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SIGN MEDIA SYSTEMS INC
Form 10QSB
August 23, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005

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 June 30, 2005.

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

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

The information required by Item 310(b) of Regulation S-B is attached hereto as Exhibit One and is incorporated herein by reference.

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

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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 | |
|---------------------------------------|-----------------------------|------------|
| | 2005 | 2004 |
| Revenue | \$ 511,385 | \$ 654,484 |
| Cost of goods sold | 13,396 | 94,260 |
| | ----- | ----- |
| Gross profit | 497,989 | 560,224 |
| | ----- | ----- |
| Operating and other Expenses | 403,511 | 328,963 |
| | ----- | ----- |
| Other income | 103 | - |
| | ----- | ----- |
| Net income (loss) | \$ 94,581 | \$ 231,261 |
| | ===== | ===== |
| Gross profit margin | 97% | 86% |
| Earnings per share of common stock | \$ 0.011 | \$ 0.028 |
| | ===== | ===== |
| Weighted average of common shares | 8,460,000 | 8,256,621 |
| | ===== | ===== |

For the six months ended June 30, 2005, the Company generated \$511,385 of revenue, \$497,989 of gross profit, \$94,581 of net income, and \$0.011 in earnings per weighted average common share based upon a weighted average of 8,460,000 common shares outstanding. .

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 of net income per weighted common share based upon a weighted average of 8,256,631 common shares outstanding.

Revenue for the six months ended June 30, 2005, decreased \$143,099 from the same period last year. Net income for the six months ended June 30, 2005, decreased \$136,680 from the same period last year. Earnings per share for the six months ended June 30, 2005, decreased \$0.02 from the same period last year.

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| | Three Months Ended June 30 | |
|---------------------------------------|-------------------------------|------------|
| | 2005 | 2004 |
| Revenue | \$ 489,114 | \$ 371,884 |
| Cost of goods sold | 10,889 | 39,116 |
| | ----- | ----- |
| Gross profit | 478,225 | 332,768 |
| | ----- | ----- |
| Operating and other Expenses | 213,443 | 148,845 |
| | ----- | ----- |
| Other income | 101 | - |
| | ----- | ----- |
| Net income (loss) | \$ 264,883 | \$ 183,923 |
| | ===== | ===== |
| | | |
| Gross profit margin | 98% | 89% |
| | | |
| Earnings per share of common stock | \$ 0.031 | \$ 0.022 |
| | ===== | ===== |
| | | |
| Weighted average of common shares | 8,460,000 | 8,460,000 |
| | ===== | ===== |

For the three months ended June 30, 2005, the Company generated \$489,114 of revenue, \$478,225 of gross profit, \$264,883 of net income, and \$0.031 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, 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.

Revenue for the three months ended June 30, 2005, increased \$117,230 from the same period last year. Net income for the three months ended June 30, 2005, increased \$80,960 from the same period last year. Earnings per share for the three months ended June 30, 2005, increased \$0.03 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.

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The Company's revenue comes from three primary sources; sales of the mobile billboard mounting systems, sales of digital printing, and sales of third party advertising utilizing the mobile billboard mounting systems. During the six months ended June 30, 2005, \$496,904. or 97% of the Company's revenue came from the sale of its mobile billboard mounting systems, \$0.00 or 00% of the Company's revenue came from the sale of third party advertising and \$15,281.00 or 3% of the Company's revenue came from the sale of digital printing.

A material part of the Company's business is currently dependent upon one key customer, Advanced Advertising Network, LLC of Lake Mary, Florida. During the six months ended June 30, 2005, the Company's sales to this customer were approximately \$485,816 or 95% of all sales. During the three months ended June 30, 2005, the Company's sales to this customer were approximately \$459,768 or 94% 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. Advanced Advertising Network, LLC is not a related party.

For the six months ended June 30, 2005, the Company attributes the decreases in revenue, net income and earnings per share to seasonal decreases in sales and increases in operating expenses 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

1 SIGN MEDIA SYSTEMS, INC. FINANCIAL STATEMENTS

The Company filed no Forms 8K for the quarter ended June 30, 2005.

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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 August 22, 2005

/S/Antonio F. Uccello, III

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

EXHIBIT ONE

SIGN MEDIA SYSTEMS, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED

JUNE 30, 2005 AND 2004

SIGN MEDIA SYSTEMS, INC.

