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MEMS USA INC
Form 8-K/A
November 22, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(AMENDMENT NUMBER ONE)

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

Date of earliest event reported: October 26, 2004

MEMS USA, INC.
(FORMERLY LUMALITE HOLDINGS, INC.)
(Exact name of registrant as specified in charter)

| | | |
|---|-----------------------------|--------------------------------------|
| Nevada | 0-4846-3 | 82-0288840 |
| ----- | ----- | ----- |
| (State or other jurisdiction of incorporation) | (Commission file number) | (IRS employer identification no.) |

5701 Lindero Canyon Rd., #2-100
Westlake Village, CA 91362
(Address of Principal Executive Offices)

Registrant's telephone number, including area code (818) 735-4750

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

On February 18, 2004, MEMS USA, Inc. (formerly Lumalite Holdings, Inc.) (hereinafter, the "Company") acquired 100 % of the common stock of the common stock of MEMS USA, Inc., a California corporation (hereinafter "MEMS"), pursuant to that certain Merger Agreement and Plan of Reorganization entered into as of January 29, 2004 by and among, among others, MEMS, the Company, MemAcq1-2-3, Inc., a California corporation (a wholly owned subsidiary of the Company), and certain shareholders of MEMS and the Company (the "Agreement").

This transaction (the "acquisition") closed on February 18, 2004.

The acquiring entity for accounting purposes was MEMS, which is the primary operating entity. MEMS' fiscal year ends on September 30.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

No financial statements or exhibits were filed in conjunction with the Form 8-K filed to report the acquisition. The following financial statements of the Company are deemed filed as Exhibits 1 and 2 of this Form 8-K/A Amended Report and are incorporated herein by this reference:

Exhibit 1: Audited consolidated Financial Statements for the Company and MEMS for the financial years ending September 30, 2002 and September 2003; and

Exhibit 2: Unaudited condensed consolidated Financial Statements for the Company for the nine month period ending June 30, 2004.

Exhibit 3: The Agreement.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MEMS USA, INC.

Date: November 22, 2004

By: /s/ Lawrence Weisdorn

Lawrence Weisdorn, CFO

EXHIBIT INDEX

1. Audited Financial Statements of MEMS USA, Inc. for the period ending September 30, 2003
2. Unaudited Financial Statements of MEMS USA, Inc. for the period ending June 30, 2004
3. Merger Agreement and Plan of Reorganization entered into as of January 29, 2004 by and among, among others, MEMS, the Company, MemAcq1-2-3, Inc., a California corporation (a wholly owned subsidiary of the Company), and certain shareholders of MEMS and the Company.

Exhibit 1

MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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Board of Directors

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Mems USA, Inc.
Westlake Village, California

We have audited the accompanying balance sheet of Mems USA, Inc. (a California corporation in the development stage) as of September 30, 2003 and the related statements of operations, stockholders' deficit and cash flows for the two years ended September 30, 2003 and for the period from inception (November 17, 2000) to September 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mems USA, Inc. as of September 30, 2003, and the results of its operations and cash flows for the two years ended September 30, 2003 and for the period from inception (November 17, 2000) to September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the accompanying financial statements, the Company has no established source of revenue, which raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also discussed in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CERTIFIED PUBLIC ACCOUNTANTS

Santa Monica, California
December 1, 2003

MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEET - SEPTEMBER 30, 2003

ASSETS

CURRENT ASSETS:

| | | |
|---------------------------------------|----|--------|
| Cash and cash equivalents | \$ | 23,613 |
| Contracts in process, net of reserves | | 70,000 |

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| | | |
|---|------------|------------|
| | ----- | |
| Total current assets | | \$ 93,613 |
| PROPERTY AND EQUIPMENT, net | | 153,896 |
| DEPOSITS | | 49,140 |
| | ----- | |
| Total assets | | \$ 296,649 |
| | ===== | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 313,971 | |
| Accrued salaries to be paid by the issuance of common stock | 228,250 | |
| Dividends payable | 6,100 | |
| Deferred revenue | 28,333 | |
| | ----- | |
| | | \$ 576,654 |
| STOCKHOLDERS' DEFICIT: | | |
| Convertible preferred stock, Series A, \$0.001 par value, 1,200,000 shares authorized, 86,000 shares issued and outstanding | 86 | |
| Common stock; \$.001 par value, 25,000,000 shares authorized, 5,015,600 shares issued and outstanding | 5,016 | |
| Stock subscriptions receivable | (50,300) | |
| Additional paid in capital | 616,398 | |
| Deficit accumulated during development stage | (851,205) | |
| | ----- | |
| Total stockholders' deficit | | (280,005) |
| | | ----- |
| Total liabilities and stockholders' deficit | | \$ 296,649 |
| | | ===== |

