenses | 441,316 | |
| | ----- | ----- |
| Total operating expenses | 843,911 | |
| | ----- | ----- |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 97,972 | |
| Provision for income taxes | 24,286 | |
| | ----- | ----- |
| NET INCOME | \$ 73,686 | \$ |
| | ===== | ===== |
| Weighted average common shares outstanding - basic and diluted | 4,499,777 | |
| | ===== | ===== |
| Earnings per share - basic and diluted | \$ 0.02 | \$ |
| | ===== | ===== |

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

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ALEC BRADLEY CIGAR CORPORATION
 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 For the Years Ended December 31, 2004 and 2003

| | Common Stock | | Additional | Re |
|---|--------------|--------|------------|---------------|
| | Shares | Amount | Paid-in | Equity |
| | | | Capital | (Accumulated) |
| | | | | Deficit) |
| BALANCE AT DECEMBER 31, 2002 | 4,899,777 | \$ 490 | \$ 479,055 | \$ |
| Cancellation of common stock | (400,000) | (40) | 40 | |
| Adjustment for termination of Subchapter S election (Note 5) | - | - | (405,585) | |
| Net Income | - | - | - | |
| BALANCE AT DECEMBER 31, 2003 | 4,499,777 | \$ 450 | \$ 73,510 | \$ |
| Net Income | - | - | - | |
| BALANCE AT DECEMBER 31, 2004 | 4,499,777 | \$ 450 | \$ 73,510 | \$ |

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

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ALEC BRADLEY CIGAR CORPORATION
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31,

| | 2004 |
|---|-----------|
| | ----- |
| CASH FLOW FROM OPERATING ACTIVITIES: | |
| Net income | \$ 73,686 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 4,080 |
| Changes in current assets and liabilities: | |
| Accounts receivable | 10,909 |
| Inventory | 157,478 |
| Prepaid expenses | (32,323) |
| Accounts payable | (286,405) |
| Increase (decrease) in income taxes payable | (20,055) |
| | ----- |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | (92,630) |
| | ----- |
| CASH FLOW FROM INVESTING ACTIVITIES: | |
| Payment of security deposits | (1,015) |
| Purchase of trademarks | (5,600) |
| Purchase of furniture and equipment | (15,973) |

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| | |
|---|------------|
| NET CASH USED IN INVESTING ACTIVITIES | (22,588) |
| <hr/> | |
| CASH FLOW FROM FINANCING ACTIVITIES: | |
| Proceeds from line of credit | 100,000 |
| Repayment on line of credit | (100,000) |
| Advances from shareholder | 150,474 |
| Repayment of note from shareholder | (30,000) |
| <hr/> | |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 120,474 |
| <hr/> | |
| Net Increase in Cash and Cash Equivalents | 5,256 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 108,361 |
| <hr/> | |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 113,617 |
| <hr/> | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | |
| Cash paid for interest | \$ 5,258 |
| <hr/> | |
| Cash paid for income taxes | \$ 24,286 |
| <hr/> | |

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

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ALEC BRADLEY CIGAR CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004 and 2003

NOTE 1 - SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - Alec Bradley Cigar Corp. (the "Company"), a Florida corporation, was incorporated in July 1996. The Company imports and distributes cigars throughout the United States and Canada, with corporate offices located in Dania, Florida.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting where revenues are recognized upon shipment of merchandise to customers and expenses are recognized in the period in which they are incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents - The Company considers all highly liquid

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debt securities purchased with original or remaining maturities of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Inventories - Inventories consists primarily of cigars, humidors, displays, boxes and labels and is stated at the lower of cost or market value using the first in, first out (FIFO) method of accounting.

Furniture and Equipment, net - Furniture and equipment are recorded at cost, net of accumulated depreciation. Depreciation expense is computed using the straight-line method of accounting over the estimated useful lives of the assets ranging from five to seven years.

Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of - In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Practice Bulletin ("APB") Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion).

This statement establishes the accounting model for long-lived assets to be disposed of by sale and applies to all long-lived assets, including discontinued operations. This statement requires those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The Company adopted SFAS No. 144 in the fiscal year ending October 31, 2002.

SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121.

