

Edgar Filing: SKYFRAMES INC - Form 10QSB

SKYFRAMES INC  
Form 10QSB  
February 20, 2004

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

FORM 10-QSB

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

For the quarterly period ended: December 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission file number: 000-27849

SKYFRAMES, INC.  
(Exact name of registrant as specified in its charter)

Utah  
(State or other jurisdiction of  
Incorporation or organization)

00-001748413  
(I.R.S. Employer  
Identification No.)

555 Anton Boulevard, Suite 1200  
Costa Mesa, California  
92626  
(Address of principal executive offices)  
(Zip Code)

(714) 957-1000  
(Registrant's telephone number including area code)

(Former name, former address and former fiscal year,  
if changed since last report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court. YES [ ] NO [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: The registrant has 19,928,079 shares  
of common stock, \$0.10 par value, issued and outstanding as of February 18,  
2004.

# Edgar Filing: SKYFRAMES INC - Form 10QSB

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

SKYFRAMES, INC.

## INDEX

	PAGE NUMBER
PART I	
Item 1 - Financial Information	
Unaudited Condensed Balance Sheets, December 31, 2003 and June 30, 2003	F-2
Unaudited Condensed Statements of Operations, for the three and six months ended December 31, 2003 and 2002 and for the period from inception on May 24, 2002 through December 31, 2003	F-3
Unaudited Condense Statements of Cash Flows, for the six months ended December 31, 2003 and 2002 and for the period from inception on May 24, 2002 through December 31, 2003	F4 - F5
Notes to Unaudited Condensed Notes to Financial Statements	F6 - F22
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	F-22
Item 3 - Disclosure Controls and Procedures	9
PART II	
Item 1 - Legal Proceedings	9
Item 2 - Changes in Securities	9
Item 3 - Defaults Upon Senior Securities	11
Item 4 - Submission of Matters to a Vote of Security Holders	11
Item 5 - Other Information	11
Item 6 - Exhibits and Reports on Form 8-K	11
Signature Page	12

# Edgar Filing: SKYFRAMES INC - Form 10QSB

[A Development Stage Company]

## CONTENTS

	PAGE ----
--      Unaudited Condensed Balance Sheets, December 31, 2003 and June 30, 2003	F-2
--      Unaudited Condensed Statements of Operations, for the three and six months ended December 31, 2003 and 2002 and for the period from inception on May 24, 2002 through December 31, 2003	F-3
--      Unaudited Condensed Statements of Cash Flows, for the six months ended December 31, 2003 and 2002 and for the period from inception on May 24, 2002 through December 31, 2003	F4 - F5
--      Notes to Unaudited Condensed Financial Statements	F6 - F22

F-1

SKYFRAMES, INC.  
[A Development Stage Company]

## UNAUDITED CONDENSED BALANCE SHEETS

### ASSETS

	December 31, 2003 -----	June 30, 2003 -----
<b>CURRENT ASSETS:</b>		
Cash	\$       --	\$    22,
Accounts receivable, net of allowance for doubtful accounts of \$8,975 and \$0, respectively	20,950	24,
Deferred loan costs	25,000	13,
	-----	-----
Total Current Assets	45,950	61,
 PROPERTY AND EQUIPMENT, net	 3,070	 3,
 OTHER ASSETS:		
Deposits	8,950	8,
	-----	-----
	\$   57,970	\$   74,
	-----	-----
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Bank overdraft	\$       5,975	\$

Edgar Filing: SKYFRAMES INC - Form 10QSB

Accounts payable	337,514	163,
Accounts payable - related party	16,999	134,
Customer deposits and unearned revenue	31,958	23,
Accrued payroll and related expenses	91,767	39,
Accrued interest	15,569	
Notes payable, net	190,417	26,
	-----	-----
Total Current Liabilities	690,199	388,
	-----	-----
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, \$.10 par value, 20,000,000 shares authorized, 19,928,079 and 14,392,679 shares issued and outstanding, respectively	1,992,808	1,439,
Capital in excess of par value	6,267,207	4,822,
Deficit accumulated during the development stage	(8,892,244)	(6,576,
	-----	-----
Total Stockholders' Equity (Deficit)	(632,229)	(314,
	-----	-----
	\$ 57,970	\$ 74,
	-----	-----

Note: The balance sheet of June 30, 2003 was taken from the audited financial statements at that date and condensed.

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

F-2

SKYFRAMES, INC.  
[A Development Stage Company]

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

	For the Three Months Ended December 31,		For th Months Decemb
	2003	2002	2003
	-----	-----	-----
REVENUES:			
Subscription services	\$ 19,149	\$ --	\$ 29,574
Equipment sales	--	--	4,950
	-----	-----	-----
Total Revenues	19,149	--	34,524
EXPENSES:			
Cost of equipment sales	29,467	--	35,441
Selling	10,456	--	27,788
General and administrative	1,076,833	103,117	2,072,049
	-----	-----	-----
Total Expenses	1,116,756	103,117	2,135,278
	-----	-----	-----

Edgar Filing: SKYFRAMES INC - Form 10QSB

LOSS BEFORE OTHER INCOME (EXPENSE)	(1,097,607)	(103,117)	(2,100,754)
OTHER INCOME (EXPENSE):			
Loss on settlement of potential claims	--	--	--
Loss on extinguishment of debt	--	--	--
Interest expense	(124,265)	--	(215,476)
	-----	-----	-----
Total Other Income (Expense)	(124,265)	--	(215,476)
	-----	-----	-----
LOSS BEFORE INCOME TAXES	(1,221,872)	(103,117)	(2,316,230)
CURRENT TAX EXPENSE	--	--	--
DEFERRED TAX EXPENSE	--	--	--
	-----	-----	-----
NET LOSS	\$ (1,221,872)	\$ (103,117)	\$ (2,316,230)
	-----	-----	-----
LOSS PER COMMON SHARE	\$ (.07)	\$ (.01)	\$ (.15)
	-----	-----	-----

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

F-3

SKYFRAMES, INC.  
[A Development Stage Company]

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

	For the Six Months Ended December 31,	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,316,230)	\$ (145,944)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization of discounts on notes payable	179,902	--
Bad debt expense	8,975	--
Depreciation	846	314
Loss on settlement of potential claims	--	--
Loss on extinguishment of debt	--	--
Non-cash expenses paid by issuing common stock	372,300	--

Edgar Filing: SKYFRAMES INC - Form 10QSB

Non-cash services paid by issuing common stock	1,212,469	--
Non-cash services paid by granting options/warrants	--	--
Changes in assets and liabilities:		
(Increase) in accounts receivable	(5,000)	--
(Increase) in deferred loan costs	(11,250)	--
(Increase) in deposits	--	(7,814)
Increase in accounts payable	173,825	7,937
Increase (decrease) in accounts payable - related party	(19,510)	91,901
Increase in customer deposits and unearned revenue	8,628	--
Increase in accrued payroll and related expenses	51,942	58,231
Increase in accrued interest	14,823	--
	-----	-----
Net Cash (Used) by Operating Activities	(328,280)	4,625
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment	--	(4,381)
	-----	-----
Net Cash (Used) by Investing Activities	--	(4,381)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank overdraft	5,975	--
Proceeds allocated to beneficial conversion feature of notes payable	133,836	--
Proceeds from notes payable	41,176	--
Payments on notes payable	(15,000)	--
Proceeds from sale of warrants	124,988	--
Proceeds from issuance of common stock	14,400	--
	-----	-----
Net Cash Provided by Financing Activities	305,375	--
	-----	-----
NET INCREASE (DECREASE) IN CASH	(22,905)	244
CASH AT BEGINNING OF PERIOD	22,905	--
	-----	-----
CASH AT END OF PERIOD	\$ --	\$ 244
	-----	-----

[Continued]

F-4

SKYFRAMES, INC.  
[A Development Stage Company]

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS  
[CONTINUED]

	For the Six Months Ended December 31,	
	-----	-----
	2003	2002
	-----	-----

## Edgar Filing: SKYFRAMES INC - Form 10QSB

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ --	\$ --
Income taxes	\$ --	\$ --

### SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

For the six months ended December 31, 2003:

The Company sold a \$250,000 convertible note payable for cash of \$125,012 and recorded a discount of \$124,988. The Company also recorded a discount of \$125,012 for the beneficial conversion feature of the note payable.

