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BGR CORP  
Form 10QSB  
November 19, 2004

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

FORM 10-QSB

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-26887

BGR CORPORATION

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

98-0353403  
(IRS Employer Identification No.)

5080 N. 40th Street, Suite 103  
Phoenix, AZ 85018  
(Address of principal executive offices)

(602) 443-2308  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the issuer's common equity outstanding as of November 12, 2004 was 47,958,351 shares of common stock, par value \$.0001.

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

INDEX TO FORM 10-QSB FILING  
FOR THE QUARTER ENDED SEPTEMBER 30, 2004

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BGR CORPORATION  
CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2004 (UNAUDITED)

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|                                       |            |
|---------------------------------------|------------|
| CURRENT ASSETS                        |            |
| Cash and equivalents                  | \$ 7,025   |
| Accounts receivable                   | 84,349     |
| Deferred financing cost, net          | 3,333      |
| Advance to officer                    | 2,741      |
| Total current assets                  | 97,448     |
| PROPERTY AND EQUIPMENT                |            |
| Computers and equipment, net          | 4,638      |
| OTHER ASSETS                          |            |
| Intangible assets                     | 18,037     |
| Goodwill                              | 225,709    |
| Total assets                          | \$ 345,832 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: |            |
| CURRENT LIABILITIES                   |            |
| Accounts payable and accrued expenses | \$ 279,151 |
| Unearned revenue                      | 125,000    |
| Due to shareholders                   | 2,350      |

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|   |             |
|---|-------------|
| Notes payable - current portion   | 100,000     |
| Debtenture payable  | 127,500     |
|   | -----       |
| Total current liabilities   | 634,001     |
|   | -----       |
| NONCURRENT LIABILITIES  |             |
| Notes payable - long-term   | 100,000     |
|   | -----       |
| Total noncurrent liabilities  | 100,000     |
|   | -----       |
| TOTAL LIABILITIES   | 734,001     |
|   | -----       |
| STOCKHOLDERS' DEFICIT:  |             |
| Convertible preferred stock, Series A, \$10.00 par value,<br>125,000 authorized, 0 shares issued and outstanding              | --          |
| Convertible preferred stock, Series B, \$.001 par value,<br>1,000,000 shares authorized, 10,000 shares issued and outstanding | 3,800,000   |
| Common stock, \$0.0001 par value, 100,000,000 shares<br>authorized, 38,972,351 shares issued and outstanding                  | 3,897       |
| Additional paid-in capital  | 1,938,907   |
| Deferred compensation   | (192,000)   |
| Accumulated deficit   | (5,938,973) |
|   | -----       |
| Total stockholders' deficit   | (388,169)   |
|   | -----       |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   | \$ 345,832  |
|   | =====       |

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

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BGR CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE QUARTERS ENDED SEPTEMBER 30, 2004 AND SEPTEMBER 30, 2003  
(UNAUDITED)

|                                     | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30,<br>2004 | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30,<br>2003 |
|-------------------------------------|--|--|
|                                     | -----  | -----  |
| REVENUE                             | \$ 31,309  | \$ --  |
|                                     | -----  | -----  |
| COST OF REVENUE                     | 5,504  | --   |
|                                     | -----  | -----  |
| Gross profit                        | 25,805   | --   |
|                                     | -----  | -----  |
| COSTS AND EXPENSES:                 |  |  |
| General and administrative expenses | 439,119  | 132,810  |
|                                     | -----  | -----  |
| Total costs and expenses            | 439,119  | 132,810  |
|                                     | -----  | -----  |

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|   |              |              |
|---|--------------|--------------|
| INCOME (LOSS) FROM OPERATIONS                                     | (413,314)    | (132,810)    |
| OTHER INCOME (EXPENSE)  |              |              |
| Impairment of goodwill  | (44,836)     | --           |
| Interest income   | 3,024        | --           |
| Financial and interest expense                                    | (4,352)      | --           |
| Minority interest   | 2,510        | --           |
|   | -----        | -----        |
| Total other expense   | (43,654)     | --           |
|   | -----        | -----        |
| INCOME (LOSS) BEFORE INCOME TAXES                                 | (456,968)    | (132,810)    |
| INCOME TAXES  | --           | --           |
|   | -----        | -----        |
| NET (LOSS)  | \$ (456,968) | \$ (132,810) |
|   | =====        | =====        |
| NET INCOME (LOSS) PER COMMON SHARE                                |              |              |
| Total basic and diluted   | \$ (0.01)    | \$ *         |
|   | =====        | =====        |
| WEIGHTED AVERAGE COMMON SHARES<br>OUTSTANDING (BASIC AND DILUTED) | 35,833,889   | 34,625,974   |
|   | =====        | =====        |

\* - less than \$0.01 per share

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

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BGR CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE QUARTER ENDED SEPTEMBER 30, 2004 AND THE YEAR ENDED JUNE 30, 2004

|  | COMMON STOCK |          | CONVERTIBLE<br>PREFERRED STOCK SER |        |
|--|--------------|----------|------------------------------------|--------|
|  | SHARES       | AMOUNT   | SHARES                             | AMOUNT |
|  | -----        | -----    | -----                              | -----  |
| BALANCE JUNE 30, 2003                    | 34,573,800   | \$ 3,457 | --                                 | \$     |
| Cancellation of shares previously issued | (16,660,000) | (1,666)  |                                    |        |
| Shares issued for cash                   | 429,000      | 43       | --                                 |        |
| Shares issued for services               | 5,500,000    | 550      |                                    |        |
| Shares issued for business acquisitions  | 850,000      | 85       |                                    |        |
| Preferred Class B issued for services    |              |          | 10,000                             | 3,8    |
| Value of beneficial conversion feature   |              |          |                                    |        |
| Shares issued for deferred compensation  | 2,000,000    | 200      |                                    |        |
| Amortization of deferred compensation    |              |          |                                    |        |
| Shares issued for stock dividend         | 7,959,600    | 796      |                                    |        |
| Net Loss                                 | --           | --       | --                                 | --     |
|  | -----        | -----    | -----                              | -----  |
| BALANCE JUNE 30, 2004                    | 34,652,400   | 3,465    | 10,000                             | 3,8    |
| Adjustment of shares for stock dividend  | (49)         | --       |                                    |        |
| Shares issued for services               | 4,320,000    | 432      |                                    |        |

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Amortization of deferred compensation

