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SIGN MEDIA SYSTEMS INC
Form 10QSB/A
September 12, 2005

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

FORM 10-QSB/A
(Second Amendment)

(Mark One)

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

For the quarterly period ended June 30, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-50742

SIGN MEDIA SYSTEMS, INC.

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

FLORIDA

02-0555904

(State or other jurisdiction of
incorporation or organization)

(IRS
Employer Identification No.)

2100 19th Street, Sarasota FL 34234

(Address of principal executive offices)

(941) 330-0336

(Issuer's telephone number)

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

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: 8,460,000 Common Shares no par value as of May 31, 2005.

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

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

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The information required by Item 310(b) of Regulation S-B is attached hereto as Exhibit One and is incorporated herein by reference. The Company restated its December 31, 2003 financial statements by \$55,702 due to an increase of professional fees. Therefore, the June 30, 2004 deficit has been restated. The net income for the six months ended June 30, 2004 did not change as it remained at \$231,261. See Note 9 of the Consolidated Financial Statements attached hereto.

Item 2. Management's Discussion and Analysis or Plan of Operation.

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS REPORT.

THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, AND THE COMPANY'S ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING, BUT NOT LIMITED TO COMPETITION AND OVERALL MARKET AND ECONOMIC CONDITIONS.

RESULTS OF OPERATIONS

	Six Months Ended June 30	
	2004	2003 (restated)
Revenue	\$ 654,484	\$ 103,968
Cost of goods sold	94,260	33,424
	-----	-----
Gross profit	560,224	70,544
	-----	-----
Operating and other expenses	328,963	305,859
	-----	-----
Net income (loss)	\$ 231,261	\$ (235,315)
	=====	=====
Gross profit margin	86%	1%
Earnings per share of common stock	\$ 0.028	\$ (0.030)
	=====	=====
Weighted average of common shares	8,256,631	7,960,000
	=====	=====

For the six months ended June 30, 2004, the Company generated \$654,484 of revenue, \$560,224 of gross profit, \$231,261 of net income, and \$0.028 in earnings per weighted average common share based upon a weighted average of 8,256,631 common shares outstanding. .

For the six months ended June 30, 2003, the Company generated \$103,968 of revenue, \$70,544 of gross profit, \$(235,315) of net loss, and \$(0.030) of net loss per weighted common share based upon a weighted average of 7,960,000 common shares outstanding.

Revenue for the six months ended June 30, 2004, increased \$550,516 from the same period last year. Net income for the six months ended June 30, 2004, increased

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\$466,576 from the same period last year. Earnings per share for the six months ended June 30, 2004, increased \$.0.06 from the same period last year.

	Three Months Ended June 30	
	2004	2003 (restated)
Revenue	\$ 371,884	\$ 88,217
Cost of goods sold	39,116	17,796

Gross profit	332,768	70,421

Operating and other expenses	148,845	197,408

Net income (loss)	\$183,923	\$(126,987)
	=====	
Gross profit margin	89%	80%
Earnings per share of common stock	\$ 0.022	\$ (0.016)
	=====	
Weighted average of common shares	8,460,000	8,000,000
	=====	

For the three months ended June 30, 2004, the Company generated \$371,884 of revenue, \$332,768 of gross profit, \$183,923 of net income, and \$0.022 in earnings per weighted average common share based upon a weighted average of 8,460,000 common shares outstanding. .

For the three months ended June 30, 2003, the Company generated \$88,217 of revenue, \$70,421 of gross profit, \$(126,987) of net loss, and \$(0.016) of net loss per weighted average common share based upon a weighted average of 8,000,000 outstanding.

Revenue for the three months ended June 30, 2004, increased \$283,667 from the same period last year. Net income for the six months ended June 30, 2004, increased \$310,910 from the same period last year. Earnings per share for the six months ended June 30, 2004, increased \$.04 from the same period last year.

MANAGEMENT'S DISCUSSION

The Company is in the business of developing, manufacturing and marketing mobile billboard mounting systems which are mounted primarily on truck sides, rear panels and breaking panel roll up doors. The Company also produces digitally created outdoor, full color vinyl images ("Fleet Graphics") which are inserted into the mounting systems and displayed primarily on trucks. The Company has developed mounting systems which allow Fleet Graphics to easily slide into an aluminum alloy extrusion with a cam-lever that snaps closed stretching the image tight as a drum, and that also easily opens to free the image for fast removals and change outs without damaging the truck body or the Fleet Graphics. The mounting systems' proprietary cam-lever technology is the key to their operation.