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Condensed Consolidated Balance Sheet (Unaudited) as of June 30, 2005

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Condensed Consolidated Statements of Income for the
Six and Three Months Ended June 30, 2005 and 2004 (Unaudited)

Condensed Consolidated Statements of Cash Flows for the Six Months Ended
June 30, 2005 and 2004 (Unaudited)

Notes to Condensed Consolidated Financial Statements

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2005
(UNAUDITED)

ASSETS

| | |
|------------------------------|--------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 13,705 |
| Accounts receivable | 8,929 |
| Inventory | 78,036 |
| | ----- |
| Total current assets | 100,670 |
| | ----- |
| PROPERTY AND EQUIPMENT - Net | 186,527 |
| | ----- |
| OTHER ASSETS | |
| Due from related parties | 1,200,000 |
| | ----- |
| Total other assets | 1,200,000 |
| | ----- |
| TOTAL ASSETS | \$ 1,487,197 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|------------|
| CURRENT LIABILITIES | |
| Deferred revenue | \$ 250,000 |
| Liability for stock to be issued | 224,900 |
| Accounts payable and accrued expenses | 222,823 |
| Due to related parties | 19,985 |
| Current portion of long-term debt | 9,211 |
| | ----- |
| Total current liabilities | 726,919 |
| Long-term debt - net of current portion | 51,184 |
| | ----- |
| TOTAL LIABILITIES | \$ 778,103 |
| | ----- |

STOCKHOLDERS' EQUITY

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| | |
|---|--------------|
| Common stock, no par value, 100,000,000 shares authorized at June 30, 2005 and 8,460,000 shares issued and outstanding at June 30, 2005 | \$ 5,000 |
| Additional paid-in capital | 1,171,700 |
| Accumulated deficit | (467,606) |
| Total stockholders' equity | 709,094 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,487,197 |
| | ===== |

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

SIGN MEDIA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2005 AND 2004 (UNAUDITED)

| | SIX MONTHS ENDED | | THREE MONTHS ENDED | |
|---|------------------|------------------|--------------------|------------------|
| | June 30, 2005 | June 30, 2004 | June 30, 2005 | June 30, 2004 |
| REVENUE | \$ 511,385 | \$ 654,484 | \$ 489,114 | \$ 371,884 |
| COST OF GOODS SOLD | 13,396 | 94,260 | 10,889 | 39,116 |
| GROSS PROFIT | 497,989 | 560,224 | 478,225 | 332,768 |
| OPERATING EXPENSES | | | | |
| Professional fees | 33,854 | 28,021 | 13,244 | 6,664 |
| General and administrative expenses | 343,798 | 249,095 | 186,534 | 94,926 |
| Depreciation | 24,941 | 16,715 | 13,050 | 12,215 |
| Total operating expenses | 402,593 | 293,831 | 212,828 | 113,805 |
| NET INCOME BEFORE OTHER INCOME (EXPENSE) | 95,396 | 266,393 | 265,397 | 218,963 |
| OTHER INCOME (EXPENSE) | | | | |
| Other income | 103 | - | 101 | - |
| Interest expense | (918) | (35,132) | (615) | (35,040) |
| Total Other Income (Expense) | (815) | (35,132) | (514) | (35,040) |
| NET INCOME BEFORE PROVISION FOR INCOME TAXES | 94,581 | 231,261 | 264,883 | 183,923 |
| Provision for income taxes | - | - | - | - |
| NET INCOME APPLICABLE TO | 94,581 | 231,261 | 264,883 | 183,923 |

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| | | | | |
|---|-----------|------------|------------|------------|
| COMMON SHARES | \$ 94,581 | \$ 231,261 | \$ 264,883 | \$ 183,923 |
| ===== | | | | |
| NET INCOME PER BASIC AND DILUTED SHARES | 0.011 | 0.028 | 0.031 | 0.022 |
| ===== | | | | |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 8,460,000 | 8,256,631 | 8,460,000 | 8,460,000 |
| ===== | | | | |

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, 2005 AND 2004 (UNAUDITED)

| | 2005 | 2004 |
|--|-------------|------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 94,581 | \$ 231,261 |
| | ----- | ----- |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 24,941 | 16,715 |
| Changes in assets and liabilities: | | |
| (Increase) in accounts receivable | 541,649 | (235,582) |
| (Increase) decrease in allowance for doubtful accounts | 500,000 | - |
| (Increase) decrease in inventory | 7,536 | 2,850 |
| Decrease in prepaid expenses and other current assets | 4,000 | 39,666 |
| (Increase) in miscellaneous receivable | - | (4,000) |
| Increase in accounts payable and accrued expenses | 52,834 | 17,248 |
| Increase in deferred revenue | 250,000 | - |
| | ----- | ----- |
| Total adjustments | 1,380,960 | (163,103) |
| | ----- | ----- |
| Net cash provided by operating activities | 1,475,541 | 68,158 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment | (86,913) | (47,230) |
| | ----- | ----- |
| Net cash (used in) investing activities | (86,913) | (47,230) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in liability for stock to be issued | 24,900 | - |
| Payments on long-term debt | (9,209) | (52,089) |
| Payments on debt - related parties | (1,396,966) | (183,142) |
| Contribution of additional paid-in capital | - | 200,000 |
| | ----- | ----- |