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

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

| | | |
|--|--------------------|---------------------|
| | For the year ended | |
| | ----- | |
| | September 30, | September 30, |
| | 2003 | 2002 |
| | | From November 17, |
| | | 2000 (inception) to |
| | | September 30, 2003 |

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| | | | | | | |
|---|----|-----------|----|-----------|----|-----------|
| REVENUES | \$ | -- | \$ | -- | \$ | -- |
| COSTS: | | | | | | |
| Contract costs | | 18,057 | | -- | | 18,057 |
| General and administrative expenses | | 614,021 | | 219,127 | | 833,148 |
| | | 632,078 | | 219,127 | | 851,205 |
| LOSS BEFORE PROVISION FOR INCOME TAXES | | (632,078) | | (219,127) | | (851,205) |
| PROVISION FOR INCOME TAXES | | -- | | -- | | -- |
| NET LOSS | \$ | (632,078) | \$ | (219,127) | \$ | (851,205) |
| NET LOSS PER SHARE, BASIC | \$ | (0.13) | \$ | (0.10) | | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC | | 4,775,471 | | 2,106,500 | | |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF STOCKHOLDERS' DEFICIT

PERIOD FROM NOVEMBER 17, 2000 (INCEPTION) TO SEPTEMBER 30, 2003

| | Common stock | | Preferred stock | |
|--|--------------|--------|-----------------|--------|
| | Shares | Amount | Shares | Amount |
| Balance at November 17, 2000 | -- | \$ -- | -- | \$ -- |
| Issuance of common stock; founders shares - November 2000 | 1,250,000 | 1,250 | -- | -- |
| Net loss | -- | -- | -- | -- |
| Balance at September 30, 2001 | 1,250,000 | 1,250 | -- | -- |
| Issuance of common stock; founders shares - July 2002 | 3,250,000 | 3,250 | -- | -- |

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| | | | |
|---|-----------|-------|----|
| Issuance of common stock for services - July 2002 | 6,000 | 6 | -- |
| Issuance of common stock for services - July 2002 | 20,000 | 20 | -- |
| Issuance of common stock for services - July 2002 | 50,000 | 50 | -- |
| Issuance of common stock for services - July 2002 | 100,000 | 100 | -- |
| Net loss for the year ended September 30, 2002 | -- | -- | |
| Balance at September 30, 2002 | 4,676,000 | 4,676 | -- |

| | Subscriptions receivable | Deficit accumulated during development stage | Total stockholders' deficit |
|--|-----------------------------|--|-----------------------------------|
| | ----- | ----- | ----- |
| Balance at November 17, 2000 | \$ -- | \$ -- | \$ -- |
| Issuance of common stock; founders shares - November 2000 | -- | -- | 1,250 |
| Net loss | ----- | ----- | ----- |
| Balance at September 30, 2001 | -- | -- | 1,250 |
| Issuance of common stock; founders shares - July 2002 | (2,050) | -- | 1,200 |
| Issuance of common stock for services - July 2002 | -- | -- | 6,000 |
| Issuance of common stock for services - July 2002 | -- | -- | 20,000 |
| Issuance of common stock for services - July 2002 | -- | -- | 50,000 |
| Issuance of common stock for services - July 2002 | -- | -- | 100,000 |
| Net loss for the year ended September 30, 2002 | -- | (219,127) | (219,127) |
| Balance at September 30, 2002 | (2,050) | (219,127) | (40,677) |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF STOCKHOLDERS' DEFICIT (CONTINUED)

PERIOD FROM NOVEMBER 17, 2000 (INCEPTION) TO SEPTEMBER 30, 2003

| | Common stock | | Preferred stock | | Add pa ca |
|---|--------------|--------------------------------|-----------------|---|-----------------|
| | Shares | Amount | Shares | Amount | |
| Issuance of common stock for cash - October 2002 | 5,000 | 5 | -- | -- | |
| Issuance of common stock for cash - January 2003 | 26,000 | 26 | -- | -- | |
| Issuance of common stock for cash - February 2003 | 57,000 | 57 | -- | -- | |
| Issuance of common stock for cash - March 2003 | 10,000 | 10 | -- | -- | |
| Issuance of common stock for cash - April 2003 | 5,000 | 5 | -- | -- | |
| Issuance of common stock for cash - May 2003 | 15,000 | 15 | -- | -- | |
| Issuance of common stock for cash - June 2003 | 20,000 | 20 | -- | -- | |
| Issuance of common stock for cash - September 2003 | 190,000 | 190 | -- | -- | 1 |
| Issuance of common stock for services - August 2003 | 2,000 | 2 | -- | -- | |
| | | during development stage | | Deficit accumulated Total stockholders' deficit | |
| Issuance of common stock for cash - October 2002 | -- | 5,000 | | | |
| Issuance of common stock for cash - January 2003 | -- | 16,000 | | | |
| Issuance of common stock for | | | | | |

