SIGN MEDIA SYSTEMS INC
Form 10QSB/A
October 17, 2005

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

**FORM 10-QSB/A**
**FIRST AMENDMENT**

(Mark One)

| | |
|---|---|
| [X] | QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934<br>For the quarterly period ended March 31, 2005 |
| [ ] | TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT |

For the transition period from ________________ to _________________

Commission file number 000-50742

**SIGN MEDIA SYSTEMS, INC.**
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| FLORIDA<br>(State or other jurisdiction of incorporation or organization) | 02-0555904<br>(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 March 31, 2005

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

1

## PART I — FINANCIAL INFORMATION

**Item 1. Financial Statements.**

### INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
### CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**SIGN MEDIA SYSTEMS, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEET**
**MARCH 31, 2005**
**(UNAUDITED)**

**ASSETS**

| | | |
|---|---|---|
| | | **(restated)** |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ | 10,873 |
| Accounts receivable | | 543,238 |
| Inventory | | 85,572 |
| **Total current assets** | | 639,683 |
| | | |
| Property and equipment, net | | 130,124 |
| | | |
| Other assets | | 4,000 |
| | | |
| **TOTAL ASSETS** | $ | 773,807 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| | | |
| **CURRENT LIABILITIES** | | |
| Current portion of long-term debt | $ | 13,815 |
| Accounts payable and accrued expenses | | 260,700 |
| Due to related parties | | 109,761 |
| Liability for stock to be issued | | 224,900 |
| | | |
| **Total current liabilities** | | 609,176 |
| | | |
| Long-term debt, net of current portion | | 51,184 |
| | | |
| Due to related parties | | 169,236 |
| | | |
| **TOTAL LIABILITIES** | | 829,596 |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock, no par value, 100,000,000 shares authorized and | | |
| 8,460,000 shares issued and outstanding at March 31, 2005 | | 5,000 |
| Additional paid-in capital | | 671,700 |
| Accumulated deficit | | (732,489) |
| **Total stockholders' equity (deficit)** | | (55,789) |
| | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | $ | 773,807 |

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 THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)**

| | 2005 | 2004 (restated) |
|---|---|---|
| **REVENUE - net of discounts** | $ 22,271 | $ 282,600 |
| **COST OF GOODS SOLD** | 2,507 | 55,144 |
| **GROSS PROFIT** | 19,764 | 227,456 |
| **OPERATING EXPENSES** | | |
| Professional fees | 20,610 | 21,357 |
| General and administrative expenses | 157,263 | 154,169 |
| Depreciation | 11,892 | 4,500 |
| **Total operating expenses** | 189,765 | 180,026 |
| **NET INCOME (LOSS) BEFORE OTHER INCOME (EXPENSE)** | (170,001) | 47,430 |
| **OTHER INCOME (EXPENSE)** | | |
| Interest income | 2 | - |
| Interest expense | (303) | (92) |
| **Total Other Income (Expense)** | (301) | (92) |
| **NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES** | (170,302) | 47,338 |
| Provision for income taxes | - | - |
| **NET INCOME (LOSS) APPLICABLE TO COMMON SHARES** | $ (170,302) | $ 47,338 |
| **NET INCOME (LOSS) PER BASIC AND DILUTED SHARES** | $ (0.020) | $ 0.006 |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | 8,460,000 | 8,222,222 |

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 THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)**