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ALEC BRADLEY CIGAR CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004 and 2003

Intangible Assets, net - The Company accounts for intangible assets in accordance with SFAS 142. Generally, intangible assets with indefinite lives, and goodwill, are no longer amortized; they are carried at lower of cost or market and subject to annual impairment evaluation, or interim impairment evaluation if an interim triggering event occurs, using a new fair market value method. Intangible assets with finite lives are amortized over those lives, with no stipulated maximum, and an impairment test is performed only when a triggering event occurs. Such assets are amortized on a straight-line basis over the estimated useful life of the asset. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is then recognized.

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Intangible assets consists primarily of trademarks, whereby the Company incurred registration and legal fees of approximately \$15,000 to license the trademark.

Revenue Recognition - Sales and the related cost of sales are recognized upon shipment of products in accordance with the US Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104. The Company generally accepts returns of cigars that are stale or damaged in transit. Sales revenue is recorded net of anticipated returns based on historical experience. Sales returns are not material to the financial statements.

Advertising Costs - Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses for the years ended December 31, 2004 and 2003 approximated \$61,000 and \$23,300, respectively.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes as required by Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. SFAS No. 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of certain assets and liabilities. Deferred income taxes are measured by the current enacted tax rates. Deferred tax expense (benefit) is the result of changes in the deferred tax asset and liability. Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized.

Credit Risk - Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of cash and trade accounts receivable. The Company places its cash with high credit financial institutions. However, the Company occasionally maintains cash balances in excess of the F.D.I.C. insurance limits, thereby failing to limit the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade accounts receivable are reduced due to the Company's large number of customers. The Company conducts ongoing credit evaluations of its customers and generally does not require collateral or other security from these customers.

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ALEC BRADLEY CIGAR CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004 and 2003

The Company purchases and imports the majority of its cigars from cigar manufacturing plants in Honduras and the Dominican Republic. The Company does not have any agreements with cigar manufacturers. Purchases are made on a per order basis. Although the Company believes there are alternative sources for its products, a change in suppliers could cause delays in the Company's operations, which could adversely affect its operating results.

Stock Issued For Services - The value of stock issued for services is based on management's estimate of the fair value of the Company's stock at the date of issue or the fair value of the services received, whichever is more reliably measurable.

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Earnings per Share - Basic and diluted earnings per common share are based on the weighted average number of shares outstanding of 4,499,777 and 4,693,800 for the years ended December 31, 2004 and 2003, respectively. There are no common stock equivalents or other dilutive items in the aforementioned periods presented.

Use of Estimates - The preparation of financial statements in conformity 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 these financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Recent Authoritative Pronouncements - The Financial Accounting Standards Board has recently issued several new accounting pronouncements which may apply to the Company.

In May 2003, the FASB issued Statement No. 149; "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement establishes standards for certain changes in the accounting treatment of derivative contracts. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, except for certain provisions that relate to Statement No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, which should continue to be applied in accordance with their respective effective dates. The guidance should be applied prospectively. The adoption of Statement No. 149 is not expected to have a material impact on the Company's financial position, results of operations, or liquidity.

In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Statement requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Company is currently classifying financial instruments within the scope of this

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ALEC BRADLEY CIGAR CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2004 and 2003

Statement in accordance with this Statement. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management does not believe that this Statement will have a material impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". This interpretation represents an interpretation of Accounting Research Bulletin No. 51. The accounting research bulletin requires that a Company's financial

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statements include subsidiaries in which the Company has a controlling financial interest. Financial statement interpretation No. 46 gives guidance on identifying variable interest entities and on assessing whether a Company's investment in a variable interest entity requires consolidation thereof. This interpretation is effective immediately for investments made in variable interest entities after January 31, 2003 and it is effective in the first fiscal year or interim period beginning after June 15, 2003 for investments in variable interest entities made prior to February 1, 2003. The adoption of FASB Interpretation No. 46 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

NOTE 2- FURNITURE AND EQUIPMENT, NET

Furniture and equipment, net consist of the following as of December 31,

| | | 2004 |
|-------------------------------|----|--------|
| Computer and office equipment | \$ | 23,095 |
| Furniture and fixtures | | 11,107 |
| | | ----- |
| | | 34,202 |
| Less accumulated depreciation | | 23,352 |
| | | ----- |
| | \$ | 14,888 |
| | | ===== |

Depreciation expense approximated \$2,300 and \$3,000, for the years ended December 31, 2004 and 2003, respectively.