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| | | |
|---|----|---------|
| cash - February 2003 | -- | 55,000 |
| Issuance of common stock for cash - March 2003 | -- | 10,000 |
| Issuance of common stock for cash - April 2003 | -- | -- |
| Issuance of common stock for cash - May 2003 | -- | 15,000 |
| Issuance of common stock for cash - June 2003 | -- | 20,000 |
| Issuance of common stock for cash - September 2003 | -- | 190,000 |
| Issuance of common stock for services - August 2003 | -- | 2,000 |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF STOCKHOLDERS' DEFICIT (CONTINUED)

PERIOD FROM NOVEMBER 17, 2000 (INCEPTION) TO SEPTEMBER 30, 2003

| | Common stock | | Preferred s |
|--|--------------|--------|-------------|
| | Shares | Amount | Shares |
| Issuance of common stock for services - September 2003 | 9,600 | 10 | -- |
| Issuance of Series "A" preferred stock for cash - June 2003 | -- | -- | 10,000 |
| Issuance of Series "A" preferred stock for cash - July 2003 | -- | -- | 12,000 |
| Issuance of Series "A" preferred stock for cash - August 2003 | -- | -- | 34,000 |
| Issuance of Series "A" preferred stock for cash - September 2003 | -- | -- | 30,000 |
| Preferred stock dividends | -- | -- | -- |
| Net loss for the year ended September 30, 2003 | -- | -- | -- |

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| | ----- | ----- | ----- |
|---|-----------------------------|--|-----------------------------------|
| Balance at September 30, 2003 | 5,015,600 | \$ 5,016 | 86,000 |
| | ===== | ===== | ===== |
| | ----- | ----- | ----- |
| | Subscriptions receivable | Deficit accumulated during development stage | Total stockholders' deficit |
| | ----- | ----- | ----- |
| Issuance of common stock for services - September 2003 | -- | -- | 9,600 |
| Issuance of Series "A" preferred stock for cash - June 2003 | (6,250) | -- | 6,250 |
| Issuance of Series "A" preferred stock for cash - July 2003 | (12,500) | -- | 2,500 |
| Issuance of Series "A" preferred stock for cash - August 2003 | -- | -- | 42,500 |
| Issuance of Series "A" preferred stock for cash - September 2003 | (12,500) | -- | 25,000 |
| Preferred stock dividends | -- | -- | (6,100) |
| Net loss for the year ended September 30, 2003 | ----- | ----- | ----- |
| Balance at September 30, 2003 | \$ (50,300) | \$ (851,205) | \$ (280,005) |
| | ===== | ===== | ===== |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

| For the year ended | |
|-----------------------|-------------------|
| September 30, 2003 | September 2002 |
| ----- | ----- |

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| | | |
|--|--------------|--------------|
| CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES: | | |
| Net loss | \$ (632,078) | \$ (219,000) |
| | ----- | ----- |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED FOR OPERATING ACTIVITIES: | | |
| Depreciation | 13,186 | |
| Common stock issued for services | 11,600 | 176,000 |
| (INCREASE) DECREASE IN ASSETS: | | |
| Contracts in process | (70,000) | |
| Deposits | (49,140) | |
| INCREASE IN LIABILITIES: | | |
| Accounts payable and accrued expenses | 271,238 | 43,000 |
| Accrued salaries to be paid by issuance of common stock | 228,250 | |
| | ----- | ----- |
| Total adjustments | 405,134 | 220,000 |
| | ----- | ----- |
| Net cash provided by (used for) operating activities | (226,944) | 1,000 |
| | ----- | ----- |
| CASH FLOWS USED FOR INVESTING ACTIVITIES - purchase of property and equipment | (147,796) | |
| | ----- | ----- |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES: | | |
| Common stock issued for cash | 307,189 | 1,000 |
| Series 'A' preferred stock issued for cash | 88,664 | |
| | ----- | ----- |
| Net cash provided by financing activities | 395,853 | 1,000 |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 21,113 | 2,000 |
| CASH AND CASH EQUIVALENTS, beginning of period | 2,500 | |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$ 23,613 | \$ 2,000 |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Income taxes paid | \$ -- | \$ -- |
| | ===== | ===== |
| Interest paid | \$ -- | \$ -- |
| | ===== | ===== |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES: | | |
| Common stock issued for services | \$ 11,600 | \$ 176,000 |
| | ===== | ===== |
| Dividends accrued | \$ 6,100 | \$ -- |
| | ===== | ===== |
| Stock issued in exchange for subscriptions receivable | \$ 48,250 | \$ 2,000 |
| | ===== | ===== |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS:

Mems USA, Inc. (the "Company") is currently a development stage company under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises" and was incorporated under the laws of the State of California on November 17, 2000. The company is in the business of providing Micro Electrical Mechanical Solutions for major scientific and engineering companies, using existing technology and patent rights furnished by the customers. The Company designs and engineers prototypes and manufactures products and systems for distribution by the customer.