The Company's revenue comes from three primary sources; sales of the mobile billboard mounting systems, sales of Fleet Graphics, and sales of third party advertising utilizing the mobile billboard mounting systems and the Fleet

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Graphics mounted on the sides of trucks owned by third parties. During the six months and the three months ended June 30, 2004, \$647,762 or 99% of the Company's revenue came from the sale of its mobile billboard mounting systems and \$6,722 or 1% of the Company's revenue came from the sale of third party advertising.

A material part of the Company's business is currently dependent upon one key customer, Applied Advertising Network, LLC of Lake Mary, Florida. During the six months ended June 30, 2004, the Company's sales to this customer were approximately \$622,741 or 95% of all sales. During the three months ended June 30, 2004, the Company's sales to this customer were approximately \$355,718 or 96 % of all sales. The Company continues to rely on this customer for the majority of its sales. However, the Company is moving forward to expand its distribution base so that it will no longer depend on this one key customer. There can be no guarantee that the Company will be able to diversify its distribution base. Applied Advertising Network, LLC is not a related party.

The Company attributes the increases in revenue, income from continuing operations and earnings per share to increases in sales due to the continued expansion of the Company's sales and marketing division. The Company's primary emphases is to expand sales nation wide and to also expand into Latin America by acquiring independent dealers.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending or threatened legal proceedings against the Company or any of its subsidiaries.

Item 2. Changes in Securities.

NONE

Item 3. Defaults Upon Senior Securities

NONE

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

NONE

Item 5. Other Information.

NONE

Item 6. Exhibits and Reports on Form 8-K.

INDEX TO EXHIBITS.

EXHIBIT

NUMBER	DESCRIPTION OF DOCUMENT
--------	-------------------------

F-1	SIGN MEDIA SYSTEMS, INC. FINANCIAL STATEMENTS
-----	--

The Company filed no Forms 8K for the quarter ended June 30, 2004.

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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.

SIGN MEDIA SYSTEMS, INC.
(Registrant)

Date September9, 2005

/s/Antonio F. Uccello, III

Antonio F. Uccello, III
Chief Executive Officer
Chairman of the Board

EXHIBIT F-1

SIGN MEDIA SYSTEMS, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

JUNE 30, 2004 AND 2003

SIGN MEDIA SYSTEMS, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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Condensed Consolidated Statements of Income (Operations) for the Six Months and Three Months Ended June 30, 2004 and 2003 (Unaudited)	F-2
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Notes to Condensed Consolidated Financial Statements	F-4-12

SIGN MEDIA SYSTEMS, INC.
 CONDENSED CONSOLIDATED BALANCE SHEET
 JUNE 30, 2004
 (UNAUDITED)

ASSETS

	(restated)
CURRENT ASSETS	
Cash and cash equivalents	\$ 32,765
Accounts receivable	807,480
Inventory	35,541
Prepaid expenses and other assets	15,478
Miscellaneous receivable	4,000

Total current assets	895,264
PROPERTY AND EQUIPMENT - Net	133,569

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TOTAL ASSETS \$ 1,028,833
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Current portion of long-term debt \$ 17,940
Accounts payable and accrued expenses 170,208
Due to related parties 109,761
Liability for stock to be issued 200,000

Total current liabilities 497,909

Long-term debt - net of current portion 17,995

Due to related parties 159,240

TOTAL LIABILITIES 675,144

STOCKHOLDERS' EQUITY

Common stock, no par value, 100,000,000
shares authorized at June 30, 2004
and 8,460,000 shares issued and outstanding
at June 30, 2004 5,000
Additional paid-in capital 671,700
Accumulated deficit (323,011)

Total stockholders' equity 353,689

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 1,028,833
=====

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

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (OPERATIONS)
FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

	SIX MONTHS ENDED		THREE MONTHS ENDED	
	June 30,		June 30,	
	2004	2003	2004	2003
		(restated)		(restated)
	-----		-----	
REVENUE	\$ 654,484	\$ 103,968	\$ 371,884	\$ 88,217
COST OF GOODS SOLD	94,260	33,424	39,116	17,796
	-----		-----	
GROSS PROFIT	560,224	70,544	332,768	70,421
	-----		-----	