NOTE 3- LINE OF CREDIT

In March 2004, the Company established a revolving credit facility with a financial institution in the amount of \$100,000. The credit facility bears interest on funds outstanding at a daily rate of 2.0% above

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ALEC BRADLEY CIGAR CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2004 and 2003

Prime, as defined, not to exceed 7.5%. The credit facility matures and is due and payable in full in March 2005. The Company paid down the line of credit in full. Upon maturity using funds from its note payable to a related party, see note 4.

NOTE 4- NOTE PAYABLE TO RELATED PARTY

On August 13, 2004 the Company entered into an unsecured financing agreement with a shareholder and officer of the company. Under the agreement, the Company borrowed \$150,474 from the officer and will repay the loan over a period of not more than 15 months beginning September 2004 at a rate of at least \$10,000 per month plus interest

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payable at 5% per annum. As of December 31, 2004 the remaining principle balance on the loan was \$120,474. Interest expense paid on this loan was \$2,232 for 2004. The lender and the Company agreed to defer one month's payment until December 31, 2004 with the final payment due by December 31, 2005.

NOTE 5- INCOME TAXES

Deferred income taxes arise from timing differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. A deferred tax asset valuation allowance is recorded when it is more likely than not that deferred tax assets will not be realized. There are no deferred taxes as of December 31, 2004.

The provision for income taxes is comprised of the following:

| | 2004 | 2003 |
|---------------------------------------|-----------|-----------|
| Current federal tax provision | \$ 22,077 | \$ 35,706 |
| Current state and local tax provision | 2,209 | 3,006 |
| | ----- | ----- |
| Total provision for income taxes | \$ 24,286 | \$ 38,712 |
| | ----- | ----- |

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

| | 2004 | 2003 |
|--|-------|-------|
| Statutory federal income tax rate | 22 % | 34 % |
| Non-deductible permanent items | - % | (6) % |
| State income taxes, net of federal benefit | 2 % | 1 % |
| | ----- | ----- |
| Effective income tax rate | 24 % | 29 % |
| | ----- | ----- |

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ALEC BRADLEY CIGAR CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended December 31, 2004 and 2003

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Lease - In March 2004, the Company agreed to occupy new office and warehouse facilities under the terms of a three- year non-cancelable operating lease agreement. During 2004, the Company's monthly rent payments for the premises increased from \$1,600 to \$3,000 per month.

Future minimum payments under this non-cancelable lease are as follows as of December 31, 2004:

| Year | Amount |
|-------|-----------|
| ----- | ----- |
| 2005 | \$ 36,000 |
| 2006 | 36,000 |

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| | |
|------------------------------|-----------|
| 2007 | 9,000 |
| 2008 and thereafter | - |
| | ----- |
| Total minimum lease payments | \$ 81,000 |
| | ===== |

Rent expense for the years ended December 31, 2004 and 2003 was \$30,134 and \$16,200, respectively.

NOTE 7- SHAREHOLDERS' EQUITY

Retained earnings - For income tax purposes, the Company terminated its S corporation election on January 1, 2001. Accordingly, net losses and related timing differences for periods prior to January 1, 2001 were included in the individual tax returns of the S corporation shareholders and are not available to offset taxable income of the Company in subsequent periods. During 2003, the Company made the appropriate accounting adjustment to reduce additional paid-in capital by an amount of \$405,585, equal to its remaining accumulated deficit as of December 31, 2000. The net effect of this adjustment to shareholders' equity is zero and the Company has retained earnings of \$156,782 as of December 31, 2003.

Common Stock Issuance - In June 2002, the Company issued an aggregate of 415,000 shares of its common stock to certain employees and consultants in exchange for services provided to the Company. The Company valued these common shares at their fair market value of \$19,500 on the date of issuance.

Cancellation of Common Stock - In September 2003, the Company redeemed 400,000 shares of its common stock. All such shares were cancelled.