Net Loss

|  |                          |                                  |                        |       |
|--|--------------------------|----------------------------------|------------------------|-------|
| BALANCE AT SEPTEMBER 30, 2004            | 38,972,351               | \$ 3,897                         | 10,000                 | \$3,8 |
|  | =====                    | =====                            | =====                  | ===== |
|  | DEFERRED<br>COMPENSATION | ADDITIONAL<br>PAID-IN<br>CAPITAL | ACCUMULATED<br>DEFICIT |       |
|  | -----                    | -----                            | -----                  |       |
| BALANCE JUNE 30, 2003                    | \$ --                    | \$ 73,393                        | \$ (76,875)            |       |
| Cancellation of shares previously issued |                          | 1,666                            |                        |       |
| Shares issued for cash                   |                          | 89,957                           |                        |       |
| Shares issued for services               |                          | 1,059,192                        |                        |       |
| Shares issued for business acquisitions  |                          | 239,915                          |                        |       |
| Preferred Class B issued for services    |                          |                                  |                        |       |
| Value of beneficial conversion feature   |                          | 21,212                           |                        |       |
| Shares issued for deferred compensation  | (240,000)                | 239,800                          |                        |       |
| Amortization of deferred compensation    | 32,000                   |                                  |                        |       |
| Shares issued for stock dividend         |                          | (796)                            |                        |       |
| Net Loss                                 |                          | --                               | (5,405,130)            |       |
|  | -----                    | -----                            | -----                  |       |
| BALANCE JUNE 30, 2004                    | (208,000)                | 1,724,339                        | (5,482,005)            |       |
| Adjustment of shares for stock dividend  |                          | --                               |                        |       |
| Shares issued for services               |                          | 214,568                          |                        |       |
| Amortization of deferred compensation    | 16,000                   |                                  |                        |       |
| Net Loss                                 |                          |                                  | (456,968)              |       |
|  | -----                    | -----                            | -----                  |       |
| BALANCE AT SEPTEMBER 30, 2004            | \$ (192,000)             | \$ 1,938,907                     | \$ (5,938,973)         |       |
|  | =====                    | =====                            | =====                  |       |

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

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BGR CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE QUARTERS ENDED SEPTEMBER 30, 2004 AND SEPTEMBER 30, 2003  
(UNAUDITED)

|  |  |  |
|--|--|--|
|  | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30,<br>2004 | FOR THE TH<br>MONTHS EN<br>SEPTEMBER<br>2003 |
|  | -----  | -----  |
| CASH FLOWS FROM OPERATING ACTIVITIES:  |  |  |
| Net (loss)   | \$ (456,968)   | \$ (132,81                                   |
| Adjustments to reconcile net income to net cash<br>used in operating activities: |  |  |
| Depreciation   | 3,738  | -  |

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|  |           |        |
|--|-----------|--------|
| Amortization of deferred financing cost                          | 667       | -      |
| Amortization of deferred compensation                            | 16,000    | -      |
| Impairment of goodwill   | 44,836    | -      |
| Minority interest  | (2,510)   | -      |
| Common stock issued as consideration for services                | 215,000   | 99,96  |
| Changes in assets and liabilities (net of business acquisition): |           |        |
| Accounts receivable  | (13,523)  | -      |
| Franchise fees receivable  | (60,000)  | -      |
| Prepays  | (4,000)   | (24,96 |
| Interest receivable  | 1,414     | -      |
| Accounts payable and accrued liabilities                         | (2,181)   | 4,50   |
| Unearned revenue   | 125,000   | (2,15  |
|  | -----     | -----  |
| Net cash used in operating activities                            | (132,527) | (53,29 |
|  | -----     | -----  |
| CASH FLOWS FROM INVESTING ACTIVITIES:                            |           |        |
| Advances to affiliate  | --        | (1,00  |
| Advances to officer  | (2,741)   | -      |
|  | -----     | -----  |
| Net cash used in investing activities                            | (2,741)   | (1,00  |
|  | -----     | -----  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                            |           |        |
| Repayment of advances from shareholder                           | (3,708)   | -      |
| Proceeds from notes payable and convertible debenture            | 100,000   | -      |
| Common stock issued for cash                                     | --        | 55,00  |
|  | -----     | -----  |
| Net cash provided from financing activities                      | 96,292    | 55,00  |
|  | -----     | -----  |
| INCREASE IN CASH AND EQUIVALENTS                                 | (38,976)  | 70     |
| CASH AND EQUIVALENTS, BEGINNING OF PERIOD                        | 46,001    | -      |
|  | -----     | -----  |
| CASH AND EQUIVALENTS, END OF PERIOD                              | \$ 7,025  | \$ 70  |
|  | =====     | =====  |

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

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BGR CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE QUARTERS ENDED SEPTEMBER 30, 2004 AND SEPTEMBER 30, 2003  
(UNAUDITED)

|  | FOR THE THREE<br>MONTHS ENDED<br>SEPTEMBER 30,<br>2004 | FOR THE TH<br>MONTHS EN<br>SEPTEMBER<br>2003 |
|--|--|--|
|  | -----  | -----  |
| SUPPLEMENTAL CASH FLOW INFORMATION:  |  |  |
| Interest paid  | \$ --  | \$ -   |
|  | =====  | =====  |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH<br>INVESTING AND FINANCING ACTIVITIES: |  |  |
| Common stock issued for business acquisitions<br>and franchise rights      | \$ --  | \$ -   |

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

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BGR CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2004 (UNAUDITED)

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### 1. ORGANIZATION AND BASIS OF PRESENTATION

BGR Corporation (the "Company") a Nevada corporation, was incorporated on July 6, 2001. The Company was formerly named Cortex Systems, Inc. The Company intends to develop and franchise casual dining restaurants. The Company is seeking to acquire assets within this industry, has entered into agreements with and acquired the rights to several casual dining concepts. During the year ended June 30, 2004, the Company ceased to be a development stage enterprise coinciding with its acquisition of Fathom Business Systems, Inc., an enterprise in the business of selling and installing point-of-sale equipment and systems for restaurants.

The Company serves as a holding company for its wholly and majority owned operating subsidiaries; Fathom Business Systems, Inc. ("Fathom"), Iceberg Food Systems, Inc. ("IFS"), Pauli's Franchise Corporation, ("Pauli's"), Kokopelli Mexican Grill Franchise Corporation, ("Kokopelli"), Cousin Vinnie's Franchise Corporation ("CV"), and Kirby Foo's Asian Grill Franchise Corporation ("Kirby"). The Company owns 100% of Fathom and IFS and has ownership interests in Kirby of approximately 97.5%, 87% of IFS, 72.5% of Pauli's, 50% of Kokopelli and 50% of CV.