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OPERATING EXPENSES				
Professional fees	28,021	80,421	6,664	72,921
General and administrative expenses	249,095	206,793	94,926	113,332
Depreciation	16,715	4,726	12,215	2,363
Total operating expenses	293,831	291,940	113,805	188,616
NET INCOME (LOSS) BEFORE OTHER (EXPENSE)				
OTHER (EXPENSE)	266,393	(221,396)	218,963	(118,195)
OTHER (EXPENSE)				
Interest expense	(35,132)	(13,919)	(35,040)	(8,792)
Total Other (Expense)	(35,132)	(13,919)	(35,040)	(8,792)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES				
PROVISION FOR INCOME TAXES	231,261	(235,315)	183,923	(126,987)
Provision for income taxes	-	-	-	-
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES				
	\$ 231,261	\$ (235,315)	\$ 183,923	\$ (126,987)
NET INCOME (LOSS) PER BASIC AND DILUTED SHARES				
	0.028	(0.030)	0.022	(0.016)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
	8,256,631	7,960,000	8,460,000	8,000,000

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

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

	2004	2003 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 231,261	\$ (235,315)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	16,715	4,726
Changes in assets and liabilities:		
(Increase) in accounts receivable	(235,582)	(74,195)
(Increase) decrease in inventory	2,850	(1,400)
Decrease in prepaid expenses and other current assets	39,666	-
(Increase) in miscellaneous receivable	(4,000)	-
Increase in accounts payable and		

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accrued expenses	17,248	24,510
Assets received for stock	-	55,702
	-----	-----
Total adjustments	(163,103)	9,343
	-----	-----
Net cash provided by (used in) operating activities	68,158	(225,972)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(47,230)	(56,444)
	-----	-----
Net cash (used in) investing activities	(47,230)	(56,444)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) from long-term debt, net of current portion	(52,089)	12,259
Proceeds (payments) to related parties	(183,142)	232,989
Contribution of additional paid-in capital	200,000	34,437
	-----	-----
Net cash provided by (used in) financing activities	(35,231)	279,685
	-----	-----
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,303)	(2,731)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	47,068	5,138
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 32,765	\$ 2,407
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest.	\$ 35,132	\$ 13,919
	=====	=====
SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES:		
Conversion of liability to common stock	\$ 324,000	\$ -
	=====	=====

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

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

The condensed unaudited interim financial statements included herein have been prepared by Sign Media Systems, Inc. (the "Company") without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally

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included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as allowed by such rules and regulations, and the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2003 audited financial statements and the accompanying notes thereto. While management believes the procedures followed in preparing these condensed financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later that year.

The management of the Company believes that the accompanying unaudited condensed consolidated financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented.

The Company restated the June 30, 2004 financial statements by restating its December 31, 2003 deficit (see Note 9).

The Company began business as Go! Agency LLC, a Florida Limited Liability Company ("Go Agency"). Go Agency was formed in April 2000, principally to pursue third party truck side advertising. The principal of Go Agency invested approximately \$857,000 in Go Agency pursuing this business. It became apparent that a more advanced truck side mounting system would be required and that third party truck side advertising alone would not sustain an ongoing profitable business. Go Agency determined to develop a technologically advanced mounting system and focused on a different business plan.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004 AND 2003

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

The Company was incorporated on January 28, 2002 as a Florida corporation. Upon incorporation, an officer of the Company contributed \$5,000 and received 1,000 shares of common stock of the Company. Effective January 1, 2003, the Company issued 7,959,000 shares of common stock in exchange of \$55,702 of net assets of GO! Agency, LLC, a Florida limited liability company ("Go Agency"), a company formed on June 20, 2000, as E Signs Plus.com, LLC., a Florida limited liability company. In this

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exchange, the Company assumed some debt of Go Agency and the exchange qualified as a tax free exchange under IRC Section 351. The net assets received were valued at historical cost. The net assets of Go Agency that were exchanged for the shares of stock were as follows:

Accounts receivable	\$30,668
Fixed assets, net of depreciation	112,214
Other assets	85,264
Accounts payable	(29,242)
Notes payable	(27,338)
Other payables	(115,864)

Total	\$55,702
	=====

Go Agency was formed to pursue third party truck side advertising. The principal of Go Agency invested approximately \$857,000 in Go Agency pursuing this business. It became apparent that a more advanced truck side mounting system would be required and that third party truck side advertising alone would not sustain an ongoing profitable business. Go Agency determined to develop a technologically advanced mounting system and focused on a different business plan. Go Agency pre-exchange transaction was a company under common control of the major shareholder of SMS. Post-exchange transactions have not differed. Go Agency still continues to operate and is still under common control.

