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TWO MOONS KACHINAS CORP
Form 10QSB
November 12, 2003

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended September 30, 2003

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

For the transition period from _____ to _____

Commission File No. 333-60906

Two Moons Kachinas Corp.

(Exact name of Small Business Issuer as specified in its Charter)

NEVADA

(State or Other Jurisdiction of
incorporation or organization)

87-0656515

(I.R.S. Employer
Identification No.)

9005 Cobble Canyon Lane
Sandy, Utah 84093

(Address of Principal Executive Offices)

Issuer's Telephone Number: (801) 942-0555

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

Not applicable.

Check whether the registrant filed all documents and reports required to
be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution
of securities under a plan confirmed by a court.

Yes No
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APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the Registrant's
classes of common stock, as of the latest practicable date:

September 30, 2003

660,300

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Transitional Small Business Disclosure Format: Yes X No

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements of the Registrant required to be filed with this 10-QSB Quarterly Report were prepared by management, and commence on the following page, together with Related Notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

TWO MOON KACHINAS, CORP.
[A Development Stage Company]

UNAUDITED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

TWO MOON KACHINAS, CORP.
[A Development Stage Company]

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TWO MOON KACHINAS, CORP.
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UNAUDITED CONDENSED BALANCE SHEETS

ASSETS

September 30, 2003	December 31, 2002
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CURRENT ASSETS:

Cash	\$ 5,962	\$ 12,701
Interest receivable	2	8
Inventory	53,000	53,000
Prepaid expenses	341	17
	-----	-----
Total Current Assets	59,305	65,726

PROPERTY AND EQUIPMENT, net

4,408	5,930
-------	-------

OTHER ASSETS:

Website development, net	-	178
	-----	-----
\$ 63,713	\$ 71,834	
=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 8,035	\$ 10,237
Advances from shareholder	6,017	5,320
	-----	-----
Total Current Liabilities	14,052	15,557

STOCKHOLDERS' EQUITY:

Common stock, \$.001 par value, 50,000,000 shares authorized, 660,300 and 579,800 shares issued and outstanding, respectively	660	580
Capital in excess of par value	113,400	93,355
Deficit accumulated during the development stage	(64,399)	(37,658)
	-----	-----
Total Stockholders' Equity	49,661	56,277
	-----	-----
\$ 63,713	\$ 71,834	
=====	=====	

Note: The Balance Sheet as of December 31, 2002 was taken from the audited financial statements at that date and condensed.

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

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TWO MOON KACHINAS, CORP.
[A Development Stage Company]

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From Inception On May 19, 2000 Through September 30,	
	2003	2002	2003	2002	2003	
REVENUE	\$ -	\$ 3,300	\$ -	\$ 3,300	\$ 7,676	

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COST OF GOODS SOLD	-	2,000	-	2,000	4,500
	-----	-----	-----	-----	-----
GROSS PROFIT	-	1,300	-	1,300	3,176
OPERATING EXPENSES:					
Selling	-	-	-	4,748	5,144
General and administrative	16,606	2,603	26,777	15,217	63,302
	-----	-----	-----	-----	-----
Total Operating Expenses	16,606	2,603	26,777	19,965	68,446
	-----	-----	-----	-----	-----
LOSS FROM OPERATIONS	(16,606)	(1,303)	(26,777)	(18,665)	(65,270)
OTHER INCOME:					
Interest	5	26	36	126	871
	-----	-----	-----	-----	-----
Total Other Income	5	26	36	126	871
	-----	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(16,601)	(1,277)	(26,741)	(18,539)	(64,399)
CURRENT TAX EXPENSE	-	-	-	-	-
DEFERRED TAX EXPENSE	-	-	-	-	-
	-----	-----	-----	-----	-----
NET LOSS	\$ (16,601)	\$ (1,277)	\$ (26,741)	(18,539)	\$ (64,399)
	=====	=====	=====	=====	=====
LOSS PER COMMON SHARE	\$ (.03)	\$ (.00)	\$ (.05)	\$ (.03)	\$ (.12)
	=====	=====	=====	=====	=====

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

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TWO MOON KACHINAS, CORP.
[A Development Stage Company]

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

NET INCREASE (DECREASE) IN CASH

	For the Nine Months Ended September 30,		From Inception On May 19, 2000 Through September 30, 2003
	2003	2002	
Cash Flows From Operating Activities:			
Net loss	\$ (26,741)	\$ (18,539)	\$ (64,399)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	1,700	1,721	6,296
Non-cash services paid by issuance			