The Company faces many operating and industry challenges. There is no meaningful operating history to evaluate the Company's prospects for successful operations. Future losses for the Company are anticipated. The proposed plan of operations would include seeking an operating entity with which to merge. Even if successful, a merger may not result in cash flow sufficient to finance the continued expansion of a business.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred material operating losses, has continued operating cash flow deficiencies and has working capital deficit at June 30, 2004. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company believes that it will be successful in franchising its restaurant concepts which will result in up front franchise fees and ongoing monthly royalties. However, the Company will likely require additional debt or equity capital in order to implement its business plan. The accompanying consolidated financial statements do not include any adjustments that might result from this uncertainty.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The accompanying consolidated financial statements contain the accounts of the Company and its wholly and majority owned subsidiaries, Fathom, IFS, Pauli's, Kokopelli, CV and Kirby. All material inter-company balances and transactions have been eliminated in consolidation. The accompanying consolidated statement of operations includes the operating activity of the subsidiaries from the respective dates of acquisition through June 30, 2004. As noted above, minority interest exists for five such subsidiaries.

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CASH AND CASH EQUIVALENTS - Cash and cash equivalents include all short-term liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less.

ACCOUNTS RECEIVABLE - Consists primarily of amounts due from customers of Fathom's Point of Sale systems and implementation projects.

REVENUE RECOGNITION - Revenue is recognized on hardware and installation of point-of-sale systems when the system has been installed and the Company has received customer acceptance and there is no material ongoing commitment on the part of the Company. Cost of revenues includes the cost of hardware items and labor. Initial franchise fees are deferred until substantially all services and conditions relating to the sale of the franchise have been performed or satisfied (i.e. until the franchise is open for business).

PROPERTY AND EQUIPMENT - Is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 5 years.

INCOME TAXES - The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards No. 109, ACCOUNTING FOR INCOME TAXES, which among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

INCOME (LOSS) PER COMMON SHARE - Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the year.

Warrants to purchase 2,777,500 shares of common stock were excluded from the calculation for the year ended June 30, 2004, because inclusion of such would be anti-dilutive. Also excluded from the calculation were 10,000 shares of Series B Convertible Preferred Stock issued during the year ended June 30, 2004. These shares are convertible into 10,000,000 shares of common stock. However, the Series B Convertible Preferred Stock is only convertible upon the Company attaining certain operating milestones, none of which were met at September 30, 2004.

The following presents the computation of basic and diluted loss per share from continuing operations for the three months ended September 30:

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|                                       | 2004         |        |           | 2003         |        |
|---------------------------------------|--------------|--------|-----------|--------------|--------|
|                                       | Income       | Shares | Per Share | Income       | Shares |
| Net Loss                              | \$ (456,968) |        |           | \$ (132,810) |        |
| Preferred stock dividends             | (0)          |        |           | (0)          |        |
| Loss available to common stockholders | \$ (456,968) |        |           | \$ (132,810) |        |
| BASIC EARNINGS PER SHARE:             |              |        |           |              |        |



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|   |                       |            |                    |                       |      |
|---|-----------------------|------------|--------------------|-----------------------|------|
| Income available to common stockholders | \$ (456,968)<br>===== | 35,833,889 | \$ (0.01)<br>===== | \$ (132,810)<br>===== | 34,6 |
| Effect of dilutive securities           | N/A                   | N/A        |                    | N/A                   |      |
| DILUTED EARNINGS PER SHARE              | \$ (456,968)<br>===== | 35,833,889 | \$ (0.01)<br>===== | \$ (132,810)<br>===== | 34,6 |

\* - less than \$0.01 per share

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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

IMPAIRMENT OF LONG-LIVED ASSETS is assessed by the Company whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

INTANGIBLE ASSETS at September 30, 2004 consist of goodwill associated with the Company's acquisition of Fathom for the difference between the purchase price of the acquired business and the fair value of the identifiable net assets. The Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, effective July 1, 2002. As a result, the Company does not amortize goodwill, and instead annually evaluates the carrying value of goodwill for impairment, in accordance with the provisions of SFAS No. 142. During the quarter ended September 30, 2004, intangible assets were reduced by \$44,836 due to additional information received regarding the net book value of Fathom as of its acquisition date. This amount is reflected as impairment of goodwill. The Company believes that there have been no additional impairments of the carrying value of goodwill of \$225,709 as of September 30, 2004.

Additionally, the Company acquired the franchise rights of Pauli's and Kirby during the year ended June 30, 2004. These franchise rights are recorded at cost and are being amortized on a straight-line basis over the estimated useful life of 10 years. Amortization expense for these assets was not material for the quarter ended September 30, 2004.

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### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS -

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transaction and Disclosure, which provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation as prescribed in SFAS 123, Accounting for Stock-Based Compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The Company presently does not intend to adopt the fair value based method of accounting for its stock

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based compensation.

In June 2003 the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" SFAS No. 150 requires certain instruments, including mandatorily redeemable shares, to be classified as liabilities, not as part of shareholders' equity or redeemable equity. For instruments that are entered into or modified after May 31, 2003, SFAS No. 150 is effective immediately upon entering the transaction or modifying the terms. For other instruments covered by Statement 150 that were entered into before June 1, 2003, Statement 150 is effective for the first interim period beginning after June 15, 2003. The Company has evaluated the provisions of SFAS No. 150 and implementation of such was not material.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantees and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements are effective for the Company during the third quarter ending March 31, 2003. The adoption of FIN 45 did not have an impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have an impact on the Company's financial position or results of operations.

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### 3. ACCOUNTS RECEIVABLE

Accounts receivable principally result from sales of hardware, installation of point-of-sale systems, fees from franchisees, the sale of area development agreements, the sale of corporate owned stores and certain related expenses paid for on behalf of the Company's franchisees.

### 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2004:

|                               |           |
|-------------------------------|-----------|
| Computer equipment            | \$ 16,338 |
| Less accumulated depreciation | (11,700)  |
|                               | -----     |
| Property and equipment, net   | \$ 4,638  |
|                               | =====     |

Depreciation expense was \$3,738 and \$-0- for the quarters ended September 30, 2004 and 2003, respectively.

### 5. BUSINESS ACQUISITIONS

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In the year ended June 30, 2004, the Company entered into an agreement to acquire all of the outstanding voting shares of Fathom Business Systems, Inc. ("Fathom"). Fathom specializes in the sale, installation and service of restaurant 'Point-of-Sale' equipment. Fathom was a single employee business. The Company issued 750,000 shares of its common stock to acquire all of the outstanding shares of Fathom. On the basis of the trading price of the Company's common stock at the time of the acquisition, the purchase price was \$225,000. The purchase price was allocated as follows:

|                     |            |
|---------------------|------------|
| Cash                | \$ 3,619   |
| Accounts receivable | 10,232     |
| Inventory           | 13,567     |
| Accounts payable    | (72,963)   |
| Intangible assets   | 270,545    |
|                     | -----      |
|                     | \$ 225,000 |
|                     | =====      |

In connection with this acquisition, the Company allocated the purchase price in excess of the tangible assets and liabilities acquired as goodwill. The Company determined that the excess purchase price was not specifically connected with such things as tradenames, customer lists or existing contracts. During the quarter ended September 30, 2004, the intangible assets were reduced by \$44,836 due to additional information received regarding the net book value of Fathom as of its acquisition date. This amount is reflected as impairment of goodwill in the financial statements for the quarter ended September 30, 2004.