Go Agency and the Company developed a new and unique truck side mounting system which utilizes a proprietary cam lever technology which allows an advertising image to be stretched tight as a drum. Following the exchange, the Company had 7,960,000 shares of common stock issued and outstanding. The Company has developed and filed an application for a patent on its mounting systems. The cam lever technology is considered an intangible asset and has not been recorded as an asset on the Company's consolidated balance sheet. This asset was not recorded due to the fact that there was no historic recorded value on the books of Go Agency for this asset.

On November 17, 2003, the Company entered into a merger agreement by and among American Powerhouse, Inc., a Delaware corporation and its wholly owned

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004 AND 2003

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

subsidiary, Sign Media Systems Acquisition Company, Inc., a Florida corporation and Sign Media Systems, Inc. Pursuant to the merger agreement, Sign Media Systems merged with Sign

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Media Systems Acquisition Company with Sign Media Systems being the surviving corporation. The merger was completed on December 8, 2003 with the filing of Articles of Merger with the State of Florida at which time Sign Media Systems Acquisition ceased to exist and Sign Media Systems became the surviving corporation. Some time prior to the merger, American Powerhouse had acquired certain technology for the manufacture of a water machine in the form of a water cooler that manufactures water from ambient air. However, American Powerhouse was not engaged in the business of manufacturing and distributing the water machine but was engaged in the licensing of that right to others. Prior to the merger, American Powerhouse granted a license to Sign Media Systems Acquisition to use that technology and to manufacture and sell the water machines. The acquisition of this license was the business purpose of the merger. As consideration for the merger, Sign Media Systems issued 300,000 shares of its common stock to American Powerhouse, 100,000 shares in the year ending December 31, 2002, and 200,000 shares in the year ending December 31, 2004. The 300,000 shares of stock were valued at \$1.50 per share based on recent private sales of Sign Media Systems common stock. There were no other material costs of the merger. There was and is no relationship between American Powerhouse and either Sign Media Systems or GO! AGENCY. The Company recorded this license as an intangible asset for \$400,000 for and subsequently impaired the entire amount.

The Company has reclassified its June 30, 2004 condensed consolidated financial statements to reflect certain reclassifications on the condensed consolidated balance sheet. These reclassifications had no effect on any income or expense for the six months ended June 30, 2004.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004 AND 2003

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Revenue and Cost Recognition

Currently, the Company has three primary sources of revenue:

- (1) The sale and installation of their mounting system
- (2) The printing of advertising images to be inserted on trucks utilizing the Company's mounting systems.
- (3) Third party advertising

The Company's revenue recognition policy for these sources of revenue is as follows. The Company relies on Staff Accounting Bulletin Topic 13, in determining when recognition of revenue occurs. There are four criteria that the Company must meet when determining when revenue is realized or realizable and earned. The Company has persuasive evidence of an arrangement existing; delivery has occurred or services rendered; the price is fixed or determinable; and collectibility is reasonably assured. Typically, the Company recognizes revenue when orders are placed and they receive deposits on those orders. In regard to the revenue recognition of third party advertising, the Company recognizes the revenue once they have completed the task for which the consumer paid.

In addition, the Company offers manufacture's warranties. The warranties are provided by the Company and not sold. Therefore, no income is derived from the warranty itself.

Cost is recorded on the accrual basis as well, when the services are incurred rather than when payment is made.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004 AND 2003

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Revenue Recognition (Continued)

Costs of goods sold are separated by components consistent with the revenue categories. Mounting systems, printing and

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advertising costs include purchases made, and payroll costs attributable to those components. Payroll costs is included for sales, engineering and warehouse personnel in costs of goods sold. Cost of overhead is diminimus. The Company's inventory consists of finished goods, and unassembled parts that comprise the framework for the mounting system placed on trucks for their advertising. All of these costs are included in costs of goods sold for the six months ended June 30, 2004 and 2003.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents.

The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful life of the assets.

Furniture and fixtures	5 years
Equipment	5 years
Trucks	5 years

Advertising

Costs of advertising and marketing are expensed as incurred. Advertising and marketing costs were \$3,020 and \$27,616 for the six months ended June 30, 2004 and 2003, respectively

Fair Value of Financial Instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004 AND 2003

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Earnings (Loss) per Share of Common Stock

Historical net income (loss) per common share is computed

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using the weighted-average number of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants.