The Company recorded a discount of \$8,824 for the beneficial conversion feature of a \$50,000 convertible note payable.

The Company expensed \$179,902 of the discounts on notes payable.

The Company issued 3,010,000 shares of common stock to pay expenses totaling \$372,300.

The Company issued 1,843,067 shares of common stock for services rendered valued at \$1,212,469.

A shareholder of the Company forgave amounts totaling \$8,140 which were owed to him. Due to the related party nature of the debt forgiveness, the Company has recorded the forgiveness as a capital contribution.

A creditor of the Company converted a \$50,000 convertible note payable with an unamortized discount of \$8,088 and accrued interest of \$208 into 66,666 shares of common stock.

The Company issued 750,000 shares of common stock to pay liabilities totaling \$90,000.

The Company's Chief Executive Officer contributed 200,000 shares of common stock back to the Company for cancellation.

For the six months ended December 31, 2002:

The Company issued 6,000,000 shares of common stock for computers and related equipment with a carryover basis of \$0 and as repayment of expenses totaling \$46,063 which had been paid by a related party on behalf of the Company.

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

F-5

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

## Edgar Filing: SKYFRAMES INC - Form 10QSB

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION - Skyframes, Inc. ("the Company") was organized under the laws of the State of Utah on June 4, 1926 as M. M. Lead Company. In 1980, the Company changed its name to Basic Energy, Inc. In March 2003, the Company changed its name to Skyframes, Inc.

SkyFrames, Inc. ("SFI") was organized under the laws of the State of Texas on May 24, 2002 as CyberVillage, Inc. In July 2002, SFI changed its name to SkyFrames, Inc. On January 28, 2003, the Company acquired SFI pursuant to an Exchange Agreement and SFI was dissolved in the acquisition. The acquisition of SFI has been accounted for as a recapitalization of SFI in a manner similar to a reverse purchase [See Note 2].

The Company provides high-speed information access via satellites. The Company has not yet generated significant revenues from its planned principal operations and is considered a development stage company as defined in Statement of Financial Accounting Standards No. 7. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

CONDENSED FINANCIAL STATEMENTS - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 2003 and 2002 and for the periods then ended have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's June 30, 2003 audited financial statements. The results of operations for the periods ended December 31, 2003 and 2002 are not necessarily indicative of the operating results for the full year.

FISCAL YEAR - The Company's fiscal year-end is June 30th.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

ACCOUNTS AND LOANS RECEIVABLE - The Company records accounts and loans receivable at the lower of cost or fair value. The Company determines the lower of cost or fair value of non-mortgage loans on an individual asset basis. The Company recognizes interest income on an account receivable based on the stated interest rate for past-due accounts over the period that the account is past due. The Company recognizes interest income on a loan receivable based on the stated interest rate over the term of the loan. The Company accumulates and defers fees and costs associated with establishing a receivable to be amortized over the estimated life of the related receivable. The Company estimates allowances for doubtful accounts and loan losses based on the aged receivable balances and historical losses. The Company records interest income on delinquent accounts and loans receivable only when payment is received. The Company first applies payments received on delinquent accounts and loans receivable to eliminate the outstanding principal. The Company charges off uncollectible accounts and loans receivable when management estimates no possibility of collecting the related receivable. The Company considers accounts and loans receivable to be past due or delinquent based on contractual terms.



# Edgar Filing: SKYFRAMES INC - Form 10QSB

F-6

SKYFRAMES, INC.  
[A Development Stage Company]

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

INVENTORY - Inventory is carried at the lower of cost or market using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost or at the shareholder's carryover basis. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to five years. In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company periodically reviews its property and equipment for impairment.

WEBSITE COSTS - The Company has adopted the provisions of Emerging Issues Task Force 00-2, "Accounting for Web Site Development Costs." Costs incurred in the planning stage of a website are expensed as research and development while costs incurred in the development stage are capitalized and amortized over the life of the asset, estimated to be three years. As of December 30, 2003, the Company has capitalized a total of \$1,075 of website costs. The Company did not incur any planning costs and did not record any research and development costs for the six months ended December 31, 2003 and 2002.

REVENUE RECOGNITION - Revenue from subscription services is recognized in the period when the related services are provided. Revenue from equipment sales is recognized when the related equipment is installed and accepted by the customer.

ADVERTISING COSTS - Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. For the six months ended December 31, 2003 and 2002, respectively, advertising costs amounted to \$27,788 and \$0.

STOCK-BASED COMPENSATION - The Company has one stock-based compensation plan [See Note 5]. The Company accounts for its plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", to the Company's stock-based employee compensation.

F-7

Edgar Filing: SKYFRAMES INC - Form 10QSB

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

	For the Three Months Ended December 31,		For the Si Months End December 3	
	2003	2002	2003	
Net loss, as reported	\$ (1,221,872)	\$ (103,117)	\$ (2,316,230)	\$
Add: Stock-based employee compensation expense included in reported net income	--	--	--	
Deduct: Total stock- based employee compensation expense determined under fair value based method	--	--	--	
Pro forma net loss	\$ (1,221,872)	\$ (103,117)	\$ (2,316,230)	\$
Loss per common share, as reported	\$ (.07)	\$ (.01)	\$ (.15)	\$
Loss per common share, pro forma	\$ (.07)	\$ (.01)	\$ (.15)	\$

DEBT EXTINGUISHMENT - The Company accounts for extinguishment of debt in accordance with Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 rescinds the requirement that gains and losses from extinguishment of debt be classified as an extraordinary item.

INCOME TAXES - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" [See Note 6].

LOSS PER SHARE - The computation of loss per share is based on the weighted average number of shares outstanding during the period presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" [See Note 8].

ACCOUNTING ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the

## Edgar Filing: SKYFRAMES INC - Form 10QSB

disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimated.

F-8

SKYFRAMES, INC.  
[A Development Stage Company]

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

RECENTLY ENACTED ACCOUNTING STANDARDS - Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", SFAS No. 147, "Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9", SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123", SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", and SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", were recently issued. SFAS No. 146, 147, 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant. The Company has adopted SFAS No. 148 and has applied it to the year ended June 30, 2003.

RECLASSIFICATION - The financial statements for periods prior to December 31, 2003 have been reclassified to conform to the headings and classifications used in the December 31, 2003 financial statements.

RESTATEMENT - The financial statements have been restated for all periods presented to reflect the recapitalization of SkyFrames, Inc. [See Note 2] and to reflect a 1-for-100 reverse stock split effected by the Company on January 28, 2003 [See Notes 2 and 5].