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All revenue recognized in the accompanying statement of operations for the quarter ended September 30, 2004, relates to sales and services provided by the Fathom subsidiary.

In the year ended June 30, 2004, the Company entered into an agreement to acquire all of the outstanding voting shares of Deville, Inc., a developer of "LUCKY LOU'S" restaurants. The terms of the purchase agreement, required the issuance of 1,000,000 of the Company's common shares and a note payable with a face amount of \$400,000. The note was discounted at 8% on the basis of its repayment terms resulting in a principal amount of \$349,805. The terms also called for an ongoing payment to the seller based on royalty revenues generated from "LUCKY LOU'S" restaurants. The total purchase price of Deville was \$649,805. There were no tangible assets or liabilities acquired in the purchase. In March, 2004, the Company and Deville, Inc., agreed to rescind the transaction. Accordingly, the shares were returned to the Company, the note payable and the net assets of Deville were reversed and removed from the balance sheet at June 30, 2004.

In the year ended June 30, 2004, the Company entered into various agreements with American Restaurant Development Corp. ("ARDC"), an entity controlled by a significant shareholder of the Company. As of September 30, 2004 the shareholder held a beneficial interest in the Company totaling approximately 10%. The Company contracted with ARDC to provide restaurant concepts for franchising. For each concept introduced to the Company, ARDC is to receive 500,000 shares of the Company's common stock and \$125,000, \$75,000 of which is paid immediately and the \$50,000 balance as cash is received by the Company for franchise fees realized by the Company on such concepts. In addition, ARDC is to receive 50% of all non-refundable payments received by the Company for new franchise and area developer agreements. Additionally, ARDC will receive royalties equal 1% of the system wide revenues of each concept. During the year ended June 30, 2004, a total of 2,000,000 shares of the Company's common stock was issued to ARDC and the Company incurred

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\$300,000 in fees for the four franchise concepts brought to the Company by ARDC. As of 6/30/04 no franchise units had been sold. There were no additional shares issued under these agreements in the quarter ended September 30, 2004. As of 9/30/04 ARDC had sold 5 units of the Kokopelli franchise for franchise fees of \$25,000 each (total \$125,000). Accordingly, as of the quarter ended September 30, 2004, the Company owed ARDC 50% of the franchise fees (\$62,500) and the remaining balance (\$50,000) on the franchise concept. The franchise fee revenue is deferred until the stores are opened.

In the year ended June 30, 2004, the Company entered into operating agreements for three of the concepts (Pauli's, Kokopelli, and CV) with the owners of the exclusive rights to the names, trademarks, menus, operating systems and recipes for the concepts. The Company will provide the monies needed to start the sale of the franchises and other operating services for its 72.5% interest in Pauli's, 50% interest in Kokopelli and 50% interest in CV. There was no change in the interests held in the quarter ended September 30, 2004.

### 6. INTANGIBLE ASSETS

In connection with the Company's acquisition of Fathom and sale of franchise rights to the Pauli's and Kirby franchises, intangible assets were recorded.

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The Company allocated \$270,545 of its purchase price of Fathom to goodwill. The Company does not amortize goodwill, and instead annually evaluates the carrying value of goodwill for impairment. During the quarter ended September 30, 2004, the Company determined that the carrying value of the goodwill was impaired and recorded an impairment write-down of \$44,836. This amount is reflected as impairment of goodwill in the financial statements for the quarter ended September 30, 2004.

The Company acquired its interests in Pauli's and Kirby through the issuance of 100,000 shares valued at approximately \$15,000. As a result of these transactions, Pauli's and Kirby have capitalized the \$18,037 cost of intangible assets such as tradenames, franchise rights, menus, etc. The Company is amortizing these assets on a straight line basis over the estimated useful lives of ten years. Amortization expense for these assets was not material during the quarter ended September 30, 2004.

The aggregate amortization expense for the five years succeeding June 30, 2004, is estimated to be approximately:

|            |           |
|------------|-----------|
| 2005       | \$ 1,804  |
| 2006       | 1,804     |
| 2007       | 1,804     |
| 2008       | 1,804     |
| 2009       | 1,804     |
| Thereafter | 9,017     |
|            | -----     |
|            | \$ 18,037 |
|            | =====     |

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### 7. NOTES PAYABLE

Notes payable as of September 30, 2004 was comprised of the following:

|  |           |
|--|-----------|
| Loan from an individual maturing June 30, 2007 Note payable  |           |
| \$50,000, interest at 12% per annum, Interest due quarterly. | \$ 50,000 |

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|   |           |
|---|-----------|
| Loan from an individual maturing June 30, 2007 Note payable \$50,000, interest at 12% per annum, Interest due quarterly.                  | 50,000    |
| Loan from a related party maturing January 21, 2005 Note payable \$50,000, interest at 8% per annum, Interest due on maturity.            | 50,000    |
| Loan from an individual maturing February 28, 2005 Note payable \$50,000, interest at 20% per annum, Interest of \$5,000 due on maturity. | 50,000    |
|   | -----     |
| Total   | 200,000   |
| Less Current portion  | (100,000) |
|   | -----     |
| Long-term portion   | \$100,000 |
|   | =====     |
| Principal payments due as follows:  |           |
| Years ended June 30:  |           |
| 2005  | \$100,000 |
| 2006  | --        |
| 2007  | 100,000   |
|   | -----     |
|   | \$200,000 |
|   | =====     |

### 8. CONVERTIBLE DEBENTURE

During the year ended June 30, 2004, the Company issued a 2-year 7.5% convertible debenture amounting to \$85,000 with interest payable monthly and due June 9, 2006. The debenture also included non-detachable warrants for 2,500,000 shares of common stock.

The debenture may be converted at the option of the holder into common shares of the Company. The conversion price is the lesser of \$0.25 or 80% of the average of the five lowest volume weighted average price during the 20 trading days prior to the election to convert. Upon conversion, the holder must simultaneously purchase shares of the Company's common stock in a dollar amount equal to 10 times the dollar amount of the debenture converted. The purchase price for such shares shall be the same as the debenture conversion price. The value of the beneficial conversion feature of \$21,212 was recorded as a discount to the principal balance of the debenture and amortized immediately as interest expense because the debenture is convertible at any time at the option of the holder.