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| | | |
|--|-------------|------------|
| Net cash (used in) financing activities | (1,381,275) | (35,231) |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 7,353 | (14,303) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 6,352 | 47,068 |
| | | |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | \$ 13,705 | \$ 32,765 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest. | \$ - | \$ 35,132 |
| | | |
| SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES: | | |
| Conversion of liability to common stock | \$ - | \$ 324,000 |
| | | |

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, 2005 AND 2004

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 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, 2004 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 began business as Go! Agency LLC, a Florida Limited Liability Company ("Go Agency"). Go Agency was formed

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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.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

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 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) |
| | ----- |
| Totals | \$ 55,702 |
| | ===== |

Go Agency was formed to pursue third party truck 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

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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.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

On November 17, 2003, the Company entered into a merger agreement by and among American Powerhouse, Inc., a Delaware corporation and its wholly owned subsidiary, Sign Media Systems Acquisition Company, Inc., a Florida corporation and Signs Media Systems, Inc. Pursuant to the merger agreement, Signs Media Systems merged with Sign 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 this 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 and subsequently impaired the entire amount.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 manufacturer's warranties. These 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.

Costs of goods sold are separated by components consistent with the revenue categories. Mounting systems, printing and advertising costs include purchases made, and payroll costs attributable to those components. Payroll costs is included for sales, engineering and warehouse personnel in cost 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, 2005 and 2004.

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SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1,800 and \$3,020 for the six months ended June 30, 2005 and 2004, 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.

Earnings per Share of Common Stock

Historical net income per common share is computed 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.

SIGN MEDIA SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005 AND 2004

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per Share of Common Stock (Continued)

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

| | 2005 | 2004 |
|--|-----------|-----------|
| | ----- | ----- |
| Weighted-average common stock equivalents | | |
| Stock options | - | - |
| Warrants | - | - |
| | ----- | ----- |
| Weighted-average common shares outstanding | | |
| Diluted | 8,460,000 | 8,256,631 |
| | ===== | ===== |

NOTE 3-

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2005 and 2004:

| | 2005 | 2004 |
|--------------------------------|------------|-----------|
| | ----- | ----- |
| Equipment | \$ 104,234 | \$ 71,634 |
| Furniture and Fixtures | 112,022 | 41,798 |
| Transportation Equipment | 54,621 | 54,621 |
| | ----- | ----- |
| | 270,877 | 167,053 |
| Less: accumulated depreciation | 84,350 | 34,484 |
| | ----- | ----- |
| Net Book Value | \$ 186,527 | \$133,569 |
| | ===== | ===== |

Depreciation expense for the six months ended June 30, 2005 and 2004 was \$24,941 and \$16,715, respectively.

SIGN MEDIA SYSTEMS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2005 AND 2004

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, 2005 under this lease are as follows:

| | |
|------|-----------|
| 2005 | \$ 30,000 |
| 2006 | 30,000 |
| 2007 | 15,000 |
| | ----- |
| | \$ 75,000 |
| | ===== |

Rent expense for the six months ended June 30, 2005 and 2004 was \$16,050, and \$19,086, respectively.

NOTE 5-

RELATED PARTY TRANSACTIONS

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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 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, 2005 there was \$0 due to Olympus. Other due to related party advances were \$19,985. Due from related parties totaled \$19,985 at June 30, 2005.

On June 28, 2005, the Company loaned to Olympus Leasing Company, a related party, \$1,200,000. The loan is for a period of five years with interest accruing on the unpaid balance at 5.3% per annum, interest only payable annually, with the entire principal and unpaid interest due and payable in full on June 28, 2010.

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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, 2005:

| | |
|----------------------------------|------------|
| Deferred tax assets | \$ 140,000 |
| Deferred tax valuation allowance | (140,000) |
| | ----- |
| | \$ - |
| | ===== |

Due to the uncertainty of utilizing the entire \$467,606 in net operating losses, and recognizing the deferred tax assets, an

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offsetting valuation allowance has been established. The Company will utilize its net operating losses to offset any Federal Income Tax due.

NOTE 8-

STOCKHOLDERS' EQUITY

As of June 30, 2005 and 2004, there were 100,000,000 shares of common stock authorized.

As of June 30, 2005 and 2004, there were 8,460,000 shares of common stock issued and outstanding.

During the six months ended June 30, 2005 the Company did not have any stock transactions.

NOTE 9-

LIABILITY FOR STOCK TO BE ISSUED

At June 30, 2005, the Company has recorded \$224,900 for common stock to be issued at a later date. Upon the issuance of the common stock the liability will be removed.