#### NOTE 2 - EXCHANGE AGREEMENT

On January 28, 2003, the Company signed an Exchange Agreement with SkyFrames, Inc. ("SFI"). The agreement called for the Company to issue 8,500,000 post-split shares of its common stock to the former shareholders of SFI for all 85,000 outstanding shares of SFI's common stock. The agreement also called for the Company to effect a 1-for-100 reverse stock split just prior to the acquisition. After the reverse split and just prior to the acquisition, the Company had 84,679 shares of common stock outstanding. The acquisition closed on January 28, 2003 and has been accounted for as a recapitalization of SFI in a manner similar to a reverse purchase. Accordingly, the equity transactions have been restated to reflect the recapitalization of SFI and the operations of the Company prior to the date of acquisition have been eliminated. The financial statements reflect the operations of SFI from its inception.

F-9

SKYFRAMES, INC.  
[A Development Stage Company]

# Edgar Filing: SKYFRAMES INC - Form 10QSB

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment recorded at cost or carryover basis, less accumulated depreciation as of:

	December 31, 2003	June 30, 2003
	-----	-----
Computers and related equipment	\$ --	\$ --
Office equipment	1,900	1,900
Software	2,150	2,150
Website	1,075	1,075
	-----	-----
	5,125	5,125
 Less: accumulated depreciation	 (2,055)	 (1,209)
	-----	-----
	\$ 3,070	\$ 3,916
	-----	-----

DEPRECIATION EXPENSE FOR THE SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002 AMOUNTED TO \$846 AND \$133, RESPECTIVELY.

### NOTE 4 - NOTES PAYABLE

NOTES PAYABLE CONSIST OF THE FOLLOWING AT:

	December 31, 2003	June 20
	-----	-----
ONE-YEAR 8% \$150,000 SENIOR CONVERTIBLE PROMISSORY NOTE PAYABLE TO OCEAN DRIVE HOLDINGS LLC MATURING IN JUNE 2004 CONVERTIBLE WITH ACCRUED INTEREST AT THE CREDITOR'S OPTION INTO COMMON STOCK AT \$.50 PER SHARE, NET OF DISCOUNTS OF \$68,750 AND \$143,750, RESPECTIVELY	\$ 81,250	\$ 6
ONE-YEAR 8% \$250,000 SENIOR CONVERTIBLE PROMISSORY NOTE PAYABLE TO OCEAN DRIVE HOLDINGS LLC MATURING IN AUGUST 2004 CONVERTIBLE WITH ACCRUED INTEREST AT THE CREDITOR'S OPTION INTO COMMON STOCK AT \$.50 PER SHARE, NET OF DISCOUNTS OF \$145,833 AND \$0, RESPECTIVELY	104,167	
SIX-MONTH UNSECURED 5% NOTE PAYABLE TO KEYVAN SAMINI, AN INDIVIDUAL, MATURING IN AUGUST 2003, CURRENTLY IN DEFAULT	5,000	20
	-----	-----
	\$ 190,417	\$26
	-----	-----

## Edgar Filing: SKYFRAMES INC - Form 10QSB

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 4 - NOTES PAYABLE [Continued]

In June 2003, the Company sold the \$150,000 convertible note payable for \$51,726 and recorded a discount of \$98,274. Due to the beneficial conversion feature of the note, the Company recorded an additional discount of \$51,726. Both discounts are being amortized over the term of the note. For the six months ended December 31, 2003 and 2002, respectively, the Company amortized \$75,000 and \$0 of the discounts.

In August 2003, the Company sold the \$250,000 convertible note payable for \$125,012 and recorded a discount of \$124,988. Due to the beneficial conversion feature of the note, the Company recorded an additional discount of \$125,012. Both discounts are being amortized over the term of the note. For the six months ended December 31, 2003 and 2002, respectively, the Company amortized \$104,167 and \$0 of the discounts.

In November 2003, the Company sold a \$50,000 convertible note payable for \$50,000 to an individual. Due to the beneficial conversion feature of the note, the Company recorded a discount of \$8,824. The discount is being amortized over the term of the note. For the six months ended December 31, 2003 and 2002, respectively, the Company amortized \$736 and \$0 of the discount. In November 2003, the creditor converted the \$50,000 note with remaining unamortized discount of \$8,088 and accrued interest of \$208 into 66,666 shares of common stock [See Note 5].

For the six months ended December 31, 2003 and 2002, respectively, interest expense amounted to \$215,476 and \$0.

#### NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS

COMMON STOCK - In May 2002, in connection with its organization, the Company issued 2,500,000 shares of its previously authorized but unissued common stock. The shares were issued as payment of organization costs of \$5,000 (or \$.002 per share).

In August 2002, the Company issued 6,000,000 shares of its previously authorized but unissued common stock. The shares were issued for computers and related equipment recorded at the shareholder's carryover basis of \$0 and as repayment of expenses of \$46,063 which had been paid by a related party (or approximately \$.0077). This issuance resulted in a change in control of the Company.

In January 2003, the Company entered into an Exchange Agreement with SkyFrames, Inc. which has been accounted for as a recapitalization of SkyFrames, Inc. [See Note 2].

In January 2003, the Company issued 2,878,000 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$75,000 and for consulting services valued at \$1,364,000 (or \$.50 per share).

In February 2003, the Company issued 500,000 shares of its previously authorized but unissued common stock to the Company's Chief Executive Officer. The shares were issued for employee services valued at \$250,000 (or \$.50 per share).

## Edgar Filing: SKYFRAMES INC - Form 10QSB

SKYFRAMES, INC.  
[A Development Stage Company]

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS [CONTINUED]

In February 2003, the Company issued 425,000 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$20,000 and for consulting services valued at \$192,500 (or \$.50 per share).

In March 2003, the Company issued 40,000 shares of its previously authorized but unissued common stock as part of a consulting agreement with thestockpage.com Inc. [See Note 10]. The shares were issued for consulting services valued at \$76,000 (or \$1.90 per share).

In March 2003, the Company issued 40,000 shares of its previously authorized but unissued common stock as part of a consulting agreement with Client Services International LLC [See Note 12]. The shares were issued for consulting services valued at \$64,000 (or \$1.60 per share).

In March 2003, the Company issued 200,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$240,000 (or \$1.20 per share).

In March 2003, the Company issued 150,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$217,500 (or \$1.45 per share).

In March 2003, the Company issued 900,000 shares of its previously authorized but unissued common stock. The shares were issued as a settlement valued at \$1,350,000 (or \$1.50 per share) [See Note 9].

In April and May 2003, the Company issued 140,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$175,000 (or \$1.25 per share).

In May 2003, the Company issued 500,000 shares of its previously authorized but unissued common stock. The shares were issued as collateral valued at \$695,000 (or \$1.39 per share) [See Note 9].

In May 2003, the Company issued 250,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$347,500 (or \$1.39 per share).

In May 2003, the Company issued 135,000 shares of its previously authorized but unissued common stock of which 100,000 shares were issued as part of an investment banking agreement with Ocean Drive Capital, LLC [See Note 10]. The shares were issued for consulting services valued at \$209,250 (or \$1.55 per share).

In June 2003, the Company issued 100,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$195,000 (or \$1.95 per share).

## Edgar Filing: SKYFRAMES INC - Form 10QSB

SKYFRAMES, INC.  
[A Development Stage Company]

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS [CONTINUED]

In June 2003, the Company issued 50,000 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$50,000 (or \$1.00 per share).

In July 2003, the Company issued 54,500 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$87,200 (or \$1.60 per share).

In July 2003, the Company issued 100,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$130,000 (or \$1.30 per share).

In July 2003, the Company issued 100,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at 110,000 (or \$1.10 per share).

In August 2003, the Company issued 66,777 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$80,000 (or approximately \$1.198 per share).