BASIS OF PRESENTATION AND GOING CONCERN CONSIDERATION:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has no substantial established source of revenue. This matter raises substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management plans to take the following steps that it believes will be sufficient to provide the Company with the ability to continue in existence. Management plans on a reverse merger into a public shell, prerequisite to the funding of approximately \$2,000,000 in seed financing from a syndicate put together by investment bankers.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Company measures its financial assets and liabilities in accordance with accounting principles generally accepted in the United States of America. For certain of the Company's financial instruments, including contracts in process, accounts payable, accrued expenses and deferred revenue, the carrying amounts approximate fair value due to their short maturities.

USE OF ESTIMATES:

The preparation of 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 disclosure

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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.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

CASH CONCENTRATION AND CASH EQUIVALENTS:

Cash equivalents include all highly liquid debt investments with original maturities at three months or less which are not securing any corporate obligations. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

CONTRACTS IN PROCESS:

Costs incurred on contracts in process consists of development costs, engineering, materials and labor related to the development of prototype products for specific contracts with customers, net of reserves for any anticipated contract losses. At September 30, 2003, such costs related to one contract for which reserves of approximately \$18,000 have been provided.

PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost. Depreciation of property and equipment is provided by the straight-line method over their estimated useful lives.

REVENUE RECOGNITION:

The Company plans to follow the percentage of completion method of accounting for future contracts. However, because the Company has not yet established a history on which determinable estimates of revenues and costs can be made, the completed contract method of accounting is being applied for the one contract outstanding as of September 30, 2003.

SHIPPING AND HANDLING COSTS:

The Company will expense future shipping and handling costs, as incurred, and will include the expense in selling, general and administrative expenses.

ADVERTISING COSTS:

The Company will expense the cost of advertising as incurred. There was no advertising expense charged to operations for the two years

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ended September 30, 2003 and 2002 and for the period from inception (November 17, 2000) to September 30, 2003.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

INCOME TAXES:

Provisions for future federal and state income taxes will be calculated on reported financial statement income based on the current tax law. Such provisions may differ from the amounts payable to tax authorities because certain items of income and expense, known as temporary differences, are recognized in different tax periods for financial reporting purposes than for income tax purposes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. There is no provision for income taxes for the periods presented. Net operating loss carryforwards have been offset in their entirety by a valuation allowance.

COMPREHENSIVE INCOME:

The Company utilizes SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Comprehensive income is not presented in the Company's financial statements since the Company did not have any of the items of comprehensive income in the periods presented.

EARNINGS PER SHARE:

Basic loss per share is computed by dividing net loss attributable to common stockholders, after deducting preferred stock dividends, by the weighted average number of common shares outstanding. Common stock equivalents consisting of employee stock options (see Note 5) have been excluded because their effect is anti-dilutive.

STOCK BASED COMPENSATION:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", APB 25 and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under SFAS Statement No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") requires the use of option valuation

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models that were not developed for use in valuing employee stock options. Options granted to key consultants under the Plan are accounted for under SFAS 123 as interpreted by FIN 44. Under APB 25, because the exercise price of the Company's employee stock options equal or exceed the fair market value of the underlying stock on the date of grant, no compensation expense is recognized.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

STOCK BASED COMPENSATION, CONTINUED:

Pro forma information regarding net loss and loss per share, pursuant to the requirements of SFAS 123, for the years ended September 30, 2003 and 2002, are as follows:

| | 2003 | 2002 |
|--|----------------|--------------|
| | ----- | ----- |
| Net loss, as reported | \$ (632,078) | \$ (219,127) |
| Deduct: Total stock-based employee compensation expense determined under the fair value Black-Scholes method with a 3% volatility and a 6% risk free rate of return assumption | (424,930) | (101,716) |
| | ----- | ----- |
| Pro forma net loss | \$ (1,057,008) | \$ (320,843) |
| | ===== | ===== |
| Loss per share: | | |
| Basic and diluted - as reported | \$ (.13) | \$ (.10) |
| | ===== | ===== |
| Basic and diluted - pro forma | \$ (.22) | \$ (.15) |
| | ===== | ===== |