| | | 2005 | | 2004 (restated) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Net income (loss) | $ | (170,302) | $ | 47,338 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation | | 11,892 | | 4,500 |
| **Changes in assets and liabilities:** | | | | |
| (Increase)/decrease in accounts receivable | | 7,340 | | 24,949 |
| (Increase) in inventory | | - | | (8,283) |
| Decrease in prepaid expenses and other current assets | | - | | 55,144 |
| Increase in accounts payable and accrued expenses | | 90,711 | | 15,380 |
| **Total adjustments** | | 109,943 | | 91,690 |
| **Net cash provided by (used in) operating activities** | | (60,359) | | 139,028 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Acquisition of property and equipment | | (17,461) | | (12,687) |
| **Net cash (used in) investing activities** | | (17,461) | | (12,687) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Proceeds (payments) from long-term debt | | (4,605) | | (49,402) |
| Liability for stock to be issued | | 24,900 | | - |
| Proceeds (payments) to related parties - net | | 62,046 | | 25,552 |
| **Net cash provided by (used in) financing activities** | | 82,341 | | (23,850) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 4,521 | | 102,491 |
| **CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD** | | 6,352 | | 47,068 |
| **CASH AND CASH EQUIVALENTS - END OF PERIOD** | $ | 10,873 | $ | 149,559 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | | | |
| Cash paid during the period for interest. | $ | - | $ | 92 |

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

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**MARCH 31, 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 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)**
**MARCH 31, 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) |
| | |
| 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.

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**MARCH 31, 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 Sign Media Systems, Inc. Pursuant to the merger agreement, Sign 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 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 three months ended March 31, 2005.

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**MARCH 31, 2005 AND 2004**

## 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.

### 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.

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**MARCH 31, 2005 AND 2004**

**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 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 three months ended March 31, 2005 and 2004.

**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 $2,733 for the three months ended March 31, 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)**
**MARCH 31, 2005 AND 2004**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Earnings per Share of Common Stock (Continued)**

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

| | March 31, 2005 | March 31, 2004 (restated) |
|---|---|---|
| Net income (loss) | $ (170,302) | $ 47,338 |
| Weighted-average common shares outstanding | | |
| Basic | 8,460,000 | 8,222,222 |
| Weighted-average common stock equivalents | | |
| Stock options | - | - |
| Warrants | - | - |
| Weighted-average common shares outstanding | | |
| Diluted | 8,460,000 | 8,222,222 |

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at March 31, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Equipment | $ 88,923 | $ 39,217 |
| Furniture and Fixtures | 57,882 | 35,947 |
| Transportation Equipment | 54,620 | 54,621 |
| | 201,425 | 129,785 |
| Less: accumulated depreciation | 71,301 | 18,534 |
| Net Book Value | $ 130,124 | $ 111,251 |

Depreciation expense for the three months ended March 31, 2005 and 2004 was $11,892 and $4,500, respectively.

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**MARCH 31, 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 March 31, 2005 under this lease are as follows:

| | | |
|---|---|---|
| 2005 | $ | 30,000 |
| 2006 | | 30,000 |
| 2007 | | 27,500 |
| | $ | 87,500 |

Rent expense for the three months ended March 31, 2005 and 2004 was $8,025, and $11,781, 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 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 March 31, 2005 there was $109,761 due. Other due to related party advances were $169,256. Due to related parties totaled $278,997 at March 31, 2005.

**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.

**SIGN MEDIA SYSTEMS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**
**MARCH 31, 2005 AND 2004**

**NOTE 7 - PROVISION FOR INCOME TAXES**

The net deferred tax assets in the accompanying condensed consolidated balance sheets include the following components at March 31, 2005:

| | |
|---|---|
| Deferred tax assets | $ 299,575 |
| Deferred tax valuation allowance | (299,575) |
| | $ - |

Due to the uncertainty of utilizing the approximate $855,928 in net operating losses, and recognizing the deferred tax assets, an offsetting valuation allowance has been established.

**NOTE 8 - STOCKHOLDERS' EQUITY**

As of March 31, 2005 and 2004, there were 100,000,000 shares of common stock authorized.

As of March 31, 2005 and 2004, there were 8,460,000 shares of common stock issued and outstanding.

During the three months ended March 31, 2005 the Company did not have any stock transactions.

**NOTE 9 - LIABILITY FOR STOCK TO BE ISSUED**

As of March 31, 2005 the Company received $224,900 for common stock to be issued at a later date. Upon issuance of the common stock the liability will be removed.