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The Company defaulted on the interest payment provisions in the debenture. Consequently, the principal amount due under the debenture of \$85,000 became immediately due and payable in cash plus a default penalty of \$42,500 (150% of the principal amount) resulting in a total obligation of \$127,500 plus any and all accrued interest. The per diem interest is \$26.04. The default penalty of \$42,500 was expensed as interest and financing costs in the financial statements for the year ended June 30, 2004. The effective annual interest rate on the debenture is approximately 24% when the beneficial conversion feature is considered and approximately 48% when the beneficial conversion feature and the penalty interest are considered. On October 14,

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2004 a lawsuit was filed by the debenture holder against the Company. The debenture holder seeks to recover \$130,026.04 (\$127,500 plus accrued interest of \$2,526.04) plus interest at the rate of \$26.04 per day for each day after September 30, 2004 and additional damages of \$15,000 through October 23, 2004 and an additional \$15,000 for each 30 day period after October 23, 2004 that the amount due under the debenture is not paid. Subsequent to December 23, 2004 the amount increases to \$20,000 for each 30 day period plus attorney and court costs.

### 9. STOCKHOLDERS' EQUITY

In July 2003, the Company amended its Articles of Incorporation to reflect 100,000,000 authorized shares of Common Stock having a par value of \$0.001 and 1,125,000 shares of Preferred Stock having a \$10.00 par value for Preferred A and \$0.001 par value for Preferred B. The authorized number of Class A Preferred Stock authorized to be issued is 125,000 shares with voting rights equivalent to five votes per share of Class A Preferred Stock. The Class A Preferred Stock is cumulative, with an annual dividend of 6%. Additionally, Class A Preferred Stock shall be convertible into five shares of common stock of the Company for every one Class A Preferred share. The authorized number of Class B Preferred Stock authorized to be issued is 1,000,000 shares. Each share of Class B Preferred Stock shall be entitled to voting rights equivalent to one vote. Additionally, 50% of the Class B Preferred Stock may be converted after 50 franchise units are sold and the remaining 50% may be converted after 50 additional franchise units are sold. On November 8, 2004, the Company approved the conversion of the 10,000 outstanding shares of Series B Preferred Stock into shares of the Company's Common Stock at the ratio of 1,000 shares for every 1 share held. Accordingly, 9,500,000 shares of Common Stock were approved to be issued in exchange for the 10,000 shares of Series B Preferred Stock.

In August 2003, the Company sold 275,000 common shares, plus warrants to purchase 137,500 shares at a price of \$0.50 per share for a total price of \$55,000.

In September 2003, the Company approved a 2003 Stock Compensation Plan for 1,000,000 shares to compensate employees and consultants. In addition, the Company entered into an agreement with a consultant whereby the consultant received 350,000 shares of the Company's common stock for services rendered.

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In October 2003, the Company entered into an agreement to acquire all of the outstanding shares of "ICEBERG FOOD SYSTEMS, CORP." ("IFSC"). IFSC was owned by a former officer and director of the Company. The only holdings of IFSC were 30,000,000 shares of the Company's common stock. As part of the agreement, IFSC distributed 14,465,000 shares of the Company's common stock to its shareholder. IFSC then became a wholly owned subsidiary of the Company with its only holdings being the remaining 15,535,000 shares of the Company's common stock. Effectively, the transaction was an acquisition of treasury stock by the Company. In exchange, the Company assumed a commitment to raise capital and develop the Iceberg Drive-In concept. The rights to develop that concept were previously held by IFSC. The Company was to assist IFSC in providing up to \$1,130,000. The Company accounted for this transaction as an acquisition of treasury stock through the issuance of a note payable of \$1,130,000. Subsequently, the note payable and an additional 1,125,000 shares were cancelled for a total of 16,660,000 shares of common stock returned to the Company.

In November 2003, the Company acquired Fathom Business Systems in exchange for 750,000 shares of the Company's restricted common stock valued at \$225,000. Other stock transactions in November 2003 included the issuance of

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10,000 shares of Class B Convertible Preferred stock valued at \$3,800,000 to 18 of the Company's existing shareholders, employees and consultants for services rendered; an agreement with a non-affiliate to acquire rights to a restaurant concept in return for 1,000,000 shares of the Company's common stock and a note payable for \$400,000; and agreements with consultants whereby the consultants were issued 600,000 shares (100,000 and 500,000 respectively) of the Company's common stock for services to be rendered. The agreement for the rights to the restaurant concept and the agreement with the consultant for 500,000 shares was later rescinded, the shares were returned and the note payable was cancelled.

In January 2004, the Company approved a Company Qualified Stock Option Plan for 4,000,000 shares of common stock to compensate employees. As of the year ended June 30, 2004 no stock options had been granted under the Plan. Subsequent to June 30, 2004, the Company approved increasing the total number of shares of common stock under the Plan to 15,000,000 with 5,000,000 of those shares to be registered immediately. Other stock transactions in January 2004 included an agreement with a consultant whereby the consultant received 650,000 shares of the Company's common stock for services rendered and a consulting agreement with a related party whereby the Company will receive six restaurant concepts in exchange for 500,000 shares of the Company's common stock for each concept. As of June 30, 2004 four concepts had been delivered to the Company and the Company had issued 2,000,000 shares of common stock to the related party valued at \$375,000.

In February 2004, the Company sold 140,000 common shares, plus warrants to purchase 140,000 shares at a price of \$0.50 per share for a total price of \$35,000 and the Company entered into an agreement with a consultant to assist in raising capital for the Company. The Company will pay the consultant 10% of all funds raised, in cash, and 10% of all stock issued to investors. As of June 30, 2004 the Company had issued 14,000 shares of common stock to the consultant and owed finder's fees totaling \$3,500.

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In March 2004, the Company entered into consulting agreements in exchange for a total of 900,000 shares of common stock. Additionally, the Company entered into an employment agreement in which part of the compensation was paid in stock. The employee received 1,000,000 shares of common stock. The 1,000,000 shares must be returned if the employee leaves within 90 days or 800,000 shares must be returned if the employee leaves within one year of the date of the agreement.

In April 2004, the Company approved the issuance of a stock dividend to shareholders of record on May 15, 2004. The stock dividend provided the Common Stock shareholders with one share for every three shares held. In addition, the Company entered into a marketing consultant agreement with ARDC whereby the Company will pay a stock fee of 3,000,000 restricted shares for every 50 franchise units sold. The agreement is for 5 years with a cumulative total of 500 units. If ARDC meets its performance requirements they will be issued a total of 30,000,000 shares of stock. As of September 30, 2004 ARDC had sold 5 units of the Kokopelli franchises. The shares are not payable to ARDC until they have sold the 50th, 100th, etc. Other stock transactions in April 2004 included the issuance of 200,000 shares of common stock in exchange for advisory services rendered; the issuance of 100,000 shares of common stock valued at \$15,000 for additional interests in Pauli's and Kirby; and an agreement with a related party for consulting services. As part of the related party agreement the affiliate would receive 30,000 shares of the Company's Series B Convertible Preferred Stock. The agreement for the issuance of the Series B stock was rescinded subsequent to June 30, 2004. The 30,000 shares were never issued

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In June 2004, the Company entered into an employment agreement in which part of the compensation is paid in stock. The employee received 1,000,000 shares of common stock. The 1,000,000 shares must be returned if the employee leaves within 90 days or 800,000 shares must be returned if the employee leaves within one year of the date of the agreement. Additionally, a second employee received 500,000 shares of common stock for their services to the Company. There were no restrictions on these shares. Other stock transactions in June 2004 included an agreement with an attorney for legal services in exchange for 800,000 shares of the common stock.