RECENT ACCOUNTING PRONOUNCEMENTS:

In October 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which requires companies to record the fair value of a liability for asset retirement obligations in the period in which they are incurred. The statement applies to a company's legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, and development or through the normal operation of a long-lived asset. When a liability is initially recorded, the company would capitalize the cost, thereby increasing the carrying amount of the related asset. The capitalized asset retirement cost is depreciated

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over the life of the respective asset while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount or the company incurs a gain or loss. The statement was effective for fiscal years beginning after June 30, 2002. The adoption did not have a material impact on the Company's financial position or results of operations.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

RECENT ACCOUNTING PRONOUNCEMENTS, CONTINUED:

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 addresses the accounting and reporting for the impairment or disposal of long-lived assets. The statement provides a single accounting model for long-lived assets to be disposed of. New criteria must be met to classify the asset as an asset held-for-sale. This statement also focuses on reporting the effects of a disposal of a segment of a business. This statement was effective for fiscal years beginning after December 15, 2001. The adoption did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishments of Debt", and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption did not have a material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Company adopted the provisions of SFAS No. 146 for exit or disposal activities that were initiated after December 31, 2002. The

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adoption did not have a material impact on the Company's financial position or results of operations.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions" which provides guidance on the accounting for the acquisition of a financial institution. SFAS No. 147 removes acquisitions of financial institutions from the scope of both FASB Statement No. 72 and FASB Interpretation No. 9 and requires that those transactions be account for in accordance with FASB Statements No. 141 and 142. Additionally, SFAS No. 147 amends FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets, to include in its scope long-term customer-relationship intangible assets of financial institutions. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

RECENT ACCOUNTING PRONOUNCEMENTS, CONTINUED:

In November 2002, the FASB issued Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." Among other things, the Interpretation requires guarantors to recognize, at fair value, their obligations to stand ready to perform under certain guarantees. FIN 45 is effective for guarantees issued or modified on or after January 1, 2003. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 amends the disclosure requirements of SFAS No. 123, regardless of which method of accounting is chosen, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The statement was effective for fiscal years beginning after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of this statement did not have a material impact on the Company's financial position or results of operations as the Company has not elected to change to the fair value based method of accounting for stock-based employee compensation.

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In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities". FIN 46's consolidation criteria are based on analysis of risks and rewards, not control, and represent a significant and complex modification of previous accounting principles. FIN 46 represents an accounting change, not a change in the underlying economics of asset sales. The adoption of this pronouncement did not have a material impact on the Company's financial position or results of operations.

During April 2003, the FASB issued SFAS 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, however, is evaluating the effect of this new pronouncement, if any, and will adopt FASB 149 within the prescribed time.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

RECENT ACCOUNTING PRONOUNCEMENTS, CONTINUED:

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements. The Company is evaluating the effect of this new pronouncement and will adopt FASB 150 within the prescribed time

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(2) PROPERTY AND EQUIPMENT:

A summary at September 30, 2003 is as follows:

| | | |
|-------------------------------|----|---------|
| Leasehold improvements | \$ | 71,741 |
| Lab equipment | | 45,447 |
| Furniture and equipment | | 27,497 |
| Computer equipment | | 23,111 |
| | | ----- |
| | | 167,796 |
| Less accumulated depreciation | | 13,900 |
| | | ----- |
| | \$ | 153,896 |

Depreciation expense charged to operations totaled \$13,186 and \$714 for the year ended September 30, 2003 and 2002, respectively.

(3) INCOME TAXES:

The reconciliation of the effective income tax rate to the Federal statutory rate is as follows:

| | |
|---------------------------|--------|
| Federal income tax rate | 40.0% |
| Current year losses | (40.0) |
| | ----- |
| Effective income tax rate | --% |
| | ===== |

The deferred tax asset results from net operating loss carryforwards of approximately \$600,000, expiring in 2018. The resulting asset of approximately \$250,000 is completely offset by a valuation allowance because of uncertainties as to its realization.

MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(4) STOCKHOLDERS' EQUITY:

In November 2000, the Company issued 1,250,000 shares of its \$0.001 par value common stock in consideration for organizational costs incurred by one of the founding members.

In July 2002, the Company issued 3,250,000 shares of its \$0.001 par value common stock as Founders' shares.

In July 2002, the Company issued 26,000 shares of its \$0.001 par value common stock in exchange for services.

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In July 2002, the Company issued 150,000 shares of its \$0.001 par value common stock in exchange for services.

In October 2002, the Company issued 5,000 shares of its \$0.001 par value common stock for cash.

In January 2003, the Company issued 26,000 shares of its \$0.001 par value common stock for cash.

