TWO MOONS KACHINAS CORP
Form 10QSB
May 14, 2004

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2004

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

For the transition period from ______________ to ______________

Commission File No. 000-50295

Two Moons Kachinas Corp.
(Exact name of Small Business Issuer as specified in its Charter)

NEVADA	87-0656515
(State or Other Jurisdiction of incorporation or organization)	(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 ___

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:

March 31, 2004

660,300

Transitional Small Business Disclosure Format: Yes X No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements of the Company 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 Company.

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

UNAUDITED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2004

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

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

UNAUDITED CONDENSED BALANCE SHEETS

ASSETS

	March 31, 2004	December 31, 2003
CURRENT ASSETS:		

Cash	$ 5,478	$ 7,759
Interest receivable	2	1
Inventory	50,500	50,500
Prepaid expenses	752	126
Total Current Assets	56,732	58,386
PROPERTY AND EQUIPMENT, net	3,389	3,896
OTHER ASSETS:		
Website development, net	-	-
	$ 60,121	$ 62,282

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 16,507	$ 9,428
Advances from shareholder	6,173	6,173
Total Current Liabilities	22,680	15,601
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.001 par value, 50,000,000 shares authorized, 660,300 and 579,800 shares issued and outstanding, respectively	660	660
Capital in excess of par value	113,400	113,400
Deficit accumulated during the development stage	(76,619)	(67,379)
Total Stockholders' Equity	37,441	46,681
	$ 60,121	$ 62,282

Note: The balance sheet as of December 31, 2003 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.

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

UNAUDITED CONDENSED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2000		From Inception On May 19, Through March 31,
	2004	2003	2004

REVENUE	$ -	$ -	$ 10,876
COST OF GOODS SOLD	-	-	7,000
GROSS PROFIT	-	-	3,876
OPERATING EXPENSES:			
Selling	-	-	5,144
General and administrative	9,246	8,472	76,233
Total Operating Expenses	9,246	8,472	81,377
LOSS FROM OPERATIONS	(9,246)	(8,472)	(77,501)
OTHER INCOME:			
Interest income	6	20	882
Total Other Income	6	20	882
LOSS BEFORE INCOME TAXES	(9,240)	(8,452)	(76,619)
CURRENT TAX EXPENSE	-	-	-
DEFERRED TAX EXPENSE	-	-	-
NET LOSS	$ (9,240)	$ (8,452)	$ (76,619)
LOSS PER COMMON SHARE	$ (.01)	$ (.01)	$ (.14)

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

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

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS

NET INCREASE (DECREASE) IN CASH

	For the Three Months Ended March 31,		From Inception On May 19, 2000 Through March 31,
	2004	2003	2004
Cash Flows from Operating Activities:			
Net loss	$ (9,240)	$ (8,452)	$ (76,619)
Adjustments to reconcile net loss to net cash used by			

operating activities:			
Depreciation and amortization	507	567	7,315
Non-cash services paid by issuance of stock	-	-	2,500
Changes in assets and liabilities:			
(Increase) decrease in interest receivable	(1)	3	(2)
(Increase) in inventory	-	-	(50,500)
(Increase) in prepaid expenses	(626)	(753)	(752)
Increase in accounts payable	7,079	5,118	34,132
Net Cash (Used) by Operating Activities	(2,281)	(3,517)	(83,926)
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	-	28	6,173
Proceeds from issuance of common stock	-	-	104,800
Payments for stock offering costs	-	-	(10,865)
Net Cash Provided by Financing Activities	-	28	100,108
Net Increase (Decrease) in Cash	(2,281)	(3,489)	5,478
Cash at Beginning of Period	7,759	12,701	-
Cash at End of Period	$ 5,478	$ 9,212	$ 5,478

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 three months ended March 31, 2004:
None

For the three months ended March 31, 2003:
None

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

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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

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 March 31, 2004 and 2003 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, 2003 audited financial statements. The results of operations for the periods ended March 31, 2004 and 2003 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 March 31, 2004 and December 31, 2003, respectively, inventory consists of Kachina dolls and related artwork valued at $50,500 and $50,500. The Company has estimated that no allowance for slow moving or obsolete inventory was necessary at

March 31, 2004 and December 31, 2003.

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

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [Continued]

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 March 31, 2004, 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 three months ended March 31, 2004 and 2003.

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 three months ended March 31, 2004 and 2003, respectively, advertising costs amounted to $0 and $0.

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.

NOTE 2 - PROPERTY AND EQUIPMENT

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

	March 31, 2004	December 31, 2003
Computer and office equipment	$ 10,171	$ 10,171
Less: accumulated depreciation	(6,782)	(6,275)
	$ 3,389	$ 3,896

Depreciation expense for the three months ended March 31, 2004 and 2003 amounted to $507 and $502, respectively.

NOTE 3 - OTHER ASSETS

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

	March 31, 2004	December 31, 2003
Website development	$ 533	$ 533
Less: accumulated amortization	(533)	(533)
	$ -	$ -

Amortization expense for the three months ended March 31, 2004 and 2003 amounted to $0 and $65, respectively.

NOTE 4 - CAPITAL STOCK

Preferred Stock - In March 2004, the Company amended its Articles of Incorporation to authorize 5,000,000 shares of preferred stock, $.001 par value, with such rights, preferences and designations and to be issued in such series as determined by the Board of Directors. No shares are issued and outstanding at March 31, 2004.

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.

NOTE 4 - CAPITAL STOCK [Continued]

In September 2003, the Company issued 70,500 shares of its previously authorized but unissued common stock to pay for legal services that had previously been accrued as 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 for services rendered valued at $2,500 (or $.25 per share).

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 March 31, 2004, operating loss carryforwards of approximately $77,700, which may be applied against future taxable income and which expire in various years through 2024.

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 $11,700 and $10,300 as of March 31, 2004 and December 31, 2003, respectively, with an offsetting valuation allowance of the same amount. The change in the valuation allowance during the three months ended March 31, 2004 is approximately $1,400.

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 March 31, 2004 and December 31, 2003, respectively, the Company owed the shareholder $6,173 and $6,173. The advances bear no interest and are due on demand.

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

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

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.

NOTE 8 - LOSS PER SHARE

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

	For the Three Months Ended March 31, 2004	For the Three Months Ended March 31, 2003	From Inception On May 19, 2000 Through March 31, 2004
Loss from operations available to common shareholders (numerator)	$ (9,240)	$ (8,452)	$ (76,619)
Weighted average number of common shares outstanding for the period (denominator)	660,300	579,800	560,523

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.

NOTE 9 - CONCENTRATIONS

Geographic Region - During the three months ended March 31, 2004, all of the Company's sales and operations were located in and around Salt Lake City, Utah including all of the Company's inventory and property.

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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 or jewelry 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 initial needs for at least 12 months from the balance of the minimum gross proceeds of $60,000 that we realized from our public offering. We plan to keep our expenses low and to keep our inventory rolling over.

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 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.

Within 90 days prior to the date of this Quarterly Report and as of the end of the period covered thereby or March 31, 2004, we carried out an evaluation, under the supervision and with the participation of our President, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our President concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None; not applicable.

Item 2. Changes in Securities.

None; not applicable.

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.

None; not applicable.

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 Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Two Moons Kachinas, Corp.

Date: 5/14/04

By /s/ David C. Merrell

David C. Merrell
President and Director