In September 2003, the Company issued 250,000 shares of its previously authorized but unissued common stock to the Company's Chief Executive Officer. The shares were issued for employee services valued at \$307,500 (or \$1.23 per share).

In September 2003, the Company issued 10,000 shares of its previously authorized but unissued common stock. The shares were issued to a vendor for price discounts valued at \$12,300 (or \$1.23 per share).

In October 2003, the Company issued 1,790 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$1,969 (or \$1.10 per share).

In October 2003, the Company issued 65,667 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$14,400 (or approximately \$.2193 per share).

In October 2003, the Company issued 480,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$360,000 (or \$.75 per share).

In November 2003, the Company issued 100,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$53,000 (or \$.53 per share).

In November 2003, the Company issued 66,666 shares of its previously authorized but unissued common stock. The shares were issued to convert a \$50,000 note payable with an unamortized discount of \$8,088 and accrued interest of \$208 [See Note 4].

# Edgar Filing: SKYFRAMES INC - Form 10QSB

SKYFRAMES, INC.  
[A Development Stage Company]

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS [CONTINUED]

In December 2003, the Company issued 750,000 shares of its previously authorized but unissued common stock. The shares were issued to pay liabilities totaling \$90,000 (or \$.12 per share).

In December 2003, the Company issued 3,000,000 shares of its previously authorized but unissued common stock. The shares were issued for director fees valued at \$360,000 (or \$.12 per share).

In December 2003, the Company issued 690,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$82,800 (or \$.12 per share).

CAPITAL CONTRIBUTIONS - In October 2003, a shareholder of the Company forgave amounts totaling \$8,140 which were owed to him. Due to the related party nature of the debt forgiveness, the Company has recorded the forgiveness as a capital contribution.

CANCELLATIONS - In June 2003, the Company's former President contributed 500,000 shares of common stock back to the Company for cancellation.

In December 2003, the Company's Chief Executive Officer contributed 200,000 shares of common stock back to the Company for cancellation.

STOCK SPLIT - On January 28, 2003, the Company effected a 1-for-100 reverse stock split. The financial statements for all periods presented have been restated to reflect the stock split.

ADVISOR COMPENSATION PLAN - In February 2003, the Company's Board of Directors adopted the Advisor Compensation Plan ("AC Plan"). The AC Plan provides for issuing up to 3,000,000 shares of common stock to employees, directors, consultants and advisors. At December 31, 2003, total shares available to be issued under the AC Plan amounted to 755,803.

STOCK COMPENSATION PLAN - In September 2003, the Company's Board of Directors approved the 2003 Consultant Stock Plan ("CS Plan"). The CS Plan provides for issuing up to 1,000,000 shares of common stock to consultants over the next ten years. At December 31, 2003, total shares available to be issued under the CS Plan amounted to 1,000,000.

STOCK OPTIONS - In February 2003, the Company granted 10,000 options to purchase common stock at \$.10 per share as part of an Employment Agreement [See Note 9]. The options will vest in February 2004 and will be exercisable for five years following vesting. The Company recorded compensation of \$4,000 for the intrinsic value of the options.

In March 2003, the Company granted 100,000 options to purchase common stock at \$1.00 per share for consulting services valued at \$144,590. The options vested immediately and are exercisable for two years.

STOCK WARRANTS - In May 2003, the Company granted 300,000 warrants to purchase common stock at \$1.45 per share as part of an engagement agreement with Grant Bettingen, Inc. [See Note 10] for consulting services valued at \$434,460. The warrants vested immediately and are exercisable



Edgar Filing: SKYFRAMES INC - Form 10QSB

for three years.

F-14

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS [CONTINUED]

In June 2003, the Company sold 150,000 warrants to purchase common stock at \$2.07 per share for cash of \$98,274. The warrants vested immediately and are exercisable for five years.

In August 2003, the Company sold 200,000 warrants to purchase common stock at \$1.15 per share and 50,000 warrants to purchase common stock at \$1.20 per share for cash of \$124,988. The warrants vested immediately and are exercisable for five years.

A summary of the status of the options and warrants is presented below.

	For the Three Months Ended December 31,			
	2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	810,000	\$ 1.40	--	\$ --
Granted	--	\$ --	--	\$ --
Exercised	--	\$ --	--	\$ --
Forfeited	--	\$ --	--	\$ --
Expired	--	\$ --	--	\$ --
Outstanding at end of period	810,000	\$ 1.40	--	\$ --
Weighted average fair value of options granted during the period	--	\$ --	--	\$ --

For the Six Months  
Ended December 31,

2003

2002

Edgar Filing: SKYFRAMES INC - Form 10QSB

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Outstanding at beginning of period	560,000	\$ 1.51	--	\$ --	
Granted	250,000	\$ 1.15	--	\$ --	810
Exercised	--	\$ --	--	\$ --	
Forfeited	--	\$ --	--	\$ --	
Expired	--	\$ --	--	\$ --	
Outstanding at end of period	810,000	\$ 1.40	--	\$ --	810
Weighted average fair value of options granted during the period	250,000	\$ 1.00	--	\$ --	810

The fair value of each option and warrant granted is estimated on the date granted using the Black-Scholes option pricing model, with the following assumptions for grants on February 1, 2003: risk-free interest rate of 3.02%, expected dividend yield of zero, expected lives of five years and expected volatility of 375%. The following assumptions were used for grants on March 21, 2003: risk-free interest rate of 1.80%, expected dividend yield of zero, expected lives of two years and expected volatility of 414%. The following assumptions were used for grants on May 19, 2003: risk-free interest rate of 1.66%, expected dividend yield of zero, expected lives of three years and expected volatility of 372%. The following assumptions were used for grants on June 16, 2003: risk-free interest rate of 2.14%, expected dividend yield of zero, expected lives of five years and expected volatility of 355%. The following assumptions were used for grants on August 5, 2003: risk-free interest rate of 3.37%, expected dividend yield of zero, expected lives of five years and expected volatility of 330%.

F-15

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL STOCK, OPTIONS AND WARRANTS [CONTINUED]

A summary of the status of the options and warrants outstanding at December 31, 2003 is presented below:

Range of	Options and Warrants Outstanding		Options and Warrants Exer	
	Weighted-Average	Weighted-Average	Weighted-Average	Weighted-Average

Edgar Filing: SKYFRAMES INC - Form 10QSB

Exercise Prices	Number Outstanding	Remaining Contractual Life	Exercise Price	Number Exercisable	Exercise Price
\$ .10	10,000	5.1 years	\$ .10	--	\$ --
\$ 1.00	100,000	1.2 years	1.00	100,000	1.00
\$ 1.15 - 1.20	250,000	4.6 years	1.16	250,000	1.16
\$ 1.45	300,000	2.4 years	1.45	300,000	1.45
\$ 2.07	150,000	4.5 years	2.07	150,000	2.07
	810,000	3.3 years	\$ 1.40	800,000	\$ 1.40

NOTE 6 - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". SFAS No. 109 requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. At December 31, 2003, the Company has available unused operating loss carryforwards of approximately \$7,980,000, which may be applied against future taxable income and which expire in various years through 2024.

At December 31, 2003, the total of all deferred tax assets was approximately \$3,000,000 and the total of all deferred tax liabilities was approximately \$0. The amount of and ultimate realization of the benefits from the deferred tax assets for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance of approximately \$3,000,000. The net change in the valuation allowance was approximately \$787,000 during the six months ended December 31, 2003.