As of June 30, 2004 the Company was in default on a convertible debenture. In accordance with the default remedies the convertible debenture was accelerated. The fair value of the beneficial conversion feature is reflected in Additional Paid-in Capital in the amount of \$21,212.

In August 2004, the Company entered into a six month consulting agreement for business development and marketing services. The consultant was issued 2,000,000 shares of common stock. The shares were valued at \$0.05 based on the trading value of the stock. As a result of this contract , a total of \$100,000 was expensed in the accompanying statement of operations for the three month period ended September 30, 2004. In addition, the Company issued 100,000 shares, valued at \$0.04 per share based on the trading value of the stock, to an individual as an incentive to lend the Company \$50,000. As a result of this contract , a total of \$3,333 (net of \$667 of amortization) was capitalized as deferred financing cost in the accompanying balance sheet and \$667 was amortized as expense in the accompanying statement of operations for the three month period ended September 30, 2004.

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In September 2004, the Company entered into a consulting agreement for business development and marketing services. The consultant was issued 2,000,000 shares of common stock. The shares were valued at \$0.05 based on the trading value of the stock. As a result of this contract , a total of \$100,000 was expensed in the accompanying statement of operations for the three month period ended September 30, 2004.

In September 2004, the Company entered into a 3 month minimum consulting agreement that called for the either cash or stock payments for the services. The company chose to issue 120,000 shares of common stock for the September payment but intends to pay cash for any future payments. The shares were valued at \$0.05 based on the trading value of the stock. As a result of this contract , a total of \$6,000 was expensed in the accompanying statement of operations for the three month period ended September 30, 2004.

In September 2004, the Company entered into a 4 month consulting agreement that requires payment of 200,000 shares of common stock. The Company issued 100,000 shares of common stock and is withholding the additional 100,000 shares as a performance bonus on the agreement. The shares were valued at \$0.05 based on the trading value of the stock. As a result of this contract , a total of \$5,000 was expensed in the accompanying statement of operations for the three month period ended September 30, 2004.

Warrants - During the year ended June 30, 2004, the Company granted warrants to purchase 2,777,500 shares of common stock (275,000 granted at a price of \$0.50 per share, expiring 2 years after issuance and 2,500,000 granted June 9, 2004 at a price of \$1.00 per share, expiring June 9, 2007).

### 11. RELATED PARTY TRANSACTIONS

The Company's former officers, directors and majority shareholders made advances to the Company in order for the Company to pay its operating



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expenses. Repayments of advances were \$2,000 and \$0 in the quarters ended September 30, 2004 and 2003, respectively.

In the year ended June 30, 2004, the Company entered into various agreements with American Restaurant Development Corp. ("ARDC"), an entity controlled by a significant shareholder of the Company. As of June 30, 2004 the shareholder held a beneficial interest in the Company totaling 11%. The Company contracted with ARDC to provide restaurant concepts for franchising. For each concept introduced to the Company, ARDC is to receive 500,000 shares of the Company's common stock and \$125,000, \$75,000 of which is paid immediately and the \$50,000 balance as cash is received by the Company for franchise fees realized by the Company on such concepts. In addition, ARDC is to receive 50% of all non-refundable payments received by the Company for new franchise and

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area developer agreements. Additionally, ARDC will receive royalties equal 1% of the system wide revenues of each concept. During the year ended June 30, 2004, a total of 2,000,000 shares of the Company's common stock was issued to ARDC and the Company incurred \$300,000 in fees for the four franchise concepts brought to the Company by ARDC.

In addition, the Company reimburses ARDC for monthly rent expense of \$1,374 incurred for office rent and \$850 for housing provided to the Company's President. The office lease agreement is on a month-to-month basis. The lease term for the employee housing is one year expiring June 30, 2005. Total rent expense was \$5,148 and \$0 for the quarters ended September 30, 2004 and 2003, respectively.

During the year ended June 30, 2004, the Company entered into an operating agreement with ALEXIS GROUP, LLC "ALEXIS" to operate a franchise company. ALEXIS is owned by the Company's Chairman of the Board. Pauli's Franchise Company, LLC was formed to provide an entity that is equally controlled by ALEXIS and the Company. ALEXIS will provide the exclusive rights of the Pauli's name, trademarks, menu, and recipes. The Company will provide the funds for start-up and operating services. At June 30, 2004 the Chairman of the Board held a 25% interest in Pauli's Franchise Company, LLC, the Company held a 72.5% interest and an unrelated party held the remaining 2.5% interest. There was no change in the interests owned in the quarter ended September 30, 2004.

### 12. SUBSEQUENT EVENTS

On October 13, 2004, the Company negotiated a consulting agreement with Javelin Holdings, Inc. The agreement with Javelin provides for \$15,000 upon execution of the agreement, \$15,000 cash and a \$30,000 60 day Convertible Note upon successful filing of requisite SEC docs. In addition, Javelin receives 5% of any Preferred Class of stock created for the benefit of the Company, 10% of any bridge financing and 5% of any subsequent financing. During October 2004, Javelin earned finders fee of \$5,000 from the Company for two short-term convertible debentures in the amount of \$25,000 each.

On October 15, 2004, Kokopelli entered into an agreement with franchisees for the franchise rights to five Kokopelli stores. The term of the agreement is for 20 years. The INITIAL FRANCHISE FEE for the first store of \$25,000 is payable upon execution of the Franchise Agreement. The INITIAL FRANCHISE FEES of \$25,000 for the second, third, fourth and fifth stores are payable in two installments of \$5,000 upon execution of the development agreement and the balance on the earlier of the date a lease agreement is executed or 90 days prior to the scheduled opening of the store. In addition to the franchise fees, the franchisees will pay a ROYALTY FEE to Kokopelli of 5% of the gross sales of the stores.

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On November 1, 2004, the Company negotiated a public relations consulting agreement with Javelin for \$1,500 per month.

On November 8, 2004, the Company approved the conversion of the 10,000 outstanding shares of Series B Preferred Stock into shares of the Company's Common Stock at the ratio of 1,000 shares for every 1 share held. Accordingly, 9,500,000 shares of Common Stock were approved to be issued in exchange for the 10,000 shares of Series B Preferred Stock.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the three months ending September 30, 2004, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report.