In February 2003, the Company issued 57,000 shares of its \$0.001 par value common stock for cash.

In March 2003, the Company issued 10,000 shares of its \$0.001 par value common stock for cash.

In April 2003, the Company issued 5,000 shares of its \$0.001 par value common stock for cash.

In May 2003, the Company issued 15,000 shares of its \$0.001 par value common stock for cash.

In June 2003, the Company issued 20,000 shares of its \$0.001 par value common stock for cash.

In June 2003, the Company issued 10,000 shares of its \$0.001 Series 'A' Preferred stock for cash.

In July 2003, the Company issued 12,000 shares of its \$0.001 Series 'A' Preferred stock for cash.

In August 2003, the Company issued 2,000 shares of its \$0.001 par value common stock for services.

In August 2003, the Company issued 34,000 shares of its \$0.001 Series 'A' Preferred stock for cash.

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(4) STOCKHOLDERS' EQUITY, CONTINUED:

In September 2003, the Company issued 30,000 shares of its \$0.001 Series 'A' Preferred stock for cash.

In September 2003, the Company issued 190,000 shares of its \$0.001 par value common stock for cash.

In September 2003, the Company issued 9,600 shares of its \$0.001 par value common stock in-exchange for services.

The preferred shares receive a dividend of 8% of the Liquidation Preference Amount (i.e. face amount of shares plus unpaid dividends, if any). Dividends will accrue from the issue date with the first payment due on September 20, 2003 for the period ending September 30, 2003 and are

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payable each quarter thereafter, on December 20th, March 20th, June 20th and September 20th. The preferred shares are convertible at any time into one share of the Common Stock of Mems USA, Inc. at a price of \$1.25 per share. The preferred shares are also redeemable by the Company for cash at any time 24 months after the Series A 8% Convertible Preferred Stock is issued by making a cash payment equal to \$1.50 per share plus all accrued but unpaid dividends.

In connection with the employment agreements referred to in Note (6), the Company has the option to repurchase the 4,500,000 founders shares for a three-year period of time until the Company becomes profitable, for \$.001 per share. In the event of a merger or change in control this option expires.

(5) EMPLOYEE STOCK OPTIONS:

In connection with the employment agreements referred to in Note (6), the Company has granted options to certain key executives to acquire common stock of the Company ("Options").

The number and weighted average exercise prices of all options granted for the years ended September 30, 2003 and 2002 are as follows:

| | 2003 | | 2002 | |
|--------------------------------------|-----------|------------------------------|-----------|------------------------------|
| | Number | Average Exercise Price | Number | Average Exercise Price |
| Outstanding at beginning of the year | 2,250,000 | \$ 1.00 | -- | \$ -- |
| Granted during the year | 230,000 | 1.33 | 2,250,000 | 1.00 |
| Outstanding at end of the year | 2,480,000 | 1.03 | 2,250,000 | 1.00 |
| Exercisable at end of the year | 8,000 | 1.25 | -- | -- |
| Exercised during the year | -- | -- | -- | -- |
| Cancelled during the year | -- | -- | -- | -- |

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MEMS USA, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(6) COMMITMENTS:

The Company leases the facility used for its operations under a lease agreement expiring December 31, 2008. The following is a schedule by years of future minimum base rental payments, excluding operating expenses, required under the operating lease, which represents non-cancelable lease terms in excess of one year as of September 30, 2003:

| | |
|---------------------------|-----------|
| Year ending September 30, | |
| 2004 | \$ 98,280 |
| 2005 | 98,280 |

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| | |
|------|------------|
| 2006 | 98,280 |
| 2007 | 98,280 |
| 2008 | 24,570 |
| | ----- |
| | \$ 417,690 |
| | ===== |

Rent expense amounted to \$94,810 for the year ended September 30, 2003. (None for fiscal 2002.)

The Company has employment agreements with certain key executives through 2006 providing aggregate annual compensation of approximately \$800,000.

(7) SUBSEQUENT EVENTS:

Subsequent to September 30, 2003, the Company issued 182,600 common shares with an estimated fair value of \$1.25 as consideration for accrued salaries payable of \$228,250.

In October 2003, the Company entered into an additional employment agreement for the services of a scientist. The agreement calls for annual compensation of \$37,000 through October 2006. In connection with this agreement, the individual was granted options for the purchase of 80,000 shares at \$1.25 per share, exercisable over a period of three years.