The temporary differences gave rise to the following deferred tax asset (liability):

	December 31, 2003
Excess of tax over financial accounting depreciation	\$ 1,013
Accrued compensation	18,401
Bad debt reserve	3,348
Net operating loss carryover	2,976,764

F-16

SKYFRAMES, INC.  
[A Development Stage Company]  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INCOME TAXES [CONTINUED]

The components of federal income tax expense from continuing operations consisted of the following for the six months ended:

Edgar Filing: SKYFRAMES INC - Form 10QSB

	December 31, 2003
	-----
Current income tax expense:	
Federal	\$     --
State	--
	-----
Net current tax expense	\$     --
	-----
Deferred tax expense (benefit) resulted from:	
Excess of tax over financial accounting depreciation	\$     109
Accrued compensation	(11,240)
Bad debt allowance	(3,348)
Net operating loss carryover	(772,376)
Valuation allowance	786,855
	-----
Net deferred tax expense	\$     --
	-----

Deferred income tax expense results primarily from the reversal of temporary timing differences between tax and financial statement income.

The reconciliation of income tax from continuing operations computed at the U.S. federal statutory tax rate to the Company's effective rate is as follows for the six months ended:

	December 31, 2003
	-----
Computed tax at the expected federal statutory rate	34.00%
State income taxes, net of federal benefit	3.30
Compensation due to issue of options	(2.90)
Other	(.43)
Valuation allowance	(33.97)
	-----
Effective income tax rates	0.00%
	-----

F-17

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company was only recently formed and has not yet been successful in establishing profitable operations. Further, the Company has

## Edgar Filing: SKYFRAMES INC - Form 10QSB

current liabilities in excess of current assets. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through additional sales of its common stock. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### NOTE 8 - LOSS PER SHARE

THE FOLLOWING DATA SHOWS THE AMOUNTS USED IN COMPUTING LOSS PER SHARE:

	For the Three Months Ended December 31,		For the Si Months End December 3
	2003	2002	2003
Loss available to common shareholders (numerator)	\$ (1,221,872)	\$ (103,117)	\$ (2,316,230)
Weighted average number of common shares outstanding used in loss per share during the period (denominator)	16,849,070	8,500,000	15,756,256

At December 31, 2003, the Company had 110,000 outstanding options, 700,000 outstanding warrants and notes payable convertible into 829,644 shares of common stock which were not used in the computation of dilutive loss per share because their effect would be anti-dilutive. Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would affect the computation of diluted loss per share.

### NOTE 9 - RELATED PARTY TRANSACTIONS

ACCOUNTS PAYABLE - At December 31, 2003, officers and shareholders of the Company were owed a total of \$16,999 for expenses which they paid on behalf of the Company and accrued amounts owed to them.

F-18

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

### NOTE 9 - RELATED PARTY TRANSACTIONS [CONTINUED]

NOTE PAYABLE AND LOSS ON EXTINGUISHMENT OF DEBT - In May 2003, the Company

## Edgar Filing: SKYFRAMES INC - Form 10QSB

issued 500,000 shares of common stock to Bricap, LLC, an entity controlled by the Company's former President. The shares were issued as collateral valued at \$695,000 [See Note 5] on a \$44,000 no-interest unsecured demand note payable. In June 2003, the Company defaulted on the note and Bricap, LLC accepted the 500,000 shares of common stock, which had been previously issued, as payment in full, resulting in a loss on extinguishment of debt of \$651,000.

STOCK ISSUANCES - In August 2002, the Company issued 6,000,000 shares of common stock for computers and equipment with a carryover basis of \$0 and as repayment of expenses of \$46,063 which had been paid by a related party [See Note 5].

In February 2003, the Company issued 500,000 shares of common stock to the Company's Chief Executive Officer for employee services valued at \$250,000 [See Note 5].

In September 2003, the Company issued 250,000 shares of common stock to the Company's Chief Executive Officer for employee services valued at \$307,500 [See Note 5].

In December 2003, the Company issued 1,000,000 shares of common stock to each of its three directors, totaling 3,000,000 shares, for directors fees valued at \$360,000 [See Note 5].

EMPLOYMENT AGREEMENT - In February 2003, the Company signed a one-year Employment Agreement with the Company's Chief Executive Officer. The agreement calls for the Company to pay a base salary of \$5,000 per month, issue 500,000 shares of common stock vesting at 25,000 shares per month and grant 10,000 options to purchase common stock at \$.10 per share exercisable for five years [See Note 5]. Upon completion of \$500,000 in funding, the agreement provides for the salary to increase to \$10,000 per month and for issuance of an additional 250,000 shares of common stock. The agreement also provides for three years of extensions. In February 2003, the Company's Board of Directors amended the agreement so that all 500,000 shares of common stock initially issued to the Company's Chief Executive Officer vested immediately. In June 2003, the Company's Board of Directors amended the agreement to increase the Company's Chief Executive Officer's salary to \$10,000 per month effective June 1, 2003. In September 2003, the Company's Board of Directors determined that the required funding had been obtained by the Company for the Company's Chief Executive Officer to receive the 250,000 additional shares of common stock [See Note 5].

DIRECTOR FEES - In April 2003, the Company's Board of Directors determined that each director should receive \$1,000 for each Board meeting attended; however, this policy has not yet been put into effect. In December 2003, each of the Company's directors received 1,000,000 shares of common stock [See above and Note 5].

F-19

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - RELATED PARTY TRANSACTIONS [CONTINUED]

## Edgar Filing: SKYFRAMES INC - Form 10QSB

SETTLEMENT OF POTENTIAL CLAIMS - In March 2003, the Company issued 900,000 shares of common stock to Bricap, LLC, an entity controlled by the Company's former President. The shares were issued as a settlement valued at \$1,350,000 [See Note 5] for potential claims against the Company related to the technology used by the Company in its operations.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

EXCHANGE AGREEMENT / RELEASE AND SETTLEMENT AGREEMENT - On August 3, 2002, SkyFrames, Inc. ("SFI") signed an Exchange Agreement with Helsinki Capital Partners, Inc. (Helsinki"). The agreement called for Helsinki to issue 8,500,000 shares of Helsinki's common stock to the former shareholders of SFI for all 85,000 outstanding shares of SFI's common stock. The acquisition closed on August 31, 2002; however, the acquisition was subsequently rescinded. On January 28, 2003, SFI signed a Release and Settlement Agreement with Helsinki. The rescission agreement called for the former shareholders of SFI to return the 8,500,000 shares of Helsinki's common stock and to receive back their 85,000 shares of SFI's common stock. The financial statements have been restated to reflect the acquisition as having been rescinded.

SATELLITE SERVICE AGREEMENT / PURCHASE OPTION - In October 2002, the Company signed a Satellite Service Agreement with Clear Channel Satellite Services ("CCSS") to purchase preemptible satellite bandwidth and power on a month-to-month basis. The Company paid a \$6,000 refundable deposit and rental payments are 75% of gross revenues derived from use of the CCSS satellite with monthly minimums of \$5,820. The agreement also grants CCSS the exclusive right to acquire the Company for 24 months after 18 months operations at the greater of gross annual revenues or fair market value. The agreement grants the Company first right of refusal to convert to a non-preemptible status. The agreement also sets minimum prices the Company can charge for its services and calls for a 3% increase in monthly fees at each anniversary of the agreement.

OFFICE LEASES - In September 2002, the Company signed a 31-month lease for office space in Costa Mesa, California beginning March 1, 2003. The Company paid a \$1,836 refundable security deposit and rental payments are initially \$1,751 per month increasing each September 30th and reaching \$1,836 per month during the third year. Minimum future lease payments under this lease for the twelve-month periods ended December 31, 2004 and 2005 are \$21,649 and \$16,525, respectively.