#### EXECUTIVE OVERVIEW

The Company was formed as a Nevada corporation on July 6, 2001 under the name Cortex Systems, Inc. We were originally a development stage company that intended to establish memory clinics in several different locations in North America. We were unable to successfully execute this business plan. As a result, in July of 2003, we changed the Company's name to BGR Corporation, replaced or reconstituted the management and board of directors and changed our business focus. The Company's focus is now on acquiring new innovative fast-casual restaurant concepts, develop them into a profitable working design, and franchise them across the United States. On January 20, 2003, we entered into an agreement with American Restaurant Development Corporation, or ARDC, to grow restaurant concepts into a fully viable franchise system and to expand each restaurant concepts nationwide. The controlling shareholder of ARDC is our largest shareholder. To date, we have formed four joint ventures with different restaurant concepts under this model.

On November 4, 2003, we acquired Fathom Business Systems, or Fathom. Fathom is a company specializing in restaurant point of sales equipment. Fathom generates additional revenue by providing its customers with the supplies and service needed for the equipment.

On February 2, 2004, we executed an agreement with AZTECA Wrap Foods, LLC, or AZTECA. AZTECA is the owner and operator of KoKopelli's Mexican Grill. KoKopelli's is a fast casual Mexican restaurant specializing in made-to-order Mexican-style food. Per the agreement, we own 50% of the joint venture entity, while the other 50% is owned by AZTECA. Additionally, we are required to provide the funding to initiate the franchising of KoKopelli's through ARDC. AZTECA will provide exclusive rights to the "KoKopelli" name, trade marks, trade dress, operating system and recipes. In October of this year we sold five locations in the Phoenix area.

In April 2004, we entered into a shareholders agreement with Alexis Group, LLC, or ALEXIS. ALEXIS is the owner and operator of Pauli's Home of the SteakBurger. Per the agreement, we own 72.5% of the joint venture entity, while the other 27.550% is owned by ALEXIS. Additionally, we are required to provide the funding to initiate the franchising of Pauli's through ARDC. ALEXIS will provide exclusive rights to the "Pauli's" name, trade marks, trade dress, operating system and recipes.

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In April 2004, we executed a shareholders agreement with Brian Ruggiero, the owner and operator of Cousin Vinnie's Italian Diner. The Cousin Vinnie's concept was brought to BGR Corporation by American Restaurant Development Corporation ("ARDC"). Per the agreement, we own 50% of the joint venture entity, while the other 50% is owned by Ruggiero. Additionally, we are required to provide the funding to initiate the franchising of Cousin Vinnie's through ARDC. Ruggiero will provide exclusive rights to the "Cousin Vinnie's" name, trade marks, trade dress, operating system and recipes.

In April 2004, the purchase agreement for us to acquire Deville, Inc. was mutually cancelled. The agreement called for us to pay \$700,000 in stock and cash for the exclusive rights to the Lucky Lou's fast casual restaurant concept. Stock that had been issued per the agreement has been returned to the Company's treasury.

On April 15, 2004, our Board of Directors approved a stock dividend for all shareholders of record as of May 15, 2004. Under the terms of the dividend distribution, for every three shares held by a shareholder they will receive one additional share. No fractional shares are to be issued.

### RESULTS OF OPERATIONS

The Company had revenue of \$31,309 for the three months ending September 30, 2004. This revenue relates to services provided by the new Fathom business unit.

Total general and administrative operating expenses for the three months ending September 30, 2004 were \$439,119 as compared to the three months ending September 30, 2003 which were \$132,810. This increase from the prior year was due to a significant increase in consulting fees, which were primarily paid through the issuance of the Company's common stock.

The Company recorded a net loss for the three months ending September 30, 2004 of \$456,968 as compared to the three months ending September 30, 2003 which were \$132,810. This loss was primarily due to the expense related to the issuance of stock to various consultants. The consultants provide such services and advice to the Company in business development, business strategy and corporate image.

The Company has allocated the excess of the purchase price of Fathom over the amounts allocated to tangible assets acquired and liabilities assumed as intangible assets. The Company is in the process of analyzing that amount to determine what amounts are to be allocated to intangible assets that can be identified and recognized as assets apart from goodwill. Consequently, there will likely be a reallocation of the amount reported as intangible assets on the accompanying balance sheet as of three months ending September 30, 2004.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company experienced a cash outflow of \$132,527 from continuing operations during the three months ending September 30, 2004, as compared to a net of \$53,298 during the three months ending September 30, 2003.

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

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liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are detailed in the notes to the financial statements which are an integral component of this filing.

The following summarizes critical estimates made by management in the preparation of the financial statements:

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carry forwards. The Company has estimated a \$2,178,000 deferred income tax asset related to net operating loss carry forwards and other book tax differences at September 30, 2004. Management determined that because the Company has yet to generate taxable income and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset.

Goodwill was recognized in the Company's acquisition of Fathom. The Company does not have much operating history but believes that Fathom will increase its profitability and cash flow. During the quarter ended September 30, 2004, the Company determined that the carrying value of the goodwill was impaired and recorded an impairment write-down of \$44,836. This amount is reflected as impairment of goodwill in the financial statements for the quarter ended September 30, 2004.

### CERTAIN RISK FACTORS AFFECTING OUR BUSINESS

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this report before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could be materially and adversely affected. This could cause the trading price of our common stock to decline, with the loss of part or all of an investment in the common stock.

WE HAVE A LIMITED OPERATING HISTORY AND THERE IS NO ASSURANCE THAT OUR COMPANY WILL ACHIEVE PROFITABILITY. Until recently, we have had no significant operations with which to generate profits or greater liquidity. Although we have recently established joint ventures with various fast-casual dining restaurants

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in keeping with our proposed business model, we have not generated a meaningful amount of operating revenue and we have a very limited current operating history on which investors can evaluate our potential for future success. Our ability to generate revenue is uncertain and we may never achieve profitability. Potential investors should evaluate our company in light of the expenses, delays, uncertainties, and complications typically encountered by early-stage businesses, many of which will be beyond our control. These risks include the following:

- \* lack of sufficient capital,
- \* unanticipated problems, delays, and expenses relating to acquisitions of other businesses, concepts, or product development and implementation,
- \* licensing and marketing difficulties,
- \* competition, and
- \* uncertain market acceptance of our products and services.