The following is a reconciliation of the computation for basic and diluted EPS:

June 30,	2004	2003 (restated)
	-----	-----
Net income (loss)	\$ 231,261	\$ (235,315)
	=====	=====
Weighted-average common shares outstanding		
Basic	8,256,631	7,960,000
Weighted-average common stock equivalents		
Stock options	-	-
Warrants	-	-
	-----	-----
Weighted-average common shares outstanding		
Diluted	8,256,631	7,960,000
	=====	=====

NOTE 3-

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2004 and 2003:

	2004	2003
	-----	-----
Equipment	\$ 71,634	\$ 18,032
Furniture and Fixtures	41,798	29,552
Transportation Equipment	54,621	8,860
	-----	-----
	168,053	56,444
Less: accumulated depreciation	34,484	4,726
	-----	-----
Net Book Value	\$ 133,569	\$ 51,718
	=====	=====

Depreciation expense for the six months ended June 30, 2004 and 2003 was \$16,715 and \$4,726, respectively.

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NOTE 4-

COMMITMENTS AND CONTINGENCIES

The Company entered into a lease agreement on November 1, 2002 with Hawkeye Real Estate, LLC, a related entity, to lease warehouse and office space. The lease expires on December 30, 2007, and provides that SMS pay all applicable sales and use tax, insurance and maintenance. The total minimum rental commitments at June 30, 2004 under this lease are as follows:

2004		\$ 30,000
	2005	30,000
	2006	30,000
	2007	15,000

		\$ 105,000
		=====

Rent expense for the six months ended June 30, 2004 and 2003 was \$19,086, and \$17,036, respectively.

NOTE 5-

RELATED PARTY TRANSACTIONS

On January 28, 2002, Sign Media Systems, Inc. was formed as a Florida Corporation but did not begin business operations until April, 2002. Most of the revenue that Sign Media Systems, Inc. earned was contract work with Go! Agency, LLC., a Florida limited liability company, a related party. Sign Media Systems, Inc. would contract Go! Agency, LLC. to handle and complete jobs. There was no additional revenue or expense added from one entity to the other.

On September 15, 2002, the Company entered into a loan agreement with Go! Agency, LLC and in connection therewith executed a promissory note with a future advance clause in favor of Go! Agency whereby Go! Agency agreed to loan the Company up to a maximum of \$100,000 for a period of three years, with interest accruing on the unpaid balance at 18% per annum, payable interest only monthly, with the entire unpaid balance due and payable in full on September 15, 2005. At June 30, 2004, the Company was indebted to Go! Agency in the amount of \$96,883.

On January 3, 2003, the Company entered into a loan agreement with Olympus Leasing Company, a related party, and in connection therewith executed a promissory note with a future advance clause in favor of Olympus Leasing, whereby Olympus Leasing agreed to loan the Company up to a maximum of \$1,000,000 for a period of three years, with interest accruing on the unpaid balance at 18% per annum, payable interest only monthly, with the entire unpaid balance due and payable in full on January 3, 2006. As of June 30, 2004 there was \$136,021 due. Other due to related party advances were \$36,097. Due to related parties totaled \$269,001 at June 30, 2004.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004 AND 2003

NOTE 6- LONG-TERM DEBT

Long-term debt consists of two installment notes with GMAC Finance. As discussed in Note 1, the Company assumed debt from Go! Agency as of January 28, 2002. On June 18, 2003, the Company acquired a truck in the amount of \$45,761 financed by GMAC over a period of 5 years. Monthly payments are \$763. The loan carries no interest charges.

NOTE 7- PROVISION FOR INCOME TAXES

The net deferred tax assets in the accompanying condensed consolidated balance sheets include the following components at June 30, 2004:

Deferred tax assets	\$ 172,401
Deferred tax valuation allowance	(172,401)

	\$ -
	=====

Due to the uncertainty of utilizing the approximate \$446,450 in net operating losses, and recognizing the deferred tax assets, an offsetting valuation allowance has been established.

NOTE 8- STOCKHOLDERS' EQUITY

As of June 30, 2004 and 2003, there were 100,000,000 shares of common stock authorized.

As of June 30, 2004 and 2003, there were 8,593,334 and 7,960,000 shares of common stock issued and outstanding.

During the six months ended June 30, 2004 the Company had the following stock transactions:

The company issued 216,000 shares of common stock in conversion of a liability. In addition, the Company issued an additional 133,334 shares in May 2004 to complete the conversion.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004 AND 2003

NOTE 9- PRIOR PERIOD ADJUSTMENT

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The Company restated its December 31, 2003 deficit by \$55,702 due to an increase of professional fees. Therefore, the June 30, 2004 deficit has been restated. The net income for the six months ended June 30, 2004 did not change as it remained at \$231,261.

Deficit, restated at December 31, 2003	(\$554,272)
Net income for the six months ended June 30, 2004	\$231,261 -----
Deficit, June 30, 2004, restated	(\$323,011) =====