In October 2002, the Company signed a two-year lease for office space in Oceanside, California beginning October 1, 2002. The Company paid a \$1,114 refundable deposit and rental payments are \$1,142 per month during the first year and \$1,189 per month during the second year. Minimum future lease payments under this lease for the twelve-month period ended December 31, 2004 are \$10,701.

F-20

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS AND CONTINGENCIES [CONTINUED]

## Edgar Filing: SKYFRAMES INC - Form 10QSB

ENGAGEMENT AGREEMENT - In May 2003, the Company signed a six-month Engagement Agreement with Grant Bettingen, Inc. The Company granted 300,000 warrants to purchase common stock at \$1.45 per share exercisable for three years [See Note 5]. The Company also pays \$1,500 per month and will pay 10% of the proceeds from any joint venture or acquisition negotiated by Grant Bettingen. The agreement can be extended up to six additional months.

CONSULTING AGREEMENTS - In July 2003, the Company signed a nine-month Consulting Agreement with Client Services International LLC. The agreement covers 40,000 shares of common stock which were issued in March 2003 [See Note 5] and calls for the Company to make seven payments of \$5,000 in exchange for consulting services.

In November 2003, the Company signed a three-year Consulting Agreement with Kevin Woodbridge. The agreement calls for the Company to pay \$3,000 per month plus 6% of the proceeds from any acquisition or business combination negotiated through the efforts of Kevin Woodbridge.

### NOTE 11 - CONCENTRATIONS

ACCOUNTS RECEIVABLE - A significant percent of the Company's accounts receivable at December 31, 2003 were owed by only four customers. The following table lists the percent of the receivables owed by those customers that accounted for 10% or more of the total accounts receivable at December 31, 2003:

Customer A	33%
Customer B	32%
Customer C	17%
Customer D	10%

REVENUES - During the six months ended December 31, 2003, a significant percent of the Company's total sales were made to only three customers. The following table lists the percent of the sales made to those customers that accounted for 10% or more of the total revenues for the six months ended December 31, 2003:

Customer A	50%
Customer B	15%
Customer C	14%

The loss of these significant customers could adversely affect the Company's business and financial condition.

F-21

SKYFRAMES, INC.  
[A Development Stage Company]

NOTES TO FINANCIAL STATEMENTS

### NOTE 12 - SUBSEQUENT EVENTS [CONTINUED]

RENEGOTIATION OF NOTE CONVERSION TERMS AND WARRANT TERMS - In January 2004, the Company renegotiated the conversion price for its \$150,000 note payable and its \$250,000 note payable such that both would be convertible with accrued interest into common stock at \$.35 per share. The Company also renegotiated to cancel 150,000 warrants to purchase common stock at



## Edgar Filing: SKYFRAMES INC - Form 10QSB

\$2.07 per share, 50,000 warrants to purchase common stock at \$1.20 per share and 200,000 warrants to purchase common stock at \$1.15 per share. In exchange, the Company issued 1,750,000 warrants to purchase common stock at \$.50 per share which are exercisable through December 22, 2008.

### PART 1 - ITEM 2

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### Safe Harbor Statement

This Form 10-QSB contains certain forward-looking statements. For this purpose any statements contained in this Form 10-QSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors including, but not limited to, the absence of long-term financial resources, our ability to find working capital, technical issues relating to our obtaining satellite time, our ability to provide timely customer service and shipment of equipment given that we are short on working capital, and compliance of our customers with contractual terms. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. Except as required by law, we undertake no obligation to announce publicly revisions we make to these forward-looking statements to reflect the effect of events or circumstances that may arise after the date of this report. All written and oral forward-looking statements made subsequent to the date of this report and attributable to us or persons acting on our behalf are expressly qualified in their entirety by this section. You should carefully review the risk factors described in other documents we file from time to time with the SEC.

F-22

##### Management Discussion and Analysis of Financial Condition and Results of Operations

###### Overview

The Company is an early stage provider of low-cost high-speed secure Internet broadband services. SkyFrames, founded in 2002, delivers broadband speeds to rural locations that enable applications to be delivered in a manner that was previously unattainable. This reliable technology platform delivers speeds equal to or greater than terrestrial broadband in these various rural areas. Management estimates that there are over 20,000 communities in the U.S. alone that would gain significant benefit from SkyFrames services. This market continues to grow due to past events such as September 11th disaster and unforeseen man-made or natural disasters. Skyframes presents a viable redundancy or alternate solution to the costly expansion of broadband installation. Applications for the Company's product and services include: corporate data networks, distance learning centers, disaster recovery, government municipality's applications, information distribution, rural telecommunications initiatives and backup terrestrial data support infrastructure. Even today, the Company is involved in attempting to bring broadband to the military troops overseas in Iraq.

## Edgar Filing: SKYFRAMES INC - Form 10QSB

There are two main product offerings to deliver these services. The first is VSAT (Very Small Aperture Terminal) systems, which can be deployed immediately to areas where there is little or no connectivity. SkyFrames is an ideal system for Internet access for rural communities. This product will also be used in business continuity and disaster recovery situations, providing a diverse path backup system. Management believes this system is very competitive and provides a quality offering above some existing or legacy systems offered currently in the marketplace. Our proprietary software allows the implementation of bandwidth on demand protocol with DAMA (Demand Assigned Multiple Access) and static IP addressing. SkyFrames's advanced satellite product called VOS (Virtual Onboard Switching) was designed to provide a secure intelligent routing and switching firmware design that interoperates cohesively with international standards for uplink and downlink equipment as well as various terrestrial IP networks. This technology implements a unique deployment of digital video broadcast (DVB-S) technology for the creation of a mesh Internet backbone with very low latency. This highly efficient system's major feature is that it is extremely secure and operates in its own closed environment, thus providing a true private network with no public switches. Both products allow for the creating of broadband hotspots in rural areas at a low market entry price for future ISP developers.

Both these products and the continued subscriber base developed by each user on the system installed will generate revenue for the Company. A typical installed site will pay monthly user fees for access to the system. Sales are generated by a direct sales force and through VARs (Value Added Resellers). The Company has recently begun selling these products and management believes a good selling effort is under way. Revenues for the first year start up ended June 30, 2003 were limited to \$53,925 in sales to only a handful of small VSAT customers, at a rate on average of approximately \$450 per month. Prior to June 30, 2003, we entered into a number of contracts valued at \$200,000. However, delays in shipping and the Company's limited access to capital have delayed further revenue growth through the fourth quarter and the first quarter 2004. For the period ending December 31, 2003, the Company had a balance of \$31,958 in unearned revenue and customer deposits and an increase of \$31,958 from the same period in 2002. Beginning in August 2003, the Company commenced its audit work for fiscal year 2003 and the subsequent audit and review work for the quarter ending September 30, 2003. On November 26, 2003 the Company was de-listed from the Over-The-Counter Bulletin Board listing market due to late filings. Subsequently, the Company has filed its late public reports.

3

This put further pressure on the capital plans of the Company for furthering the development of sales. The Company applied to be re-listed on the Over-The-Counter Bulletin Board by filing a Form 15c-211 and is waiting the re-listing of its symbol. The Company selected Aegis Capital Corp., as a new lead market maker to process the filing.