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As a result of our limited operating history, our plan for growth, and the competitive nature of the markets in which we may compete, our company's historical financial data are of limited value in anticipating future revenue, capital requirements, and operating expenses. Our planned capital requirements and expense levels will be based in part on our expectations concerning potential acquisitions, capital investments, and future revenue, which are difficult to forecast accurately due to our company's current stage of development. We may be unable to adjust spending in a timely manner to compensate for any unexpected shortfall in revenue. Once we acquire new restaurant concepts, product development and marketing expenses may increase significantly as we expand operations. To the extent that these expenses precede or are not rapidly followed by a corresponding increase in revenue or additional sources of financing, our business, operating results, and financial condition may be materially and adversely affected.

WE MAY NEED SIGNIFICANT INFUSIONS OF ADDITIONAL CAPITAL. Based upon our current cash reserves and forecasted operations, we believe that we will need to obtain outside funding. We may require significant additional financing in the future in order to further satisfy our cash requirements. Our need for additional capital to finance our business strategy, operations, and growth will be greater should, among other things, revenue or expense estimates prove to be incorrect. If we fail to arrange for sufficient capital in the future, we may be required to reduce the scope of our business activities until we can obtain adequate financing. We cannot predict the timing or amount of our capital requirements at this time. We may not be able to obtain additional financing in sufficient amounts or on acceptable terms when needed, which could adversely affect our operating results and prospects. Debt financing must be repaid regardless of whether or not we generate profits or cash flows from our business activities. Equity financing may result in dilution to existing shareholders and may involve securities that have rights, preferences, or privileges that are senior to our common stock.

WE WILL FACE A VARIETY OF RISKS ASSOCIATED WITH ESTABLISHING AND INTEGRATING NEW JOINT VENTURES. The growth and success of our company's business will depend to a great extent on our ability to find and attract appropriate restaurant concepts with which to form joint ventures in the future. We cannot provide assurance that we will be able to:

- \* identity suitable restaurant concepts,
- \* form joint ventures on commercially acceptable terms,
- \* effectively integrate the operations of any joint ventures with our existing operations,
- \* manage effectively the combined operations of the businesses,
- \* achieve our operating and growth strategies with respect to the new joint ventures, or
- \* reduce our overall selling, general, and administrative expenses associated with the new joint ventures.

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The integration of the management, personnel, operations, products, services, technologies, and facilities of any businesses that we associate ourselves with in the future could involve unforeseen difficulties. These difficulties could disrupt our ongoing businesses, distract our management and employees, and increase our expenses, which could have a material adverse affect on our company's business, financial condition, and operating results.

WE DEPEND ON OUR CURRENT MANAGEMENT TEAM. Our company's success will depend to a large degree upon the skills of our current management team and advisors and upon our ability to identify, hire, and retain additional senior management, sales, marketing, technical, and financial personnel. We may not be able to retain our existing key personnel or to attract and retain additional key

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personnel. The loss of any of our current executives, employees, or advisors or the failure to attract, integrate, motivate, and retain additional key employees could have a material adverse effect on our company's business. We do not have "key person" insurance on the lives of any of our management team.

OUR COMPANY MAY NOT BE ABLE TO MANAGE ITS GROWTH. We anticipate a period of significant growth. This growth could cause significant strain on our company's managerial, operational, financial, and other resources. Success in managing this expansion and growth will depend, in part, upon the ability of our senior management to manage effectively the growth of our company. Any failure to manage the proposed growth and expansion of our company could have a material adverse effect on our company's business.

THERE IS NO ASSURANCE THAT OUR FUTURE PRODUCTS AND SERVICES WILL BE ACCEPTED IN THE MARKETPLACE. Our products and services may not experience broad market acceptance. Any market acceptance for our company's products and services may not develop in a timely manner or may not be sustainable. New or increased competition may result in market saturation, more competitive pricing, or lower margins. Further, overall performance and user satisfaction may be affected by a variety of factors, many of which will be beyond our company's control. Our company's business, operating results, and financial condition would be materially and adversely affected if the market for our products and services fails to develop or grow, develops or grows more slowly than anticipated, or becomes more competitive or if our products and services are not accepted by targeted customers even if a substantial market develops.

WE MAY FACE STIFF COMPETITION. There are existing companies that offer or have the ability to develop products and services that will compete with those that our company may offer in the future. These include large, well-recognized companies with substantial resources and established relationships in their respective industries. Their greater financial, technical, marketing, and sales resources may permit them to react more quickly to emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion, and sale of competing products and services. Emerging companies also may develop and offer products and services that compete with those offered by our company.

OUR COMMON STOCK MAY BE SUBJECT TO THE "PENNY STOCK" RULES AS PROMULGATED UNDER THE EXCHANGE ACT. In the event that no exclusion from the definition of "penny stock" under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is available, then any broker engaging in a transaction in our company's common stock will be required to provide its customers with a risk disclosure

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document, disclosure of market quotations, if any, disclosure of the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market values of our company's securities held in the customer's accounts. The bid and offer quotation and compensation information must be provided prior to effecting the transaction and must be contained on the customer's confirmation of sale. Certain brokers are less willing to engage in transactions involving "penny stocks" as a result of the additional disclosure requirements described above, which may make it more difficult for holders of our company's common stock to dispose of their shares.

### ITEM 3. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-QSB, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls

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are also designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our principal executive officer and principal financial officer included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer and chief financial officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on their review and evaluation as of the end of the period covered by this Form 10-QSB, and subject to the inherent limitations all as described above, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. During the period covered by this Form 10-QSB, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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### PART II -- OTHER INFORMATION

Items 1 and 3-5 are not applicable and have been omitted.

#### ITEM 2. CHANGES IN SECURITIES

In the quarter ended September 30, 2004, the Company issued 4,320,000 shares of its common stock as compensation for services. These shares were valued at an average of \$0.05 per share.

The foregoing-described issuances of securities were exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of that act as a transaction not involving a public offering. This exemption was available in connection with the issuances because (i) the shares were issued only to persons or parties who the Company believed were "accredited investors" within the meaning of Regulation D under that act; (ii) no form of general solicitation or general advertising was used in connection with the transactions; and (iii) the persons or parties receiving the securities had access to complete information concerning our company, acquired the securities for investment and not with a view to the distribution thereof, and otherwise were not underwriters within the meaning of Section 2(11) of the Securities Act. There were no underwriters involved in these transactions.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are either attached hereto or incorporated herein by reference as indicated:

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| Exhibit<br>Number<br>----- | Description<br>-----   |
|----------------------------|--|
| 31.1                       | Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002 Exhibit |
| 31.2                       | Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act Of 2002         |
| 32.1                       | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002         |
| 32.2                       | Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002         |

(b) The Registrant has not filed any Current Reports on Form 8-K during the three-month period covered by this Quarterly Report.

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SIGNATURES

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

Dated: November 17, 2004

/s/ Bradford Miller

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Bradford Miller, President and  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 17, 2004

/s/ Janet Crance

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Janet Crance, Chief Financial Officer  
(Principal Accounting Officer)

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EXHIBIT INDEX

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