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of stock	2,500	-	2,500
Changes in assets and liabilities:			
(Increase) decrease in			
interest receivable	6	34	(2)
(Increase) in inventory	-	(16,500)	(53,000)
(Increase) in prepaid expenses	(324)	(67)	(341)
Increase in accounts payable	15,423	2,160	25,660
	-----	-----	-----
Net Cash Used by			
Operating Activities	(7,436)	(31,191)	(83,286)
	-----	-----	-----
Cash Flows From Investing Activities:			
Purchase of property and equipment	-	-	(10,171)
Payments for website development	-	-	(533)
	-----	-----	-----
Net Cash Used by			
Investing Activities	-	-	(10,704)
	-----	-----	-----
Cash Flows From Financing Activities:			
Advances from shareholder	697	18,098	6,017
Proceeds from issuance of			
common stock	-	-	104,800
Payments for stock offering costs	-	-	(10,865)
	-----	-----	-----
Net Cash Provided by			
Financing Activities	697	18,098	99,952
	-----	-----	-----
Net Increase (Decrease) in Cash	(6,739)	(13,093)	5,962
Cash at Beginning of Period	12,701	22,441	-
	-----	-----	-----
Cash at End of Period	\$ 5,962	\$ 9,348	\$ 5,962
	=====	=====	=====
Supplemental Disclosures of			
Cash Flow Information:			
Cash paid during the period for:			
Interest	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -

Supplemental Schedule of Non-cash Investing and Financing Activities:

For the nine months ended September 30, 2003:

In September 2003, the Company issued 70,500 shares of common stock to repay accounts payable of \$17,625 and the Company issued 10,000 shares of stock for services valued at \$2,500.

For the nine months ended September 30, 2002:

None

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Two Moons Kachinas, Corp. ("the Company") was organized under the laws of the State of Nevada on May 19, 2000. The Company sells Hopi Kachina Dolls and related artwork. The Company has not yet generated significant revenues from its planned principal operations and is considered a development stage company as defined in Statement of Financial Accounting Standards No. 7. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

Condensed Financial Statements - The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at September 30, 2003 and 2002 and for the periods then ended have been made.

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

Cash and Cash Equivalents - The Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

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

Inventory - Inventory is carried at the lower of cost or market using the specific identification method. At September 30, 2003 and December 31, 2002, respectively, inventory consists of Kachina dolls and related artwork of \$53,000 and \$53,000.

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TWO MOONS KACHINAS, CORP.
[A Development Stage Company]

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

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Property and Equipment - Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to operating expense as incurred. Expenditures for additions and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five years.

Website Costs - The Company has adopted the provisions of Emerging Issues Task Force 00-2, "Accounting for Web Site Development Costs." Costs incurred in the planning stage of a website are expensed as research and development while costs incurred in the development stage are capitalized and amortized over the life of the asset, estimated to be two years. As of September 30, 2003, the Company has capitalized a total of \$533 of website costs. The Company did not incur any planning costs and did not record any research and development costs for the nine months ended September 30, 2003 and 2002.

Revenue Recognition - The Company recognizes revenue upon delivery of the product. Revenue derived from sales through art dealers and galleries is recorded net of any commissions to the dealers or galleries.

Advertising Costs - Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. During the nine months ended September 30, 2003 and 2002, respectively, advertising costs amounted to \$0 and \$4,748.

Loss Per Share - The computation of loss per share is based on the weighted average number of shares outstanding during the period presented in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share".

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

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

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TWO MOONS KACHINAS, CORP.
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NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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NOTE 2 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost, less accumulated depreciation at:

	September 30, 2003	December 31, 2002
Computer and office equipment	\$ 10,171	\$ 10,171
Less: accumulated depreciation	(5,763)	(4,241)
	\$ 4,408	\$ 5,930

Depreciation expense for the nine months ended September 30, 2003 and 2002 amounted to \$1,522 and \$1,521, respectively.

NOTE 3 - OTHER ASSETS

The following is a summary of other assets at cost, less accumulated amortization at:

	September 30, 2003	December 31, 2002
Website development	\$ 533	\$ 533
Less: accumulated amortization	(533)	(355)
	\$ -	\$ 178

Amortization expense for the nine months ended September 30, 2003 and 2002 amounted to \$178 and \$200, respectively.

NOTE 4 - CAPITAL STOCK

Common Stock - In May 2000, in connection with its organization, the Company issued 500,000 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$25,000 (or \$.05 per share).

In November 2001, the Company issued 79,800 shares of its previously authorized but unissued common stock. The shares were issued for cash of \$79,800 (or \$1.00 per share). Stock offering costs of \$10,865 were netted against the proceeds.

In September 2003, the Company issued 70,500 shares of its previously authorized but unissued common stock. The shares were issued to pay accounts payable of \$17,625 (or \$.25 per share).

In September 2003, the Company issued 10,000 shares of its previously authorized but unissued common stock. The shares were issued services rendered valued at \$2,500 (or \$.25 per share).