The Company continues to work with a variety of companies developing new markets for satellite broadband applications. One project that continues to have good future revenue possibilities, was designed to give rural community students the same opportunities as students in the major metropolitan areas by connecting them to the Internet using Skyframes satellite delivery of Internet to these rural schools. Skyframes entered into a number of initial agreements with companies such as Cyberguard, a premier cyber security company for customers looking for highly secured voice and data transmissions. We expect to see similar applications associated with this broadband offering. No revenue's from this type of application have been earned to date.

## Edgar Filing: SKYFRAMES INC - Form 10QSB

In June 2003, Skyframes sold a wireless broadband system to Coffman Cove, Alaska for rural connectivity. Installation took place in the beginning of June and Management believes installation during that time was successful. However, we need to revisit the area to make sure the system continues to perform at peak levels in the winter condition period. The Company has not had the capital to complete the customer service needed there. Skyframes has begun to sell to some of the other rural communities in Alaska, but again, the Company has not had the capital required to exploit these sales opportunities. There remains a need for broadband connectivity in Alaska. There has been \$7.5 million in grant money allocated in Alaska for the specific purpose of providing broadband connectivity to rural communities of Alaska.

In September 2003, SkyFrames began an initiative to bring high speed broadband to the troops in Iraq to provide better communications to families and friends at home. A non-affiliate of the Company set up a non-profit foundation with respect to this initiative. To receive more information, interested parties may go to the foundation's website at [WWW.FREEDOMCALLS.ORG](http://WWW.FREEDOMCALLS.ORG). We are awaiting government approval necessary to ship our system into Iraq or to establish a monitoring station on the traffic use for revenue. We are working with several organizations to try and make this happen timely. These firms to date are Motorola, Vonage, AreoTech, Broadband Wireless exchange, Altigen, Intelsat, and Solomon Technology to name some. This is a military operation and great care must be observed in introducing technology during a military conflict. As of December 2003, the consortium of companies bringing this technology to Iraq was in the process of setting up the first installation. Management views this initiative as a way to bring new revenue on a non-military service basis into the area in the future.

In September 2003, the Company entered into an agreement with ComGuard CTS to supply high-speed VSAT equipment and broadband Internet services. ComGuard CTS is a technology company that focuses on telecommunications, application development, support and education in Canada. While no revenues were generated during the period ending December 31, 2003, the Company looks forward to this relationship helping to generate revenues in 2004.

4

In October 2003, the Company signed a letter of intent with The Canadian Hearing Society based in Toronto, Canada to build satellite/wireless infrastructures that support businesses and citizens of rural communities in the area while addressing the needs of deaf and hard of hearing people throughout Canada, Mexico, the Caribbean, the United States and Latin America. This relationship is in the early stages and has not produced any revenue to date.

Closer to home, we have begun a state-by-state effort to bring closed system broadband to certain government agencies. These systems will provide greater information flow to outlining areas where local government can be directly online each day 24/7 to state capital offices such as the Secretary of State. Since each state has many county offices to communicate with, a closed network system on a high-speed connection at lower costs is needed and provides us with a new market opportunity. This state-by-state initiative is our biggest commercial marketing to date. Management believes that this state selling effort should produce sales for the second quarter of fiscal 2004. These unit sales should cover many counties within a state and represent a selling model for others states to follow. The sale will consist of satellite hardware and a broadband service contract. The typical unit will cost as much as \$15,000 and produce monthly revenue up to \$1,500 per site per month varying by location.

Our revenue for the quarter ending December 31, 2003 was \$19,149, an increase of \$19,149 compared to the same period in 2002, which had no

Edgar Filing: SKYFRAMES INC - Form 10QSB

significant revenue. The growth of future sales is difficult to predict at this time do in part to the capital required and because we are in our initial phase of operations. The capital raising activity has been slowed due to the de-listing of our common stock from the Over-The-Counter Bulletin Board. This recent de-listing caused strain on our selling activity and has put many programs on hold. We are capital sensitive and our market development efforts have been slowed do to this lack of timely capital. Further, other competitive broadband companies have failed which has contributed to a difficult capital undertaking. These factors, along with our limited operating history, make the level of future revenues extremely difficult to predict. We could have technical problems, personnel problems as well as our continuing liquidity problems. One or more of our customers could fail to perform, our own system could fail, our services could be down due to payables owed and any of these would adversely impact our results of operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to reserves, impairment of long-lived assets and estimates of costs to complete contracts. We base our estimates on limited historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

RESULTS OF START-UP AND EMERGING OPERATIONS FOR THE PERIOD ENDING DECEMBER 31, 2003 AND FOR THE PERIOD ENDING DECEMBER 31, 2002.

Revenues for the three and six months ended December 31, 2003 were \$19,149 and \$34,524, respectively compared to -0- for the three and six months-ended, December 31, 2002. The Company expended most of its resources dealing with post-merger issues throughout 2003 and becoming current on the Company public reports filed in November 2003 which were filed late. The Company expects revenues to continue grow once more resources are allocated for selling activities. There was no prior sales history for the Company prior to the January 2003 and the Company had no significant operations or revenues for the three months-ended December 31, 2002.

	Three Months ending December 31, 2003 -----	Period Last year December 31, 2002 -----
Revenues	\$19,149	-0-

The Company had entered into a contract with Clear Channel Satellite Services as one of it's satellite link providers. This contract is on a revenue share basis and we believe provides a solid financial model on which to project margin. Activity for the fiscal year-ended June 30, 2003 and for the three months-ended December 31, 2003 while minimal did increase through its selling

## Edgar Filing: SKYFRAMES INC - Form 10QSB

activity. A number of factors will drive costs in the future as well as revenues; however, ratios to revenue should not fluctuate appreciably. The primary cost expense associated with providing these services, after the hardware installation, will be the ongoing satellite broadband service fees, which are directly proportional to the number of users on the system.

	Three Months Ended December 31, 2003 -----	Three Months Ending December 31, 2002 -----
General & Administrative expenses	\$1,076,833	\$ 103,117
Cost of Equipment Sales	\$ 29,467	\$ -0-

6

For the fiscal year-ended of June 30, 2003, and the quarter ending December 31, 2003, general and administrative expenses increased substantially as the Company activity increased on a non-cash basis. This trend continued as general and administrative expenses for the three and six months-ended December 31, 2003 was \$1,076,833 and \$2,072,049, compared to \$103,117 and \$145,944, respectively, for the same periods in 2002. Costs of goods sold for the three and six months-ended December 31, 2003 was \$29,467 and \$35,441, compared to -0- for the same periods 2002. The principal increase was due to the slow delivery of our systems, the addition to the Company's management, use of outside consultant's services, and the Company's continued operating ramp up activity. We paid substantially for all the services by the issuance of common stock valued at \$1,212,469 for the six months-ended December 31, 2003, compared to the fiscal year-ended June 30, 2003 with approximately \$3,330,750 in stock value for goods and services. This has produced a sizable loss carry forward. The increase in general and administrative costs is expected to continue as more customers are added. However, these expenses (except for the expenses accrued for stock compensation, which were more related to start up expenses) should become more proportionate to revenue as time passes and not adversely effect margins in the future. Staff increases will be in sales administration, order entry, quality assurance and customer service support.