**NOTE 10 - ADJUSTMENT**

The Company had reclassified $123,439 from Additional Paid-In Capital to Accumulated Deficit at December 31, 2004. The reclassification was done since the client had terminated its S-Corp status during the year 2004.

**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 CONTINUING OPERATIONS

Three Months Ended
March 31

| | 2005 | 2004 (restated) |
|---|---|---|
| Revenue | $ 22,271 | $ 282,600 |
| Cost of Revenue | 2,507 | 55,144 |
| Gross profit | 19,764 | 227,456 |
| Operating and Other Expenses | 190,066 | 180,118 |
| Net income (loss) | $ (170,302) | $ 47,338 |
| | | |
| Gross profit margin | 89% | 80% |
| | | |
| Earnings per share of common stock | $ (0.020) | $ 0.006 |

The Company had reclassified $123,439 from Additional Paid-In Capital to Accumulated Deficit at December 31, 2004. The reclassification was done because the Company terminated its S-Corporation status under the Internal Revenue Code during the year 2004.

The Company generated $22,271 of revenue, $19,764 of gross profit, $(170,302) of net loss and $(0.020) in net loss per weighted-average common share for the three months ended March 31, 2005.

Net loss for the three months ended March 31, 2005, was $(170,302) or $(0.020) in net loss per weighted-average common share with 8,460,000 weighted average common shares outstanding compared with a earnings of $47,338 or $0.006 in earnings per weighted-average common with 8,222,222 weighted average common shares outstanding for the three months ended March 31, 2004.

Revenue for the three months ended March 31, 2005, decreased $260,329 from the same period last year. Cost of goods sold for the three months ended March 31, 2005, decreased $52,637 from the same period last year. Operating and other expenses for the three months ended March 31, 2005, increased $9,948 from the same period last year. Income from continuing operations for the three months ended March 31, 2005, decreased $217,640 from the same period last year.

Earnings per weighted-average common share was $(0.020) for the three months ended March 31, 2005, based on weighted-average common shares outstanding of 8,460,000, and earnings per weighted-average common share was $0.006 for the three months ended March 31, 2004 based upon weighted-average common shares outstanding of 8,222,222.

MANAGEMENT'S DISCUSSION

The Company attributes the decrease in revenue, cost of goods sold, gross profit and income form continuing operations to decreases in sales primarily due to the timing of the placement of orders from the Company's primary dealer. The Company expects sales to increase in its second quarter of 2005 and that sales for the year to increase compared to sales in 2004. The Company's primary emphases is to expand sales nation wide.

The Company will require significant capital to implement both its short term and long-term business strategies. However, there can be no assurance that such additional capital will be available or, if available, that the terms will be favorable to the Company. The absence of significant additional capital whether raised through a public or private offering or through other means, including either private debt or equity financings, will have a material adverse effect on the Company's operations and prospects.

The Company's operations have consumed and will continue to consume substantial amounts of capital, which, up until now, have been largely financed internally through cash flows, from loans from related parties, and private investors. The Company expects capital and operating expenditures to increase. Although the Company believes that it will be able to attract additional capital through private investors and as a result thereof its cash reserves and cash flows from operations will be adequate to fund its operations through the end of calendar year 2006, there can be no assurance that such sources will, in fact, be adequate or that additional funds will not be required either during or after such period. No assurance can be given that any additional financing will be available or that, if available, it will be available on terms favorable to the Company. If adequate funds are not available to satisfy either short or long-term capital requirements, the Company may be required to limit its operations significantly or discontinue its operations. The Company's capital requirements are dependent upon many factors including, but not limited to, the rate at which it develops and introduces its products and services, the market acceptance and competitive position of such products and services, the level of promotion and advertising required to market such products and services and attain a competitive position in the marketplace, and the response of competitors to its products and services.

Item 3. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

(b) Changes in Internal Control over Financial Reporting.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## 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 Exhibit** |
|---|---|
| **31.1** | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| **31.2** | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| **32.1** | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

The Company filed no Forms 8K for the quarter ended March 31, 2005.

## 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 October 13, 2005

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