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Exhibit 2

MEMS USA, INC.
(A Development Stage Company)

BALANCE SHEET
June 30, 2004

| | |
|--|-------------|
| | (Unaudited) |
| | June 30 |
| | 2004 |
| | ----- |
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 58,272 |
| Joint venture investment | 350 |
| Contracts in progress, net of reserves | 257 |
| | ----- |
| Total current assets | 58,879 |
| | ----- |
| Property and equipment, net | 228,423 |
| Deposits | 343,880 |
| | ----- |

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| | |
|--------------|------------|
| Total assets | \$ 631,182 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:

| | |
|--|------------|
| Accounts payable and accrued expenses | \$ 151,152 |
| Liability to be satisfied through the issuance of shares | 1,874,080 |
| | ----- |

| | |
|---------------------------|-----------|
| Total current liabilities | 2,025,232 |
| | ----- |

Stockholders' Deficit:

| | |
|--|-------------|
| Convertible preferred stock, Series A, \$.001 par value, 1,200,000 authorized, none issued and outstanding | |
| Common stock, par value \$.001 per share, 100,000,000 authorized, 13,385,779 shares issued and outstanding | 13,386 |
| Stock subscriptions receivable | (2,249) |
| Additional paid in capital | 1,419,424 |
| Accumulated deficit during development stage | (2,824,611) |
| | ----- |

| | |
|-----------------------------|-------------|
| Total stockholders' deficit | (1,394,050) |
| | ----- |

| | |
|--|------------|
| | \$ 631,182 |
| | ===== |

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MEMS USA, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (ACCUMULATED DEFICIT)
(Unaudited)

| | Nine-Months Ended June 30 2004 | Nine-Months Ended June 30 2003 | Three- J |
|--|--------------------------------------|--------------------------------------|-------------|
|--|--------------------------------------|--------------------------------------|-------------|

CONTINUING OPERATIONS:

Revenues:

| | | |
|------------------|--------|--|
| Contract revenue | 95,350 | |
|------------------|--------|--|

Costs:

| | | |
|-------------------------------------|------------|---------|
| Contract costs | \$ 495,931 | |
| General and administrative expenses | 1,174,712 | 126,401 |
| Expenses related to merger | 350,360 | |
| | ----- | |

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| | | |
|---|----------------|-----------|
| Net income (loss) from continuing operations | (1,926,003) | (126,401) |
| Retained earnings (accumulated deficit), beginning of period | (898,958) | (201,677) |
| Retained earnings (accumulated deficit), end of period | \$ (2,824,611) | (328,078) |
| Net income (loss) per share: | | |
| Net Income (loss) per share, basic and diluted | \$ (0.16) | (0.02) |
| Weighted average number of common shares outstanding, basic: | 11,913,477 | 8,118,778 |

From November 17,
2000 (inception) to
June 30, 2004

CONTINUING OPERATIONS:

| | | |
|---|----------------|-----------|
| Revenues: | | |
| Contract Income | | 95,350 |
| Costs: | | |
| Contract costs | \$ | 514,338 |
| General and administrative expenses | | 2,055,263 |
| Expenses related to merger | | 350,360 |
| Net income (loss) from continuing operations | (2,824,611) | |
| Retained earnings (accumulated deficit), beginning of period | | 0 |
| Retained earnings (accumulated deficit), end of period | \$ (2,824,611) | |

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| | Nine-Months Ended June 30 2004 | Nine-Mont June 200 |
|---|--------------------------------------|--------------------------|
| Cash flows provided by (used for) operating activities: | | |
| Net Loss | \$ (1,926,003) | (126 |
| Adjustments to reconcile net loss to net cash provided by (used for) operating activities: | | |
| Depreciation | 30,268 | |
| Common stock issued for services | 350,360 | |
| (Increase) decrease in assets: | | |
| Contracts in progress | 156,493 | |
| Joint Venture investment | (350) | |
| Deposits | (294,740) | (49 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (59,444) | |
| Accrued salaries | (161,695) | |
| Payroll taxes payable | 52,220 | |
| Liability for stock subscribed | 1,874,080 | |
| Accrued interest payable | | |
| Dividends payable | | |
| Increase in loan payable | | 77 |
| Deferred revenue | (28,333) | 28 |
| Total adjustments | 1,918,859 | 56 |
| Net cash provided by (used for) operating activities | (7,144) | (69 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | (97,297) | (53 |
| Loss on discontinued operations | | |
| Net cash provided by (used for) investing activities: | (97,297) | (53 |
| Cash flows from financing activities: | | |
| Increase in subscriptions receivable | (151) | 3 |
| Dividends | | |
| Issuance of preferred and common stock | 139,251 | 145 |
| Net cash flows provided by (used for) financing activities: | 139,100 | 149 |
| Net Increase (decrease) in cash and cash equivalents during the period | 34,659 | 26 |
| Cash and cash equivalents, beginning of period | 23,613 | 2 |
| Cash and cash equivalents, end of period | 58,272 | 28 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | \$ -- | |