### LIQUIDITY AND CAPITAL RESOURCES

Management and shareholders are currently funding the Company's financial requirements with short-term advances and private placements of equity with non-related qualified parties through December 31, 2003 and by accruing some expenses. On December 2, 2003 the Board and other management were granted restricted shares to continue to serve on the board with out officers and directors insurance and in lieu of regular pay. The aggregate of these restricted issuances was 3,750,000 restricted shares with an aggregate value of approximately \$450,000 at December 31, 2003. Of those shares, 750,000 shares were issued to a director in forgiveness of \$90,000 in debt and for continued service on the board. On June 16, 2003, the Company entered in to an investment banking agreement with Ocean Drive Capital. This agreement details the plan for rising on a private basis up to \$5 million. This relationship should help the Company in meeting its capital requirements. On June 16, 2003, Ocean began funding a series of bridge loans beginning with \$150,000 and another \$250,000 in August 2003 to assist the Company in meeting its short-term needs. Both bridge loans accrue interest at a per annum rate of 8% per year, have maturity dates one year from the date of the promissory notes and are convertible into shares of our common stock at a conversion price of \$0.50 per share. In October 2003, a shareholder of the Company forgave amounts totaling \$8,140 which were owed to

## Edgar Filing: SKYFRAMES INC - Form 10QSB

him which the Company has recorded as a capital contribution. In November 2003, the Company sold a \$50,000 convertible note payable for \$50,000 to an individual. In November 2003, the creditor converted the \$50,000 note into 66,666 shares of common stock. Given the increasing operating expenses and the lack of substantial revenue the Company will require additional capital. Management intends to continue to seek the funding necessary to meet all the capital and operating requirements. However, no guarantee to raise the necessary capital has been entered into, it will be strictly a best effort basis. To date, this effort is also hampered by the de-listing of our common stock from the Over-The-Counter Bulletin Board and the pending approval of our re-listing application. We are also investigating the possibility of accounts receivable financing. There can be no assurance that our efforts to obtain financing will be successful or that proceeds raised from the sale of our securities or other financing activates will be sufficient to fund the operating activities or service any indebtedness as a result of the capital raising activities. If the funds received are insufficient, then the Company's ability to continue as a going concern could be adversely affected.

7

### ECONOMIC CONDITIONS AND TRENDS

Management believes current economic conditions and the capital markets generally will impact the timing and the results of any private sale of securities or other financing activities. The Company is dependent on timely financing to support product sales flow and customer deliveries. Accordingly, management has kept hard costs down and continues to require customers to provide a (50%) fifty percent down payment with each order. However, the other (50% fifty percent is carried by the Company until the product is delivered. The results are a 30 to 45 day carries time before the Company receives the balance of its payments. This negatively impacts accounts payables timing. This need for long term financing may have an adverse effect on the Company performance, if not resolved in the near future. Management believes it can work through the short-term issues for some period of time. However, future sales levels, if substantial, will increase pressure on the need for a long term funding solution.

We are a development stage company as that term is defined in Paragraphs 8 and 9 of SFAS No. 7. Our activities to date have been limited to seeking capital; seeking supply contracts and development of a business market for its products and services. We do not believe that conventional financing, such as bank loans, is available to us due to these factors. Management believes that it will be able to raise the required funds for operations from one or more future offerings, and to be able to affect our business plan. However, Management believes that Skyframes ability to raise significant amounts of financing, will be dependent on favorable capital markets and also on obtaining further validation of our technology in the commercial government sector.

### New Accounting Standards

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others," ("FIN 45"). FIN 45 requires us to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in the issuance of the guarantee. FIN 45 is effective for guarantees issued or modified after December 31, 2002. The disclosure requirements effective for the year ending December 31, 2002 expand the disclosures required by a guarantor about its obligations under a guarantee. The adoption of the disclosure requirements of this statement did not impact our financial position, results of operations or cash flows.

In December 2002, Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," ("SFAS 148") was issued. SFAS 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 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 the reported results. The provisions of SFAS 148 are effective for the financial statements for fiscal years ending after December 15, 2002 and interim periods beginning after December 15, 2002. The adoption of the disclosure requirements of this statement did not impact our financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 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. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We do not expect the adoption of SFAS No. 150 to have a material impact upon our financial position, cash flows or results of operations.

#### Subsequent Events

In January 2004, the Company renegotiated the conversion price for its \$150,000 note payable and its \$250,000 note payable such that both would be convertible with accrued interest into common stock at \$.35 per share. The Company also renegotiated to cancel 150,000 warrants to purchase common stock at \$2.07 per share, 50,000 warrants to purchase common stock at \$1.20 per share and 200,000 warrants to purchase common stock at \$1.15 per share. In exchange, the Company issued 1,750,000 warrants to purchase common stock at \$.50 per share which are exercisable through December 22, 2008.

#### ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer (who is also the Company's Chief Financial Officer) of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with the Company's accounting personnel. Based on that evaluation, the President and Chief Executive Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in the Company's internal controls or in

## Edgar Filing: SKYFRAMES INC - Form 10QSB

other factors that could significantly affect internal controls subsequent to the date of their evaluation.

9

### PART II - ITEM 1 LEGAL PROCEEDINGS

Not applicable.

### PART II - ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

We issued the following securities during the quarter ended December 31, 2003:

In September 2003, the Company issued 250,000 shares of its previously authorized but unissued common stock to the Company's Chief Executive Officer. The shares were issued for employee services valued at \$307,500 (or \$1.23 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 (the "Act") pursuant to section 4(2) of the Act.

In September 2003, the Company issued 10,000 shares of its previously authorized but unissued common stock. The shares were issued to a vendor for price discounts valued at \$12,300 (or \$1.23 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In October 2003, the Company issued 1,790 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$1,969 (or \$1.10 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In October 2003, the Company issued 65,667 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$14,400 (or approximately \$.2193 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In October 2003, the Company issued 480,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$360,000 (or \$.75 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In November 2003, the Company issued 100,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$53,000 (or \$.53 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In November 2003, the Company issued 66,666 shares of its previously authorized but unissued common stock. The shares were issued to convert a \$50,000 note payable with an unamortized discount of \$8,088 and accrued interest of \$208. The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In December 2003, the Company issued 750,000 shares of its previously authorized but unissued common stock. The shares were issued to pay liabilities totaling \$90,000 (or \$.12 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

10



## Edgar Filing: SKYFRAMES INC - Form 10QSB

In December 2003, the Company issued 3,000,000 shares of its previously authorized but unissued common stock. The shares were issued for director fees valued at \$360,000 (or \$.12 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

In December 2003, the Company issued 690,000 shares of its previously authorized but unissued common stock. The shares were issued for consulting services valued at \$82,800 (or \$.12 per share). The securities were exempt from the registration requirements of the Securities Act of 1933 pursuant to section 4(2).

### PART II - ITEM 3                    DEFAULTS UPON SENIOR SECURITIES

Not applicable

### PART II - ITEM 4                    SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

### PART II - ITEM 5                    OTHER INFORMATION

Not applicable.

### PART II - ITEM 6                    EXHIBITS AND REPORTS ON FORM 8-K

#### EXHIBITS:

- 2.1        Exchange Agreement, dated January 29, 2003(1)
- 3.1        Articles of Incorporation, as amended (2)
- 3.2        By-laws, as amended (2)
- 31        Certification Pursuant to Rule 13a-14(a) and 15d-14(a) (3)
- 32        Certification Pursuant to Section 1350 of Title 18 of the United States Code (3)

(1) Incorporated by reference from the Company's report on Form 10-KSB filed on November 26, 2003.

(2) Incorporated by reference from the Company's registration statement on Form 10-SB filed on October 27, 1999.

(3) Filed herewith.

#### REPORTS ON FORM 8-K

None

Edgar Filing: SKYFRAMES INC - Form 10QSB

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 18, 2004

SKYFRAMES, INC.

By: /s/ James W. France

-----  
President, Chief Financial Officer  
and Duly Authorized Officer  
(Principal accounting and financial  
officer for the quarter)