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TWO MOONS KACHINAS, CORP.
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NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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NOTE 5 - INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". SFAS No. 109 requires the Company to provide a net deferred tax asset/liability equal to the expected future tax benefit/expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. The Company has available at September 30, 2003, operating loss carryforwards of approximately \$65,900, which may be applied against future taxable income and which expire in various years through 2023.

The amount of and ultimate realization of the benefits from the operating loss carryforwards for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company, and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance equal to the tax effect of the loss carryforwards and, therefore, no deferred tax asset has been recognized for the loss carryforwards. The net deferred tax assets are approximately \$9,900 and \$6,000 as of September 30, 2003 and December 31, 2002, respectively, with an offsetting valuation allowance of the same amount. The change in the valuation allowance during the nine months ended September 30, 2003 is approximately \$3,900.

NOTE 6 - RELATED PARTY TRANSACTIONS

Management Compensation - The Company has not paid any compensation to any officer or director of the Company.

Office Space - The Company has not had a need to rent office space. An officer/shareholder of the Company is allowing the Company to use his offices as a mailing address, as needed, at no expense to the Company.

Advances from a shareholder - An officer/shareholder of the Company has made advances to the Company and has directly paid expenses on behalf of the Company. At September 30, 2003 and December 31, 2002, respectively, the Company owed the shareholder \$6,017 and \$5,320. The advances bear no interest and are due on demand.

NOTE 7 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company was recently formed and has not yet been successful in establishing profitable operations. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In this regard, management is proposing to raise any necessary additional funds not provided by operations through loans or through additional sales of its common stock. There is no assurance that the Company will be successful in raising this additional capital or in achieving profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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TWO MOONS KACHINAS, CORP.
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NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 8 - LOSS PER SHARE

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The following data shows the amounts used in computing loss per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		From Inception On May 19, 2000 Through September 30,
	2003	2002	2003	2002	2003
Loss from operations available to common shareholders (numerator)	\$ (16,601)	\$ (1,277)	\$ (26,741)	\$ (18,539)	\$ (64,399)
Weighted average number of common shares outstanding for the period (denominator)	586,800	579,800	582,159	579,800	545,666

Dilutive loss per share was not presented, as the Company had no common stock equivalent shares for all periods presented that would affect the computation of diluted loss per share.

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

Plan of Operation.

Our plan of operation for the next 12 months is to continue sales of Kachina dolls, both through our own web site and through Internet auction sites and consignment to specialty stores.

We have placed photographs of the Kachinas on our web site and may consider putting one or two Kachinas up for auction, with a minimum bid price, on an Internet auction site. We also have arrangements with two retail specialty stores; we attended the Marin County American Indian Arts Show which was held on February 21-23, 2003; and are actively researching the availability of similar events to showcase our products.

As we sell Kachinas, we plan to use the proceeds to buy additional Kachinas for resale. Our President provides us with rent-free office space, and our management has verbally agreed not to accept any compensation until we are operating profitably. Because of our low overhead, we believe that we can finance our needs for the next 12 months. Our officers have contacts through which we can purchase Kachinas at below wholesale prices. We plan to keep our expenses low and to keep our inventory rolling over, if possible.

Our officers are well-informed about Kachinas and plan to stay up-to-date on current trends through reading industry publications, visiting trade shows and communicating with personal contacts.

Forward-Looking Statements.

Statements made in this Quarterly Report which are not purely historical are forward-looking statements with respect to the goals, plan objectives, intentions, expectations, financial condition, results of operations, future performance and business of our Company, including, without

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limitation, (i) our ability to gain a larger share of the Kachina doll industry, our ability to continue to develop products acceptable to the industry, our ability to retain relationships with suppliers, our ability to raise capital, and the growth of the Native American arts and crafts industry, and (ii) statements preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our Company's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following, in addition to those contained in our Company's reports on file with the Securities and Exchange Commission; general economic or industry conditions, nationally and/or in the communities in which our Company conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, changes in the Native American arts and crafts industry, the development of products and that may be superior to the products and services offered by our Company, demand for Kachina dolls, competition, changes in the quality or composition of our Company's products, our ability to raise capital, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting our Company's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. Our Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Item 3. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our President, David C. Merrell, has evaluated our Company's disclosure controls and procedures as of November 6, 2003, and he has concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

There are no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to November 6, 2003.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

Item 2. Changes in Securities.

In September 2003, our Company issued 70,500 shares of our previously authorized but unissued common stock. The shares were to pay accounts payable of \$17,625 or \$.25 per share.

Also in September 2003, our Company issued 10,000 shares of our

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previously authorized but unissued common stock. The shares were issued for services rendered at a value of \$2,500 or \$.25 per share.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

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

None; not applicable.

Item 5. Other Information.

Our Company's Secretary/Treasurer, R. Kip Paul, resigned as of January 1, 2003.

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

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.

Two Moons Kachinas, Corp.

Date: 11/11/03

By /s/ David C. Merrell

David C. Merrell
President and Director