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| | |
|---|------------|
| Interest paid | \$ -- |
| ===== | |
| Supplemental disclosure of non-cash financing activities: | |
| Common stock issued for services | \$ 350,360 |
| ===== | |
| Dividends accrued | \$ -- |
| ===== | |
| Stock issued in exchange for subscriptions receivable | \$ -- |
| ===== | |
| Issuance of Series A preferred stock in satisfaction | \$ 228,250 |
| ===== | |

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MEMS USA, INC.
AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

(1) Nature of Business:

MEMS USA, Inc. (the "Company") is currently a development stage company under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises" and was incorporated under the laws of the State of California on November 17, 2000. The Company is in the business of providing Micro Electrical Mechanical Solutions for major scientific and engineering companies, using existing technology and patent rights furnished by the customers. The Company designs and engineers prototypes and manufactures products and systems for distribution by the customer.

The accompanying unaudited consolidated financial statements of MEMS USA, Inc., (MEMS USA, Inc. - a Nevada "public shell" company "MEMS NV" and its subsidiary MEMS USA, Inc. - a California non-public corporation "MEMS CA" together), "The Company" have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included.

(2) Exchange Transaction:

On January 28, 2004 the Registrant entered into an Agreement and Plan of Reorganization to acquire all of the issued and outstanding common stock of MEMS USA, Inc. (a California Corporation and private company, "MEMS CA" in exchange for up to 10,000,000 shares (post split) of the registrant's common stock. Each of MEMS CA's outstanding common shares were converted into 1.7125634 shares of MEMS NV (formerly known as Lumalite Holdings, Inc a public company with 3,385,779 shares outstanding prior to the transaction), subject to adjustment for the elimination of fractional shares. No fractional shares were issued. Instead, cash equal to \$2.50 per share of eliminated fractional shares will be paid to the stockholders. At

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the closing, MEMS CA became a wholly-owned subsidiary and the MEMS CA stockholders were issued 10,000,000 shares, owning approximately 80% of the outstanding common stock. Since the former stockholders of MEMS CA became the controlling stockholders of the company after the transaction, it was accounted for as an acquisition of MEMS NV by MEMS CA, using reverse merger accounting.

(3) Stock Exchange:

In connection with the aforementioned exchange transaction, the Company effected a 1.7125634 to one stock split. The retroactive effect of the split has been made for all periods presented.

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MEMS USA, INC.
AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

(4) Interim Financial Statements:

The accompanying unaudited financial statements for the nine months ended June 30, 2004 and 2003 include all adjustments (consisting of only normal recurring accruals), which, in the opinion of management, are necessary for a fair presentation of the results of operations for the periods presented. Interim results are not necessarily indicative of the results to be expected for a full year. These unaudited financial statements should be read in conjunction with the audited financial statements for the period from November 17, 2000 (inception) to September 30, 2003, to be included in an amendment to the company's Form 8-K.

(5) Going Concern Consideration:

As discussed above (Nature of Business), the accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company's primary operations and sources of revenue are currently being developed. MEMS CA revenue streams have been established, yet as a development stage enterprise, these streams remain to be classified as consistently substantial on an ongoing basis. This characteristic raises doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

The Company has undergone a merger and plan of reorganization, obtaining all outstanding shares of MEMS CA as of February 18, 2004. MEMS NV exchanged 10,000,000 shares of MEMS NV common stock for all of the outstanding common and preferred stock of MEMS CA. Management plans to issue remaining shares of MEMS NV through syndicators and investment bankers in order to provide financing for ongoing operations. During the nine months ended June 30, 2004, the Company generated common stock subscriptions totaling \$1,874,080. The funds for these shares have been collected and the shares will be issued upon the closing of the current offering.

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(6) Private Placement of Securities:

In connection with a private placement of securities in the quarter ended June 30, 2004, the Company received \$1,874,080 for the sale of its shares in a private offering transaction. The transaction originally provided for the sale of up to \$1,500,000 (subsequently increased by consent of MEMS' board) in shares of the Company's unregistered common stock, \$.001 par value per share, in minimum investment amounts of \$10,000, sold to accredited investors within the meaning of Rule 501(a) of regulation D of the Securities Act of 1933. The shares will be priced at a 30% discount from the closing price posted on the OTCBB on the day that the investment amount is received by the Company.

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MEMS USA, INC.
AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

(6) Private Placement of Securities, Continued:

As the shares related to the \$1,874,080 receipts have not yet been issued the amounts are classified in the accompanying balance sheet as a liability to be satisfied through issuance of shares. On July 13, 2004, the unregistered shares of common stock were issued.

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